

INTOSAI



Practice Note to ISA 500

Audit Evidence

INTOSAI



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Practice Note¹ to International Standard on Auditing (ISA) 500

Audit Evidence

Background

This Practice Note provides supplementary guidance on ISA 500 – Audit Evidence. It is read together with the ISA. ISA 500 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

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

ISA 500 is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example ISA 315²), the audit evidence to be obtained in relation to a particular topic (for example ISA 570³), specific procedures to obtain audit evidence (for example ISA 520⁴), and the evaluation of whether sufficient appropriate audit evidence has been obtained (for example ISA 200⁵ and ISA 330⁶).

Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Sufficient Appropriate Audit Evidence.

Applicability of the ISA in Public Sector Auditing

- P2. ISA 500 is applicable to auditors of public sector entities in their role as auditors of financial statements.

¹ All Practice Notes are considered together with ISSAI 1000 “General Introduction to the INTOSAI Financial Audit Guidelines.”

² ISA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.”

³ ISA 570, “Going Concern.”

⁴ ISA 520, “Analytical Procedures.”

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

⁶ ISA 330, “The Auditor’s Responses to Assessed Risks.”

Additional Guidance on Public Sector Issues

Sufficient Appropriate Audit Evidence

- P3. As noted in paragraph A7 of the ISA some audit evidence is obtained by performing audit procedures to test accounting records. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In the case of financial statements in the public sector management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of a financial audit⁷. Public sector auditors may consider ISSAI 4200⁸.
- P4. When considering information from sources independent of the entity as referred to in paragraph A9 of the ISA public sector auditors may consider sources as independent of the entity even though they ultimately report to the same authority e.g. operationally independent government agencies reporting to the same authority. The nature of benchmarking data in the public sector may include other sources e.g. comparisons between similar programs, or performance indicators.
- P5. When considering the sources of evidence in accordance with paragraph A2 of the ISA public sector auditors may also consider evidence obtained in performance audits or other audit activities relevant to the entity.
- P6. As explained in paragraph A11 of the ISA audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance. When relying on evidence obtained in previous performance audits, public sector auditors evaluate whether the assertions used and tests performed are adequate for the purpose of the financial statement audit.
- P7. When the audit mandate includes objectives related to the regularity of transactions the public sector auditors may need to consider the nature and timing of audit procedures as explained in paragraph A12 of the ISA e.g. the ability to apply certain audit procedures to establish the regularity of the transaction or the effectiveness of the controls may be adversely affected by the passage of time.
- P8. Public sector entities will usually have established internal controls designed to secure the regularity of transactions. However, where the audited entity is responsible for giving grants or other financial assistance to other parties, it is often the case that the regularity of the transaction will depend, in part, on the other parties satisfying the criteria and meeting the terms for receiving assistance. Evidence might then be required on the entity's exercise of its responsibilities to satisfy itself about the transactions of these other parties (as demonstrated in Appendix 1 of the Practice Note).

⁷ Financial audit in the context of the additional guidance provided in the Practice Notes refers to audits of financial statements and additional assertions on regularity and compliance when dealt with in association with an audit of financial statements (Financial/Regularity audits). The ISAs deal with audits of financial statements.

⁸ ISSAI 4200, "INTOSAI Compliance Audit Guidelines Related to Audit of Financial Statements."

- P9. When considering the guidance in paragraph A13 of the ISA public sector auditors take into account that data retention requirements for public sector entities may be different as stipulated by relevant legislation. Public sector auditors familiarize themselves with applicable legislation in regard to retention of data.
- P10. Public sector auditors in some environments, such as a Court of Accounts environment, may be subject to laws and regulations requiring the auditors to understand and follow precise procedures related to rules of evidence. Public sector auditors familiarize themselves with any such policies and procedures describing additional requirements relating to audit evidence and that are designed to ensure compliance with applicable rules. For example, public sector auditors operating in such an environment may need to consider the following matters related to evidence collection:
- Legislation imposing additional requirements on audit evidence;
 - The scope of additional requirements (i.e., are they to be imposed on every document from the audit assignment or on specific documents relating to certain audit issues);
 - Additional processing, formalities or requirements to which audit evidence is subject;
 - The purpose of each additional requirement as regards due process of law in following the steps of the audit; and
 - Any restrictions that may be placed upon audit evidence due to specific ways it has been collected and/or produced.

Appendix: Sources of Audit Evidence Concerning Management of Risks Related to Laws and Regulations

Risk	Description	Possible sources of audit evidence
Complexity of regulations	The more complex the regulations the greater the risk of error. This may occur either through a misunderstanding or misinterpretation of the regulation or through an error in application.	<ul style="list-style-type: none"> • Formal and documented procedures for the translation of statutory requirements into operating instructions; • Formal and documented control plans monitoring activities by scheme managers; • Review reports by internal audit or some other independent audit of Scheme control plans and operating manuals.
New Legislation	New legislation may require the introduction of new administrative and control procedures. This may result in errors in either the design or operation of controls required to ensure regularity.	<ul style="list-style-type: none"> • Formal and documented procedures for the translation of statutory requirements into scheme rules. Formal control plans and the independent review of operating instructions and control plans may also constitute audit evidence where schemes are introduced following new legislation.
International Schemes (funded by the United Nations, EU or other institutions)	Where regulation is developed by such institutions there is a risk that regulations and guidance may be misinterpreted or omitted from internal instructions.	<ul style="list-style-type: none"> • Sources of audit evidence identified in connection with the complexity of regulations may apply equally to such funded Schemes.

Risk	Description	Possible sources of audit evidence
<p>Services and programs delivered through third parties.</p>	<p>Where programs are administered by agents, departments lose a degree of direct control and may have to rely on agents to ensure compliance with authorities.</p>	<ul style="list-style-type: none"> • Formal agreements between the entity and the agent defining control procedures to be applied in the administration of services; • Documented procedures and outcome of management control and monitoring of third party activities; • Reports from inspection visits by internal audit to third parties to review systems and procedures, including those relevant to regularity; • An assurance or agreed upon procedures report on payments and receipts, or on controls over payments and receipts, by the third party's auditor.
<p>Payments and receipts made on the basis of claims or declarations</p>	<p>An entity's ability to confirm compliance with authorities may be restricted where, for example, criteria specified for receipt of grant are not subject to direct verification.</p>	<ul style="list-style-type: none"> • Departmental instructions and guidance to claimants clearly stating criteria for making claims; • Standard requirements for documentation evidencing entitlement to be submitted in support of claims exist. (This may be a condition of payment of grant or a requirement once the activity supported by the grant has been completed); • Reports from physical inspection of claimants' records etc. to confirm eligibility; • Documented procedures for assessing the financial standing of claimants before awarding a grant and for monitoring continuing solvency exist; • Independent certification of the application of grant by external auditor.