

ISA 500 (Redrafted)
AUDIT EVIDENCE
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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the nature of audit evidence, the auditor's responsibilities to obtain audit evidence, and the audit procedures that the auditor uses for obtaining that audit evidence, in an audit of financial statements.
2. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit, the audit evidence to be obtained, and the procedures required to be performed in obtaining audit evidence.

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 200x.

Objective to Be Achieved

4. In relation to the subject matter of this ISA, the objective of the auditor is to be satisfied that audit evidence is sufficient and appropriate to reduce audit risk to an acceptably low level and to be able to draw reasonable conclusions on which to base the audit opinion on the financial statements. (Ref: Para. A1-A3)

Definitions

5. The following terms are introduced in this ISA:
 - (a) Accounting records – The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
 - (b) Appropriateness – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions.
 - (c) Assertions – Representations by management, explicit or otherwise, that are embodied in the financial statements.
 - (d) Audit evidence – All of the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence includes the information contained in the accounting records underlying the financial statements and other information.
 - (e) Sufficiency – The measure of the quantity of audit evidence.

Requirements

The Use of Assertions in Obtaining Audit Evidence

6. The auditor shall use assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to allow the auditor to consider the different types of potential misstatements that may occur, and thereby to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures. (Ref: Para. A4-A7)

Consideration of Appropriateness

7. The auditor shall consider the appropriateness of audit evidence in relation to its relevance and its reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions. In doing so, the auditor shall consider the reliability of audit evidence in relation to its source and nature, the individual circumstances under which it is obtained, and the controls over its preparation and maintenance where relevant. (Ref: Para. A8-A10)
8. Although the entity's accounting records provide audit evidence, the auditor shall also obtain audit evidence from other sources. (Ref: Para. A11-A14)
9. In order to obtain appropriate audit evidence, the auditor shall perform audit procedures. Those procedures shall comprise more than inquiry because inquiry alone does not necessarily provide reliable audit evidence. (Ref: Para. A15-A30)
10. When information produced by the entity is used by the auditor for purposes of the audit, the auditor shall (a) obtain audit evidence about the accuracy and completeness of the information, and (b) evaluate whether the information provides a reliable basis and is sufficiently precise or detailed for the auditor's purpose. (Ref: Para. A31-A33)
11. When audit evidence obtained from one source is inconsistent with that obtained from another, including responses to inquiries that are inconsistent, or if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified, the auditor shall investigate further and determine what modifications to, or additional, audit procedures are necessary to resolve the inconsistency or concern over the reliability of the audit evidence. (Ref: Para. A34-A35)

Consideration of Sufficiency

12. The auditor shall consider the sufficiency of audit evidence in relation to the risks of material misstatement and the quality of the audit evidence. (Ref: Para. A36-A37)

Evaluation of Sufficiency and Appropriateness

13. In drawing reasonable conclusions on which to base the audit opinion on the financial statements, the auditor shall consider all appropriate audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. The auditor shall evaluate the sufficiency and appropriateness of audit evidence, and shall not be satisfied with audit evidence that is less than persuasive. (Ref: Para. A38)

Application Material

Obtaining Audit Evidence (Ref: Para. 4)

- A1. Most of the auditor's work in forming the audit opinion consists of obtaining and evaluating audit evidence. Audit evidence is cumulative in nature and includes audit evidence obtained from audit procedures performed during the course of the audit. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.
- A2. The auditor works within economic limits, principally in relation to forming an audit opinion within a reasonable period of time and at a reasonable cost, and is therefore generally not expected to address all information that may exist. Further, conclusions ordinarily can be reached by using sampling approaches and other means of selecting items for testing. As a result and because of the nature of audit evidence and evidence gathering procedures, it is ordinarily necessary to rely on audit evidence that is persuasive rather than conclusive. Audit evidence that is less than persuasive does not provide the auditor with reasonable assurance that the financial statements taken as a whole are free from material misstatement. ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," provides discussion of reasonable assurance as it relates to an audit of financial statements.
- A3. The quantity and quality of audit evidence required to enable the auditor to draw reasonable conclusions on which to base the audit opinion are matters for the auditor to determine using professional judgment. Audit evidence obtained by performing procedures that are effective for detecting error may not be appropriate in the context of an identified risk of material misstatement due to fraud.

The Use of Assertions in Obtaining Audit Evidence (Ref: Para. 6)

- A4. In representing that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of financial statements and related disclosures. In the public sector, management also makes assertions that transactions and events are in accordance with legislation or proper authority.
- A5. Assertions used by the auditor in assessing risks and designing audit procedures that are responsive to the assessed risks fall into the following categories:
 - (a) Assertions about classes of transactions and events for the period under audit:
 - (i) Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.
 - (ii) Completeness—all transactions and events that should have been recorded have been recorded.
 - (iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - (iv) Cutoff—transactions and events have been recorded in the correct accounting period.

- (v) Classification—transactions and events have been recorded in the proper accounts.
- (b) Assertions about account balances at the period end:
 - (i) Existence—assets, liabilities, and equity interests exist.
 - (ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - (iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.
 - (iv) Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
 - (v) Assertions about presentation and disclosure:
- (c) Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.
 - (ii) Completeness—all disclosures that should have been included in the financial statements have been included.
 - (iii) Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.
 - (iv) Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.
- A6. The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about transactions and events with the assertions about account balances.
- A7. A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to receivables collected after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff. On the other hand, the auditor often obtains audit evidence from different sources or of a different nature that is relevant to the same assertion.

Consideration of Appropriateness

RELEVANCE AND RELIABILITY (Ref: Para. 7)

- A8. Audit evidence is appropriate if it is both relevant and reliable in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions.
- A9. Relevance deals with the logical connection with, or bearing upon, the matter under consideration. As indicated in paragraph A7, a given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others.

A10. Due to the fact that the reliability of audit evidence is dependent on the circumstances under which it is obtained, generalizations about the reliability of various kinds of audit evidence can be made but are subject to important exceptions. Even when audit evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, audit evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence that is generated internally is more reliable when the related controls, including those over their preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies, facsimiles, filmed, digitized or that have otherwise been transformed into electronic documents.

SOURCE OF AUDIT EVIDENCE (Ref: Para. 8)

- A11. Management is responsible for the preparation of the financial statements based upon the accounting records of the entity. Some audit evidence is obtained by performing audit procedures to test the accounting records, for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.
- A12. Accounting records alone, however, do not provide reliable audit evidence in support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions. More assurance is obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from evidence existing within the accounting records or from a management representation.
- A13. Other information that the auditor may use as audit evidence includes, but is not limited to:
- Information produced by the entity, for example from the entity's information system.

- Minutes of meetings.
- Confirmations from third parties.
- Analysts' reports.
- Comparable data about competitors (benchmarking).
- Controls manuals.
- Information obtained by the auditor from such audit procedures as inquiry, observation, and inspection.
- Other information developed by, or available to, the auditor that permits the auditor to reach conclusions through valid reasoning.

A14. Audit evidence is obtained from audit procedures performed during the course of the audit and may also include audit evidence obtained from other sources such as previous audits and a firm's quality control procedures for client acceptance and continuance.

TYPES OF AUDIT PROCEDURES FOR OBTAINING AUDIT EVIDENCE (Ref: Para. 9)

- A15. As required by, and explained further in, ISA 315 (Redrafted), "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" and ISA 330 (Redrafted), "The Auditor's Procedures in Response to Assessed Risks," audit evidence to draw reasonable conclusions on which to base the audit opinion is obtained by performing:
- (a) Risk assessment procedures.
 - (b) Tests of controls, when necessary or when the auditor has determined to do so.
 - (c) Substantive procedures for material classes of transactions, account balances, and disclosures.
- A16. The audit procedures described in paragraphs A19-A30, or combinations thereof, may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance, as required by ISA 315 (Redrafted) and ISA 330 (Redrafted).
- A17. The nature and timing of the audit procedures to be used may be affected by the fact that some or all of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices may exist in electronic form only when an entity uses electronic commerce, or may be replaced with electronic messages when an entity uses image processing systems. When the information is in electronic form, the auditor may carry out certain of the audit procedures described below through computer-assisted audit techniques (CAATs).
- A18. Certain electronic information may not be retrievable after a specified period of time, for example if files are changed and if backup files do not exist. Accordingly, an entity's data

retention policies may require the auditor to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Inspection of Records or Documents or of Tangible Assets

- A19. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records or documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records or documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records or documents for evidence of authorization.
- A20. 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. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.
- A21. 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 ordinarily accompanies the observation of inventory counting.

Observation

- A22. Observation consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity's personnel or the performance of control activities. 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. See ISA 501, "Audit Evidence—Additional Considerations for Specific Items" for further guidance on observation of the counting of inventory.

Inquiry

- A23. Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity. Inquiry is an audit procedure that is used extensively throughout the audit and often is complementary to performing other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.
- A24. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

- A25. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of 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 with respect to assets or liabilities, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information about management's intent.
- A26. In respect of some matters, the auditor may obtain written representations from management to confirm responses to oral inquiries. See ISA 580, "Management Representations" for further guidance on written representations.

Confirmation

- A27. Confirmation is a specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party. Confirmations are frequently used in relation to account balances and their components. For example, the auditor may seek direct confirmation of receivables by communication with debtors. However, confirmations need not be restricted to these items. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request is designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. Confirmations also may be used to obtain audit evidence about the absence of certain conditions, for example, the absence of a "side agreement" that may influence revenue recognition. See ISA 505, "External Confirmations" for further guidance.

Recalculation

- A28. Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation can be performed either manually or through the use of CAATs. Recalculation may be performed, for example, by obtaining an electronic file from the entity and using CAATs to check the accuracy of the summarization of the file.

Reperformance

- A29. Repformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control. Repformance may include, for example, reperforming the aging of accounts receivable either manually or through the use of CAATs.

Analytical Procedures

- A30. Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. See ISA 520, "Analytical Procedures" for further guidance.

INFORMATION PRODUCED BY THE ENTITY AND USED FOR AUDIT PURPOSES (Ref: Para. 10)

- A31. The auditor may use information produced by the entity for purposes of the audit, including the performance of audit procedures. In order for the auditor to obtain reliable audit evidence, information used for the performance of audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume depends on the accuracy of the price information and the completeness and accuracy of the sales volume data.
- A32. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the production and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed, for example by using CAATs to recalculate the information.
- A33. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as internal auditor's reports. In such cases, the appropriateness of the audit evidence obtained depends on whether the information provides a reliable basis and is sufficiently precise or detailed for the auditor's purposes.

INCONSISTENCY IN, OR DOUBTS OVER RELIABILITY OF, AUDIT EVIDENCE (Ref: Para. 11)

- A34. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, internal audit, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. In such cases, modification to or further audit procedures may be necessary to resolve the inconsistencies.
- A35. Although the auditor is required to consider the reliability of audit evidence, an audit rarely involves the authentication of documentation, nor is the auditor trained as or expected to be an expert in such authentication. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. However, further investigation is required if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified. The auditor may perform such further investigation by, for example, confirming directly with the third party or considering using the work of an expert to assess the document's authenticity.

Consideration of Sufficiency (Ref: Para. 12)

- A36. The quantity of audit evidence needed is affected by the risks of material misstatement; generally, the greater the risk, the more audit evidence is likely to be required. It is affected also by the quality of such audit evidence; generally, the higher the quality, the less may be

required. Merely obtaining more audit evidence, however, may not compensate for its poor quality. Consequently, the sufficiency and appropriateness of audit evidence are interrelated.

A37. The auditor's judgment as to what constitutes sufficient audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of it having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Persuasiveness of the audit evidence.
- Understanding of the entity, including its internal control, and its environment.

Evaluation of Sufficiency and Appropriateness (Ref: Para. 13)

A38. As indicated in paragraph A36, sufficiency and appropriateness are interrelated. The auditor's evaluation of the sufficiency and the appropriateness of the audit evidence is therefore necessary in determining whether audit risk has been reduced to an acceptably low level and in drawing reasonable conclusions on which to base the audit opinion.

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