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Invitation to Comment on IAASB Exposure Draft Proposed ISA 500 (Revised), *Audit Evidence* and Proposed Conforming and Consequential Amendments to Other ISAs



Hong Kong Institute of
Certified Public Accountants
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IAASB Exposure Draft ISA 500 (Revised)

<https://www.hkicpa.org.hk/en/Standards-setting/Standards/Open-for-comment-documents/Auditing-and-Assurance>

Exposure Draft
October 2022
Comments due: April 24, 2023

HKICPA comment
deadline:
24 March 2023

International Standard on Auditing

Proposed International Standard
on Auditing 500 (Revised)

Audit Evidence

and

Proposed Conforming and
Consequential Amendments to
Other ISAs

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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HKICPA Survey on ED-500

HKICPA Survey: IAASB Proposed International Standing on Auditing (Revised) 500, Audit Evidence

The International Auditing and Assurance Standards Board (IAASB) opened the [public consultation](#) for proposed changes to one of its fundamental standards, International Standard on Auditing (ISA) 500, *Audit Evidence*.

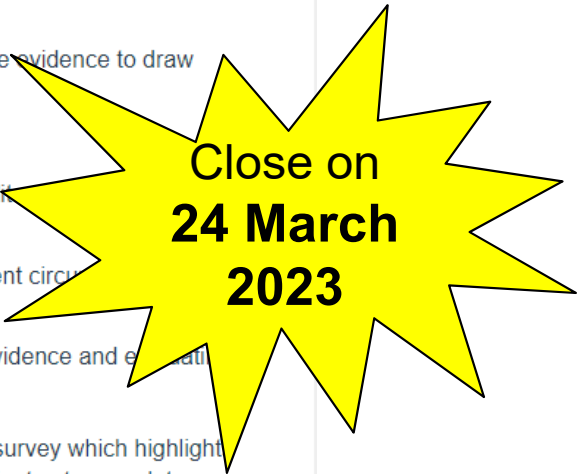
The extant ISA 500 addresses an auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate evidence to draw reasonable conclusions on which to base the auditor's opinion. The proposed changes:

- Clarify ISA 500's purpose and scope and explain its relationship with other standards;
- Provide a principles-based approach to considering and making judgments about information intended to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained;
- Modernize ISA 500 to be adaptable to the current business and audit environment, while considering scalability for different circumstances including the entity and the auditor's use of technology, such as automated tools and techniques; and
- Emphasize the role of professional skepticism when making judgments about information intended to be used as audit evidence and evaluating the audit evidence obtained.

The Institute is interested in hearing your views about the proposed standard. To collect these views, you are invited to take a survey which highlights the key attributes of the proposed ISA 500 (Revised) followed by yes/no questions. The survey should take less than twenty minutes to complete.

All responses are anonymous. Results of the survey will be used by the Institute to develop its response to the IAASB and will be presented in aggregate.

<https://survey.alchemer.com/s3/7131527/ISA-500-Revised>



Close on
24 March
2023

ED-500: Key Changes

- Scope of the standard
 - *New: Evaluate information intended to be used as audit evidence, and the audit evidence obtained*
- Information intended to be used as audit evidence
 - *Principles-based approach in considering relevance and reliability of information to be used as audit evidence*
 - *Obtaining audit evidence about the accuracy and completeness of the information if applicable*
- Revised definition of “Audit Evidence”
 - *Reflects that information (i.e., the “input”) needs to be subject to audit procedures to become audit evidence (i.e., the “output”)*
- Reinforce the exercise of professional skepticism

ED-500: Objectives

Extant ISA 500	Objective 4. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.
ED-500	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.



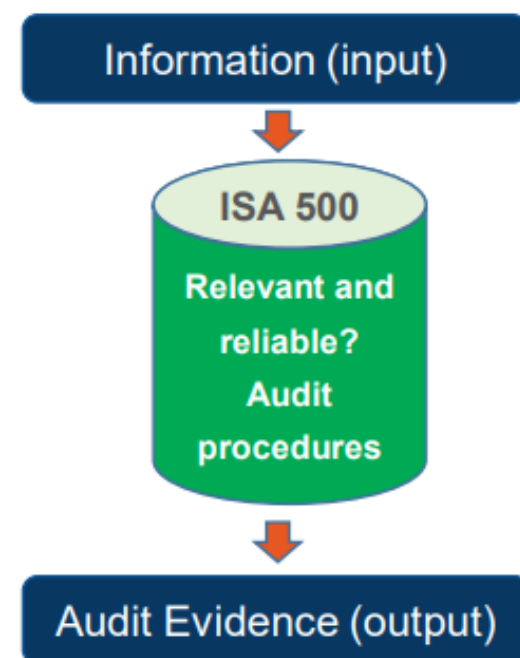
Information Intended to be used as Audit Evidence

Paragraph A34 of ED-500 explains the concept of information intended to be used as audit evidence as follows:

*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 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."***

Information Intended to be used as Audit Evidence

- Information (i.e., the “input”) needs to be subject to audit procedures to become audit evidence (i.e., the “output”).
- ED-500 provides a **reference framework** for the auditor throughout the audit when making judgments in relation to audit evidence, including information intended to be used as audit evidence.

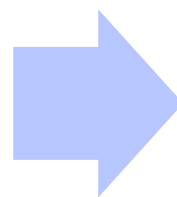


Source: Meeting materials of IAASB 15
March 2021 meeting

Information Intended to be used as Audit Evidence

Extant ISA 500 Paragraph 7

Auditor, when designing and performing audit procedures, to consider the relevance and reliability of the information to be used as audit evidence



ED-500 Paragraph 9 **NEW**

The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence.

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.



Sources of Information

Paragraphs A48–A52 of ED-500 describe the various sources of information intended to be used as audit evidence such as:

- 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.

Paragraphs A48–A52 also 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.
- 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.
- In designing and performing a specific audit procedure, the auditor **may use information from a combination of sources**.

Relevance of Information (paragraphs A54–A55 of ED-500)

- 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.
- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates.
- 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.

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.
- 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 of Information (paragraphs A56–A58 of ED-500)

- Deals with the degree to which the auditor may depend on such information.
- Attributes that may be considered:
 - (i) Accuracy; (ii) Completeness;
 - (iii) Authenticity; (iv) Bias; (v) Credibility
- May also be affected by whether the integrity of the information has been maintained through all stages of information processing.

Examples:

- 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), 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.



Relevance and Reliability of Information

- The auditor's evaluation of relevance and reliability is an iterative process that involves professional judgment. (paragraph A35 of ED-500)
- **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)



Relevance and Reliability of Information

- Paragraphs A59 to A60 explain factors that affect the auditor's professional judgement regarding the attributes of relevance and reliability that are applicable in the circumstances:
 - The intended purpose of the audit procedure in which the information will be used.
 - 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.
 - 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.

Attributes of Accuracy and Completeness

Paragraph 10 of ED-500 includes a separate conditional requirement 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):

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)



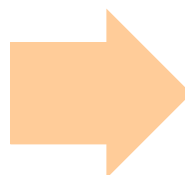
Attributes of Accuracy and Completeness

- 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. (paragraph A63 of ED-500)
- For example, accuracy and completeness ordinarily will be applicable for information generated internally from the entity's information system. (paragraph A63 of ED-500)
- In paragraph A64 of ED-500, examples of circumstances that 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.

Revised Definition of Audit Evidence

Extant ISA 500

Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.



ED ISA 500 (Revised) **NEW**

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.

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.

HKICPA ED-500 Survey

Question 1

- Do you agree that ED-500 provides an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

Question 2

- Do you agree that 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?

HKICPA ED-500 Survey

Question 3

- 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?

Question 4

- Do you support the revised definition of audit evidence in ED-500?

Question 5

- Do you agree with the “input-output model” that information can become audit evidence only after audit procedures applied to it?

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

Objective of ED-500: 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

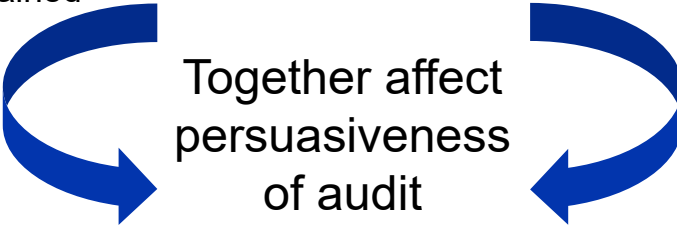
Sufficiency of audit evidence – The measure of the **quantity** of audit evidence

- ✓ Additional audit evidence may be obtained by increasing the extent of audit procedures performed
- ✓ Performing different types of audit procedures
- ✓ Seeking audit evidence from different sources

Appropriateness of audit evidence – The measure of the **quality** of audit evidence

- ✓ Relevance and reliability of the information intended to be used as audit evidence
- ✓ Effectiveness of the design of the audit procedures and the auditor's application of those audit procedures

Together affect
persuasiveness
of audit
evidence



Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness (paragraphs A6 – A9 of ED-500):

Assessed risks of material misstatement and relevant assertions

The results of audit procedures performed

Information intended to be used as audit evidence

Design and performance of audit procedure

Whether there are inconsistencies between multiple pieces of audit evidence

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

ED-500 further explains:

- 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. (paragraph A7)
- 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. (paragraph A8)

HKICPA ED-500 Survey

Question 6

- Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?



New Stand Back Requirement

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:

- Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures; and
- 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.

HKICPA ED-500 Survey

Question 7

- 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?



Reinforcing the exercise of professional skepticism

ED-500:

- Proposes requirement to avoid auditor bias when designing and performing audit procedures:

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures:

(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

- Proposes revisions to the requirement when there are doubts about the 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)

Reinforcing the exercise of professional skepticism

ED-500:

- Proposes requirement in ISA 500 to conclude whether sufficient appropriate audit evidence has been obtained:

13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330, 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.

- Proposes revisions to the requirement when information or audit evidence is inconsistent with other audit evidence:

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.

HKICPA ED-500 Survey

Question 8

- Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?



Use of Technology

ED-500:

- 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:
 - Clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence (paragraphs A3–A4);
 - Explains how the use of automated tools and techniques may affect auditor bias, including automation bias (paragraphs A22–A23); and
 - Uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor (paragraphs A27–A29, A32, A41–A42, Appendix paragraphs 2, 5, 6 and 10).

HKICPA ED-500 Survey

Question 9

- 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?



Linkage with other Standards

ED-500:

- Paragraph 2 of ED-500 retains important links to ISA 200.

2. ISA 200¹ 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.² (Ref: Para. A5-A12)

- Paragraph 3 of ED-500 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.

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)).³ In addition, ISA 330⁴ 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.



Linkage with other Standards

The Appendix to ED-500 includes examples of other ISAs that may address the audit evidence to be obtained for specific matters.

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 505⁵² deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
 - ISA 520⁵³ 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.



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HKICPA ED-500 Survey

Question 10

- Are the relationships to, or linkages with, other ISAs clear and appropriate?

HKICPA ED-500 Survey

Question 11

- Do you agree that the proposed revisions in ED-500, when considered collectively, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?

Question 12

- Does ED-500 have an appropriate balance of requirements and application material?

Question 13

- Are there any other matters you would like to raise regarding ED-500?

Further Resources & Information

HKICPA Invitation to Comments <i>Comment deadline: 24 March 2023</i>	https://www.hkicpa.org.hk/en/Standards-setting/Standards/Open-for-comment-documents/Auditing-and-Assurance
HKICPA Survey on ED-500 <i>Comment deadline: 24 March 2023</i>	https://survey.alchemer.com/s3/7131527/ISA-500-Revised
IAASB ED-500	https://www.iaasb.org/publications/proposed-international-standard-auditing-500-revised-audit-evidence-and-proposed-conforming-and
IAASB Audit Evidence project page	https://www.iaasb.org/consultations-projects/audit-evidence

Thank you!



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