Exposure Draft

Proposed International Standard on Auditing 500 (Revised)

Audit Evidence

This Exposure Draft, ED-500 (2026), is published as part of a package for the Audit Evidence and Risk Response Project, that also includes ED-AE&RR, ED-330 and ED-520

AUGUST 2026
COMMENTS DUE: *DECEMBER 15, 2026*

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About the IAASB

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The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB and IESBA Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) should be read along with the cover EM accompanying the Exposure Draft (ED) for the Audit Evidence and Risk Response project overall (ED–AE&RR), and the EMs for Proposed International Standard on Auditing (ISA) 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330), and Proposed ISA 520 (Revised) (ED–520), which were developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: www.iaasb.org.

The approved text is published in the English language. The proposals set out in this ED may be modified, based on comments received, before being issued as a final pronouncement.

Comments are requested by December 15, 2026.

Use of Response Form

The questions included in this EM address issues specific to ED–500 (2026). The EMs accompanying ED–330 and ED–520 include questions that are specific to issues considered by the IAASB in developing those proposed standards. In addition, the cover EM accompanying ED–AE&RR addresses issues that are relevant to all the in scope-standards for this project. They are available at the following link.

We welcome comments on all matters addressed in this and the other three EMs, and we encourage all respondents to submit their comments electronically using the *Response Form*, which may be downloaded from the IAASB website: www.iaasb.org (this is a single *Response Form* that facilitates a respondent to respond to all questions across the four EMs (i.e., all the questions that appear in **Section 2** of each EM)). Using the response form facilitates consistency in the structure of responses received from all our stakeholders, which assists us greatly in the timely and effective analysis of the responses.

You may respond to all questions or only those questions for which you have specific comments. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

You can further assist our review and analysis by ensuring that your submission responds directly to the questions in the form, and includes the rationale for your answers:

- If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements or application material.
- If you agree with the proposals, 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.

Throughout, please be specific about the sections, headings or paragraphs in the ED that your responses relate to.

Please refrain from inserting tables or text boxes in your responses.

When submitting a completed response form, it is not necessary to include a covering letter containing a summary of your key issues. The form provides an opportunity to include any other views you wish to place on the public record, should you choose to do so.

The completed response form can be uploaded using the "Submit Comment" link.

EXPLANATORY MEMORANDUM

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Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)), which was approved for exposure by the IAASB in June 2026.

2. ED–500 (2026) is part of a package of three proposed revised standards of the Audit Evidence and Risk Response project, which also include Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330) and Proposed ISA 520 (Revised), *Analytical Procedures* (ED–520), in respect of which the IAASB is seeking public comment. In addition, the cover EM accompanying the exposure draft for the IAASB's Audit Evidence and Risk Response project overall (ED–AE&RR) addresses issues that are relevant to the three exposure drafts.

3. The cover EM also provides background to the previous Audit Evidence project that the IAASB undertook between 2019–2024. It explains that under that Audit Evidence project, the IAASB had published an Exposure Draft of Proposed ISA 500 (Revised) (ED–500 (2022))[1] in October 2022, that is referred to, as appropriate, when discussing the significant matters in **Section 1** below.

4. Please note that ED-500 (2022) is relevant only for reference purposes and that there is no intention or implication that ED–500 (2026) is a re-exposure of ED–500 (2022). As explained in the cover EM accompanying ED–AE&RR (paragraphs 10–23), the IAASB's work in relation to the previous Audit Evidence project has been continued into the Audit Evidence and Risk Response project. The package of four exposure drafts for this project (i.e., ED–AE&RR, ED–330, ED–500 (2026) and ED–520) are the only publications subject to the current public consultation.

Section 1 – Significant Matters

Section 1–A. Purpose, Scope and Objective of ED–500 (2026) and Linkage with Other Standards

5. 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.

6. The scope of ED–500 (2026) (paragraph 1) explains that the standard is an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. It also emphasizes that such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence.

7. The objective of ED–500 (2026) (paragraph 7) refers to the intended outcome of the auditor's work effort in applying the standard. The objective is focused on the auditor designing and performing 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, including evaluating the relevance and reliability of information intended to be used as audit evidence.

[1] See the *Exposure Draft of Proposed ISA 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs*.

8. ED–500 (2026) (paragraph 2) retains important links to ISA 200.[2] 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.[3]

9. ED–500 (2026) (paragraph 3) also retains the link to other ISAs that address the audit evidence to be obtained for specific matters (e.g., ISA 315 (Revised 2019)[4] and Proposed ISA 330 (Revised)) and to the auditor's overall conclusion in ISA 700 (Revised)[5] about whether sufficient appropriate audit evidence has been obtained. Appendix 1 to ED–500 (2026) expands on the examples of other ISAs that may address the audit evidence to be obtained for specific matters. This aims to strengthen the link between ED–500 (2026) setting out the principle-based reference framework that applies to all audit evidence obtained during the course of the audit and the other ISAs that address the audit evidence obtained for specific matters.

Section 1–B. Definitions

Audit Evidence

10. 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 the course of the previous Audit Evidence project, 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.

11. The IAASB therefore discussed and agreed that the definition of audit evidence should reflect that information (i.e., the "input") needs to be subject to audit procedures to become audit evidence (i.e., the "output"). For the purposes of ED–500 (2026), the term "information intended to be used as audit evidence" is used to describe the "input" that can become audit evidence only after audit procedures are applied to it, including evaluating the relevance and reliability of such information. Paragraph A1 of ED–500 (2026) explains the concept of information intended to be used as audit evidence for the purpose of the standard.

12. The revised definition of audit evidence in paragraph 8(b) of ED–500 (2026) describes audit evidence as information, after applying audit procedures, that the auditor uses to draw conclusions that form the basis for the auditor's opinion <u>and report</u> (emphasis added). The IAASB added reference to the report based on paragraph A31 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 (2026), including in the objective (paragraph 7), refer 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.

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

3 ISA 200, paragraph 17

4 ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

5 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

13. Respondents' feedback on exposure of ED–500 (2022) was predominantly supportive of the conceptual relevance of the "input-output model" embedded in the revised definition of audit evidence. However, respondents called for further clarity of what constitutes a necessary audit procedure to turn "information" into "audit evidence" and how the nature, timing and extent of those audit procedures may vary (i.e., illustrating their scalability). There were also calls to consider the interaction of the scope of the definition of audit evidence and its implications when evaluating contradictory or inconsistent audit evidence (see paragraphs 57–62 below).

14. To support practical implementation and address respondents' concerns with respect to the scalability aspects of the auditor's work effort to use information as audit evidence, the IAASB added application material in paragraphs A6–A7 of ED–500 (2026) to:

    - Provide examples that demonstrate how the audit procedures applied to the information intended to be used as audit evidence may vary from simple to extensive procedures and to emphasize that such audit procedures may also include corroborating the absence of certain conditions.
    - Highlight that audit evidence may comprise audit evidence that supports and corroborates management's assertions and audit evidence that contradicts such assertions.

Sufficiency and Appropriateness of Audit Evidence

15. Regarding the sufficiency of audit evidence, stakeholders in the IAASB's targeted outreach activities in the course of the previous Audit Evidence project 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.

16. 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 8(a) and 8(d) of ED–500 (2026)).

17. Application material, some of which is drawn from extant ISA 500, is included in ED–500 (2026) 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 (2026) 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 depends on 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 A8 of ED–500 (2026) highlights this matter.

18. On exposure of ED–500 (2022), certain respondents, including a Monitoring Group member, were of the view that both sufficiency and appropriateness as foundational aspects of audit evidence should be evaluated and be specifically addressed in the requirements of the standard. The IAASB discussed that both sufficiency and appropriateness are incorporated in the lead-in sentence to

paragraph 9 of ED–500 (2026) (i.e., for the purpose of obtaining sufficient appropriate audit evidence) as well as that the overall conclusion about the sufficiency and appropriateness of audit evidence (i.e., hence the persuasiveness of audit evidence) is addressed by paragraph 11A of ISA 700 (Revised) (see ED–AE&RR). Accordingly, there is no need for a separate requirement in ED–500 (2026).

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence

19. During the previous Audit Evidence project, the IAASB explored the relevance 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 extant ISA 330. The IAASB supported introducing the concept of persuasiveness in ED–500 (2026) but not a definition of the term. The IAASB added application material in paragraphs A10–A12 of ED–500 (2026) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.

20. The IAASB agreed not to pursue a definition for persuasiveness of audit evidence, given that the application material sufficiently describes persuasiveness in the context of its interrelationship with sufficiency and appropriateness of audit evidence. In addition, defining persuasiveness may inadvertently imply a definitive threshold for "enough evidence" which would not be appropriate, since this is a matter of the auditor's professional judgment in the circumstances of the particular engagement.

Other Definitions

21. 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). Therefore, the IAASB is proposing to add the definition of accounting records to ISA 315 (Revised 2019) as a conforming and consequential amendment arising from ED–500 (2026) (see ED–AE&RR). In proposing this change, the IAASB has also relocated the list of examples in the definition of accounting records to application material in ISA 315 (Revised 2019), consistent with its drafting conventions for the definitions in the ISAs.

22. The definition of an external information source was introduced into extant ISA 500 as a conforming and consequential amendment arising from ISA 540 (Revised).[6] The definition of external information source has been removed in ED–500 (2026) because the term is not used in the requirements of the standard and is primarily referred to in the application material in other ISAs. However, the IAASB is of the view that a description of an external information source is still necessary in the application material in ED–500 (2026) (see paragraph A29) as such description assists the auditor in distinguishing information from an external information source that management uses in preparing the financial statements from information prepared by a management's expert (see further explanation in paragraphs A30 and A63 of ED–500 (2026)). In addition, the nature of information from an external information source is different from information that may come from other sources external to the entity and, therefore, may be evaluated differently. The IAASB also considered the application material related to *External Information Sources* in paragraphs A39–A44 of extant ISA

[6] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

500, noting that some of the concepts were also relevant to information from other sources and are not unique to information from an external information source. In developing ED–500 (2026), the IAASB streamlined this application material but retained concepts or guidance related more specifically to an external information source (see paragraphs A29, A38 and A54).

23. ISA 200[7] 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. 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. In discussing this matter, the IAASB considered whether the definition in ISA 200 should be updated to align with the proposed revised definition of audit evidence in paragraph 8(b) of ED–500 (2026), or whether the definition in ISA 200 should be removed (i.e., have only a single definition of audit evidence in ED–500 (2026)). On balance, the IAASB supported retaining the definition of audit evidence in ED–500 (2026) and proposed a conforming and consequential amendment to remove the definition of audit evidence from ISA 200 (see ED–AE&RR).

Section 1–C. Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

Addressing the Design and Performance of Audit Procedures in the Audit Evidence Standard

24. During the previous Audit Evidence project, the IAASB had discussed whether it was appropriate to retain in the audit evidence standard a requirement that addresses the design and performance of audit procedures to obtain sufficient appropriate audit evidence or whether it may be better placed in another ISA, such as ISA 200.

25. The IAASB formed the view that the requirement should remain in ED–500 (2026) (paragraph 9) because the standard:

    - Applies to all audit evidence obtained during the course of the audit, irrespective of whether audit evidence is obtained from risk assessment procedures, further audit procedures or other audit procedures required by the ISAs.
    - Sets out an important underpinning, or principle-based "reference framework," for auditors when making judgments about audit evidence throughout the audit thereby embracing the notion that it is the cumulative body of evidence that contributes to its sufficiency and appropriateness.

26. Paragraph A13 of ED–500 (2026), which is application material to the requirement in paragraph 9, further clarifies that audit procedures to obtain audit evidence include:

    - Risk assessment procedures in accordance with ISA 315 (Revised 2019), further audit procedures performed in accordance with Proposed ISA 330 (Revised) (as well as in accordance with other ISAs that expand on how ISA 315 (Revised 2019) and Proposed ISA 330 (Revised) apply to a specific topic, respectively), and
    - Other audit procedures to comply with the ISAs, including procedures to evaluate the relevance and reliability of information intended to be used as audit evidence.

7 ISA 200, paragraph 13(b)

Intended Purpose(s) of the Audit Procedures

27. The phrase “intended purpose(s) of the audit procedures” is used prominently in the requirements of ED–500 (2026), including in paragraph 9(b). The phrase aims to focus the auditor on the importance of a purpose(s) when designing and performing audit procedures to obtain sufficient appropriate audit evidence. Also, the use of the plural form “purpose(s)” aims to recognize that an audit procedure could have more than one purpose, or that a combination of audit procedures may be designed and performed in the circumstances to achieve a single purpose or different purposes.

28. Paragraph A16 of ED–500 (2026) discusses the nature of an audit procedure. It explains that the nature of an audit procedure is characterized by a *purpose* (e.g., to identify and assess risks of material misstatement, to detect material misstatements at the assertion level or to obtain audit evidence about the operating effectiveness of controls) and a type (e.g., inspection, observation, inquiry, confirmation, recalculation, reperformance or analytical procedure). It further clarifies that the auditor achieves the purpose of an audit procedure by performing one or more types of audit procedures.

29. Further, some purpose(s) have a defined meaning in other ISAs, as summarized in the table below:

	Risk Assessment Procedures	**Further Audit Procedures**	
		Test of Controls	**Substantive Procedures**
Purpose	Audit procedures designed and performed *for the purpose of* identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. *Conforming and consequential amendments to ISA 315 (Revised 2019), paragraph 12(j)*	Audit procedures designed *for the purpose of* obtaining audit evidence about the operating effectiveness of controls. *Proposed ISA 330 (Revised), paragraph 4(b)*	Audit procedures designed *for the purpose of* detecting material misstatements at the assertion level. Substantive procedures include tests of details (of classes of transactions, account balances or disclosures) or substantive analytical procedures. *Proposed ISA 330 (Revised), paragraph 4(a)*

An Audit Procedure Used for More than One Purpose

30. Extant ISAs allow for the possibility that an audit procedure may achieve more than one purpose, which is addressed for two specific circumstances:

- A “dual-purpose test,” described by the application material of extant ISA 330,[8] as concurrently performing a test of controls and a test of details on the same transaction. The application material also explains that, because the purpose of a test of controls is different from the purpose of a test of details, such tests are designed and evaluated by considering each purpose of the test separately.

[8] See ISA 330, paragraph A23.

- A "multi-purpose procedure," which is a colloquial term rather than a term used authoritatively in the ISAs, most often referred to as a combination of a risk assessment and a further audit procedure but broadly may include any possible combination of audit procedures required by the ISAs. Application material in ISA 315 (Revised 2019)[9] and extant ISA 330[10] address such circumstances.

31. The IAASB agreed to consolidate extant terminology that refers to a "dual-purpose test" and descriptions of "multiple-purpose procedures" under a broader notion of "an audit procedure used for more than one purpose," with supporting examples of what such procedures could entail, including when using technological tools (see paragraph A26 of ED–500 (2026)). In doing so, the IAASB is of the view that this enhances clarity and reduces complexity for the standards while continuing to recognize that the auditor may use an audit procedure to achieve more than one purpose when designing and performing audit procedures to obtain sufficient appropriate audit evidence.

32. The IAASB also agreed to include a new requirement in paragraph 10 of ED–500 (2026) to specify the auditor's responsibility when using an audit procedure for more than one purpose, which is to evaluate whether the audit evidence obtained meets each intended purpose of the audit procedure.

Section 1–D. Relevance and Reliability of Information Intended to be Used as Audit Evidence

Evaluating the Relevance and Reliability of Information

33. Paragraph 7 of extant ISA 500 requires the auditor, when designing and performing audit procedures, to *consider* the relevance and reliability of the information intended 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.

34. In ED–500 (2026), the IAASB is proposing:

    - In paragraph 11, a principle-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source, when designing and performing audit procedures. In making this evaluation, the auditor considers the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures in relation to which such information will be used.

    - In paragraph 12, retaining an equivalent approach from extant with respect to information produced by the entity to evaluate, to the extent necessary, the accuracy and completeness of the information to meet the intended purpose(s) of the audit procedures (this is further discussed in paragraphs 43–46 below).

    - In paragraph 13, a new requirement that addresses the auditor's work effort related to evaluating the reliability of information intended to be used as audit evidence. This requirement first acknowledges that the auditor could already have done the evaluation when performing the audit procedures in accordance with paragraph 9 of ED–500 (2026). The remainder of the

[9] See ISA 315 (Revised 2019), paragraph A19.

[10] See ISA 330, paragraph A22.

requirement applies to the extent that this is not the case. Therefore, to the extent needed, the auditor's evaluation entails either testing the operating effectiveness of controls that address the reliability of the information or performing other audit procedures to evaluate the reliability of the information. See also paragraph 37 below.

35. The IAASB is of the view that the requirements in paragraphs 11–13 of ED–500 (2026) support a robust approach to evaluate the relevance and reliability of information intended to be used as audit evidence. However, in developing these proposals, the IAASB remained mindful not to create an unnecessary burden on auditors in making this evaluation. The IAASB's intention is to develop principle-based requirements that can accommodate the varying degrees of work effort needed in particular circumstances (i.e., are scalable).

36. The outcome of paragraph 11 of ED–500 (2026) is to conclude, based on the auditor's evaluation, whether information is relevant and reliable. The attributes of reliability aim to support the auditor in making this evaluation as they emphasize the characteristics of the information the auditor could focus on in making their evaluation, thereby supporting consistent auditor judgments when evaluating information from a broad range of sources. The reference to "of significance in the circumstances to meet the intended purpose(s) of the audit procedures" in paragraph 11(b) of ED–500 (2026) addresses scalability by indicating that the auditor's professional judgment about the attributes of reliability does not include an individual consideration of each attribute of reliability that applies to the information to be able to evaluate the reliability of the information (see further discussion of the attributes of reliability paragraphs 39–42 below).

37. As explained in paragraph 34 above, evaluating the relevance and reliability of information intended to be used as audit evidence may be an integral part of the design and performance of the auditor's audit procedures in accordance with paragraph 9 or a separate evaluation performed in accordance with paragraph 13 (paragraph A27 of ED–500 (2026)). The nature, timing and extent of the auditor's evaluation of the reliability of information may vary and is influenced by various factors (paragraph A55 of ED–500 (2026)). The application material to paragraph 13 of ED–500 (2026) provides further guidance when the auditor performs a separate evaluation of the reliability of the information by either testing the operating effectiveness of controls (paragraphs A56–A59 of ED–500 (2026)) or performing other audit procedures (paragraphs A59–A60 of ED–500 (2026); the latter includes that audit evidence obtained from performing other audit procedures in accordance with the ISAs may assist in the auditor's evaluation.

Sources of Information

38. Paragraphs A29–A33 of ED–500 (2026) describe the various sources of information intended to be used as audit evidence, which may be internal sources, external sources or a combination of internal and external sources. The application material also explains that the source of the information may influence the auditor's professional judgment regarding relevance and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures and the nature and extent of the auditor's evaluation of the relevance and reliability of the information.

Attributes of Reliability

39. ED–500 (2022) introduced a set of attributes of reliability of information and required the auditor to consider the attributes that are *applicable in the circumstances* given the intended purpose of the

audit procedures when evaluating the relevance and reliability of information intended to be used as audit evidence (paragraph 9 of ED–500 (2022)).

40. Feedback from respondents on exposure indicated that further clarity is necessary for the appropriate "threshold" in the requirement, given that all attributes of reliability apply (or are inherent) to the information being evaluated. Different suggestions were provided by respondents in this regard to support consistent auditors' judgments and to enable a scalable evaluation of the reliability of information. For example, suggestions included clarifying the "threshold" in the requirement or relegating the attributes of reliability to the application material instead of explicitly referencing them in the requirements of the standard.

41. Post exposure, the IAASB considered, but decided against, relegating the attributes of reliability to the application material, given it implies a less robust approach than what was proposed in ED–500 (2022). Instead, the IAASB decided to replace the threshold "*applicable* in the circumstances" with the threshold "of *significance* in the circumstances" in paragraph 11 of ED–500 (2026). The IAASB formed the view that doing so would acknowledge that even though all attributes of reliability are applicable in some manner to the information being evaluated, their significance to the auditor's evaluation of reliability varies based on their relative importance to the purpose(s) of the auditor's planned audit procedures. The IAASB also considered that the term "significance" is a commonly used term across the ISAs in various contexts and its understandability is supported by a description of "significance" in the IAASB's Glossary of Terms.

42. In addition, the application material in ED–500 (2026) was enhanced as follows:

- Paragraph A4 explains that the reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information and sets out a description for the attributes of reliability of information that the auditor may consider in evaluating the reliability of the information (i.e., accuracy, completeness, authenticity, absence of bias and credibility).
- Paragraph A28 explains that considering which attributes of reliability are of significance in the circumstances to meet the intended purpose(s) of the audit procedures is a matter of professional judgment and sets out factors that the auditor may consider in making such professional judgment. As described in paragraph 35 above, the IAASB cautioned against not creating unnecessary burden for auditors in evaluating the reliability of information. In this regard, the guidance emphasizes that it is unnecessary for the auditor to evaluate all attributes of reliability in carrying out the requirements in paragraphs 11 and 13 of ED–500 (2026) and that it is not intended for the attributes to be used as in a checklist (paragraph A28 of ED–500 (2026)).
- Paragraphs A42–A43 highlight that the auditor may consider one or more attributes to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures and emphasize the interrelationship of the attributes of reliability of information with the source of the information. The intention is for the auditor to consider at least one attribute of reliability to be of significance in the circumstances to provide the auditor with a basis to evaluate whether information is reliable.
- Paragraphs A44–A54 provide guidance for accuracy and completeness, authenticity, absence of bias and credibility, including examples to support the auditor's professional judgment of

when an attribute of reliability may be of significance in the circumstances to meet the intended purpose(s) of the audit procedures.

Evaluating the Accuracy and Completeness for Information Produced by the Entity

43. As discussed in paragraph 34 above, the IAASB decided to retain the approach from extant in paragraph 12 of ED–500 (2026) with respect to requiring the auditor to evaluate, to the extent necessary, the accuracy and completeness of information produced by the entity. In doing so, the extant wording "to obtain audit evidence" was replaced with "evaluate" as it resolved perceived circularity among the requirements in paragraphs 11 and 12 of ED–500 (2026).

44. In the course of both the previous Audit Evidence project and the Audit Evidence and Risk Response project, the IAASB had extensive discussions about this requirement. In doing so, the IAASB deliberated:

- Whether it is necessary to specifically call out the consideration of certain attributes (i.e., accuracy and completeness), for specific categories of information (i.e., information produced by the entity) given the principle-based nature of the requirement in paragraph 11 of ED–500 (2026) that applies broadly.
- Concerns from certain stakeholders, including a Monitoring Group member, that it is necessary to set an obligation (as in extant) for the auditor to evaluate accuracy and completeness when information is produced by the entity.

45. On balance, the IAASB concluded that retaining a separate requirement in paragraph 12 of ED–500 (2026) highlights the importance of evaluating the accuracy and completeness of information generated internally and is responsive to inspection findings from regulators and audit oversight bodies.

46. New application material in paragraphs A34 and A45 of ED–500 (2026):

- Describes what is intended to be captured by the category "information produced by the entity." This includes information generated internally from the entity's information system that relates to transactions and other events or conditions initiated or captured, processed and recorded or incorporated in the entity's accounting records and outputs generated by the entity's information system that has processed or incorporated external information.
- Explains that for information produced by the entity, the attributes of accuracy and completeness are presumed to be of significance.
- Clarifies the threshold "to the extent necessary," including that it reflects scalability in the extent of the auditor's evaluation of accuracy and completeness which may vary depending on the circumstances and the intended purpose(s) of the audit procedures. In addition, such evaluation may already be performed as an integral part of the audit procedures in accordance with paragraph 9 of ED–500 (2026) or, if a separate evaluation, may not be extensive (see also paragraph 37 above).

Documentation

47. Extant ISA 500 does not address specific documentation requirements. During the previous Audit Evidence project, the IAASB deliberated whether there is a need to include a specific documentation requirement in the standard. The IAASB decided to provide application material in paragraph A40 of

ED–500 (2022) to explain that the requirements in ISA 230[11] 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. The application material further explained 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. It also highlighted that ED–500 (2022) does not require the auditor to document the consideration of every attribute of relevance and reliability of information.

48. Feedback from respondents on exposure of ED–500 (2022) supported providing clarity for documentation expectations related to the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. This was often linked to the step-up in the work effort required from a *consideration* to an *evaluation* of the relevance and reliability of the information intended to be used as audit evidence, including concerns about regulatory interpretation and checklist approaches developing, and perceptions of a more extensive documentation burden that may lead to overdocumentation. However, respondents had different views on how this may be accomplished (e.g., including a specific documentation requirement versus providing examples and guidance). Respondents offered various suggestions on how a specific documentation requirement could be approached.

49. Post exposure, the IAASB considered, but decided against, pursuing specific documentation requirements in ED–500 (2026). Instead, the IAASB has retained in paragraph A61 of ED–500 (2026), application material to support clarity about documentation expectations in accordance with ISA 230 when evaluating the relevance and reliability of information intended to be used as audit evidence.

50. In forming its view, the IAASB considered:

- The foundational nature of ED–500 (2026) that applies every time the auditor encounters information to be used as audit evidence in an engagement, and that providing specific documentation requirements for the purpose of the audit evidence standard would overlap with matters already addressed by ISA 230 and with specific documentation requirements of other ISAs.
- That individual ISAs do not necessarily require specific documentation requirements unless, the intention is to clarify how the ISA 230 documentation requirements apply in the circumstances of those individual ISAs or there are concerns that ISA 230 may not be consistently applied in practice in the circumstances of those individual ISAs.
- That its proposals to replace the threshold "*applicable in* the circumstances" with the threshold "of *significance in* the circumstances" discussed in paragraph 41 above and the new performance requirement in paragraph 13 of ED–500 (2026), enhance clarity about the form, content and extent of audit documentation expected to evaluate the relevance and reliability of information.

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

51. Paragraph 8 of extant ISA 500 addresses requirements if information to be used as audit evidence has been prepared by using the work of a management's expert. The revised requirement in

[11] ISA 230, *Audit Documentation*

paragraph 14 of ED–500 (2026) relates to and builds upon the principles-based requirement in paragraph 11 of ED–500 (2026) to evaluate the relevance and reliability of information intended to be used as audit evidence, irrespective of the source. Accordingly, paragraph 14 of ED–500 (2026) includes a reference to paragraph 11 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 removed, given that paragraph 11 of ED–500 (2026) refers to the intended purpose(s) of the audit procedures.

52. Paragraph 14 of ED–500 (2026) 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 IAASB views this as an essential addition that recognizes that although the expert prepares the information, it is management that uses the information and that the way they do so, including any modifications made by management, is relevant to the auditor's evaluation of such information.
- Retains the extant ISA 500 requirement to evaluate the appropriateness of the work of the management's expert as audit evidence for the relevant assertion.

Doubts About the Relevance or Reliability of Information

53. 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 (2026), the IAASB created separate requirements to address these distinct circumstances. Paragraphs 15–16 of ED–500 (2026) address 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 17 of ED–500 (2026) addresses the auditor's required actions if the auditor obtains audit evidence that is inconsistent with other audit evidence, as further explained in paragraph 56 below.

54. On exposure of ED–500 (2022), certain respondents were of the view that the auditor should always be required to perform additional audit procedures when there are doubts about the relevance or reliability of information. In discussing this matter, the IAASB noted that when there are doubts about the *relevance* of information, the auditor may conclude that the information will not be used as audit evidence. As explained in paragraph A77 of ED–500 (2026), this may be the case 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.

55. Accordingly, the IAASB bifurcated the requirement in paragraph 15 of ED–500 (2026) as follows:

- For relevance – determine whether (emphasis added) modifications or additions to audit procedures are necessary to resolve the doubts.
- For reliability – determine what (emphasis added) modifications or additions to audit procedures are necessary to resolve the doubts.

Section 1–E. Inconsistencies in Audit Evidence

56. Paragraph 17 of ED–500 (2026) includes a conditional requirement to address inconsistencies in the audit evidence obtained with other audit evidence. In these circumstances, the auditor is required to take action by determining what modifications or additions to audit procedures are necessary to understand and address the inconsistencies, and to consider the effect, if any, on other aspects of the audit.

Interaction of the Definition of Audit Evidence with Inconsistencies in Audit Evidence

57. The entry point for the requirement in paragraph 17 of ED–500 (2026) is audit evidence, i.e., information, after applying audit procedures and having evaluated its relevance and reliability. Also, the conditionality for the requirement in paragraph 17 of ED–500 (2026) is triggered when there are inconsistencies in one piece of audit evidence with another piece of audit evidence.

58. The requirement reflects the IAASB's view that individual pieces of audit evidence obtained may be consistent among themselves, or certain pieces of audit evidence 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.

59. On exposure of ED–500 (2022), certain respondents questioned whether the breadth of the requirement addressing inconsistencies in audit evidence may be misinterpreted to exclude information that contradicts or is inconsistent with other audit evidence, given the distinction between "information" and "audit evidence" addressed by the revised definition of audit evidence. These respondents suggested for the requirement to be expanded to include all information obtained during the audit and not be limited to audit evidence (i.e., only to information that has been subjected to audit procedures, as defined).

60. The IAASB notes that the requirement in paragraph 17 of ED–500 (2026) is intended to operate together with requirements of other ISAs that address inconsistencies in information, such as paragraph 11 of ISA 230, paragraph 37 of ISA 315 (Revised 2019) and paragraphs 7 and 10 of Proposed ISA 520 (Revised). Paragraph A80 of ED–500 (2026) recognizes the interaction among such requirements.

61. The IAASB is of the view that paragraph 17 of ED–500 (2026), together with the requirements of other ISAs that address inconsistencies in information, collectively support the notion that the auditor cannot ignore information relevant to the audit, while establishing a reasonable filter for the auditor to evaluate whether such information is relevant and reliable to become audit evidence.

62. Paragraph 5 of ED–500 (2026) reinforces the notion that the auditor cannot ignore information that is relevant to the audit, including information that calls into question the reliability of other information

(in which case doubts about the relevance and reliability of the *information* are addressed in accordance with paragraph 15 of ED–500 (2026)).

Testing Outliers and Exceptions

63. Paragraphs A83–A84 of ED–500 (2026) address considerations relating to testing outliers and exceptions identified by performing an audit procedure, which have become increasingly relevant when using technological tools to facilitate the design or performance of an audit procedure.

64. The application material clarifies that when, in performing a risk assessment procedure or a further audit procedure, the auditor identifies items that are inconsistent with the auditor's expectations or exhibit characteristics that are unusual for the population, those items may indicate a possible misstatement or an inconsistency in audit evidence and therefore require further investigation. The guidance also clarifies that the extent of that further investigation depends on the intended purpose of the audit procedure by contrasting examples for risk assessment and further audit procedures.

Section 1–F. Considerations for Using Technological Tools

65. In developing ED–500 (2022), the IAASB followed a principles-based approach to enable the standard to remain fit for purpose and be applied in an evolving environment with increasing use of technology by both entities and auditors. ED–500 (2022) was therefore not prescriptive with respect to the use of technology and included application material that built on the principles-based requirements to highlight the use of technology.

66. Respondents to ED–500 (2022) believed that the revisions need to be more ambitious to fully achieve the objective of modernization, by acknowledging the changing landscape and the significant role that data and technology play as the auditor considers audit evidence. Respondents strongly encouraged the IAASB to provide further enhancements in this regard.

67. Post exposure, the IAASB deliberated proposals from the feedback which included exploring a new conditional requirement, with related application material, providing specificity for matters that should be addressed by the auditor when using technological tools as part of their evaluation of the relevance and reliability of information. The conditional requirement reflected the elements of the "input-output model" embedded by the revised definition of audit evidence, including a consideration for the appropriateness of the *inputs* to the technological tools, determining whether the technological tools operate as designed and determining whether the *output(s)* of the technological tools meets the purpose for which it is intended.

68. However, the IAASB decided against proposing a requirement that would apply conditionally or otherwise when using technological tools to obtain and evaluate audit evidence. In forming its view, the IAASB considered the evolution of emerging technological tools on audit engagements and that it is currently premature to determine a single workable model as a basis for developing technology-related requirements capable of broad and consistent application. For example, GenAI-enabled tools challenge elements of the "input-output model" as in some cases it may not be possible to fully evaluate the appropriateness of inputs to the tools or to determine the operation of the tools as designed.

69. The IAASB also formed the view that guidance is the appropriate means to facilitate and encourage the auditor's appropriate use of technological tools in obtaining and evaluating audit evidence for the in-scope standards. Guidance would clarify the auditor's responsibilities in the context of using

technological tools, promote consistency in practice, and reduce uncertainty, while also maintaining the scalability and flexibility needed to accommodate ongoing technological innovation. In addition, as highlighted in the cover EM accompanying ED–AE&RR, this approach sets a foundation for future technology-related workstreams that would be well positioned to explore, for example, the development of relevant and timely non-authoritative material which addresses in more detail the impact of emerging technologies.

70. Accordingly, the proposals in ED–500 (2026) include application material, in the format of an Appendix, to provide guidance on how the principle-based requirements of the standards apply when the auditor uses technological tools to design and perform audit procedures to obtain audit evidence (see Appendix 3 of ED–500 (2026)). In doing so, the IAASB leveraged the approach taken in ISA 315 (Revised 2019), that uses appendices to provide additional guidance and more comprehensive illustrative examples.

71. The considerations for using technological tools in Appendix 3 are at a level commensurate for matters that are appropriate to be addressed in application material in a standard. In addition, given the breadth of technologies used across different audit contexts and the rapid pace of technological development, the matters addressed in Appendix 3 are broadly applicable to the use of technological tools on audit engagements. This helps to appropriately future proof the standard and recognizes that other mechanisms, including the development of specific non-authoritative material, could be used to meet demands for more detailed guidance at a point in time.

Section 1–G. Other Matters

Types of Audit Procedures

72. Extant ISA 500 includes application material describing and distinguishing between the different types of audit procedures that may be performed to obtain audit evidence. Information gathering during both the previous Audit Evidence project and the Audit Evidence and Risk Response project indicated that:

- The growing use of technological tools in audit engagements makes it more difficult to categorize audit procedures by their purpose and type. For example, the use of technological tools may involve a blend of types of procedures.
- The types of audit procedures described in the ISAs may not fully describe the procedure being performed. Accordingly, some stakeholders have called the IAASB to recognize more types of audit procedures in the ISAs (e.g., audit data analytics).

73. The IAASB is of the view that it is more important for auditors to focus on the intended purpose(s) and the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose(s), and have been effectively applied by the auditor) rather than the type of audit procedure used. Accordingly, the IAASB:

- Relocated the application material describing the types of audit procedures to Appendix 1 of ED–500 (2026). In doing so, the IAASB refers to the types of audit procedures as a non-exhaustive, rather than a definitive list. In addition, examples were added to modernize the types of audit procedures addressed in the appendix, including references to technology and the use of technological tools.

- Explained in paragraph A17 of ED–500 (2026) that the auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence and that the same type of audit procedure may be applied to achieve different purposes.

Selecting Items for Testing

74. The IAASB has retained and refined in Appendix 2 of ED–500 (2026) the application material addressing the various approaches to selecting items for testing in designing and performing an audit procedure (i.e., selecting all items, selecting specific items and audit sampling). It may be appropriate for the auditor to use any one or a combination of the approaches discussed. The auditor may also use technological tools to identify and select items for testing.

Form, Availability, Accessibility and Understandability of Information Intended to be Used as Audit Evidence

75. Paragraphs A35–A37 of ED–500 (2026) address guidance related to the form, availability, accessibility and understandability of information intended to be used as audit evidence, noting that information may come in different forms (e.g., oral, visual, written or digital form) as well as that the form, availability, accessibility and understandability of information may affect the auditor's evaluation of the relevance and reliability of the information.

76. In addition, more extensive and comprehensive examples about the form, availability, accessibility and understandability of information are presented in Appendix 4 of ED–500 (2026) to illustrate that these matters 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.

Section 2 – Questions for Respondents

77. Respondents are asked to respond to the questions in the table below using the ***Response Form*** as explained in the **Request for Comments** section of this EM. The questions require a direct response on whether you agree with the proposals in ED–500 (2026). In **each** instance where you do not agree, **indicate your reasons, what you propose and why** (e.g., an alternative or how proposals could be improved or made clearer).

    In addition, the cover EM accompanying ED–AE&RR includes an **invitation for field testing** of all or certain proposals. Field testing is not required in order to respond to ED–500 (2026), but if you or your organization has undertaken or facilitated any field testing, the IAASB welcomes the sharing of those results as part of your responses to the relevant questions below.

Specific Questions for Respondents	Related Section or Paragraphs in this EM
1. With respect to the purpose, scope and objective of ED–500 (2026): (a) Does ED–500 (2026) 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?	**Section 1–A** and **Overall**
2. With respect to the revised definition of audit evidence: (a) Do you support the revised definition? (b) Do you agree that the interaction of the revised definition and the requirements addressing inconsistencies in audit evidence are appropriate?	**Section 1–B:** Paragraphs 10–14 **Section 1–E:** Paragraphs 57–62
3. Does the application material in paragraphs A10–A12 of ED–500 (2026) appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?	**Section 1–B:** Paragraphs 15–20
4. With respect to the proposals (requirements and application material) in ED–500 (2026) for evaluating the relevance and reliability of information intended to be used as audit evidence: (a) Does the requirement in paragraph 11 support an appropriately robust evaluation by the auditor, including being scalable to accommodate varying degrees of work effort that may be needed, depending on the specific circumstances? Please also include views you may have on sources of information (paragraphs A29–A33 of ED–500 (2026)) and the attributes of	**Section 1–D:** Paragraphs 34–36, 38–42

Specific Questions for Respondents	Related Section or Paragraphs in this EM
reliability of information intended to be used as audit evidence (paragraphs A4, A28 and A42–A54 of ED–500 (2026)).	
(b) Do you support the IAASB's position to retain in paragraph 12 of ED–500 (2026) the approach for the auditor to evaluate, to the extent necessary, the accuracy and completeness of information produced by the entity?	Paragraphs 34, 43–46
(c) Do you agree with the requirement in paragraph 13 that builds on preceding requirements and that sets the expectation for the auditor's work effort in evaluating the reliability of information intended to be used as audit evidence?	Paragraphs 34, 37
(d) Do you support the IAASB's position not to pursue introducing specific documentation requirements in ED–500 (2026)?	Paragraphs 47–50
5. Do you support the IAASB's position to include application material to provide guidance on how the principle-based requirements of the standard apply when the auditor uses technological tools and to do so in the format of an Appendix (Appendix 3 of ED–500 (2026))?	**Section 1–F:** Paragraphs 65–71
6. Are there any other matters you would like to raise in relation to ED–500 (2026)? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.	Any section in this EM or matters not specifically discussed

PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED)

AUDIT EVIDENCE

(Effective for audits of financial statements for periods beginning on or after [DATE])

CONTENTS

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. (Ref: Para. A1–A4)

2. ISA 200[1] 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]

3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs address the audit evidence to be obtained for specific matters, which complement the requirements of this ISA (see Appendix 1). For example:

   (a) ISA 315 (Revised 2019)[3] deals with audit evidence obtained from risk assessment procedures.

   (b) Proposed ISA 330 (Revised)[4] deals with audit evidence obtained from further audit procedures in responding to the assessed risks of material misstatement.

   (c) ISA 700 (Revised)[5] deals with, among other matters, the auditor's overall responsibility 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.[6] 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 and evaluating the relevance and reliability of information intended to be used as audit evidence. (Ref: Para. A5)

5. As explained in ISA 200,[7] maintaining professional skepticism includes being alert to, for example, audit evidence that is inconsistent with other audit evidence obtained and information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, maintaining professional skepticism includes not ignoring information that calls into question the reliability of other information intended to be used as audit evidence.

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

2 ISA 200, paragraph 17

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

4 Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

5 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

6 ISA 200, paragraphs 15–16

7 ISA 200, paragraph A21

Effective Date

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

Objective

7. The objective of the auditor is 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, including evaluating the relevance and reliability of information intended to be used as audit evidence.

Definitions

8. 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. A8, A10–A12)

    (b) Audit evidence – Information, after applying audit procedures, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. (Ref: Para. A6–A7)

    (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. A9–A12)

Requirements

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

9. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref: Para. A13–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–A22)

    (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose(s) of those audit procedures. (Ref: Para. A23–A25)

10. If the auditor uses an audit procedure for more than one purpose, the auditor shall evaluate whether the audit evidence obtained meets each intended purpose of the audit procedures. (Ref: Para. A26)

Information Intended to be Used as Audit Evidence

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

11. When designing and performing audit procedures in accordance with paragraph 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. A27–A28, A35–A41, A61)

    (a) The source of the information; and (Ref: Para. A29–A33)

(b) The attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. (Ref: Para. A28, A42–A54)

12. If information intended to be used as audit evidence is information produced by the entity, in complying with the requirement in paragraph 11, the auditor shall evaluate, to the extent necessary, the accuracy and completeness of the information to meet the intended purpose(s) of the audit procedures. (Ref: Para. A34, A45, A61)

Evaluating the Reliability of Information Intended to be Used as Audit Evidence

13. To the extent not already addressed when performing the audit procedures in accordance with paragraph 9, the auditor's evaluation of the reliability of the information intended to be used as audit evidence in accordance with paragraphs 11–12 shall include: (Ref: Para. A27–A28, A55, A61)

    (a) Identifying controls that address the reliability of such information, evaluating their design, determining whether they have been implemented, and testing their operating effectiveness; or (Ref: Para. A56–A58)

    (b) Performing other audit procedures to evaluate the reliability of such information. (Ref: Para. A59–A60)

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

14. 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 11, the auditor shall: (Ref: Para. A62–A63)

    (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A64–A68)

    (b) Obtain an understanding of the work performed by that expert; (Ref: Para. A69–A70)

    (c) Obtain an understanding of how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A71–A73)

        (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; and

    (d) Evaluate the appropriateness of the work of the management's expert as audit evidence for the relevant assertion. (Ref: Para. A74)

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

15. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref: Para. A75–A78)

    (a) Determine whether modifications or additions to audit procedures can be made to resolve the doubts about the relevance of the information; or

    (b) Determine what modifications or additions to audit procedures are necessary to resolve the doubts about the reliability of the information.

16. If the doubts about the relevance or reliability of information in accordance with paragraph 15 cannot be resolved, the auditor shall 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. A79)

Inconsistencies in Audit Evidence

17. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref: Para. A80–A84)

(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.

***

Application and Other Explanatory Material

Relevance and Reliability of Information Intended to be Used as Audit Evidence (Ref: Para. 1)

A1. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information may result in audit evidence that is necessary to support the conclusions that form the basis for the auditor's opinion and report.[8] 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."

A2. The quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, paragraph 11 requires the auditor to evaluate the relevance and reliability of the information intended to be used as audit evidence.

Relevance

A3. The relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose(s) of the audit procedures, including, when appropriate, the assertion being tested.

Reliability

A4. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

Attributes that may be considered by the auditor in evaluating the reliability of information intended to be used as audit evidence:	
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.

[8] ISA 200, paragraph A31

Attributes that may be considered by the auditor in evaluating the reliability of information intended to be used as audit evidence:	
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The information has been generated by or provided by a source authorized to do so, and the information has not been altered in a manner that makes it inadequate for the audit.
Absence of 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.

Professional Judgment and Professional Skepticism (Ref: Para. 4)

A5. Relevant ethical requirements, such as the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), also may establish requirements for the role, mindset and behavioral characteristics expected of all professional accountants.[9] In an audit of financial statements, professional skepticism and the fundamental principles of ethics are interrelated concepts and the compliance with the fundamental principles, individually and collectively, support the auditor to exercise professional skepticism.[10]

Definitions

Audit Evidence (Ref: Para. 8(b)

A6. The audit procedures applied to the information intended to be used as audit evidence may vary from simple to extensive procedures and the evaluation of the relevance and reliability of the information may be performed as an integral part of, or concurrently with, such audit procedures. The audit procedures applied to the information intended to be used as audit evidence may also include:

- Audit procedures on certain aspects of the information, such as comparing information to its original source. For example, comparing the interest rate on a loan that is based on the prime rate established by a central bank of a jurisdiction to published information from the central bank.
- Audit procedures to corroborate the absence of certain conditions. For example, reviewing whether sale returns occurred after the year end for a product when corroborating management's assertions related to a recorded warranty provision.

A7. Audit evidence is cumulative in nature and may comprise evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is primarily obtained from audit procedures performed during the course of the current audit. Audit evidence obtained from

9 See, for example, paragraphs R120.5–120.5 A3 of the IESBA Code.

10 See, for example, paragraphs 120.16 A1–120.16 A2 of the IESBA Code.

previous audits may also provide information for the current audit, provided the auditor has performed audit procedures to evaluate whether such information from the previous audit remains relevant and reliable for the current audit.[11]

Appropriateness of Audit Evidence (Ref: Para. 8(a))

A8. 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.

Sufficiency of Audit Evidence (Ref: Para. 8(d))

A9. 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 audit evidence may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing different types of audit procedures or by seeking audit evidence from different sources. Obtaining more audit evidence, however, does not compensate for its poor quality.

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence (Ref: Para. 8(a), 8(d))

A10. The sufficiency and appropriateness of audit evidence are interrelated[12] and together they affect the persuasiveness of audit evidence, in light of the assessed risks of material misstatement and relevant assertions. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide higher quality audit evidence. If the audit evidence is of higher quality, the auditor may determine that the audit evidence is sufficient to provide persuasive audit evidence to support the conclusions that form the basis for the auditor's opinion. Alternatively, when audit evidence is of lower quality, the auditor may determine that additional audit evidence is needed to obtain persuasive audit evidence 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.

A11. 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, Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. It also requires the auditor to obtain more persuasive audit evidence about the operating effectiveness of controls, the greater the reliance the auditor places on such audit evidence in responding to assessed risks of material misstatement at the assertion level.[13]

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[11] See, for example, ISA 315 (Revised 2019), paragraphs 16, A39–A41 and Proposed ISA 330 (Revised), paragraphs 22–23, A38 and A69–A76.

[12] ISA 200, paragraph A32

[13] Proposed ISA 330 (Revised), paragraphs 7(c) and 15

- A revision of the risk assessment in accordance with ISA 315 (Revised 2019),[14] including whether any instances of fraud or error were identified, may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.

A12. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, may include the following:

- The relevance and reliability of the information intended to be used as audit evidence, including the auditor's consideration of the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures.
- Whether the information is from a single source or multiple sources.
- Whether there are inconsistencies between multiple pieces of audit evidence.
- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied.

> 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.

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

Designing and Performing Audit Procedures (Ref: Para. 9)

A13. The auditor obtains audit evidence by designing and performing audit procedures. The auditor's procedures to obtain sufficient appropriate audit evidence include audit procedures designed and performed when planning and performing an audit engagement in accordance with the ISAs, including:

- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019) or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
- Further audit procedures performed in accordance with Proposed ISA 330 (Revised) or other ISAs that expand on how Proposed ISA 330 (Revised) applies to a specific topic; and
- Other audit procedures that are required to be carried out to comply with the ISAs, including evaluating the relevance and reliability of information intended to be used as audit evidence in accordance with this ISA.

Technological Tools

A14. The auditor may perform audit procedures manually or by using technological tools, individually or in combination with each other, to obtain audit evidence. In some circumstances, the use of a technological tool may be more effective or may provide more persuasive audit evidence, or may be

[14] ISA 315 (Revised 2019), paragraph 37

necessary because it may not be possible or practicable to perform an audit procedure manually.

> Examples:
>
> The use of technological tools may:
>
> - Be more effective in analyzing, processing, organizing, structuring or presenting large volumes of information.
> - Enable the auditor to obtain a more granular or deeper understanding about the characteristics or composition of a population of transactions.
> - Provide more persuasive audit evidence by assisting the auditor in applying an audit procedure to an entire population of items or manage sampling risk[15] more effectively.
> - Assist the auditor to critically assess audit evidence from multiple sources within and outside the entity.

A15. Appendix 3 provides considerations for using technological tools when designing and performing audit procedures to obtain audit evidence. ISA 220 (Revised)[16] provides examples of technological tools that facilitate the design or performance of audit procedures in obtaining audit evidence. Other ISAs may:

- Describe circumstances when an audit procedure may be performed effectively by using a technological tool. For example, ISA 240 (Revised) explains that the use of technological tools may enable more extensive testing of digital information to respond to the assessed risks of material misstatement due to fraud at the assertion level.[17]
- Provide considerations specific to technological tools that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019)[18] explains that technological tools may also be used to:
    - Perform risk assessment procedures on large volumes of data.
    - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

The Nature of Audit Procedures

A16. The nature of an audit procedure is characterized by its purpose (e.g., to identify and assess risks of material misstatement, to detect material misstatements at the assertion level or to obtain audit evidence about the operating effectiveness of controls) and its type (e.g., inspection, observation, inquiry, confirmation, recalculation, reperformance or analytical procedure). The auditor achieves the purpose of an audit procedure by performing one or more types of audit procedures.

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15 ISA 530, *Audit Sampling,* paragraph 7

16 ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A64A

17 ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A129

18 ISA 315 (Revised 2019), paragraphs A21 and A35

> Example:
>
> In responding to the assessed risk of material misstatement in relation to the occurrence of expenses, the auditor may perform a test of details (i.e., a substantive procedure for the purpose of detecting material misstatements at the assertion level) by matching a sample of recorded expense transactions to approved purchase orders, invoices received, goods received and payments made to vendors.

A17. 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 same type of audit procedure may be applied to achieve different purposes. Appendix 1 describes some of the types of audit procedures and includes illustrative examples.

A18. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

> Examples:
>
> - Inquiry only 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.

Designing and Performing Audit Procedures in a Manner That Is Not Biased (Ref: Para. 9(a))

A19. ISA 220 (Revised)[19] 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 evaluated (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).

[19] ISA 220 (Revised), paragraph A36

- Placing undue weight or reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). See also Appendix 3.

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 of material misstatement 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.

A22. The auditor is not required to perform an exhaustive search to identify all possible sources of information intended 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.[20]

Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 9(b))

A23. 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(s) 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[21] may not be reduced to an acceptably low level.

A24. 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.

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[20] ISA 315 (Revised 2019), paragraphs 19–26

[21] ISA 200, paragraphs A47–A49

A25. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches (i.e., means) to identify and select items for testing. Appendix 2 describes such approaches to select items for testing and provides illustrative examples.

An Audit Procedure Used for More than One Purpose (Ref: Para. 10)

A26. The auditor may design and perform an audit procedure that achieves more than one purpose. When doing so, the auditor is required to comply with the requirements of the relevant ISAs that deal with the design and performance of such audit procedures, including the requirements of this ISA, ISA 315 (Revised 2019), Proposed ISA 330 (Revised), and any other relevant ISAs. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with Proposed ISA 330 (Revised) concurrently with risk assessment procedures, when it is efficient to do so.[22]

> Examples:
>
> - The auditor may inspect a sales order to determine it has been approved by an appropriate individual as part of achieving the purpose of a test of controls, and to obtain substantive evidence of quantity and value of the item sold to achieve the purpose of a test of details.
> - The auditor may use a technological tool to match approved purchase orders to invoices received and payments made to new vendors as a test of details to respond to an assessed risk of material misstatement associated with the occurrence of expenses. In doing so, the auditor may identify a new risk due to unusually high volume of payments made to new vendors.

Information Intended to be Used as Audit Evidence

Evaluating the Relevance and Reliability of Information (Ref: Para. 11, 13)

A27. 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 and is influenced by the intended purpose(s) of the audit procedures (see paragraph 9) and the auditor's consideration of the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of those audit procedures (see paragraph 11). The evaluation of the relevance and reliability of the information intended to be used as audit evidence may be:

- An integral part of the design and performance of the auditor's audit procedures in accordance with paragraph 9; or
- A separate evaluation performed in accordance with paragraph 13.

Attributes of Reliability that are of Significance in the Circumstances (Ref: Para. 11, 11(b), 13)

A28. Considering which attributes of reliability are of significance in the circumstances to meet the intended purpose(s) of the audit procedures is a matter of professional judgment. Significance can be described as the relative importance of a matter and is judged by the auditor in the context in which the matter is being considered. Although all the attributes of reliability apply to the information

[22] ISA 315 (Revised 2019), paragraph A19

intended to be used as audit evidence, their significance in the circumstances may vary. Therefore, it is unnecessary for the auditor to evaluate all the attributes of reliability in carrying out the requirements in paragraphs 11 and 13 (e.g., by using a checklist). When making judgments about the attributes of reliability and their significance, the auditor may consider the following factors:

- The nature and source of the information.
- The controls over the preparation and maintenance of the information, including when the reliability of the information intended to be used as audit evidence depends on the continued operating effectiveness of controls that support the integrity of information, including general IT controls.
- How the information has been obtained by the auditor and in what form, 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 or suspected fraud identified during the audit.

Sources of Information (Ref: Para. 11(a))

A29. Information intended to be used as audit evidence may come from internal sources, external sources or a combination of internal and external sources.

- Internal sources, such as the entity's accounting records,[23] management or other sources internal to the entity (see paragraph A34).
- External sources, such as:
    - o An external individual or organization that provides information suitable for use by a broad range of users and that the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence when such information is suitable for use by a broad range of users. Such sources are referred to as an "external information source." 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.

23 ISA 315 (Revised 2019) paragraph 12(a)A

> Examples:
>
> Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:
>
> - Foreign exchange rates and interest rates.
> - Prices and pricing related data, including company share prices.
> - Macro-economic data, such as historical and forecast unemployment rates and economic growth rates or census data.
> - Credit history data.
> - 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.

- o An external party, for example, a bank, external legal counsel, suppliers, customers or other individuals or organizations the entity interacts with or that provide entity-specific information to the auditor or the entity.
- o An auditor's expert.[24]
- o A service organization.[25]

A30. 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 A62–A74). An external individual or organization cannot, in respect of any particular set of information, be at the same time an external information source and a management's expert, or service organization or auditor's expert.

A31. 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:
>
> - An internal information source, such as information generated from the entity's information system that relates to the details of the rental properties and their location; and
> - An external information source, such as information available on a real estate website that relates to average real estate rental prices for the area where the properties are located.

[24] ISA 620, *Using the Work of an Auditor's Expert*

[25] ISA 402*, Audit Considerations Relating to an Entity Using a Service Organization*

A32. 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 relevance and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information (see paragraphs A43 and A55). It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence (see paragraphs 15 and 17).

> 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 (see paragraphs A46–A52).
> - If the information comes from a highly reputable external information source with proven expertise in the subject matter or with a legislative mandate (e.g., a central bank of the jurisdiction), or an external source that is subject to regulatory oversight (e.g., a recognized stock exchange), the auditor's work effort in evaluating the reliability of the information may not be as extensive as for a less known source (see paragraphs A53–A54).
> - If the information is provided by management, such as system-generated inventory valuation report, the auditor's work effort to evaluate the reliability of such information may require testing controls over the preparation of the report or performing other audit procedures to obtain audit evidence about the accuracy and completeness of the information (see paragraphs 12, 13 and A44).

A33. 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 selected 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.

Information Produced by the Entity (Ref: Para. 12)

A34. Information produced by the entity includes information from the entity's accounting records, from management or from other sources internal to the entity, such as:

- Information generated internally from the entity's information systems that relates to transactions and other events or conditions initiated or captured, processed and recorded or incorporated in the entity's accounting records.
- Outputs generated by the entity's information system that has processed or incorporated external information.

> Examples:
>
> - Trial balances, subledgers or listings of transactions.
> - System-generated reports, custom reports from report writers and spreadsheets used for cost allocations or computations.

- Budgets, forecasts and minutes of meetings.
- Reconciliations and marketing information (e.g., sales data used as an assumption for warranty provisions).
- Outputs generated by the entity's information system that processed or incorporated data obtained from, for example, the entity's customers, suppliers, banks, consultants, legal counsel or external information sources.
- Responses by management to inquiries from the auditor.
- Information from a management's expert.

Form, Availability, Accessibility and Understandability of Information (Ref: Para. 11)

A35. 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.

A36. 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 (e.g., an electronic confirmation), and
  - Data generated and stored in an IT system or obtained digitally from a source outside of the entity (e.g., electronic purchase orders submitted by customers stored in the entity's IT system).

  Such digital information may be manually captured, converted into a digital form, or electronically generated (e.g., an electronic data interface between the entity and a service organization).

A37. Appendix 4 provides further explanation about the form, availability, accessibility and understandability of the information intended to be used as audit evidence and provides illustrative examples.

Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence (Ref: Para. 11)

A38. In explaining the inherent limitations of an audit, ISA 200 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.[26] 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. For example, if the auditor does not have a sufficient basis to evaluate the relevance and

26 ISA 200, paragraph A53

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. ISA 705 (Revised)[27] explains 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).[28]

A39. 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.

Relevance (Ref: Para. 11)

A40. As explained in paragraph A3, the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose(s) of the audit procedures, including, when appropriate, the assertion being tested.

A41. In evaluating the relevance of information, the degree to which the information relates to meeting the purpose(s) of the audit procedures may also be a consideration. 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.

> 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 relevant to testing 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 at a certain point in time but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.

> Example:
>
> Information used as audit evidence in the prior audit may not be relevant to the current audit due to changes in the circumstances to which the audit evidence relates.

27 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8–A9

28 ISA 705 (Revised), paragraphs 7(b) and 9.

- The level of detail of the information needed to meet the intended purpose(s) of the audit procedures.

Examples: • 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 substantive procedures. • The level of aggregation of the information may affect the effectiveness of an audit procedure. For example, disaggregated sales information for residential properties by geographical location and property type may provide more relevant information when testing the valuation assertion of loans measured based on fair value of the collateral.

Attributes of Reliability (Ref: Para. 11(b), 12)

A42. Paragraph A4 explains that the reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information and sets out attributes of reliability of information, which include accuracy, completeness, authenticity, absence of bias and credibility. In evaluating whether the information intended to be used as audit evidence is reliable, the auditor may consider one or more attributes to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures.

A43. As explained in paragraph A32, the source of the information affects the auditor's professional judgment regarding the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. For information obtained from a source external to the entity, the auditor may not consider accuracy and completeness to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures. For example, the auditor may consider that other attributes of reliability, such as authenticity, absence of bias and credibility of the source providing the information to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures. However, when information produced by the entity is used in performing audit procedures, accuracy and completeness are presumed to be of significance in the circumstances when evaluating the reliability of the information. This may be the case when testing a population (e.g., payments) for a certain characteristic (e.g. authorization), and it is necessary for the population of items selected for testing to be accurate and complete for the audit procedure to be effective.

Accuracy and Completeness

A44. The auditor uses professional judgment in considering whether accuracy and completeness are of significance in the circumstances, and, if so, whether the information is sufficiently accurate and complete such that any potential inaccuracies or omissions would not undermine the intended purpose(s) of the procedures. The following are examples where accuracy and completeness are of significance in the circumstances.

Examples:

- If a population of journal entries is not complete, this will limit the effectiveness of the audit procedures in responding to the risk of management override of controls associated with fraudulent journal entries and other adjustments.
- The auditor may use a technological tool to analyze an entire population of transactions to facilitate the identification and assessment of risks of material misstatement. If the population of transactions is not accurate and complete, the auditor may not have an appropriate basis for the identification and assessment of the risks of material misstatement.

A45. For information produced by the entity, the attributes of accuracy and completeness are presumed to be of significance. However, the extent of the auditor's evaluation as required by paragraph 12 may vary depending on the circumstances and the intended purpose(s) of the audit procedures.

Example:

The auditor obtains from the entity a list of sales returns for a product. The auditor inspects the list and determines there is a large volume of sales returns after year end. Based on the auditor's inspection of the list, the auditor may evaluate that the information produced by the entity is sufficiently relevant and reliable to support the auditor's assessment that there is a risk of material misstatement of the warranty provision.

Authenticity

A46. There may be instances when the auditor considers that the authenticity of information, including records or documents, is of significance to meet the intended purpose(s) of the audit procedures.

Examples:

- Management's plans for future actions may be dependent on a single refinancing contract with a third party to mitigate the effects of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.[29] In evaluating management's plans for future actions, the auditor may consider that the authenticity of the refinancing contract provided by management is of significance in the circumstances to obtain audit evidence about the intent of such parties to provide the necessary financial support. In accordance with paragraph 13, the auditor may consider it necessary to confirm the terms of the refinancing contract directly with the third party in accordance with ISA 505.[30]
- Management's assertion about the valuation of works of art in a museum collection may be supported by certificates of authenticity. The auditor may consider the authenticity of such certificates of significance in the circumstances when obtaining audit evidence about the valuation assertion. In accordance with paragraph 13, the auditor may consider it necessary to engage an auditor's expert to evaluate management's certificate.
- When an auditor uses the prevailing national interest rate published on the official website

[29] ISA 570 (Revised 2024), *Going Concern*

[30] ISA 505, *External Conformations,* paragraph 7

of a central bank to audit a discount rate assumption, the likelihood that the information on the official, public website is not authentic is remote. In such cases, the auditor may consider, as contemplated by paragraph 13, that authenticity has been addressed as an integral part of the procedures to audit the discount rate assumption.

A47. Whether, and the degree to which, the authenticity of information is of significance in the circumstances to meet the intended purpose(s) of the audit procedures is a matter of professional judgment. In making such judgment, the auditor may consider matters such as the following:

- Whether the source of the information lacks objectivity or otherwise may have intention to alter the information.
- Whether the information is obtained indirectly (e.g., photocopies or scanned documents) when originals are expected to be available.
- Whether significant deficiencies exist in the entity's information processing controls.
- Whether there are unusual or last-minute changes to documents, transactions or accounting records without adequate explanation.
- Whether the form and content of the document appear unusual (e.g., questionable signatures or non-standard formatting).

A48. The potential for inappropriate alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively or when it is more difficult to establish proof of origin and authority of the source.

A49. Audit procedures to evaluate the reliability of information when authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures may include:

- Testing controls for authorizing and approval of the information.
- Testing access controls that prevent unauthorized access to the information system.
- Obtaining an understanding of authenticity features used to secure digital documents (e.g., encryption techniques to provide proof of original or unmodified documents such as digital signatures).
- Inquiring with the individual or organization providing the information.
- Confirming directly with a third party in accordance with ISA 505.

A50. It is not necessary for the auditor to consider the authenticity of every individual record or document encountered in an audit. However, certain conditions may cause the auditor to investigate further whether the information has been intentionally altered or if a record or document may not be authentic or whether terms in a document have been modified in a way that would render it inadequate for the purposes of the audit but not disclosed to the auditor (e.g., unusual document styles and formats, missing authorizations or approvals, serial numbers used out of sequence or duplicated or unusual terms of trade). ISA 240 (Revised) deals with circumstances in which the auditor has reason to believe that a record or document may not be authentic, or that a record or document may have been modified but not disclosed to the auditor.[31] However, irrespective of the auditor's consideration of the

[31] ISA 240 (Revised), paragraph 22

authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.[32]

Absence of Bias

A51. The susceptibility to management bias, whether intentional or unintentional, may be greater for certain types of information, for example, when there is a higher degree of estimation uncertainty, complexity and subjectivity involved in making an accounting estimate or when making judgments about uncertain future events or conditions. On the other hand, information from certain external sources may be less susceptible to management bias when it is less likely for management to influence such information source. For example, information suitable for use by a broad range of users is less likely to be subject to influence by any particular user. However, the auditor may still need to consider whether management's selection of an external source may be favorably biased toward corroborating management's assertions or whether an alternative source of information was available that may contradict the information used.

A52. When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud. ISA 240 (Revised) provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.

Credibility

A53. The auditor's consideration for the credibility of information may be influenced by past experience of the auditor with the reliability of the information provided by the source, and other factors such as the integrity and competence of the source, or whether the source is internal or external to the entity. Credibility may be dependent on the reputation and authority of the source providing the information, including whether the information is generally accepted for use by a broad range of users and the source enables continued availability of standardized information (e.g., information from a central bank or government, such as an inflation rate).

A54. In some circumstances, there may be only one provider of certain information. When this is the case, there may be evidence of general market acceptance by users of the reliability of information from the information source. If a source is not considered as credible, the auditor may determine that more extensive procedures are necessary and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain additional information from the external information source, when practical, is appropriate in order to be able to use the information as audit evidence.

Evaluating the Reliability of Information Intended to be Used as Audit Evidence (Ref: Para. 13)

A55. As explained in paragraph A27, the evaluation of the relevance and reliability of the information intended to be used as audit evidence may be an integral part of the design and performance of the auditor's procedures in accordance with paragraph 9, or a separate evaluation as required by

[32] ISA 200, paragraph A52

paragraph 13. The nature, timing and extent of the auditor's evaluation of the reliability of information intended to be used as audit evidence is influenced by:

- The source of the information.

Example: If the information is obtained from sources external to the entity (e.g., a third party), the auditor may not have the ability to test the controls over the information. In this case, the auditor may perform other audit procedures to evaluate the reliability of such information, such as performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.

- The form, availability, accessibility and understandability of information.

Example: Information generated internally from the entity's information system may be available only at certain points in time. The auditor's evaluation may be performed at a point in time or the auditor may request retention of some information by management at points in time to facilitate their evaluation.

- The attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures.

Example: If the auditor considers authenticity as an attribute of significance in the circumstances, the auditor may examine the information for indicators that the information has been altered in a manner that makes it inadequate for the audit. However, if the auditor considers that the attribute of credibility is of significance in the circumstances, the auditor may consider the competence and capability of the source of the information.

- The relative importance of the information to meet the intended purpose(s) of the audit procedures.

Example: If the information to be used as audit evidence represents a single, high-value contract, the auditor may consider the authenticity of such information to be of significance in the circumstances to meet the intended purpose(s) of an audit procedure, and may confirm the terms of the contract directly with the external party.

Testing Controls that Address the Reliability of Information (Ref: Para. 13(a))

A56. The controls that address the reliability of the information intended to be used as audit evidence may include controls over financial reporting, operational and non-financial information. Some of these may be the same controls the auditor is required to understand, and evaluate the design and implementation of, as part of understanding the control activities component in accordance with ISA

315 (Revised 2019).[33] Proposed ISA 330 (Revised) establishes requirements and provides guidance on designing and performing tests of controls to obtain audit evidence about their operating effectiveness in addressing risks of material misstatement at the assertion level.[34] Such requirements and guidance may be adapted as necessary to design and perform tests of controls for evaluating the reliability of the information intended to be used as audit evidence. The testing of controls that address the reliability of the information may also be performed as part of or concurrently with the testing of the operating effectiveness of controls that address risks of material misstatement at the assertion level.

Examples:

- An entity's information system may include general IT controls to safeguard and maintain the integrity of the financial information. Based on the auditor's testing of the operating effectiveness of those controls 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.
- An entity may have designed and implemented controls related to the inputs, processing and generation of a system-generated trade receivables aging report. The auditor may plan to test the operating effectiveness of those controls when responding to the risk of material misstatement at the assertion level for the allowance for doubtful accounts. The evidence of the operating effectiveness of those controls may also contribute to the auditor's evaluation of the accuracy and completeness of the information to be used in the substantive testing of the allowance of doubtful accounts receivable. In addition, the auditor may plan to test the operating effectiveness of general IT controls that address risks related to inappropriate or unauthorized program changes to, or data changes in the report.
- An entity may have designed and implemented controls over the accuracy and completeness of the information generated by a human resources information system. When evaluating the reliability of non-financial information from the human resources information system for use in a substantive analytical procedure relating to payroll expense, the auditor may plan to test the operating effectiveness of those controls.

A57. The auditor's decision to identify controls that address the reliability of information intended to be used as audit evidence, evaluate their design, determine whether they have been implemented, and test their operating effectiveness is a matter of professional judgment and may be affected by matters such as:

- Whether the controls have been evaluated as part of the auditor's identification and assessment of risks of material misstatement in accordance with ISA 315 (Revised 2019) and tested in accordance with Proposed ISA 330 (Revised).
- The extent to which the reliability of the information intended to be used as audit evidence depends on the continued operating effectiveness of those controls.

33 ISA 315 (Revised 2019), paragraph 26

34 Proposed ISA 330 (Revised), paragraphs 14–26

- Whether testing controls is an effective and efficient means for obtaining audit evidence about the reliability of information intended to be used as audit evidence.
- The level and complexity of automation in processing business transactions, system-generated reports used in the processing of information and interfaces used in the processing of information.
- The complexity of the nature of the IT systems processing or storing information.
- Whether the controls appropriately address risks related to volume and complexity of information in digital form being processed by the information system, including how information is input into the system (e.g., whether data is automatically interfaced from other systems such as sub-ledgers or online sales systems), and whether accounting records or other information are stored in digital form and the location of the stored data.
- Whether the controls appropriately address risks related to the use of advanced technologies by management in the financial reporting process to prepare and maintain the information.

A58. If the reliability of the information depends on the continued operating effectiveness of controls, the auditor may not be able to use the information as audit evidence, if:

- The auditor cannot obtain audit evidence that such controls operate effectively;
- There are no alternative controls that address the reliability of the information; or
- The reliability of the information cannot be established by performing other procedures.

In such circumstances, the auditor may need to evaluate the implications for the audit.

Other Audit Procedures to Evaluate the Reliability of Information (Ref: Para. 13(b))

A59. As contemplated by paragraph 13(b), the auditor may perform procedures other than testing the operating effectiveness of controls to evaluate the reliability of information. However, as the complexity of the IT environment and technology used to produce information increases, it may become less likely that the auditor is able to evaluate the reliability of information without testing the operating effectiveness of controls.

Examples:

- In an audit of a smaller or less complex entity, when using a system-generated trade receivables aging report the auditor may determine that it is not efficient or practicable to test the operating effectiveness of controls. In such circumstances, the auditor may, in accordance with paragraph 13(b), obtain audit evidence about the reliability of the information in the report through performing other audit procedures, such as testing a sample of inputs to, and outputs from the report to supporting documentation such as a sales invoice, shipping documents and actual payments received, and reconciling the totals in the report to the general ledger.
- In contrast, a larger or more complex entity may rely on IT to a great extent and the volume of transactions may be significant. The IT application performs certain automated controls to process the transactions and generate reports, and the auditor has identified these controls as addressing the reliability of the information generated internally from the entity's information system. Because the continued effective operation of these application controls

depends on the reliability of the underlying IT environment, the auditor may also consider the relevant general IT controls that support the application controls. The auditor may, in accordance with paragraph 13(a), test the operating effectiveness of the application controls together with the relevant general IT controls to obtain evidence about the reliability of the information.

A60. Audit evidence from performing audit procedures in accordance with other ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence. For example, the auditor may obtain audit evidence from:

- The acceptance or continuance of client relationships and the audit engagement.[35]
- 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 and substantive procedures to respond to the assessed risks of material misstatement at the assertion level performed in accordance with Proposed ISA 330 (Revised).
- Audit procedures performed when using an auditor's expert in accordance with ISA 620.
- Audit procedures performed in accordance with ISA 402 when a user entity uses the services of one or more service organizations.

Documentation (Ref: Para. 11–13)

A61. ISA 230[36] establishes requirements and provides 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. Other ISAs may include documentation requirements that may address the auditor's consideration of the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)).[37] However, this ISA does not require the auditor to document the consideration of each attribute of reliability of the information.

Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 14)

A62. Management may employ or engage experts in fields other than accounting or auditing (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.

A63. As explained in paragraph A30, 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

35 ISA 315 (Revised 2019), paragraph 15

36 ISA 230, *Audit Documentation,* paragraphs 8–11

37 ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

in paragraph 14 applies.

> Examples:
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> - 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.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 14(a))

A64. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 11(b) requires the auditor to consider the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. 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 absence 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 judgments of the management's expert. Reviewing the terms and conditions of the engagement performed by the management's expert may assist the auditor to understand the respective roles and responsibilities of management and that expert and may inform the auditor's consideration of the attribute of absence of bias.

Competence and capabilities

A65. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect the auditor's evaluation of 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.

- 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.

A66. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence the auditor's evaluation of whether the management's expert has the appropriate capabilities may include geographic location and the availability of time and resources.

Objectivity

A67. A broad range of circumstances may influence the judgments of the management's expert, which may threaten the management's 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.

Such threats may be addressed by eliminating the circumstances that create them, or reduced to an acceptable level by applying safeguards. The existence of certain conditions, policies or procedures established by the management's expert's profession, law or regulation (e.g., educational, training and experience requirements), or by the management's expert's work environment (e.g., quality management policies or procedures) may impact the evaluation of the level of the threats.

A68. In some cases, it may not be possible to eliminate circumstances that create threats to a management's expert's objectivity or apply safeguards to reduce threats to an acceptable level. For example, the threats 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. However, 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.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 14(b))

A69. 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.

A70. The auditor may decide to involve an auditor's expert[38] 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. 14(c))

A71. 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.

A72. 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 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 11. 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.

A73. 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

[38] ISA 620, paragraph 7

deficiency in internal control. For example, the control deficiency may be due to management not assessing whether the information is appropriate for their intended purpose. ISA 265[39] deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 14(d))

A74. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence and whether they have been appropriately reflected in the financial statements;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance or Reliability of Information (Ref: Para. 15–16)

A75. As explained in ISA 200, in cases of doubt about the reliability of the information or if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document may have been modified but not disclosed to the auditor, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.[40]

A76. 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.[41] In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

A77. Paragraph A41 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 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.

A78. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence may include:

- An inability to evaluate the attributes of reliability that are of significance in the circumstances, such as whether the information is authentic.

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39 ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

40 ISA 200, paragraph A24

41 ISA 505, paragraph A14

- 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.

A79. ISA 580[42] establishes requirements and provides 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 (Revised) deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

Inconsistencies in Audit Evidence (Ref: Para. 17)

A80. Other ISAs include requirements and guidance when there are inconsistencies in the information intended to be used as audit evidence that may be relevant when applying the requirement in paragraph 17. For example:

- ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based such identification or assessment. [43]
- 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.[44]
- Proposed ISA 520 (Revised)[45] establishes requirements and provides guidance when the results of analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information.

A81. 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.

A82. When audit evidence is inconsistent with other audit evidence, this may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when

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42 ISA 580, *Written Representations,* paragraphs 16–18

43 ISA 315 (Revised 2019), paragraph 37

44 ISA 230, paragraph 11

45 Proposed ISA 520 (Revised), *Analytical Procedures,* paragraphs 7 and 10

responses to inquiries of management, those charged with governance, internal auditors, or others within or outside the entity are inconsistent, or if written representations are inconsistent with audit evidence obtained from another source. 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 11–13. Paragraph 15 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.

A83. 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 that warrants further investigation. 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. Paragraphs 15 and 17 apply in such circumstances.

A84. The extent of the auditor's procedures to further investigate the inconsistencies with other audit evidence may depend on the intended purpose(s) of the audit procedures.

Examples:

- For risk assessment procedures, the auditor may perform inquiries to determine how the item may affect the population through the identification of a new risk of material misstatement or a revision of an assessed risk of material misstatement. However, as a risk assessment procedure is not intended to detect individual misstatements or deviations, the auditor may not need to investigate every unusual item in order to meet the purpose(s) of the procedures performed.
- For further audit procedures, such as tests of controls or substantive procedures, the inconsistencies further investigated by the auditor may determine whether a control deviation or a misstatement exists. For example, the auditor may perform further testing on a sample of items when there is a reasonable basis on which to draw conclusions about the entire population of exceptions. When the population of exceptions is not homogeneous, the auditor may consider whether the population of exceptions can be stratified into homogeneous sub-populations for the purposes of testing the exceptions[46] or if this is not possible perform further testing on all items of exceptions.

[46] ISA 530, paragraph A8

Appendix 1

(Ref: Para. 3, 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 address the audit evidence to be obtained for specific matters, for example:
    - ISA 315 (Revised 2019) deals with audit evidence related to risk assessment procedures.
    - Proposed ISA 330 (Revised) deals with audit evidence obtained from further audit procedures in responding to the assessed risks of material misstatement.
    - ISA 505 deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with Proposed ISA 330 (Revised) and this ISA.
    - Proposed ISA 520 (Revised) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility relating to the results of analytical procedures used as risk assessment procedures and to perform analytical procedures near the end of the audit.
    - ISA 540 (Revised) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements.
    - ISA 570 (Revised 2024) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
    - ISA 700 (Revised) deals with, among other matters, the auditor's overall responsibility to conclude whether sufficient appropriate audit evidence has been obtained.
2. The auditor obtains audit evidence by designing and performing audit procedures, including:
    - Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)[47] or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic.
    - Further audit procedures performed in accordance with Proposed ISA 330 (Revised), or other ISAs that expand on how Proposed ISA 330 (Revised) applies to a specific topic, which include:
        - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
        - Substantive procedures (e.g., tests of details of classes of transactions, account balances or disclosures or substantive analytical procedures).

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[47] ISA 315 (Revised 2019), paragraphs 13–14

- Other audit procedures as required by the ISAs.

Types of Audit Procedures

Inspection

3. 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:
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> - To test a control, the auditor may inspect records, using manual or technological tools, for evidence of authorization.
> - The auditor may inspect the terms of revenue contracts with customers using technological tools, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

4. 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.

5. 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

6. 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[48] establishes requirements and provides guidance on observation of the counting of inventory.

> Examples:
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> - 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,

[48] ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

for example, by assigning a unique bar code or quick response code to all inventory items.

- Subject to certain exceptions, ISA 501[49] requires the auditor to attend the entity's physical inventory counting 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 technological tools, individually or in combination with each other. Technological tools may include live video, screensharing or video footage from a remote observation tool (e.g., a drone).
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

Confirmation

7. 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 cash, 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

8. Recalculation consists of checking the mathematical accuracy of information. Recalculation may be performed manually or by using technological tools (e.g., to recalculate the gross margin for each product sold for an entity's product line).

Reperformance

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

[49] ISA 501, paragraph 4

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). • Reperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

Analytical Procedures

10. Analytical procedures involve evaluations of financial information through analysis of plausible relationships among financial information, non-financial information, or both. [50]

11. The auditor may perform analytical procedures for various purposes, including as:

    - Risk assessment procedures in accordance with ISA 315 (Revised 2019); [51]

Example: The auditor may use technological tools to scan an entire population of transactions and identify those transactions meeting the auditor's criteria for a transaction being unusual that affects the design of further audit procedures to investigate such items. Analytical procedures also provide audit evidence that forms a basis for the identification and assessment of the risks of material misstatement about the items in the population not exhibiting characteristics of risks of material misstatement.

    - Substantive analytical procedures designed and performed to detect material misstatements at the assertion level, or
    - Analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.

12. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected results. See Proposed ISA 520 (Revised) for further guidance.

13. When performing further audit procedures, analytical procedures may provide audit evidence. However, analytical procedures that are not substantive analytical procedures, when performed alone, do not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.

Inquiry

14. 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

[50] Proposed ISA 520 (Revised), paragraph 6(a)

[51] See ISA 315 (Revised 2019), paragraph 14(b) and Proposed ISA 520 (Revised), paragraph 7.

provide audit evidence and may produce evidence of a misstatement. However, inquiry alone 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.

15. 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.

16. 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.

17. 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.

Appendix 2

(Ref: Para. A25)

Selecting Items for Testing in Designing and Performing an Audit Procedure

This appendix describes various approaches (i.e., means) to selecting items for testing in designing and performing an audit procedure and provides illustrative examples.

Approaches to Selecting Items for Testing

1. 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 technological tools to identify and select items for testing. When designing tests of controls or tests of details, the auditor is required by Proposed ISA 330 (Revised) to determine means of selecting items for testing that are effective in meeting the intended purpose(s) of the audit procedures.[52]

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

   - The intended purpose(s) of the audit procedures;
   - How the audit procedure is designed;
   - Whether the auditor is performing the audit procedure manually or by using technological tools;
   - The characteristics of the population being tested; and
   - The persuasiveness of audit evidence that is needed in the circumstances.

Selecting all Items

3. The auditor may determine that it is possible to apply an audit procedure to an 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 related to the risk of material misstatement of an assertion.

   > Example:
   >
   > The auditor may use technological tools to agree all sales invoices recorded in an online retailer's information system to independent, third-party shipping data provided by external carriers (e.g., automated tracking numbers and "delivered" status reports). By reconciling sales invoices, the

[52] Proposed ISA 330 (Revised), paragraph 27

auditor obtains more persuasive evidence to address the risk of material misstatement related to the occurrence of revenue than sampling because there is no sampling risk involved.

4. 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
- Technological tools are appropriate to be used to perform the audit procedure.

Selecting Specific Items

5. 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 inspect items to obtain information about matters such as the nature of the entity or the nature of transactions.

6. 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.

7. When the auditor uses technological tools to analyze an entire population to identify items exhibiting specific characteristics of risk, the identification and subsequent testing of the unusual items or outliers provide audit evidence regarding those specific items. In such circumstances, the auditor cannot project the misstatements found in those unusual items or outliers to the rest of the population.

8. The auditor may use technological tools 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 digital form and may therefore be more easily identified through the use of technological tools.[53]

Audit Sampling

9. 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. Selecting specific items from a population does not constitute statistical sampling. Audit sampling is addressed in ISA 530.

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53 ISA 315 (Revised 2019), paragraph A161

Appendix 3

(Ref: Para. A15, A19)

Considerations for Using Technological Tools When Designing and Performing Audit Procedures to Obtain Audit Evidence

This appendix highlights certain factors that may assist the auditor in identifying circumstances in which the use of technological tools may be appropriate when designing and performing audit procedures to meet their intended purpose(s). It also sets out considerations for the auditor when using technological tools to design and perform audit procedures, as part of the auditor's evaluation of relevance and reliability of information intended to be used as audit evidence.

This appendix does not mandate the use of technological tools, and the auditor's responsibilities and objectives under the ISAs remain the same regardless of whether audit procedures are designed and performed manually, by using technological tools, or a combination of both.

Identifying Circumstances When the Use of Technological Tools may be Appropriate

1. As explained in ISA 300,[54] when establishing the overall audit strategy, the auditor may consider the effect of information technology on the audit procedures, including the availability of data and the expected use of technological tools to be deployed for specific audit areas. In doing so, ISA 220 (Revised) requires that the engagement partner determine that sufficient and appropriate human, technological and intellectual resources to perform the engagement have been assigned or made available to the engagement team and provides other guidance relevant to the use of technological resources, that include technological tools on the audit engagement.[55]

2. Whether to use technological tools when designing and performing audit procedures to obtain audit evidence is a matter of the auditor's professional judgment. The following table includes examples of factors that may be relevant in considering when the use of technological tools is appropriate.

Factor	Description
Nature of the Entity's IT Environment and Information	
The entity's use of technology	The nature, extent and complexity of the technologies used by the entity may affect the auditor's consideration of when the use of similar or complementary technological tools may be appropriate.
Degree of digitization	The extent to which transaction information is maintained in digital form within the entity's information systems may affect the auditor's consideration of when the use of technological tools may be appropriate to access, query or analyze information that may not otherwise be observable.
Complexity of information	The complexity of information or its structure (e.g., number and variety of information sources or the interrelationship between data

[54] ISA 300, *Planning an Audit of Financial Statements*, Appendix

[55] ISA 220 (Revised), paragraphs 25, A64–A68

Factor	Description
	sets) may affect the auditor's consideration of when the use of technological tools may be appropriate to analyze, process, present or interpret the information.
Volume of information	The volume of information may affect the auditor's consideration of when the use of technological tools to analyze, process, present or interpret the information may be appropriate.
Interoperability of information	The extent to which the information is available in, or can be shared in, a format compatible for use in technological tools and the extent to which the tools can correctly interpret and use that information may affect the auditor's consideration of when the use of technological tools may be appropriate.
Audit Procedures and Audit Evidence	
The intended purpose(s) of the audit procedures	The purpose(s) of certain audit procedures (e.g., to identify risks of material misstatements by identifying unusual patterns or anomalies in a population of transactions) may be more effectively achieved using technological tools.
The nature of the class of transactions, account balance or disclosure and the persuasiveness of the audit evidence needed	More persuasive audit evidence may be obtained by performing audit procedures using technological tools, due to the nature of a class of transactions, account balance or disclosure (e.g., technological tools may be more effective in recalculating an entire account balance involving highly complex mathematical calculations).
Availability of Audit Firm Resources *(Relevant quality management policies or procedures of the firm may affect the consideration of factors such as these and other factors that may be relevant at the firm or engagement level)* [56]	
Availability of appropriate technology	Whether the firm has developed or has access to, and approved for use, technological tools relevant in the circumstances of the audit engagement.
Engagement team competence and expertise	Whether the engagement team members possess the knowledge, skills and experience to use technological tools and to interpret the results of the tools appropriately (e.g., understanding the suitability of the tools for the intended purpose, selecting appropriate parameters and identifying false positives).
Methodology and training support	Whether the use of technological tools is supported by the firm's audit methodology, training programs and access to subject matter experts,

[56] 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*, paragraph A104

Factor	Description
	including whether the firm's methodology requires the use of particular technological tools in certain circumstances.
Laws or Regulations	
Data protection, security and privacy requirements	Applicable laws or regulations may affect the extent of the auditor's ability to access, transfer or store information using technological tools.

Using Technological Tools to Design and Perform Audit Procedures

3. To obtain sufficient appropriate audit evidence in accordance with paragraph 9, the auditor focuses on designing and performing audit procedures that are appropriate in the circumstances to meet the intended purpose(s) of those audit procedures, regardless of whether audit procedures are performed manually, using technological tools, or a combination of both. The following table contains examples of intended purpose(s) of audit procedures and how the auditor may use technological tools when designing and performing such audit procedures.

Intended purpose(s) of audit procedures	Examples of how the auditor uses technological tools
Risk assessment procedures designed and performed for the purpose of identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels	• Analyze a population of journal entries to identify unusual or unexpected trends, relationships and activities, such as the existence of manual journal entries within an automated sales process. • Gather information from multiple sources to assist the auditor in identifying risks of material misstatement. For example, aggregated news and social media analysis filtered for relevance that may indicate areas of audit risk, such as changes in operations, regulations or other new events and conditions.
Test of controls designed for the purpose of obtaining audit evidence about the operating effectiveness of controls	• Test the operating effectiveness of a control over approval of new user access by validating that access requests were approved by authorized personnel in the entity's IT system prior to providing user access. • Inspect the logic of an automated application control.
Substantive procedures designed for the purpose of detecting material misstatements at the assertion level	• Perform external confirmation procedures using an electronic platform to obtain audit evidence regarding the terms of agreements, contracts or transactions between an entity and other parties.

Intended purpose(s) of audit procedures	Examples of how the auditor uses technological tools
	• Automate the comparison of recorded amounts selected for tests of details to underlying documentation, such as invoices.

4. The use of technological tools may assist the auditor in designing and performing audit procedures to meet more than one purpose, and they can also combine types of audit procedures together. In such circumstances it is relevant for the auditor to focus on the appropriateness of the audit procedure to meet its intended purpose(s) rather than the type of audit procedure performed.

Considerations When Using Technological Tools in Evaluating the Relevance and Reliability of Information

5. When the auditor uses technological tools to design and perform audit procedures, the auditor applies professional judgment in evaluating whether the results from using technological tools are relevant and reliable as required by paragraphs 11–13. For example, an evaluation of the relevance and reliability of the results from using technological tools may be necessary when such results depend upon the appropriateness of the information used in the tools. In addition, the auditor may need to perform further investigation of the initial results from the use of technological tools, including when the initial results may include items exhibiting unusual characteristics that are inconsistent with the expectations of the auditor.

6. The following table includes examples of factors that the auditor may consider in making this evaluation. The table also explains the effects of each factor on the extent of the auditor's evaluation of the reliability of information. These factors, however, do not address matters related to the development, implementation, operation or maintenance of technological tools. For example, in some circumstances, it may be difficult to trace the results from using technological tools to the information used in the technological tools, or to replicate or verify the results of using the technological tools due to the operation of the tool. In such cases, the auditor may need to perform additional procedures or obtain corroborative audit evidence to evaluate the relevance and reliability of the information. Under ISQM 1, the firm is responsible for assigning or making available human, technological and intellectual resources to engagement teams, including technological tools. In doing so, the firm considers matters such as whether the technological tool operates as designed and achieves the purpose for which it is intended as well as the need to develop procedures that set out how the technological tool operates.[57]

Factor	Effect on the Extent of the Auditor's Evaluation of the Reliability of Information
Information used in the technological tool	
Volume	The greater the volume of information, the more extensive the auditor's evaluation may be.

[57] ISQM, paragraphs 32, A99–A101

Factor	Effect on the Extent of the Auditor's Evaluation of the Reliability of Information
Complexity	The higher the complexity of information, the more extensive the auditor's evaluation may be.
Subjectivity and structuredness	The more subjective or less structured the information (e.g., narratives or video files), the more extensive the auditor's evaluation may be.
Integrity	The higher the possibility that the integrity of information may not be adequately maintained during its collection, extraction or transfer from an identified source, the more extensive the auditor's evaluation may be.
Results from using the technological tool	
Understanding and interpreting the results	The more the results are subject to further interpretation or judgment, the more extensive the auditor's evaluation may be.
Consistency	The higher the degree of inconsistency with the auditor's expectations or other audit evidence available, the more extensive the auditor's evaluation may be.

Automation Bias

7. As explained in ISA 220 (Revised), the use of technological tools may give rise to a risk of unconscious biases, including automation bias, which may result in overreliance on the relevance and reliability of the output(s) of such tools.[58] An awareness of unconscious biases may help the auditor to design and perform audit procedures in an unbiased manner. The vulnerability to automation bias may be greater when the audit procedures performed using technological tools are complex, such as when they involve multiple inputs and multiple relationships between the inputs, or when there is reduced transparency about how the technological tools are generating the results.

8. Possible actions that the auditor may consider to mitigate the risk of automation bias when using technological tools include:

   - Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
   - Providing relevant training to members of the engagement team who use technological tools, including training on the capabilities and limitations of technological tools.
   - Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, as appropriate, to:
     - o Understand the data inputs and processing steps, including calculations and modifications to data, used in the technological tools.
     - o Interpret the results from applying the technological tools.

[58] ISA 220 (Revised), paragraph A36

Appendix 4

(Ref: Para. A37)

Form, Availability, Accessibility and Understandability of Information Intended to be Used as Audit Evidence

This appendix provides further explanation about the form, availability, accessibility and understandability of information intended to be used as audit evidence and provides illustrative examples.

1. As explained in paragraph A35, 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 ability to extract information in a usable form stored in the entity's information system may affect whether the auditor can perform an audit procedure by using technological tools. For example, the auditor may need to consider if the format of the information extracted can be converted into a format compatible for the inputs to the technological tools, or whether there are any system limitations preventing extracting large volumes of data.
- 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 tools.
- Screenshots from IT applications provided by management may not be sufficient if the auditor cannot determine when the screenshot was taken.
- 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 the performance of audit procedures. For example, the entity may overwrite log files after a certain period or the entity may use technology that adapts over time, such as 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 these cases, 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 or the information may not be relevant for the current audit period (e.g., the machine learning logic may no longer relate to the period being audited).
- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use technological tools that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

2. 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.

> Examples:
>
> - 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.
> - Information that is received in a form different from the expected form may be indicative of conditions where information has been inappropriately altered and may affect the auditor's consideration of the attribute of authenticity of the information.

3. Information intended to be used as audit evidence may exist, but access to such information may be restricted. Such restrictions may be imposed by law or regulation, the source providing the information or by other circumstances.

> Examples:
>
> - Laws or regulations may prohibit transfer of certain information to another jurisdiction and the auditor may only be able to use such information by physically visiting the jurisdiction where the information is available.
> - War, civil unrest or outbreaks of disease may present conditions where access to certain information to be used as audit evidence is restricted.
> - Privacy or secrecy laws or regulations may prohibit the use of certain sensitive client information in some technological tools without proper consent or safeguards.

4. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)[59] provides examples of how restrictions may be overcome for an audit of group financial statements.

5. In some circumstances, specialized skills or knowledge may be needed to understand or interpret 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 appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).[60]

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59 ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs A35 and A180

60 ISA 220 (Revised), paragraphs A60–A71

Examples:

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

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction). In this case, 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 legal terminology. In this case, the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application used by the entity that is highly complex or the auditor may use a technological tool to perform an audit procedure. In this case, the auditor may use an IT expert to assist in understanding how the information is generated or in interpreting the results.
- The information may be in another language and may need to be translated. In this case, the auditor may use a translator to assist in understanding or interpretating the information.

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