



# Exposure Draft Proposed Canadian Auditing Standard (CAS)

## CAS 500, Audit Evidence

**November 2022**

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**COMMENTS TO AASB MUST BE RECEIVED BY March 15, 2023**

**COMMENTS TO IAASB MUST BE RECEIVED BY April 24, 2023**

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We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#). Please address your response to:

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This Exposure Draft reflects proposals made by the International Auditing and Assurance Standards Board that the Auditing and Assurance Standards Board (AASB) intends to adopt, subject to deliberating comments received, as Canadian generally accepted auditing standards.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

## HIGHLIGHTS

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to adopt with appropriate Canadian amendments, if any:

- proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence*; and
- proposed conforming and consequential amendments to other ISAs

issued by the International Auditing and Assurance Standards Board (IAASB). The result would be revised respective Canadian Auditing Standards (CASs).

This Exposure Draft consists of:

- an explanation of why change is needed;
- key public interest considerations;
- proposed changes;
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum;
- a description of the AASB's process for adopting ISAs;
- a discussion of proposed significant Canadian amendments; and
- a proposed effective date.

Please review “**Comments requested**” on [page iv](#) for information on preparing your response to this Exposure Draft.

## Why change is needed

The current audit evidence standard was issued almost 15 years ago. The way business is conducted has evolved and become more complex. In particular, developments in technology have affected how entities operate and process information, and how audits are performed. Given the evolving use of technology by auditors, the IAASB issued a Request for Input, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*, in September 2016. Key messages from the responses included that the ISAs are not broken and should remain principle-based, but need to reflect the digital era in application material. Moreover, specific views were expressed in relation to audit evidence, to which the AASB agreed, including:

- Emphasizing the need to exercise professional skepticism when using data analytics.
- Clarifying how data analytics contributes to the audit-evidence model.
- Highlighting the importance of the source, and the quality of the data used and the challenges in considering the relevance and reliability of both internal and external data.

In December 2020, the IAASB approved a project proposal to revise ISA 500. The project's objectives include addressing the issues the AASB raised.

## Key public interest considerations

All the proposed revisions in the Exposure Draft are made with public interest considerations at the forefront. The table below sets out the key public interest issues, as identified in the IAASB's project proposal and how the Exposure Draft addresses them.

Key public interest matter	Description of changes made to address identified key public interest matters
<b>Responding to changes in the information auditors use, including the nature and source of the information</b>	<p><i>Adaptability and scalability</i></p> <p>Developing and introducing a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. In doing so, the IAASB developed a set of attributes of relevance and reliability to enhance the auditor's judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, proposed ED-ISA 500 (Revised) focuses the auditor's attention on:</p> <ul style="list-style-type: none"> <li>• the attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure; and</li> <li>• the source of the information and how the source may affect the auditor's judgments regarding the attributes of relevance and reliability that are applicable in the circumstances.</li> </ul>
	<p><i>Using information prepared by a management's expert</i></p> <p>Enhancing and clarifying the auditor's responsibilities when using information intended to be used as audit evidence that has been prepared by a management's expert. For example,</p> <ul style="list-style-type: none"> <li>• clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management.</li> </ul>
<b>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</b>	<p><i>Adaptability and scalability</i></p> <p>Reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the application material:</p> <ul style="list-style-type: none"> <li>• clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence;</li> <li>• explains how using automated tools and techniques may affect auditor bias, and in particular automation bias; and</li> <li>• uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor.</li> </ul>

Key public interest matter	Description of changes made to address identified key public interest matters
<b>Fostering professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence</b>	<p><i>Fostering the appropriate exercise of professional skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• designing and performing audit procedures in an unbiased manner;</li> <li>• evaluating the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.</li> </ul>

## Proposed changes

The Exposure Draft proposes several key changes, which include:

- clarifying the purpose and scope of the standard, including explaining the relationship with other ISAs;
- reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment;
- adding new requirements and application material to emphasize the importance of professional skepticism;
- revising the definition of audit evidence, by using the “input-output” model that information can become audit evidence only after audit procedures are applied to it;
- clarifying the interrelationship of sufficiency, appropriateness and persuasiveness of audit evidence;
- making the consideration of relevance and reliability of information intended to be used as audit evidence more robust by requiring an evaluation, and introducing attributes of relevance and reliability to consider when evaluating the relevance and reliability;
- adding a requirement for the auditor to obtain an understanding about how the information prepared by management’s expert has been used by management in the preparation of the financial statements; and
- adding a stand-back requirement to evaluate audit evidence obtained as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

The AASB has developed a diagram, which is shown in [Appendix I](#), to illustrate the relationship between key concepts in proposed ISA/CAS 500.

## IAASB Exposure Draft

The IAASB’s Exposure Draft, “[Proposed International Standard on Auditing 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs](#),” is available on the [IAASB website](#).

In addition to the text of proposed ISA 500 (Revised), the IAASB’s Exposure Draft includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions to extant ISA 500.

## Process for adopting ISAs

The AASB has committed to adopting ISAs as CASs. The AASB recognizes that it has a vital role in monitoring revisions to the ISAs to ensure that they remain in the Canadian public interest. To do so, the AASB issues a Canadian exposure draft for every IAASB exposure draft of a proposed ISA. Adoption of an ISA as a CAS is not automatic. The AASB follows amendment criteria, set out in [Appendix II](#), when it considers whether Canadian amendments are required in specific circumstances.

The AASB's commitment to adopt ISAs as CASs includes aligning the effective date. The Board makes CASs available shortly after they are approved, so those affected can become familiar with them and prepare to implement them by the effective date.

## Proposed significant Canadian amendments

The AASB is not proposing any Canadian amendments to ISA 500 (Revised). Respondents are asked for their input on whether there are any unique circumstances in the Canadian environment that require consideration for amendment. The amendment criteria the AASB followed are outlined in [Appendix II](#).

## Proposed effective date

The IAASB expects to approve the final ISA 500 (Revised) in December 2023.

The IAASB proposes that ISA 500 (Revised) be effective for financial reporting periods beginning approximately 18 months after the approval of the final ISA. Earlier application would be permitted and encouraged. The revised CAS is expected to have the same effective date as the revised ISA. Auditors will be permitted to apply the revised CAS before the effective date.

## Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

## Responding to the IAASB's Exposure Draft

Respondents are also asked to provide comments on the IAASB's Exposure Draft directly to the IAASB and provide the AASB with a copy of the response. The AASB will take these comments into account in drafting its own response to the IAASB's Exposure Draft. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

Please refer to the "Guide for Respondents" contained in the IAASB's Exposure Draft and respond to the specific questions therein.

## Providing comments to the AASB

The AASB would appreciate receiving responses to the questions set out below, in addition to receiving a copy of the response to the IAASB's Exposure Draft.

1. Is the diagram in [Appendix I](#) useful in illustrating the relationship between key concepts contained in proposed ISA 500 (Revised)? If respondents find the diagram useful, we will consider including it as part of future guidance related to the final standard.

- (a) Are there any part(s) of the diagram that you believe do not align with the proposed requirements and application material in ISA 500 (Revised)? If so, please specify and explain how the diagram can be revised.
2. Do you agree that no Canadian amendments are required to ISA 500 (Revised) to adopt it as CAS 500? If not, what Canadian amendments do you believe are required, and why? Note: Any proposed amendments would need to meet the criteria set out in [Appendix II](#).
3. Do you believe the proposed revisions would create any implementation challenges for practitioners in Canada?
4. Do you have any concerns with a proposed effective date of approximately 18 months after approval of the ISA?

The deadline for providing your comments to the AASB on the above is March 15, 2023.

## Appendix I

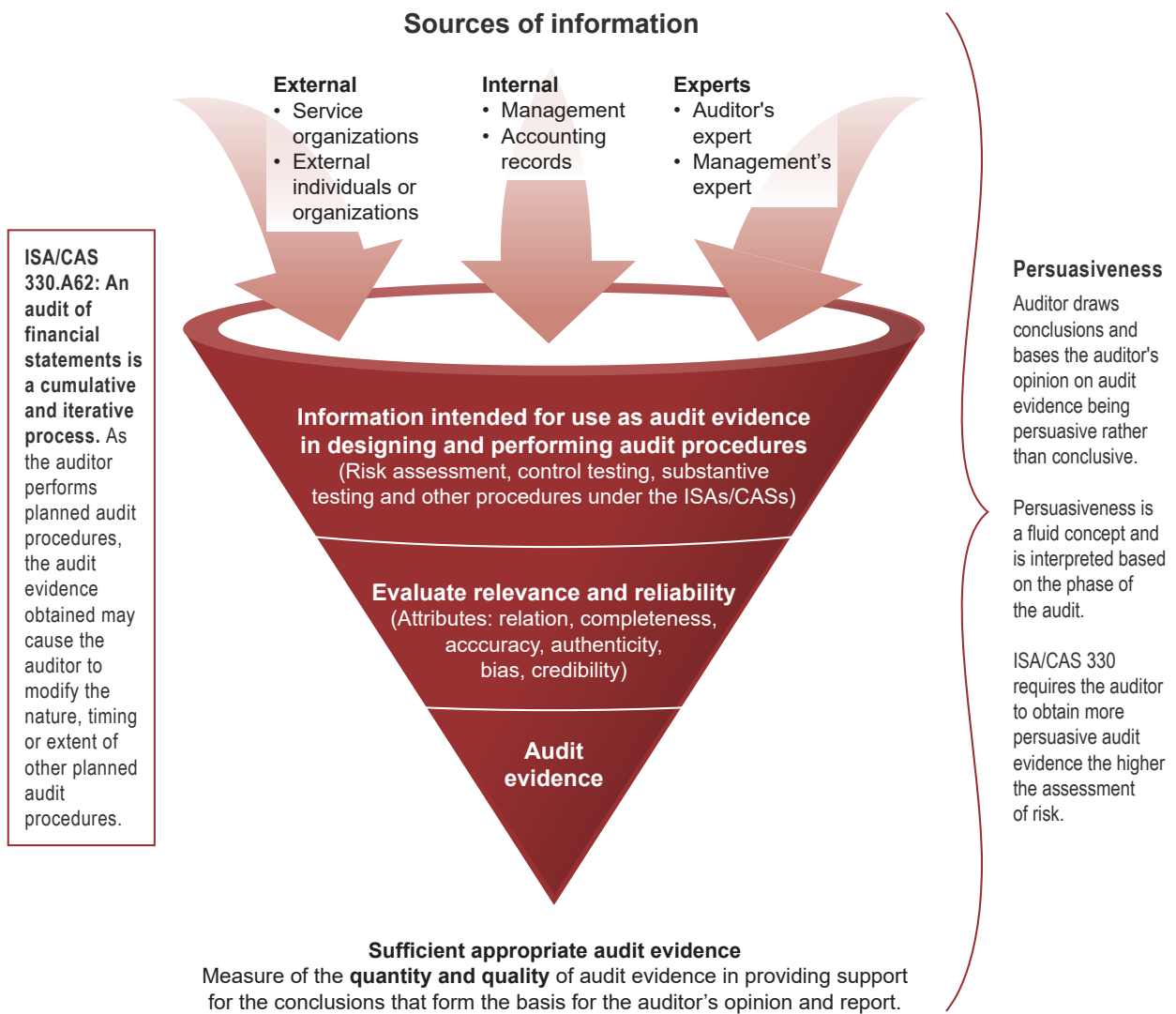
### Diagram illustrating key concepts in proposed ISA 500, *Audit Evidence*

**ISA/CAS 200.17** 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.

### ISA/CAS 500, *Audit Evidence*

**Applies to all audit evidence obtained during the audit**

Other ISAs/CASs address the auditor’s responsibilities regarding specific aspects of the audit and may also address the audit evidence to be obtained for specific matters. This ISA/CAS provides overarching requirements and guidance for the auditor when obtaining and evaluating audit evidence in accordance with those other ISAs/CASs.



**ISA/CAS 500.13(a):** As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA/CAS 330, **evaluate whether audit evidence obtained meets the intended purpose of the audit procedures.**



## Appendix II

### Criteria for amending ISAs when adopting them as CASs

With respect to the adoption of ISAs<sup>1</sup> as CASs, and the adoption of an International Standard on Assurance Engagements (ISAE) as a Canadian Standard on Assurance Engagement (CSAE) and International Standard on Related Services (ISRS) as a Canadian Standard on Related Services (CSRS), on a case-by-case basis, the AASB overriding goal is to adopt ISAs into the Assurance Handbook without amendment. However, there may be circumstances where amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB limits additions to an ISA to those required to comply with Canadian legal and regulatory requirements.<sup>2</sup>
2. The AASB limits deletions from, or other amendments to, an ISA to the following:
  - (a) The elimination of options (alternatives) provided for in the ISA.
  - (b) Requirements or guidance, the application of which Canadian law or regulation<sup>2</sup> does not permit, or which require amendments to be consistent with law or regulation.
  - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
  - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
  - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISAs will be separately identified in the final Assurance Handbook material.

1 Reference to ISAs in this appendix also includes reference to International Standards on Quality Management adopted as Canadian Standards on Quality Management, relevant ISAEs adopted as CSAEs and relevant ISRSs adopted as CSRSs, where applicable.

2 Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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