



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

**Exposure Draft**

*International Standard on Auditing*

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# Proposed International Standard on Auditing 500 (Revised)

## Audit Evidence

and

## Proposed Conforming and Consequential Amendments to Other ISAs

**Issued for Comment**

Response Due Date 6 January 2023

## **THE AUDITING AND ASSURANCE STANDARDS BOARD INVITES COMMENTS ON THE PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 500 (REVISED) *AUDIT EVIDENCE* AND PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO OTHER ISAs**

The Auditing and Assurance Standards Board (“AASB”) of the Malaysian Institute of Accountants (“MIA”) approved the release of this Exposure Draft on 18 November 2022 for distribution to members, regulatory bodies and other interested parties for comment. The proposals in this Exposure Draft may be modified in the light of comments received before being issued in final form.

The International Auditing and Assurance Standards Board (“IAASB”) released the Proposed International Standard on Auditing (ISA) 500 (Revised) *Audit Evidence* and Proposed Conforming and Consequential Amendments to Other ISAs on 24 October 2022.

As a member of the International Federation of Accountants (“IFAC”), MIA is obliged to support the work of IFAC by informing its members of every pronouncement issued by IFAC, to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements and specifically to incorporate the IAASB’s International Standards in national auditing pronouncements.

The explanatory memorandum provides background to, and an explanation of the Proposed International Standard on Auditing (ISA) 500 (Revised) *Audit Evidence* and Proposed Conforming and Consequential Amendments to Other ISAs.

The AASB looks forward to receiving comments on this Exposure Draft from members, regulatory bodies and other interested parties. The AASB welcomes comments on all matters addressed in the Exposure Draft.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

Comments are to be submitted through email by 6 January 2023.

Unless respondents request confidentiality, their comments are a matter of public record. All comments are to be directed to:

Email: [technical@mia.org.my](mailto:technical@mia.org.my)

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence* (ED-500), which was approved for exposure by the IAASB in September 2022.

### Background

2. Extant ISA 500 was considered as part of the IAASB's project to clarify its International Standards at the end of 2008. In addition, consequential amendments were made to the standard in 2018 as part of the IAASB's project to revise ISA 540<sup>1</sup> (i.e., to include material addressing external information sources, as defined).
3. The IAASB established a working group in January 2019 to identify and explore possible issues related to audit evidence, recognizing the evolution in the business environment and audit practice, including the use of technology by both the entity and the auditor. Based on initial feedback provided by the working group in June 2019, the IAASB was of the view that further information-gathering and targeted outreach activities were necessary to understand:
  - The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
  - How the issues may be best addressed.
4. In December 2020, the IAASB approved a [project proposal](#) to update ISA 500. Section II of the project proposal provides further background about the project, including the audit evidence-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal. The project objectives, which are described in Section IV of the project proposal, can be summarized as follows:
  - Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.
  - Develop a principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, recognizing the nature and sources of information in the current business and audit environment.
  - Modernize ISA 500 to be adaptable to the current business and audit environment, while considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques.
  - Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.
5. In determining the scope of the project to update ISA 500, the IAASB also reached certain conclusions regarding the following matters that would not be addressed as part of the project to remain focused on addressing the identified public interest issues and emphasizing the nature and role of ISA 500 within the suite of ISAs:

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<sup>1</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

- Certain issues, primarily related to possible enhancements to other ISAs (e.g., ISA 330)<sup>2</sup> and assurance other than audits or reviews of financial statements, will form part of future work plan decisions in accordance with the IAASB's Framework for Activities.<sup>3</sup>
- Regarding technology, the project would not address how to design and perform audit procedures through the use of automated tools and techniques.

## Coordination with IESBA and Other IAASB Task Forces and Consultation Groups

### IESBA

6. In January 2022, Staff of the International Ethics Standards Board for Accountants (IESBA) performed a high-level review of ED-500 to identify any relevant ethical considerations or matters pertaining to audit evidence. Given the introduction of new or enhanced requirements in ED-500 to reinforce the auditor's exercise of professional skepticism, the IESBA Staff recommended that the IAASB consider:
  - The provisions related to an inquiring mind and professional judgment in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
  - Whether there may be matters included in the IESBA Exposure Draft [Proposed Technology-related Revisions to the Code](#) that may be relevant to the Task Force's work.
7. In July 2022, IESBA Staff performed a follow-up review of ED-500, noting that their recommendations were satisfactorily addressed. In addition, no significant matters warranting further IESBA coordination were noted.

### IAASB Task Forces and Consultation Groups

8. Since the approval of the project proposal, coordination activities with IAASB Task Forces or Consultation Groups included:
  - Fraud Task Force: Discussions regarding the proposed conforming amendments to ISA 240<sup>4</sup> and to align as closely as possible with the direction of proposed ISA 240 (Revised).
  - Professional Skepticism Consultation Group: Discussions focused on the approach taken in ED-500 on the exercise of professional skepticism and addressing auditor biases.
  - Technology Consultation Group: Discussions about examples in the application material to clarify how the principles of ED-500 may apply when using technology.

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<sup>2</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>3</sup> The IAASB's Framework for Activities sets out a framework for how it undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions.

<sup>4</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

# Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-500, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-500, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

## Section 2 Significant Matters

### Section 2-A – Public Interest Issues Addressed in ED–500

9. The table below sets out the key public interest issues identified by the IAASB related to audit evidence and how they have been addressed in ED–500.

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<p><b>Responding to changes in the information that is being used by auditors, including the nature and source of the information</b></p>	<p><i>Adaptability and Scalability</i></p> <p>Developing a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. In doing so, the IAASB developed a set of attributes of relevance and reliability to enhance the auditor’s judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, ED-500 focuses the auditor’s attention on:</p> <ul style="list-style-type: none"> <li>• The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure.</li> <li>• The source of the information and how the source may affect the auditor’s judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.</li> </ul>	<p>9, A34–A62</p>

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
	<p><i>Using Information Prepared by a Management's Expert</i></p> <p>Enhancing and clarifying the auditor's responsibilities when using information intended to be used as audit evidence that has been prepared by a management's expert. For example,</p> <ul style="list-style-type: none"> <li>• Clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management.</li> </ul>	11, A66–A78
<p><b>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</b></p>	<p><i>Adaptability and Scalability</i></p> <p>Reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the application material:</p> <ul style="list-style-type: none"> <li>• Clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence;</li> <li>• Explains how the use of automated tools and techniques may affect auditor bias, including automation bias; and</li> <li>• Uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor.</li> </ul>	A3–A4, A17, A22–A23, A27–A29, A32, A41–A42, A61, Appendix: 2, 5, 6,10

Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues	Relevant Paragraphs in ED-500
<b>Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence</b>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• Designing and performing audit procedures in a manner that is not biased;</li> <li>• Evaluating the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.</li> </ul>	<p>4, 8(a), 9, 13, A19–A23, A43–A44, A51, A53, A57, A59–A62, A84–A88</p>

10. In its deliberations on ED-500, the IAASB considered the effects on auditor behavior of the proposed changes related to the evaluation of information intended to be used as audit evidence and the sufficiency and appropriateness of audit evidence obtained. The IAASB is of the view that the proposed revisions in ED-500, in addressing the identified key public interest issues as described in the table above and as further explained in Sections 2B-2H below, collectively will lead to enhanced auditor judgments when obtaining and evaluating audit evidence.
11. The collection of proposed revisions also reflects the nature and role of ED-500 within the suite of ISAs. Paragraphs 8–14 of ED-500 provide the requirements that address the auditor’s overarching responsibilities relating to audit evidence when designing and performing audit procedures, recognizing the interrelationship between ED-500 and other ISAs with respect to obtaining and evaluating audit evidence. The application material provides further explanation of the underlying concepts and guidance for implementing the requirements, including, as necessary, explaining what the requirements mean or intend to cover. The IAASB is interested in obtaining stakeholders’ views about whether ED-500 achieves an appropriate balance of requirements and application material.

**Section 2-B – Purpose and Scope of ED-500 and Linkage with Other Standards**

12. The IAASB’s information gathering and targeted outreach activities indicated that stakeholders supported clarifying the purpose and scope of ISA 500, and its linkage with other standards, in particular ISA 330.

*Purpose and Scope of ISA 500*

13. Extant ISA 500 explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. It applies to all audit evidence obtained during the course of the audit. Extant ISA 500 also



states that other ISAs deal with specific aspects of the audit, the audit evidence to be obtained in relation to a particular topic, specific procedures to obtain audit evidence, and the evaluation of whether sufficient appropriate audit evidence has been obtained.

14. ED-500 retains this principles-based approach and serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures (paragraph 1 of ED-500). Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. In this regard, the IAASB noted that ED-500 provides an important underpinning, or "reference framework," for auditors when making judgments about audit evidence throughout the audit.
15. As explained in paragraph A2 of ED-500, audit procedures include risk assessment procedures, further audit procedures and other audit procedures that are performed to comply with the ISAs.

#### *Linkage with Other Standards*

16. ED-500 (paragraph 2) retains important links to ISA 200.<sup>5</sup> ISA 200 states that, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. To obtain reasonable assurance, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.<sup>6</sup>
17. ED-500 (paragraph 3) also retains the link to other ISAs that may address specific matters and to the auditor's overall conclusion in ISA 330 about whether sufficient appropriate audit evidence has been obtained. The Appendix to ED-500 includes examples of other ISAs that may address the audit evidence to be obtained for specific matters.

#### **Section 2-C – Technology**

18. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of revising extant ISA 500 to address the evolution in technology. Modernizing ISA 500 to be adaptable to the current business and audit environment, and to better reflect the digital era, has been a key driver of this project for the IAASB.
19. In developing ED-500, the IAASB has followed a principles-based approach to enable the standard to be applied in an evolving environment with increasing use of technology by both the entity and the auditor. The IAASB has aimed for a balanced approach that will allow ED-500 to remain fit for purpose. ED-500 is therefore not prescriptive with respect to the use of technology, but rather accommodates the use of technology by the auditor or the entity. The application material in ED-500 builds on the principles-based requirements to highlight the use of technology.

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

<sup>6</sup> ISA 200, paragraph 17

## **Section 2-D – Professional Skepticism**

20. Based on its information-gathering activities, the IAASB concluded that ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained.
21. The table in paragraph 9 above describes the changes made in ED-500 to address the key public interest issue of fostering the exercise of professional skepticism related to judgments about audit evidence. The IAASB added a paragraph to the Introduction of ED-500 (paragraph 4) to further highlight the link to ISA 200 and the emphasis on maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence.

## **Section 2-E – Definitions**

### *Audit Evidence*

22. Extant ISA 500 defines audit evidence as information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. As part of the IAASB's information-gathering activities in relation to audit evidence, stakeholders noted that, in referring to "information used by the auditor," the definition implies that the auditor is doing something to or with such information.
23. The IAASB therefore discussed and agreed that the revised definition in ED-500 should reflect that information (i.e., the "input") needs to be subject to audit procedures to become audit evidence (i.e., the "output"). The term "information intended to be used as audit evidence" is used in ED-500 to describe the "input" to which audit procedures are applied, including evaluating the relevance and reliability of the information. See Section 2-G below for a further discussion about the required evaluation of the relevance and reliability of information intended to be used as audit evidence in accordance with paragraph 9 of ED-500. Paragraph A34 of ED-500 provides application material that explains the concept of information intended to be used as audit evidence.
24. The revised definition of audit evidence in ED-500 (paragraph 7(b)) describes audit evidence as information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report (emphasis added). The IAASB added the reference to the report based on paragraph A30 of ISA 200, as audit evidence is in fact needed to support the auditor's conclusions in forming an opinion and in preparing and issuing the auditor's report. Other references throughout ED-500, including in the objectives (paragraph 6(a)) are only to the auditor's opinion because, in most cases, such references are in the context of obtaining sufficient appropriate audit evidence to enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

### *Sufficiency and Appropriateness of Audit Evidence*

25. Regarding the sufficiency of audit evidence, stakeholders in the IAASB's targeted outreach activities noted that the significant increase in sources of information has led to greater uncertainty in auditor judgments about "how much evidence is enough" in the circumstances, and how or whether the concept of persuasiveness of audit evidence may address this uncertainty. Stakeholders broadly agreed that the extant definition of appropriateness of audit evidence is generally appropriate, but acknowledged that more guidance may be needed regarding the relevance and reliability of information intended to be used as audit evidence.

26. In its deliberations, the IAASB expressed concerns about introducing changes to the definitions that may not affect auditor behavior, noting that the concepts of sufficiency and appropriateness are well embedded and not broken, and are fundamental to the ISAs as a whole. Therefore, the IAASB has retained the concepts of appropriateness as the measure of the quality of audit evidence, and sufficiency as the measure of the quantity of audit evidence, in providing support for the conclusions that form the basis for the auditor's opinion (paragraphs 7(a) and 7(d) of ED-500).
27. Application material, some of which is drawn from extant ISA 500, is included in ED-500 to support both definitions. The IAASB noted that the extant ISA 500 definition of appropriateness refers to the relevance and reliability of audit evidence, whereas the focus in ED-500 is on evaluating the relevance and reliability of information intended to be used as audit evidence. The IAASB is of the view that the appropriateness (i.e., the quality) of audit evidence is affected by the relevance and reliability of information intended to be used as audit evidence, as well as the effectiveness of the design of audit procedures applied to the information and the auditor's application of those audit procedures. Paragraph A13 of ED-500 describes this point.

#### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

28. The project proposal indicated that the IAASB would explore the relevancy of the notion of the "persuasiveness" of audit evidence in the context of ISA 500, given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330.<sup>7</sup> The IAASB supported introducing the concept of persuasiveness in ED-500 but not a definition of the term. The IAASB added application material (paragraphs A6-A9 of ED-500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

#### *Other Definitions*

29. Extant ISA 500 includes a definition of accounting records, although there is no reference to the term in the requirements of the extant standard. However, the term "accounting records" is included in the requirements of other ISAs, including ISA 315 (Revised 2019).<sup>8</sup> Therefore, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.
30. The definition of an external information source (EIS) was introduced into extant ISA 500 as a consequential amendment arising from ISA 540 (Revised). The definition of EIS has been removed in ED-500 because the term is not used in the requirements of ED-500 and is primarily referred to in the application material in other ISAs. However, the IAASB is of the view that a description of an EIS is still necessary in the application material in ED-500 as such description assists the auditor in distinguishing whether information prepared by an external individual or organization that is used by management in preparing the financial statements is an EIS or information prepared by a management's expert (see further explanation in paragraph A48 of ED-500). The IAASB also considered the application material related to EIS in paragraphs A39-A44 of extant ISA 500, noting that some of the concepts were also relevant to information from other sources and are not unique to information from an EIS. In developing ED-500, the IAASB streamlined this application material but retained concepts or guidance related more specifically to an EIS.

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<sup>7</sup> ISA 330, paragraph 7(b)

<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 25(a)(ii)

## **Section 2-F – Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence**

31. Paragraph 6 of extant ISA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. The IAASB discussed whether ISA 500 continues to be the appropriate location for this requirement or whether it would be better placed in another ISA, such as ISA 200.
32. The IAASB is of the view that the requirement should remain in ED-500 (paragraph 8) because ED-500 provides a reference framework for the auditor throughout the audit in making judgments about audit evidence when designing and performing audit procedures, and therefore further strengthens the link between ED-500 and the other ISAs.
33. The IAASB supported the enhancement of paragraph 8 of ED-500 to reinforce the exercise of professional skepticism by requiring auditors to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory (paragraph 8(a)). This wording is consistent with requirements in ISA 315 (Revised 2019)<sup>9</sup> and ISA 540 (Revised).<sup>10</sup> Paragraph A20 of ED-500 was added to explain that designing and performing audit procedures in an unbiased manner relates to all audit procedures and what this involves.
34. The application material to paragraph 8(a) of ED-500 links to ISA 220 (Revised), and indicates that an awareness of unconscious or conscious auditor biases when designing and performing audit procedures may help to mitigate impediments to the exercise of professional skepticism. The guidance includes possible actions the auditor may take to mitigate the risk of automation bias when using automated tools and techniques, while recognizing that there may be circumstances when the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually.

### *Types of Audit Procedures*

35. Extant ISA 500 includes application material describing and distinguishing between the different types of audit procedures that may be performed to obtain audit evidence. New technologies have raised questions about how audit procedures performed using automated tools and techniques fall within the types of audit procedures described in extant ISA 500 and other ISAs.
36. Furthermore, input from the IAASB's outreach activities indicated that the classification of audit procedures by nature and type was creating challenges in practice as the use of new audit tools and techniques may involve a blend of types of procedures, or the types of procedures described in the ISAs may not fully describe the procedure being performed. The IAASB is of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which "category" the audit procedure falls).

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<sup>9</sup> ISA 315 (Revised 2019), paragraph 13

<sup>10</sup> ISA 540 (Revised), paragraph 18

37. Accordingly, the IAASB relocated the application material describing the types of audit procedures to the Appendix in ED-500. In doing so, examples were added to modernize the types of audit procedures, including references to technology and the use of automated tools and techniques.

#### *Selecting Items for Testing*

38. Paragraph 10 of extant ISA 500 requires the auditor, when designing tests of controls and tests of details, to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. The IAASB discussed whether this requirement may be better placed in ISA 330 as it relates to the design of audit procedures in response to assessed risks. However, the IAASB noted that determining how items will be selected for testing is an integral part of designing audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures. Therefore, the IAASB subsumed paragraph 10 of extant ISA 500 into paragraph 8(b) of ED-500.
39. The IAASB is of the view that the enhanced requirement in paragraph 8(b) of ED-500 is a more robust approach in today's environment because it is principles-based and applies to all audit procedures. The related application material in ED-500 has been revised and modernized to indicate that the auditor may use automated tools and techniques to identify and select items for testing.

#### **Section 2-G – Relevance and Reliability of Information Intended to Be Used as Audit Evidence**

40. Paragraph 7 of extant ISA 500 requires the auditor, when designing and performing audit procedures, to consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. The requirement in paragraph 9 of extant ISA 500 is focused on information produced by the entity and evaluating whether that information is sufficiently reliable for the auditor's purposes, including obtaining audit evidence about the accuracy and completeness of the information.
41. Given the changes in the nature and number of information sources and the evolution in technology, ED-500 includes a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence (paragraph 9 of ED-500). In making this evaluation, the auditor considers the source of the information and the attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures in which such information will be used.
42. The IAASB is of the view that the requirement in paragraph 9 of ED-500 will provide for a robust evaluation of the relevance and reliability of information intended to be used as audit evidence. However, the IAASB cautioned against creating an unnecessary burden on auditors in making this evaluation. The IAASB's intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to "given the intended purpose of the audit procedures" in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor's professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.
43. Paragraph A35 of ED-500 explains that the auditor's evaluation of relevance and reliability is an iterative process that involves professional judgment. Factors that affect the auditor's evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable. Evaluating the relevance and reliability

of information intended to be used as audit evidence involves performing audit procedures, the nature, timing and extent of which may vary (paragraph A36 of ED-500). The evaluation may be performed concurrently with audit procedures applied to the information and in some cases may be straightforward (paragraph A37 of ED-500). Also, audit evidence obtained from performing other audit procedures in accordance with the ISAs may assist in the auditor's evaluation (paragraph A38 of ED-500).

#### *Sources of Information*

44. Paragraphs A48-A52 of ED-500 describe the various sources of information intended to be used as audit evidence. This application material explains that the source of the information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. The application material further explains that obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence.

#### *Attributes of Relevance and Reliability*

45. Paragraph A53 of ED-500 explains that the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9 of ED-500. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.
46. Paragraphs A54-A62 of ED-500 describe the attributes of relevance and reliability, including factors that affect the auditor's professional judgment regarding the attributes that are applicable in the circumstances.
47. As described in paragraph 42 above, the IAASB cautioned against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.
48. The IAASB also discussed concerns about the auditor's documentation of the evaluation of relevance and reliability and the consideration of the attributes that are applicable in the circumstances. Paragraph A40 of ED-500 was added to explain that the requirements in ISA 230<sup>11</sup> about the form, content and extent of audit documentation also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. Paragraph A40 further explains that the documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances. However, ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

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<sup>11</sup> ISA 230, *Audit Documentation*

*Accuracy and Completeness of Information Intended to Be Used as Audit Evidence*

49. Extant ISA 500 (paragraph 9) is a conditional requirement that applies when the auditor is using information produced by the entity. In these circumstances, extant ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:
- Obtaining audit evidence about the accuracy and completeness of the information; and
  - Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.
50. As noted in paragraph 41 above, paragraph 9 of ED-500 is a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source of the information. The IAASB had extensive discussions about this requirement, and had mixed views about whether and how the requirement should address accuracy and completeness of the information, including:
- Whether it is necessary to specifically call out the consideration of certain attributes (i.e., accuracy and completeness) in paragraph 9 of ED-500, given the principles-based nature of the requirement; and
  - Concerns about the robustness of the requirement compared to paragraph 9 of extant ISA 500, noting that accuracy and completeness are generally important considerations, particularly for information generated internally from the entity's information system.
51. Based on its discussions, a majority of the IAASB supported a separate conditional requirement (paragraph 10 of ED-500) for the auditor to obtain audit evidence about the accuracy and completeness of information if such attributes are applicable in the circumstances in accordance with paragraph 9(b). On balance, the IAASB concluded that the separate requirement highlights the importance of considering the accuracy and completeness of information, particularly information generated internally from an entity's information system, and is responsive to inspection findings from audit regulators.
52. The IAASB also developed application material (paragraphs A63-A65 of ED-500) to explain circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances, and how audit evidence about accuracy and completeness may be obtained.

*Information Intended to Be Used as Audit Evidence Prepared by a Management's Expert*

53. Paragraph 8 of extant ISA 500 deals with the auditor's requirements if information to be used as audit evidence has been prepared using the work of a management's expert. The revised requirement in ED-500 (paragraph 11 of ED-500) relates to and builds upon the principles-based requirement in paragraph 9 of ED-500 to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source. Accordingly, paragraph 11 of ED-500 includes a reference to paragraph 9 to clarify that the requirements are related, but incremental, to the required evaluation of relevance and reliability of the information. The conditionality in the extant ISA 500 requirement ("to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes") was considered unnecessary and therefore deleted, given that paragraph 9(b) refers to the intended purpose of the audit procedures.

54. Paragraph 11 of ED-500 also:

- Retains the extant ISA 500 requirement to evaluate the competence, capabilities and objectivity of the management's expert. The IAASB is of the view that the importance of such evaluation is well understood by stakeholders and is in the public interest when management uses information prepared by an expert in the preparation of the financial statements.
- Requires the auditor to obtain an understanding of the work performed by the management's expert. In this regard, the IAASB noted that an understanding of the work performed by the management's expert would include an understanding of the underlying information that has been prepared by the management's expert.
- Adds a requirement for the auditor to obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements. The requirement in paragraph 8(c) of extant ISA 500 to evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion was deemed redundant because paragraph 8(b) of ED-500 already requires the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures (e.g., to respond to an assessed risk for a relevant assertion).

*Doubts About the Relevance or Reliability of Information Intended to Be Used as Audit Evidence*

55. The IAASB discussed that paragraph 11 of extant ISA 500 deals with two different matters i.e., inconsistencies in audit evidence, and doubts over the reliability of information to be used as audit evidence. Therefore, in developing ED-500, the IAASB created two separate requirements. Paragraph 12 of ED-500 addresses the auditor's required actions if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. Paragraph 14 of ED-500 addresses the auditor's required actions if the auditor obtains audit evidence that is inconsistent with other audit evidence, as further explained in paragraph 61 below.

56. The IAASB discussed whether the auditor should be required to attempt to seek additional or alternative information if the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence. However, the IAASB is of the view that there may be circumstances in which the auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence, as explained in paragraph A81 of ED-500. In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

**Section 2-H – Evaluating the Audit Evidence Obtained**

57. Paragraph 13 of ED-500 introduces a new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> This stand back also 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 from all audit

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<sup>12</sup> ISA 330, paragraph 26



procedures, including risk assessment procedures, and therefore also serves to reinforce the requirement in paragraph 35 of ISA 315 (Revised 2019).

58. The stand back in paragraph 13 of ED-500 also emphasizes the exercise of professional skepticism by requiring 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.
59. The reference in paragraph 13 of ED-500 to whether audit evidence appears to corroborate or contradict the assertions in the financial statements mirrors the wording in paragraph 26 of ISA 330. The IAASB discussed whether the relationship between ED-500 and ISA 330 might be strengthened by deleting that wording in paragraph 26 of ISA 330 through a conforming amendment. However, on balance, the IAASB concluded that the wording is appropriate in both standards, and should be retained in ISA 330 as it provides an important link to ISA 700 (Revised) when forming an opinion on the financial statements.
60. The IAASB also discussed the level at which the evaluation in paragraph 13 of ED-500 is done. The IAASB noted that this evaluation is intended to be performed at the same level as the auditor's conclusion on whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330. ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The IAASB added application material (paragraph A85 of ED-500) to explain that the auditor's evaluation required by paragraph 13 of ED-500 is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
61. As noted in paragraph 55 above, ED-500 also includes a conditional requirement to address inconsistencies in the audit evidence obtained (paragraph 14 of ED-500). In these circumstances, the auditor is required to take actions as necessary to understand and address the inconsistency and to consider the effect, if any, on other aspects of the audit. The IAASB noted that individual pieces of audit evidence obtained may be consistent among themselves, or certain pieces may be inconsistent with others. After any inconsistencies have been addressed, the audit evidence would then become part of the basis for the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.

## **Section 2-I – Conforming and Consequential Amendments**

62. The IAASB is proposing a number of conforming and consequential amendments arising from ED-500. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided. In many cases, the changes relate to aligning the terminology or wording with ED-500.

### *ISA 200*

63. ISA 200<sup>13</sup> and extant ISA 500 both have a definition of audit evidence. The extant ISA 500 definition is included in the IAASB's Glossary of Terms.<sup>14</sup> These definitions have different constructs, which has led to questions about why they are different, whether both are needed, and whether or how they should be aligned.
64. The IAASB discussed whether the definition in ISA 200 should be updated to align with the proposed revised definition of audit evidence in paragraph 7(b) of ED-500, or whether the definition in ISA 200 should be deleted (i.e., have only a single definition of audit evidence in ED-500).
65. Given that ISA 200 is a foundational standard, the IAASB recognized that there may be merit in keeping the definition of audit evidence in both standards. However, on balance, the IAASB supported deleting the definition in ISA 200 and therefore is proposing a consequential amendment to ISA 200 to do so.

### *ISA 315 (Revised 2019)*

66. As described in paragraph 29 above, the IAASB is proposing to add a definition of accounting records to ISA 315 (Revised 2019) as a consequential amendment arising from ED-500.

### *ISA 330*

67. The IAASB noted that paragraph 26 of ISA 330 refers to considering "all relevant audit evidence obtained, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements." In contrast, paragraph 13(b) of ED-500, which is intended to provide a basis for the auditor's overall conclusion in accordance with paragraph 26 of ISA 330, refers to "all audit evidence obtained."
68. The IAASB is of the view that the reference to considering "all audit evidence" in paragraph 13(b) of ED-500 is appropriate. Paragraph 9 of ED-500 requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. By definition, audit evidence is information, to which audit procedures have been applied, that the auditor uses to draw reasonable conclusions that form the basis for the auditor's opinion and report. Accordingly, audit evidence obtained that has been evaluated in accordance with paragraph 13 of ED-500 is relevant (and reliable) (i.e., there is no concept of "irrelevant" audit evidence).
69. Therefore, the IAASB is proposing a conforming amendment to paragraph 26 of ISA 330 to delete the word "relevant" to align with the wording in paragraph 13(b) of ED-500.

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<sup>13</sup> ISA 200, paragraph 13(b)

<sup>14</sup> See digital Handbook of the [IAASB's International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements](#)

## Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-500. In this regard, comments will be most helpful if they are identified with specific aspects of ED-500 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-500, it will be helpful for the IAASB to be made aware of this view.

### Overall Questions

1. Is the purpose and scope of ED-500 clear? In this regard:
  - (a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?
  - (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?
2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?
3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?
4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?
5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?

### Specific Questions

6. Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?
7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?
8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?
9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?
10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?
11. Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

## **Request for General Comments**

12. The IAASB is also seeking comments on the matters set out below:

- (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.
- (b) **Effective Date**—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED)

## AUDIT EVIDENCE

(Effective for audits of financial statements for periods  
beginning on or after December 15, 20XX)

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## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained. (Ref: Para. A1-A4)
2. ISA 200<sup>1</sup> deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.<sup>2</sup> (Ref: Para. A5-A12)
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters (e.g., audit evidence related to risk assessment procedures performed in accordance with ISA 315 (Revised 2019)).<sup>3</sup> In addition, ISA 330<sup>4</sup> deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.

### *Professional Judgment and Professional Skepticism*

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.<sup>5</sup> This ISA further emphasizes maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:
  - Designing and performing audit procedures in a manner that is not biased.
  - Evaluating the relevance and reliability of information intended to be used as audit evidence.
  - Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

### Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX.

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<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> ISA 200, paragraph 17

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assesses Risks*

<sup>5</sup> ISA 200, paragraph 7

## Objectives

6. The objectives of the auditor are to:
  - (a) Design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, and
  - (b) Evaluate information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A13)
  - (b) Audit evidence – Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report.
  - (c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
  - (d) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A14)

## Requirements

### Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref. Para. A15–A18)
  - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref. Para. A19–A23)
  - (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. (Ref. Para. A24–A33)

### Information Intended to Be Used as Audit Evidence

9. The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)
  - (a) The source of the information; and (Ref. Para. A48–A52)
  - (b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures. (Ref. Para. A53–A62)
10. If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information. (Ref: Para. A63-A65)

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

11. If information intended to be used as audit evidence has been prepared by a management's expert, as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A66–A68)
- (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref. Para. A69–A73)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref. Para. A74–A75)
  - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A76–A78)
    - (i) How management has considered the appropriateness of the information prepared by that expert; and
    - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.

*Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence*

12. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref. Para. A79–A80)
- (a) Determine whether modifications or additions to audit procedures are necessary to resolve the doubts; and (Ref: Para. A81-A82)
  - (b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the audit, including whether such doubts indicate a risk of material misstatement due to fraud. (Ref: Para. A83)

**Evaluating the Audit Evidence Obtained**

13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330,<sup>6</sup> the auditor shall: (Ref. Para. A84–A88)
- (a) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures; and
  - (b) 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.
14. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref. Para. A89-A93)
- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
  - (b) Consider the effect, if any, on other aspects of the audit.

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<sup>6</sup> ISA 330, paragraph 26



## Application and Other Explanatory Material

### Audit Evidence and Audit Procedures (Ref: Para. 1)

- A1. Audit evidence is necessary to support the conclusions that form the basis for the auditor's opinion and report.<sup>7</sup> Audit evidence comprises evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for the current audit.
- A2. The auditor obtains audit evidence by designing and performing audit procedures, including:
- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)<sup>8</sup> or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
  - Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
    - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
    - Substantive procedures, including tests of details and substantive analytical procedures; or
  - Other audit procedures that are performed to comply with the ISAs.

The Appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence.

### *Automated Tools and Techniques*

- A3. The auditor may perform audit procedures manually or using automated tools and techniques, individually or in combination with each other, to obtain audit evidence. In some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence, or the auditor may need to use an automated tool and technique because it may not be possible or practicable to perform an audit procedure manually. For example, an automated tool and technique may be more effective in analyzing, processing, organizing, structuring or presenting large volumes of data or information.
- A4. Other ISAs may:
- Describe circumstances when an audit procedure may be performed more effectively by using an automated tool and technique than manually. For example, ISA 240 explains that the use of automated tools and techniques may enable more extensive testing of digital transactions or account files.<sup>9</sup>

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<sup>7</sup> ISA 200, paragraph A30

<sup>8</sup> ISA 315 (Revised 2019), paragraphs 13–16

<sup>9</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

- Provide examples of the use of automated tools and techniques that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019) explains that automated tools or techniques may also be used to:
  - Perform risk assessment procedures on large volumes of data, including for analysis, recalculations, reperformance or reconciliations.<sup>10</sup>
  - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).<sup>11</sup>

### **Sufficient Appropriate Audit Evidence** (Ref: Para. 2)

A5. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> As explained in ISA 330, the auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.<sup>13</sup>

#### *Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

A6. The sufficiency and appropriateness of audit evidence are interrelated.<sup>14</sup> Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.

A7. Certain ISAs provide requirements, or guidance, about circumstances when more persuasive audit evidence is, or may be, required. For example, in designing further audit procedures, ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk, and also requires the auditor to obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of a control.<sup>15</sup>

A8. The results of audit procedures performed, including whether any instances of fraud or error were identified, may cause the auditor to determine that it is appropriate to revise the risk assessment in accordance with ISA 315 (Revised 2019).<sup>16</sup> A revision to the risk assessment may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.

A9. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, include the following:

- The information intended to be used as audit evidence, including the auditor’s consideration of the attributes of relevance and reliability of the information as explained in paragraphs A48–A49.
- Whether the information is from a single source or may be needed from multiple sources.

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<sup>10</sup> ISA 315 (Revised 2019), paragraph A21

<sup>11</sup> ISA 315 (Revised 2019), paragraph A35

<sup>12</sup> ISA 330, paragraph 26

<sup>13</sup> ISA 330, paragraph A62

<sup>14</sup> ISA 200, paragraph A31

<sup>15</sup> ISA 330, paragraphs 7(b) and 9

<sup>16</sup> ISA 315 (Revised 2019), paragraph 37

- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied (see paragraphs A20–A21).
- Whether there are inconsistencies between multiple pieces of audit evidence.

*Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence*

- A10. In explaining the inherent limitations of an audit, ISA 200<sup>17</sup> notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
- A11. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.
- A12. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. In addition, management’s unwillingness to respond to an inquiry or a request from the auditor (e.g., management’s refusal to provide a requested representation) may be a limitation on the scope of the audit. ISA 705 (Revised)<sup>18</sup> explains other circumstances when the auditor’s inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

**Appropriateness of Audit Evidence** (Ref: Para. 7(a))

- A13. The appropriateness of audit evidence refers to the quality of audit evidence. The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor’s application of those audit procedures, as explained in paragraphs A24–A26. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive audit evidence. If the audit evidence is more persuasive, the auditor may determine that the audit evidence is sufficient in providing support for the conclusions that form the basis for the auditor’s opinion. Alternatively, when audit evidence is less persuasive, the auditor may determine that additional audit evidence is needed to provide support for the auditor’s conclusions. However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.

**Sufficiency of Audit Evidence** (Ref: Para. 7(d))

- A14. The quantity of audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing

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<sup>17</sup> ISA 200, paragraph A50

<sup>18</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*, paragraphs A8 and A9

different types of audit procedures, or by seeking audit evidence from different sources. Obtaining more audit evidence, however, may not compensate for its poor quality.

**Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence** (Ref: Para. 8)

*The Nature of Audit Procedures*

- A15. As explained in paragraph A2, the auditor obtains audit evidence by designing and performing audit procedures, including risk assessment procedures, further audit procedures, and other audit procedures to comply with the ISAs. The nature of an audit procedure refers to its purpose and its type. For example, ISA 330 explains that the purpose of further audit procedures may be a test of controls or a substantive procedure.<sup>19</sup> As also explained in ISA 330, the nature of the audit procedures is of most importance in responding to the assessed risks.
- A16. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. The Appendix describes some of the types of audit procedures and includes illustrative examples.
- A17. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

- Inquiry of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
- Observation provides audit evidence about the performance of a procedure or control. However, observation 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 procedure or control is performed.
- When performing risk assessment procedures or further audit procedures, the auditor may use an automated tool to interrogate a large data set of transactions more easily. By doing so, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the transactions, which may result in more persuasive audit evidence.

- A18. The auditor may design and perform an audit procedure that achieves more than one purpose. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with ISA 330 concurrently with risk assessment procedures, when it is efficient to do so.<sup>20</sup> For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs. For example, when an audit procedure serves as both a risk assessment procedure and a further audit procedure concurrently, the auditor is required to comply with the requirements of ISA 315 (Revised 2019) and ISA 330, and any other relevant ISAs

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<sup>19</sup> ISA 330, paragraph A5

<sup>20</sup> ISA 315 (Revised 2019), paragraph A19

(e.g., a topic-specific ISA, such as ISA 540 (Revised))<sup>21</sup> that deal with the design and performance of such audit procedure.

*Designing and Performing Audit Procedures in a Manner That Is Not Biased* (Ref: Para. 8(a))

A19. ISA 220 (Revised)<sup>22</sup> explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on such assertions (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is assessed (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). Also see paragraphs A22-A23.

A20. Designing and performing audit procedures in an unbiased manner involves:

- For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks or the auditor's expectations about the risks of material misstatement, or toward excluding audit evidence that may contradict the existence of risks or the auditor's expectations.
- For further audit procedures and other audit procedures in accordance with the ISAs, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate management's assertions or toward excluding audit evidence that may contradict such assertions.

A21. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion.

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<sup>21</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>22</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A35

## Automation Bias

- A22. Digital Information or information that has been generated by automated systems may give rise to a risk of automation bias, resulting in an overreliance on the relevance and reliability of such information. An awareness of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence may help the auditor to design and perform audit procedures in a manner that seeks to avoid such bias.
- A23. Paragraphs A3-A4 explain that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing audit procedures manually. However, the use of automated tools and techniques may also give rise to a risk of unconscious biases, including automation bias. Possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques include:
- Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
  - Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, when necessary, to:
    - Understand the data inputs and processing steps, including calculations and modifications to data, used in the automated tool or technique;
    - Design and perform audit procedures using the automated tool or technique; or
    - Interpret the results from applying the automated tool or technique.
  - Determining whether the auditor's firm permits the use of the automated tool and technique and whether the firm has determined that the automated tool and technique is appropriate for use.<sup>23</sup>

### *Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 8(b))*

- A24. As explained in paragraph A9, the audit procedures designed and performed by the auditor may affect the persuasiveness of audit evidence obtained.

Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence.

- A25. ISA 200<sup>24</sup> explains that detection risk is a function of:

- The effectiveness of an audit procedure; and
- The application of the audit procedure by the auditor.

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<sup>23</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraphs 32(f) and A100 – A101

<sup>24</sup> ISA 200, paragraphs A44-A45

Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the intended purpose of the audit procedures. An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level.

A26. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

#### Selecting Items for Testing in Designing and Performing an Audit Procedure

A27. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Such approaches may involve:

- Selecting all items;
- Selecting specific items; and
- Audit sampling.

The application of any one or a combination of these approaches may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

A28. The appropriateness of an approach or technique in selecting items for testing depends on a number of factors, such as:

- The intended purpose of the audit procedure;
- How the audit procedure is designed;
- Whether the auditor is performing the audit procedure manually or using automated tools and techniques;
- The characteristics of the population being tested; and
- The persuasiveness of audit evidence that is needed in the circumstances.

#### Selecting all items

A29. The auditor may determine that it is possible to apply an audit procedure to the entire population of items. If the audit procedure has been designed appropriately, the application of the audit procedure to an entire population may result in more persuasive audit evidence. Applying an audit procedure to an entire population may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence; or
- Automated tools and techniques can be used to perform the audit procedure.

#### Selecting specific items

A30. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value items.* The auditor may decide to select specific items within a population because they are of high value.
- *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
- *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- *Items to obtain information:* The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

A31. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selecting specific items from a population does not provide audit evidence concerning the remainder of the population.

A32. The auditor may use automated tools and techniques to identify and select specific items for testing. For example, ISA 315 (Revised 2019) explains that, when automated procedures are used to maintain the general ledger and prepare financial statements, non-standard journal entries may exist only in electronic form and may therefore be more easily identified through the use of automated techniques.<sup>25</sup>

#### Audit sampling

A33. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. As explained in paragraph A31, selecting specific items from a population does not constitute audit sampling. Audit sampling is addressed in ISA 530.<sup>26</sup>

#### **Information Intended to Be Used as Audit Evidence** (Ref: Paras. 9–12)

A34. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in audit evidence to support the conclusions that form the basis for the auditor's opinion and report. However, such information can

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<sup>25</sup> ISA 315 (Revised 2019), paragraph A161

<sup>26</sup> ISA 530, *Audit Sampling*



become audit evidence only after audit procedures are applied to it, including evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as “information intended to be used as audit evidence.”

*Evaluating the Relevance and Reliability of Information Intended to Be Used as Audit Evidence*

- A35. The auditor’s evaluation of the relevance and reliability of information intended to be used as audit evidence is an iterative process that involves professional judgment. Factors that affect the auditor’s evaluation include what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable, as further described in paragraphs A41-A46.
- A36. Evaluating the relevance and reliability of information intended to be used as audit evidence involves performing audit procedures. The nature, timing and extent of such audit procedures may vary and are influenced by the auditor’s consideration of:
- The source of the information (see paragraphs A47-A51); and
  - The attributes of relevance and reliability of the information that are applicable in the circumstances (see paragraphs A52-A61).
- A37. The evaluation of relevance and reliability may be performed concurrently with the audit procedures applied to the information. For example, when the purpose of the audit procedure is to test the valuation of investments using pricing information from an external source, the auditor also considers the credibility of the source and whether it is free from bias. In some circumstances, the audit procedures to evaluate relevance and reliability may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank). In other circumstances, audit procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity’s information system).
- A38. Audit evidence from performing other audit procedures in accordance with the ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence.

Examples:

Audit evidence obtained from:

- The auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using of the work of an auditor’s expert in accordance with ISA 620.<sup>27</sup>

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<sup>27</sup> ISA 620, *Using the Work of an Auditor’s Expert*

- Audit procedures performed in accordance with ISA 402<sup>28</sup> when a user entity uses the services of one or more service organizations.

- A39. In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor may identify information that is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of the risks of material misstatement. In these circumstances, ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement.<sup>29</sup>
- A40. ISA 230<sup>30</sup> provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. The documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)). However, this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

*Form, Availability, Accessibility and Understandability of Information*

- A41. Information intended to be used as audit evidence may come in different forms, including:
- Oral information, for example, obtained through a verbal response to an inquiry.
  - Visual information, for example, obtained through physical or remote observation.
  - Information in written form, for example, obtained through a written confirmation.
  - Digital information, which includes documents in digital form and data stored in an IT system. Such digital information may be manually captured, converted into a digital format, or electronically generated.
- A42. The form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor's evaluation of the relevance and reliability of the information.

Examples:

- The design of an audit procedure to inspect the physical condition of the entity's inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation techniques.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information to facilitate

<sup>28</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>29</sup> ISA 315 (Revised 2019), paragraph 37

<sup>30</sup> ISA 230, *Audit Documentation*

the performance of audit procedures. For example, the entity may use machine learning technology to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In this case, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome.

- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use automated tools and techniques that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

- A43. Paragraphs A19–A23 explain auditor biases, such as availability bias, that may affect or impede the auditor’s exercise of professional skepticism when forming judgments about audit evidence. Remaining alert for information that may be more suitable for the auditor’s purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.
- A44. The auditor may receive information in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The auditor may have an expectation of the form in which information intended to be used as audit evidence will be received. Remaining alert for information that is received in a form different from the expected form may assist the auditor in mitigating unconscious biases that may impede the auditor’s exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the auditor’s evaluation of the reliability of that information.
- A45. Information intended to be used as audit evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information, or due to war, civil unrest or outbreaks of disease. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)<sup>31</sup> provides examples of how restrictions may be overcome for an audit of group financial statements.
- A46. Paragraph A12 explains that the auditor may be unable to obtain sufficient appropriate audit evidence if the auditor determines that it is not practicable to obtain or understand information intended to be used as audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. The auditor’s inability to obtain sufficient appropriate audit evidence requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A47. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as audit evidence. Accordingly, the auditor may consider using an auditor’s expert to assist in understanding or interpreting the information if the engagement team does not have the appropriate competence and capabilities to do so. Other resources may also be

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<sup>31</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A29

appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).<sup>32</sup>

Examples:

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence:

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction), and the auditor may need a local tax lawyer or tax accountant to help interpret the information.
- The information may be included in a contract that contains complicated and legal terminology, and the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application that uses a highly complex programming language. The auditor may use an IT programming expert to assist in understanding how the information is generated.
- The information may be in a foreign language and may need to be translated.

*Sources of Information* (Ref. Para. 9(a))

A48. Information intended to be used as audit evidence may come from internal sources or external sources. For example, information may come from:

- The entity's accounting records, management or other sources internal to the entity.
- An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an "external information source" in this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. The auditor's determination of whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, is a matter of professional judgment, taking into account the ability of management to influence the external information source.

Example:

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Prices and pricing related data.
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data.
- Credit history data.

<sup>32</sup> ISA 220 (Revised), paragraphs A59–A69.

- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- Independent sources outside of the entity that provide information to the entity, such as the entity's bank, legal counsel, customers or suppliers.
- A management's expert.
- An auditor's expert.
- A service organization.

A49. In some cases, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users. In other cases, it is information prepared by a management's expert (see paragraphs A65–A77). An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management's expert.

A50. The source and form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence. The source of the information may also affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information. It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence.

Examples:

- If the source of the information is subject to the influence of management or a related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information.
- If the information comes from a highly reputable external information source, such as a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be extensive.
- If the information is provided by management, such as information generated internally from the entity's information system, the auditor may need to obtain audit evidence about the accuracy and completeness of the information (see paragraphs A62-A63).

A51. Obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control

obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.<sup>33</sup>

- A52. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

Example:

In performing substantive analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

- The entity's accounting records, such as information that relates to the details of the rental properties and their location; and
- An external information source, such as information that relates to average real estate rental prices for the area where the properties are located (e.g., information available on real estate websites).

*Attributes of Relevance and Reliability of Information (Ref: Para. 9(b))*

- A53. As explained in paragraph A13, the quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the attributes of relevance and reliability of the information that are applicable in the circumstances as part of the auditor's evaluation in accordance with paragraph 9. Whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.

Relevance

- A54. The principal attribute of the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose of the audit procedure, including, when appropriate, the assertion being tested. The degree to which the information relates to meeting the purpose of the audit procedure may also be a consideration.
- A55. Other factors that may affect the relevance of information intended to be used as audit evidence include:
- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates. Information may be relevant to multiple classes of transactions, account balances or disclosures. Some information may be relevant for certain financial statement assertions but not others.

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<sup>33</sup> ISA 315 (Revised 2019), paragraphs 19–26

Examples:

- A summary of accounts receivable collected after the end of the period may be relevant to testing the existence and valuation of accounts receivable, and occurrence and accuracy of revenue, but not necessarily to the completeness of accounts receivable and revenue.
- Inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion for a financial instrument but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.
- The level of detail of the information needed given the intended purpose of the audit procedure.

Example:

Information used by management to monitor the entity's operations (e.g., interim operating results) may be relevant for purposes of risk assessment procedures. On the other hand, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not be appropriate for use by the auditor in performing further audit procedure.

Reliability

A56. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.
Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence and capability to generate the information to a required standard, and the source can be trusted.

- A57. When evaluating the reliability of information intended to be used as audit evidence in accordance with paragraph 9, the auditor may determine that the attribute of authenticity is applicable in the circumstances. ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.<sup>34</sup> ISA 240 deals with circumstances in 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.<sup>35</sup>
- A58. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.

Example:

An entity's information system may include general information technology controls to safeguard and maintain the integrity of the financial information. Based on the auditor's understanding and evaluation of the entity's information system and control activities in accordance with the requirements of ISA 315 (Revised 2019),<sup>36</sup> the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when information is extracted for financial reporting purposes.

*Factors That Affect the Auditor's Professional Judgment Regarding the Attributes of Relevance and Reliability*

- A59. The intended purpose of the audit procedure in which the information will be used affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances.

Examples:

- When the auditor performs risk assessment procedures to understand the nature of the entity's provision for warranties, procedures such as the following may be sufficient to assess the risk of material misstatement:
  - Obtaining or updating the auditor's understanding of the entity and its environment, including the markets for the related products.
  - Determining that there have been no changes in the entity's internal control in this area from the prior period audit.
  - Inspecting a list of inventory returns during the guarantee period and noting that such returns are consistent with the auditor's expectations.
- When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the valuation of the provision for warranties, the auditor's further audit procedures may include procedures to obtain audit evidence about the accuracy and the completeness of the listing of returned goods within the guarantee period.

<sup>34</sup> ISA 200, paragraph A23

<sup>35</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 14

<sup>36</sup> ISA 315 (Revised 2019), paragraphs 25-26



A60. Other factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances may include:

- The nature and form of the information.
- The controls over the preparation and maintenance of the information.
- How the information has been obtained by the auditor, for example, whether the information was obtained directly or indirectly by the auditor.
- If the information is intended to be used by the auditor in performing further audit procedures, the nature of the assessed risks of material misstatement, including the reasons for the assessment, and the relevant assertions.
- Whether the information appears to corroborate or contradict management's assertions.

Example:

Responses to inquiries with those charged with governance about events or conditions that may cast significant doubt about the entity's ability to continue as a going concern may corroborate or contradict management's assertions about future strategies and business plans. In considering the responses to inquiries of those charged with governance:

- If the responses corroborate management's assertions, the attribute of bias may be more applicable in the circumstances.
- If the responses contradict management's assertions, the attributes of accuracy and completeness may be more applicable in the circumstances.

- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
- The implications of actual, suspected, or alleged fraud identified during the audit.

A61. As explained in paragraph A22, digital information or information that has been generated by automated systems may give rise to a risk of automation bias by the auditor. Therefore, the auditor may need to consider this risk when evaluating the relevance and reliability of such information intended to be used as audit evidence.

A62. When the information intended to be used as audit evidence has been obtained by management from an external information source for use in preparing the financial statements, obtaining an understanding of why management used the source and how management considered the relevance and reliability of the information may help to inform the auditor's evaluation of the relevance and reliability of that information.

*Attributes of Accuracy and Completeness (Ref: Para. 10)*

A63. The source of the information intended to be used as audit evidence may affect the auditor's consideration of whether the attributes of accuracy and completeness are applicable in the circumstances. For example, accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system. For information obtained from a source

external to the entity, the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information.

- A64. As explained in paragraph A58, the intended purpose of the audit procedure affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances. The attributes of accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system used in performing further audit procedures but may not always be applicable when performing risk assessment procedures.

Examples of circumstances in which the auditor may consider the attributes of accuracy and completeness to be applicable in the circumstances may include:

- The price and sales volume data produced by the entity intended to be used by the auditor to develop an expectation about revenue.
- A population of items being tested for a certain characteristic, such as authorization of payment.
- Testing the appropriateness of journal entries and other adjustments.

- A65. Paragraph A37 provides guidance about the audit procedures to evaluate the relevance and reliability of information intended to be used as audit evidence. Such guidance also applies to obtaining audit evidence about the accuracy and completeness attributes when applicable in the circumstances.

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 11)*

- A66. Management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.

- A67. As explained in paragraph A48, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 11 of this ISA applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

A68. The auditor's evaluation of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, when information prepared by a management's expert is used by management for purposes of making an accounting estimate, the auditor's evaluation may assist the auditor in meeting the requirements of ISA 540 (Revised) regarding:

- The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
- How management selected the point estimate and developed related disclosures about estimation uncertainty.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 11(a))

A69. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances. When such information is prepared by a management's expert:

- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
- The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and capabilities

A70. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.

Examples:

- An actuary may specialize in health insurance but have limited expertise regarding pension calculations compared to a pension actuary.
  - An actuary that specializes in life insurance may have limited experience with property and casualty insurance.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A71. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

#### Objectivity

A72. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Safeguards may reduce such threats and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality management policies or procedures).

A73. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity, and the effectiveness of safeguards such as quality management policies or procedures may be greater. The threat to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

#### Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 11(b))

A74. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:
  - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
  - The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

A75. The auditor may decide to involve an auditor's expert<sup>37</sup> to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 11(c))

A76. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.
- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

A77. The auditor's understanding of how information prepared by a management's expert has been used by management in the preparation of the financial statements may help the auditor understand whether the expert's findings or conclusions have been appropriately reflected in the financial statements. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable in accordance with paragraph 9. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

A78. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. ISA 265<sup>38</sup> deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

*Doubts About the Relevance or Reliability of Information (Ref: Para. 12)*

A79. Paragraph A54 explains that the relevance of information intended to be used as audit evidence may be affected by the period of time to which the information relates. For example, the relevance of such

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<sup>37</sup> ISA 620, paragraph 7

<sup>38</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance*

information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the auditor identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as audit evidence.

A80. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include:

- An inability to evaluate the attributes that are applicable in the circumstances, such as whether the information is authentic.
- Misstatements identified during the audit.
- Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control.
- When audit procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as audit evidence is inconsistent with other information or audit evidence.

A81. The auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence. For example, if the auditor has doubts about the reliability of the response to a confirmation request, the auditor may be able to resolve such doubts by contacting the confirming party to verify the source and contents of the response.<sup>39</sup> In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

A82. As explained in ISA 200,<sup>40</sup> in cases of doubt about the reliability of information or indications of possible fraud, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

A83. ISA 580<sup>41</sup> provides requirements and guidance for circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

### **Evaluating the Audit Evidence Obtained** (Ref: Para 13)

A84. Audit evidence is obtained from designing and performing audit procedures. ISA 315 (Revised 2019) requires the auditor to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.<sup>42</sup> ISA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on and are responsive

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<sup>39</sup> ISA 505, *External Confirmations*, paragraph A14

<sup>40</sup> ISA 200, paragraph A23

<sup>41</sup> ISA 580, *Written Representations*, paragraphs 16-18

<sup>42</sup> ISA 315 (Revised 2019), paragraph 35

to the assessed risks of material misstatement at the assertion level.<sup>43</sup> As explained in ISA 315 (Revised 2019), risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these financial statement level risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.<sup>44</sup>

- A85. ISA 330 addresses the auditor's responsibility to conclude whether sufficient appropriate audit evidence has been obtained.<sup>45</sup> The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by, among other factors, the results of audit procedures performed.<sup>46</sup> As explained in paragraph A83, ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The auditor's evaluation required by paragraph 13(a) is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.
- A86. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, ISA 330 requires the auditor to attempt to obtain further audit evidence.<sup>47</sup> This may be the case, for example, if the audit evidence obtained does not meet the intended purpose of the audit procedures. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor is required to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).
- A87. Other ISAs may also address the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained for specific topics, such as ISA 570 (Revised).<sup>48</sup>
- A88. As explained in paragraph A25, an audit procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level. Paragraph A26 explains how ISA 220 (Revised) addresses the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner, which may affect the application of audit procedures. In addition, ISA 220 (Revised)<sup>49</sup> explains that the review of the engagement team's work consists of considering whether, for example:
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
  - The objectives of the audit procedures have been achieved.

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<sup>43</sup> ISA 330, paragraphs 5-6

<sup>44</sup> ISA 315 (Revised 2019), paragraph A194

<sup>45</sup> ISA 330, paragraph 26

<sup>46</sup> ISA 330, paragraph A62

<sup>47</sup> ISA 330, paragraph 27

<sup>48</sup> ISA 570 (Revised), *Going Concern*, paragraph 17

<sup>49</sup> ISA 220 (Revised), paragraph A89

*Inconsistencies in Audit Evidence (Ref: Para. 14)*

A89. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

Example:

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

A90. When audit evidence is inconsistent with other audit evidence, it may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 9. Paragraph 12 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the doubts and the effect on other aspects of the audit may vary.

A91. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the auditor may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of audit interest. These items may indicate a possible misstatement in the financial statements. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information. Paragraph 14 applies in such circumstances.

A92. In considering the effect of inconsistencies in audit evidence on other aspects of the audit, the auditor may consider whether the risk assessment remains appropriate in accordance with ISA 315 (Revised 2019).<sup>50</sup>

A93. ISA 230 addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.<sup>51</sup>

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<sup>50</sup> ISA 315 (Revised 2019), paragraph 37

<sup>51</sup> ISA 230, paragraph 11



## Appendix

(Ref: Para. A2, A16–A17)

### The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive; other types of procedures may be designed and performed by the auditor.

#### Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs may address the audit evidence to be obtained for specific matters, for example:
  - ISA 315 (Revised 2019) deals with the auditor’s responsibility to identify and assess the risks of material misstatement in the financial statements.
  - ISA 505<sup>52</sup> deals with the auditor’s use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
  - ISA 520<sup>53</sup> deals with the auditor’s use of analytical procedures as substantive procedures, and the auditor’s responsibility to perform analytical procedures near the end of the audit;
  - ISA 570 (Revised) deals with the auditor’s responsibilities in the audit of financial statements relating to going concern and the implications for the auditor’s report.

#### Types of Audit Procedures

##### *Inspection*

2. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

##### Examples:

- To test a control, the auditor may inspect records, using manual or automated tools and techniques, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using automated tools or techniques, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

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<sup>52</sup> ISA 505, *External Confirmations*

<sup>53</sup> ISA 520, *Analytical Procedures*

3. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. 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.
4. 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 may accompany the observation of inventory counting.

#### *Observation*

5. Observation consists of looking at a process or procedure being performed by others. Similar to inspection, observation may involve being physically present or using remote observation tools. 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. ISA 501 provides further guidance on observation of the counting of inventory.<sup>54</sup>

#### Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
  - Physical controls, such as the safeguarding of assets;
  - Management's procedures to monitor or capture the actual time worked of wage employees; or
  - Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501<sup>55</sup> requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated techniques, individually or in combination with each other. Automated techniques may include live video, screensharing or video footage from a drone.
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

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<sup>54</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>55</sup> ISA 501, paragraph 4

### *Confirmation*

6. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a direct response to the auditor on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

#### Examples:

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.
- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether "side agreements" have been entered into that may influence revenue recognition.

### *Recalculation*

7. Recalculation consists of checking the mathematical accuracy of information.

### *Reperformance*

8. Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

#### Examples:

The auditor may:

- Develop an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Repperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

### *Analytical Procedures*

9. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
10. The auditor may perform analytical procedures for various purposes, including as:
- Risk assessment procedures in accordance with ISA 315 (Revised 2019),<sup>56</sup>

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<sup>56</sup> ISA 315 (Revised 2019), paragraph 14(b)

Example:

In identifying and assessing the risks of material misstatement regarding revenue, the auditor may perform analytical procedures in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement. As explained in paragraph A3, the auditor may perform audit procedures manually or use automated tools and techniques, individually or in combination with each other, to perform the analytical procedures.

- Substantive analytical procedures, or analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. See ISA 520 for further guidance.

*Inquiry*

11. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may provide audit evidence and may produce evidence of a misstatement. However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
12. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or is inconsistent with other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
13. Although audit evidence obtained through inquiry may need to be supplemented by performing other audit procedures, when making 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, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide additional audit evidence to supplement the audit evidence obtained through inquiry.

Examples:

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.

14. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

## CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 500 (REVISED) – MARKED FROM EXTANT

### INTERNATIONAL STANDARD ON AUDITING (ISA) 200 – OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

#### Definitions

...

13(b). ~~Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:~~

- ~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~
- ~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

...

#### Application and Other Explanatory Material

...

##### Professional Skepticism (Ref: Para. 15)

A20. Professional skepticism includes being alert to, for example:

- Audit evidence that is inconsistent with ~~contradicts~~ other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

...

A22. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning inconsistent ~~contradictory~~ audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single

document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

- A23. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to evaluate ~~consider~~ the reliability of information intended to be used as audit evidence.<sup>1</sup> In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.<sup>2</sup>

...

### **Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)**

#### *Sufficiency and Appropriateness of Audit Evidence*

- A30. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~is~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits audit evidence (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit<sup>3</sup>) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

- A32. The Appropriateness of audit evidence refers to is the measure of the quality of audit evidence. The quality of audit evidence depends on the; that is, its relevance and its reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.<sup>4</sup> ~~in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained~~ nature, form and source of information are among the factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances.

...

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<sup>1</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs 7-9

<sup>2</sup> ISA 240, paragraph 14; ISA 500 (Revised), paragraph 41-42; ISA 505, *External Confirmations*, paragraphs 10-11, and 16

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16

<sup>4</sup> ISA 500 (Revised), paragraph A13

# ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

## Application and Other Explanatory Material

...

### Definitions

*Engagement Team (Ref: Para. 12(d))*

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures<sup>5</sup> on the audit engagement is a member of the engagement team.

A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.<sup>6</sup> Audit procedures include ~~comprise~~ risk assessment procedures,<sup>7</sup> and ~~and~~ further audit procedures.<sup>8</sup> and other audit procedures that are performed to comply with the ISAs. As explained in ISA 500 (Revised) describes different types, of audit procedures, which may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.<sup>9</sup> ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.<sup>10</sup>~~

...

### Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

...

*Professional Skepticism (Ref: Para. 7)*

...

A34. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- ....
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of information

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<sup>5</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A24

<sup>6</sup> ISA 200, paragraph A30

<sup>7</sup> ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

<sup>8</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

<sup>9</sup> ISA 500 (Revised), paragraphs A1614–A25, Appendix

<sup>10</sup> ISA 520, *Analytical Procedures*



intended to be used as audit evidence and seek information ~~audit evidence~~ from sources that are more easily accessible.

...

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- ...
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom information intended to be used as audit evidence may be sought.

## **ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

### **Requirements**

...

#### **Risk Assessment Procedures and Related Activities**

17. When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, required by ISA 315 (Revised 2019), the auditor shall perform the procedures in paragraphs 18–25 to obtain audit evidence ~~information~~ for use in identifying the risks of material misstatement due to fraud.

...

#### *Evaluation of Fraud Risk Factors*

25. The auditor shall evaluate whether the audit evidence ~~information~~ obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud. (Ref: Para. A24–A28)

#### **Evaluation of Audit Evidence (Ref: Para. A50)**

...

37. If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of audit evidence previously obtained. (Ref: Para. A53)

...

## Communication to Management and with Those Charged with Governance

41. If the auditor has identified a fraud or has obtained audit evidence information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A61-A62)

...

## Application and Other Explanatory Material

...

### Risk Assessment Procedures and Related Activities

...

*Inquiry of Management and Others within the Entity* (Ref: Para. 19)

...

- A18. Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional skepticism, the auditor may judge it necessary to obtain audit evidence to corroborate responses to inquiries ~~with other information~~.

...

### Responses to the Assessed Risks of Material Misstatement Due to Fraud

...

*Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level* (Ref: Para. 31)

- A38. The auditor's responses to address the assessed risks of material misstatement due to fraud at the assertion level may include changing the nature, timing and extent of audit procedures in the following ways:
- The nature of audit procedures to be performed may need to be changed to obtain audit evidence that is more appropriate reliable and relevant or to obtain additional audit evidence corroborative information. This may affect both the type of audit procedures to be performed and their combination. For example:
    - Physical observation or inspection of certain assets may become more important or the auditor may choose to use automated tools and computer-assisted audit techniques to gather more evidence about data contained in significant accounts or electronic transaction files.
    - The auditor may design procedures to obtain additional audit evidence corroborative information. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by

invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor might find it effective to supplement such external confirmations with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

- ...
- The extent of the procedures applied reflects the assessment of the risks of material misstatement due to fraud. For example, increasing sample sizes or performing analytical procedures at a more detailed level may be appropriate. Also, automated tools and computer-assisted audit techniques may enable more extensive testing of electronic transactions and account files. Such techniques can be used to select sample transactions from key electronic files to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

#### **Evaluation of Audit Evidence** (Ref: Para. 35-38)

...

#### *Consideration of Identified Misstatements* (Ref: Para. 36–38)

...

A53. The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of audit evidence previously obtained may be called into question, since there may be doubts about the completeness and truthfulness of representations made and about the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management or third parties.

...

## **Appendix 2**

(Ref: Para. A41)

### **Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud**

...

#### **Consideration at the Assertion Level**

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- ...
- Performing audit procedures using automated computer-assisted tools and techniques, such as data mining to test for anomalies in a population.
- Testing the integrity of ~~computer-produced~~ records and transactions generated by automated systems.
- ...

### **Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting**

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

#### *Revenue Recognition*

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Automated tools and Computer-assisted audit techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- ...

#### *Inventory Quantities*

- ...
- Using automated tools and computer-assisted audit techniques to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.

#### *Management Estimates*

- ...

### **Specific Responses—Misstatements Due to Misappropriation of Assets**

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- ...
- Performing an automated computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing an automated computerized search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.

## Appendix 3

(Ref: Para. A50)

### Examples of Circumstances that Indicate the Possibility of Fraud

The following are examples of circumstances that may indicate the possibility that the financial statements may contain a material misstatement resulting from fraud.

...

*Problematic or unusual relationships between the auditor and management, including:*

- ...
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of automated tools and computer-assisted audit techniques.

## ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

### Application and Other Explanatory Material

...

## Appendix

(Ref: Para. 7–8, A8–A11)

### Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

#### Characteristics of the Engagement

...

- The effect of information technology on the audit procedures, including the availability of data and the expected use of automated tools and computer-assisted audit techniques.

...

# ISA 315 (REVISED 2019) – IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

## Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Accounting records -- The records of initial accounting entries and supporting records, such as payment records, including electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

...

## Requirements

### Risk Assessment Procedures and Related Activities

...

#### *Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures*

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory to the assertions made by management. (Ref: Para. A230–A232)

## Application and Other Explanatory Material

### Risk Assessment Procedures and Related Activities (Ref: Para. 13-18)

...

#### *Sources of Audit Evidence* (Ref: Para. 13)

- A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence. In addition to information from other sources,<sup>11</sup> sources of information for risk assessment procedures may include:
- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.

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<sup>11</sup> See paragraphs A37 and A38

- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor considers the relevance and reliability of the information intended to be used as audit evidence in accordance with ISA 500 (Revised).<sup>12</sup>

...

*Types of Risk Assessment Procedures* (Ref: Para. 14)

A19. ISA 500 (Revised)<sup>13</sup> explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in digital electronic form or only at certain points in time.<sup>14</sup> The auditor may perform substantive procedures or tests of controls, in accordance with ISA 330, concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.

...

**Identifying and Assessing the Risks of Material Misstatement** (Ref: Para. 28-37)

...

*Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures* (Ref: Para. 35)

...

The Evaluation of the Audit evidence

A231. Audit evidence from risk assessment procedures comprises both evidence that may information that supports and corroborates, the management's assertions, made by management, or evidence and any information that may contradicts such assertions.<sup>15</sup>

...

**Documentation** (Ref: Para. 38)

...

A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism.<sup>16</sup> For example, when the audit evidence obtained from risk assessment procedures includes evidence that both

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<sup>12</sup> ISA 500 (Revised), paragraph 97

<sup>13</sup> ISA 500 (Revised), paragraph A16+4-A17 and Appendix A21–A25

<sup>14</sup> ISA 500 (Revised), paragraph A42+2

<sup>15</sup> ISA 500 (Revised), paragraph 8(a)A1

<sup>16</sup> ISA 230, paragraph A7

corroborates and contradicts the assertions made by management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- ...
- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate corroborative or contradictory to the assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- ...

## **ISA 330 – THE AUDITOR'S RESPONSES TO ASSESSED RISKS**

### **Requirements**

...

#### **Evaluating the Sufficiency and Appropriateness of Audit Evidence**

...

26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all ~~relevant~~ audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A62)

...

### **Application and Other Explanatory Material**

#### **Overall Responses (Ref: Para. 5)**

...

- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of information intended to be used as audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:
- Conducting more audit procedures as of the period end rather than at an interim date.
  - ...



## **Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level**

*The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)*

...

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

...

Extent

...

A16. The use of automated tools and computer-assisted audit techniques (CAATs) may enable more extensive testing of digital electronic transactions and account files, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud. Such techniques can be used to select sample transactions from key digital electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

...

Higher Assessments of Risk (Ref: Para 7(b))

A19. When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more appropriate relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating audit evidence from a number of independent sources.

*Tests of Controls*

Designing and Performing Tests of Controls (Ref: Para. 8)

...

Timing of Tests of Controls

...

Controls that have not changed from previous audits (Ref: Para. 14(b))

A39. When there are a number of controls for which the auditor intends to rely on audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence corroborating information about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to rely on audit evidence obtained in previous audits.

...

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16–17)

...

## Nature and Extent of Substantive Procedures

...

A45. The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~the relevant~~ audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

...

## Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 19)

A48. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no “side agreement” exists that may be relevant to an entity’s revenue cutoff assertion. Other situations where external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include:

...

## **ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION**

### **Application and Other Explanatory Material**

...

#### **Responding to the Assessed Risks of Material Misstatement (Ref: Para. 15)**

...

#### *Tests of Controls* (Ref: Para. 16)

...

#### Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively (Ref: Para. 17)

...

A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity’s financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or

subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

...

## ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

### Application and Other Explanatory Material

...

#### Litigation and Claims

*Completeness of Litigations and Claims* (Ref: Para. 9)

...

A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for example, using audit evidence information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

## ISA 505 – EXTERNAL CONFIRMATIONS

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330<sup>17</sup> and ISA 500 (Revised).<sup>18</sup> It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.<sup>19</sup>

#### External Confirmation Procedures to Obtain Audit Evidence

2. ISA 500 (Revised) indicates that the reliability-appropriateness of audit evidence refers to the quality of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.<sup>20</sup> The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness

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<sup>17</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>18</sup> ISA 500 (Revised), *Audit Evidence*

<sup>19</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>20</sup> ISA 500, paragraph A9

~~of the design of the audit procedures and the auditor's application of those audit procedures.<sup>21</sup> Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more appropriate than evidence generated internally by the entity. That ISA also includes the following generalizations applicable to audit evidence:<sup>22</sup>~~

- ~~● Audit evidence is more reliable when it is obtained from independent sources outside the entity.~~
- ~~● Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.~~
- ~~● Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.~~

~~Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.~~

3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:
- ...
  - ISA 240 indicates that the auditor may design confirmation requests to obtain audit evidence ~~additional corroborative information~~ as a response to address the assessed risks of material misstatement due to fraud at the assertion level.<sup>23</sup>
  - ISA 500 (Revised) indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management.<sup>24</sup>

...

## Requirements

...

### Evaluating the Results of the External Confirmation Procedures ~~Evidence Obtained~~

16. The auditor shall evaluate ~~whether~~ the results of the external confirmation procedures ~~provide relevant and reliable audit evidence, or~~ determine whether further audit evidence is necessary. (Ref: Para A24–A25)

## Application and Other Explanatory Material

...

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<sup>21</sup> ISA 500 (Revised), paragraph A13

<sup>22</sup> ~~ISA 500, paragraph A5~~

<sup>23</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

<sup>24</sup> ISA 500 (Revised), paragraphs A24A12–A13

## Results of the External Confirmation Procedures

*Reliability of Responses to Confirmation Requests (Ref: Para. 10)*

A11. ISA 500 (Revised) indicates that the source of information may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.<sup>25</sup> All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

...

A14. The auditor is required by ISA 500 (Revised) to determine whether ~~to modify modifications~~ or additions to audit procedures are necessary to resolve doubts ~~over~~ about the relevance or reliability of information intended to be used as audit evidence.<sup>26</sup> The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

...

## Evaluating the Results of Individual External Confirmation Procedures Evidence Obtained (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

...

.....

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<sup>25</sup> ISA 500 (Revised), paragraph A5035

<sup>26</sup> ISA 500 (Revised), paragraph 1244

## ISA 520 – ANALYTICAL PROCEDURES

### Application and Other Explanatory Material

...

#### Substantive Analytical Procedures

...

##### *The Reliability of the Data* (Ref: Para. 5(b))

A12. The reliability of data is influenced by the auditor's consideration of its source and the attributes of reliability that are applicable in nature and is dependent on the circumstances under which it is obtained.<sup>27</sup> Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (a) Source of the information ~~available~~. For example, information may be less susceptible to management bias and more reliable when it is obtained from independent sources outside the entity;<sup>28</sup>
- (b) Comparability of the information ~~available~~. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information ~~available~~. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is relevant and reliable.<sup>29</sup> The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit procedures testing. ~~ISA 500 establishes requirements~~

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<sup>27</sup> ISA 500 (Revised), *Audit Evidence*, paragraph A50

<sup>28</sup> ISA 500, *Audit Evidence*, paragraph A35

<sup>29</sup> ISA 500 (Revised), paragraph 9

and provides guidance in determining the audit procedures to be performed on the information to be used as audit evidence to be used for substantive analytical procedures.<sup>30</sup>

...

#### *Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))*

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

...

- The availability of the information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor is required to evaluate ~~may also consider~~ the reliability of the information as discussed in paragraphs A12–A13 above.

## **ISA 530 – AUDIT SAMPLING**

### **Introduction**

#### **Scope of this ISA**

...

2. This ISA complements ISA 500 (Revised),<sup>31</sup> which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 (Revised) provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

### **Application and Other Explanatory Material**

...

#### **Sample Design, Size, and Selection of Items for Testing**

##### *Sample Design (Ref: Para. 6)*

...

A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the

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<sup>30</sup> ISA 500, paragraph 10

<sup>31</sup> ISA 500 (Revised), *Audit Evidence*

requirements of paragraphs 9 and 10 of ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

...

## Appendix 4

(Ref: Para. A13)

### Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

...

(e) Block selection ...

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

## ISA 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial *statements*. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),<sup>32</sup> ISA 330,<sup>33</sup> ISA 450,<sup>34</sup> ISA 500 (Revised)<sup>35</sup> and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

...

### Requirements

...

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<sup>32</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>33</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>34</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>35</sup> ISA 500 (Revised), *Audit Evidence*



## Responses to the Assessed Risks of Material Misstatement

...

### *Other Considerations Relating to Audit Evidence*

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating ~~the appropriateness of the expert's work as audit evidence for a relevant assertion~~ in accordance with paragraph ~~8(c)~~ 11 of ISA 500 (Revised). ~~In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise.~~ (Ref: Para. A126–A132)

...

### **Overall Evaluation Based on Audit Procedures Performed**

33. In applying ISA 330 to accounting estimates,<sup>36</sup> the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
  - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
  - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all ~~relevant~~ audit evidence obtained, ~~whether~~ 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.<sup>37</sup> If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).<sup>38</sup>

...

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<sup>36</sup> ISA 330, paragraphs 25–26

<sup>37</sup> ISA 500 (Revised), paragraph 1344

<sup>38</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Application and Other Explanatory Material

...

### Responses to the Assessed Risks of Material Misstatement

*The Auditor's Further Audit Procedures* (Ref: Para. 18)

...

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises evidence ~~both information~~ that supports and corroborates management's assertions, and evidence ~~any information~~ that contradicts such assertions.<sup>39</sup> Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

...

*Testing How Management Made the Accounting Estimate* (Ref. Para. 22)

...

Significant Assumptions (Ref: Para. 24)

...

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity, ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes, taking into consideration the source of the information and the attributes of relevance and reliability that are applicable in the circumstances. If the auditor considers that including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness attributes are applicable in the circumstances, ISA 500 (Revised) also requires the auditor to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~<sup>40</sup>

...

*Other Considerations Relating to Audit Evidence* (Ref: Para. 30)

A126. Information intended to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

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<sup>39</sup> ISA 500 (Revised), paragraph A15

<sup>40</sup> ISA 500 (Revised), paragraphs 9-10

## External Information Sources

A127. As explained in ISA 500 (Revised),<sup>41</sup> the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors.~~ For example:

- ...
- When information obtained from an external information source has been developed by that source using its own model(s). ~~Paragraph A43 of ISA 500 provides relevant guidance.~~

...

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph ~~A44~~A46 of ISA 500 (Revised) provides guidance ~~with respect to restrictions placed by the~~ for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an external information source on the provision of supporting information.

## Management's Expert

...

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph 118(e) of ISA 500 (Revised).

...

## Documentation (Ref: Para. 39)

...

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to

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<sup>41</sup> ISA 500 (Revised), Paragraph A5035

accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient the sufficiency and appropriateness of the audit evidence has been obtained. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

...

- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate, or towards excluding audit evidence that may ~~be contradictory~~, assertions made by management;

...

- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ audit evidence obtained, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions in the financial statements.

## ISA 550 – RELATED PARTIES

### Application and Other Explanatory Material

...

#### **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions** (Ref: Para. 20)

...

*Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction* (Ref: Para. 24)

...

- A44. Evaluating management's support for this assertion may involve one or more of the following:
- Considering the appropriateness of management's process for supporting the assertion.
  - Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including obtaining audit evidence about its testing the data to determine their accuracy, and completeness and relevance.
  - Evaluating the reasonableness of any significant assumptions on which the assertion is based.

## ISA 570 (REVISED) – GOING CONCERN

...

### Requirements

...

#### Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

...

- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)
  - (i) Evaluating the relevance and reliability of the underlying data generated to prepare the forecast; and
  - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

## ISA 580 – WRITTEN REPRESENTATIONS

### Introduction

...

#### Written Representations as Audit Evidence

3. Audit evidence is ~~the information, to which audit procedures have been applied, that the auditor uses used by the auditor~~ in arriving at the conclusions ~~that form the basis for on which~~ the auditor's opinion and report is based.<sup>42</sup> Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

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<sup>42</sup> ISA 500 (Revised), *Audit Evidence*, paragraph 7(b)5(e)

# ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

## Introduction

...

### Relationship between ISA 315 (Revised 2019) and ISA 610 (Revised 2013)

...

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA 330.<sup>43</sup>

...

## Requirements

...

### Using Internal Auditors to Provide Direct Assistance

33. ...
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised).<sup>44</sup> In so doing:
  - (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
  - (b) The review procedures shall include the external auditor checking back to the underlying information ~~audit evidence~~ for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

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<sup>43</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>44</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

## ISA 620 – USING THE WORK OF AN AUDITOR’S EXPERT

### Introduction

#### Scope of this ISA

...

2. This ISA does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);<sup>45</sup> or
- (b) The auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management’s expert), which is dealt with in ISA 500 (Revised).<sup>46</sup>

...

### Application and Other Explanatory Material

...

#### Determining the Need for an Auditor’s Expert (Ref: Para. 7)

...

A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:

- Whether management has used a management’s expert in preparing the financial statements (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- The risks of material misstatement in the matter.
- The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.

A9. When management has used a management’s expert in preparing the financial statements, the auditor’s decision on whether to use an auditor’s expert may also be influenced by such factors as:

- The nature, scope and objectives of the management’s expert’s work.
- Whether the management’s expert is employed by the entity, or is a party engaged by it to provide relevant services.

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<sup>45</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A19

<sup>46</sup> ISA 500 (Revised), *Audit Evidence*, paragraphs A66–A78A45–A59

- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA 500 (Revised)<sup>47</sup> includes requirements and guidance regarding the evaluation ~~effect~~ of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

## **ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT**

### **Application and Other Explanatory Material**

...

#### **Determining Key Audit Matters** (Ref: Para. 9–10)

...

#### *Considerations in Determining Those Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~or~~ audit evidence obtained throughout the audit.

## **ISA 805 (REVISED)**

### **SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

...

### **Application and Other Explanatory Material**

...

#### **Considerations When Accepting the Engagement**

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<sup>47</sup> ISA 500 (Revised), paragraph 118



*Application of ISAs (Ref: Para. 7)*

...

- A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be obtained ~~acquired~~ in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~further to obtain audit evidence to supplement the information obtained to corroborate audit evidence acquired~~ further to obtain audit evidence to supplement the information obtained from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3  
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia  
[phone] +603 2722 9000 [fax] +603 2722 9100  
[web] [www.mia.org.my](http://www.mia.org.my) [email] [technical@mia.org.my](mailto:technical@mia.org.my)