



Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 7–8, 2023

Agenda Item I.1

Audit Evidence – Cover and Report Back

Objective

1. The objective of this agenda item is to report back on the IAASB CAG Representatives' comments made at the September 2022 CAG meeting.

Project Status

2. The [Exposure Draft of Proposed ISA 500 \(Revised\)¹ and Conforming and Consequential Amendments](#) (ED-500) was unanimously approved by the IAASB in its September 2022 meeting. The Exposure Draft was published on October 24, 2022 with a 180 day comment period. Stakeholders are invited to comment on the proposed Strategy and Work Plan by April 24, 2023.
3. ED-500 provides a “reference framework” for auditors when making judgments about audit evidence throughout the audit. The proposed changes to ED-500:
 - Clarify ISA 500's purpose and scope and explain its relationship with other standards;
 - Provide a principles-based approach to considering and making judgments about information intended to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained;
 - Modernize ISA 500 to be adaptable to the current business and audit environment, while considering scalability for different circumstances, including the entity's and the auditor's use of technology, such as automated tools and techniques; and
 - Emphasize the role of professional skepticism when making judgments about information intended to be used as audit evidence and evaluating the audit evidence obtained.
4. The **appendix** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

5. After the exposure period ends, the Audit Evidence Task Force will analyze the comments received. The Audit Evidence Task Force will present the Board with a summary of respondents' comments and a way forward in the December 2023 meeting.

¹ Proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence*

Report Back

6. Extracts from the approved minutes of the September 2022 IAASB CAG meeting, as well as an indication of how the Task Force or IAASB has responded to the Representatives’ comments, are included in the table below.

Representatives’ Comments	Task Force / IAASB Response
OVERARCHING COMMENTS	
<p>Dr. Orth, Messrs. Ishiwata, Hansen and Ruthman, Mmes. Meng, Manabat and Mubarak supported the overall direction of the proposals of draft proposed ISA 500 (Revised).</p>	<p>Support noted.</p>
<p>Mr. Ishiwata supported the Audit Evidence Task Force coordination activities (such as coordination with the International Ethics Standards Board for Accountants (IESBA) and the IAASB’s Technology Consultation Group), and encouraged the Task Force to continue with such activities.</p>	<p>Support noted. Coordination with IESBA and other IAASB Task Forces and Consultation Groups has been highlighted in the Explanatory Memorandum to ED-500. The Audit Evidence Task Force plans to continue its coordination activities until proposed ISA 500 (Revised) is finalized.</p>
SOURCES OF INFORMATION	
<p>Mr. Ishiwata noted his support for the guidance included in paragraph A49 of Agenda Item C.2 relating to circumstances where the source of the information (including external sources) may be subject to the influence of management. As a further enhancement, Mr. Ishiwata recommended to include guidance to explicitly explain that such information is subject to “risks of manipulation by management.”</p>	<p>Support for the specific example is noted. Ms. Almond noted that the modification of information by management also is addressed in the section about using the work of a management’s expert. The Board did not add an explicit reference to “the risk of manipulation by management”. However, the Board revised the first example in paragraph A50 of ED-500 to explain that, if the source of the information is subject to the influence of management or related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information. As described in paragraph A56 of ED-500, authenticity is an attribute of the reliability of information and includes that the information has not been inappropriately altered. It also is noted that the application material about the attributes of relevance and reliability of information specifically draws attention that ISA 240² deals with circumstances in</p>

² ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Representatives' Comments	Task Force / IAASB Response
	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.
Given the notion that audit evidence is an output of audit procedures, Mr. Yurdakul asked the Audit Evidence Task Force to reconsider the relocation of application material in extant ISA 500, relating to types of audit procedures, to the Appendix in proposed ISA 500 (Revised).	Ms. Almond noted that the Board has supported the relocation of the relevant application material; however, the Audit Evidence Task Force will consider the feedback on ED-500.
Mr. Hansen supported the proposed clarification that “management’s unwillingness to respond to a query” may be a scope limitation. In addition, Mr. Hansen asked the Task Force to consider whether such scope limitation may affect the IESBA Code ³ regarding responding to non-compliance with laws and regulations, and the provisions of ISA 250 (Revised) ⁴	Support noted. In finalizing ED-500 no further changes were considered necessary that may affect the IESBA Code or ISA 250 (Revised).
PROFESSIONAL SKEPTICISM	
Ms. Meng noted her support for the proposals to reinforce the auditor’s exercise of professional skepticism and professional judgement in proposed ED–500, including the linkage to ISA 200. ⁵	Support noted.
Ms. Mubarak noted her support for the proposal to address auditor bias in the requirements of proposed ISA 500 (Revised), as opposed to only in the application material. In particular, Ms. Mubarak expressed the view that the requirement to obtain audit evidence in an unbiased manner may positively affect auditor behavior, such as obtaining audit evidence from multiple sources and therefore enhancing auditor judgments about	Support, including the possible positive impact on auditor behavior, is noted.

³ IESBA Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)

⁴ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Audit*

Representatives' Comments	Task Force / IAASB Response
<p>whether sufficient appropriate audit evidence has been obtained.</p>	
<p>Dr. Orth noted the proposals of the Audit Evidence Task Force to strengthen the link between the auditor's consideration of fraud in proposed ISA 500 (Revised) and ISA 240. However, he asked the Task Force to consider additional guidance about the auditor's work effort in relation to publicly available information about the entity. In particular, in circumstances where such information may be indicative of fraud, it may not be clear at what point the auditor has undertaken sufficient work to fulfill their responsibilities regarding the reliability of such information.</p>	<p>Ms. Almond confirmed the link in ED-500 to ISA 240 and noted that ED-500 may not necessarily be the appropriate place to address matters such as the one mentioned. However, the IAASB has a current project to propose revisions to ISA 240. One of the actions in the fraud project proposal is to consider the auditor's work effort through proposing required audit procedures to respond appropriately to fraud or suspected fraud identified during the audit.</p>
<p>Ms. Meng highlighted, and noted her support for, the proposed requirement in paragraph 13(b) of Agenda Item C.2, with specific emphasis on the auditor's consideration of all audit evidence obtained, regardless of whether it appears to corroborate or contradict the assertions in the financial statements. Ms. Meng expressed the view that the requirement will positively impact auditor behaviour and enhance auditor judgments about whether sufficient appropriate audit evidence has been obtained.</p>	<p>Support, including the possible positive impact on auditor behavior, is noted.</p>
<p>Mr. Dalkin asked for further clarification on the proposed stand-back requirement in paragraph 13 of Agenda Item C.2.</p>	<p>Ms. Almond noted that the stand-back is intended to inform the auditor's overall conclusion in ISA 330⁶ about whether sufficient appropriate audit evidence has been obtained. Consequently, the proposed guidance in the application material of ED-500 is based on, and refers to, the guidance in ISA 330.</p> <p>In addition, the Explanatory Memorandum to ED-500 explains that the proposed stand-back requirement helps to "close the loop" on the requirement in paragraph 8(b) of ED-500 for the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those procedures. This applies to audit evidence obtained</p>

⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

Representatives' Comments	Task Force / IAASB Response
	<p>from all audit procedures, including risk assessment procedures, and therefore also serves to reinforce the requirement in paragraph 35 of ISA 315 (Revised 2019).</p>
<p>TECHNOLOGY</p>	
<p>In addressing the evolution in technology, Dr. Orth and Messrs. Sobel and Ishiwata noted their support to retain a principles-based approach that would contribute to the standard being scalable to a wide variety of circumstances.</p>	<p>Support for a principles-based approach is noted.</p>
<p>Mr. Sobel noted his support for the proposed revisions in draft ED-500:</p> <ul style="list-style-type: none"> • To achieve a more balanced approach when explaining the risks and expected benefits relating to the use of automated tools and techniques. I.e., In the March meeting it was noted that guidance on automation bias seemed unduly negative. • In addressing the need for auditors to assess the appropriateness of algorithms or other inputs when using automated tools and techniques. 	<p>Subsequent to the March 2022 IAASB meeting, the Audit Evidence Task Force agreed that the focus of the relevant paragraphs was unduly negative and made several adjustments to the structure and wording of this section. This included adding a link to other material in ED-500 which explains that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually.</p> <p>In finalizing ED-500 no further changes were considered necessary in term of guidance or examples about technology. The Explanatory Memorandum to ED-500 contains a specific question to stakeholders for feedback whether ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach.</p>
<p>Dr. Orth, Mr. Ishiwata and Ms. Manabat emphasized the importance of the Audit Evidence Task Force's proposal to develop a non-authoritative guidance publication that illustrates how the principles of proposed ISA 500 (Revised) may apply when using technology, and taking into account the continual developments in technology and changes in the business environment.</p>	<p>Ms. Almond confirmed the intention of the Audit Evidence Task Force to consider non-authoritative guidance in conjunction with approval of the final standard.</p> <p>While the importance of non-authoritative guidance is noted, the IAASB December meeting highlighted some challenges around competing work program priorities, including standard-setting projects vis-à-vis the development of non-authoritative guidance, which were reflected in its recent Consultation Paper, The IAASB's Proposed Strategy and Work Plan for 2024–2027 (IAASB Strategy Consultation).</p>

Representatives' Comments	Task Force / IAASB Response
	<p>The IAASB will continue to consider how best to highlight the application of its principles-based standards in audit engagements, including developing or facilitating and supporting others in developing non-authoritative guidance.</p> <p>The IAASB's Technology Consultation Group has issued a series of non-authoritative guidance publications from April 2020 to February 2023 that focus on the impact of technology on elements of the audit.</p>
<p>Mr. Hansen asked the Task Force to consider introducing guidance, either in the form of application material or as non-authoritative guidance, dealing with the auditor's consideration of the ownership of digital assets.</p>	<p>It is noted that digital assets are featured as an item on the IAASB's 'audit and assurance technology landscape' as part of its disruptive technologies workstream. In relation to ISA 500, digital assets are a targeted topic and non-authoritative guidance would be a future work-plan decision for the IAASB (also see preceding comment about the IAASB Strategy Consultation).</p>
<p>Ms. Mubarak asked the Task Force to consider the impact of the proposed revisions (to address technology) on ISA 501.⁷</p>	<p>Revisions to other standards such as ISA 501 would be a future work-plan decision for the IAASB. ISA 501 and other standards within the ISA 500-series have been highlighted as candidate topics for possible future projects in the recent IAASB Strategy Consultation.</p>

⁷ ISA 501, *Audit Evidence – Specific Considerations for Selected Items*

Project Details and History

Project: Audit Evidence – ISA 500

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
- Dominika Taraszkievicz (Public Company Accounting Oversight Board Observer)

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

IAASB CAG Discussions: Detailed References

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