



19 April 2023

Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Willie,

***AUASB Submission on the IAASB's Proposed International Standard on Auditing ISA 500 (Revised),
Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Proposed International Standard on Auditing ISA 500 (*Revised*), *Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs* ("ED ISA 500").

In formulating its response, the AUASB has sought input from its constituents in three principal ways. The first was from hosting a series of in-person and virtual roundtable meetings with stakeholders representing assurance providers from medium and large audit firms, the public sector and the professional accounting bodies across Australia; the second was through an open invitation to provide comments placed on the AUASB's website; and the third was by way of formal discussions by AUASB members at recent board meetings.

The AUASB is generally supportive of the intentions behind the IAASB's proposed revisions to ED ISA 500.

Whilst the majority of the feedback the AUASB received on ED ISA 500 supported the overall themes and key concepts in the proposed standard, there are a few matters where the AUASB believes the IAASB may consider further in order to ensure auditors apply the proposed standard on audit evidence consistently and effectively.

1. *Modernising and supporting a principles-based standard that recognises the evolution in technology*

The AUASB acknowledges that the IAASB has taken a conceptual and scalable approach to the use of technology by the entity and the auditor, including the use of automated tools and techniques. However, the AUASB considers that ED ISA 500 does not fully address technology in a way that assists with the application of automated tools and techniques in the audit procedures. Further consideration around the use of appendices or other non-authoritative guidance to convey more complex and detailed examples and case studies on 'how' the application material may be applied in practice would be appropriate. Refer to Question 4 for further comments.

2. *Fostering the appropriate exercise of professional scepticism*

The AUASB acknowledges that the IAASB has sought to embed professional scepticism through a number of the requirements in ED ISA 500 by focusing the auditor on the process by which audit evidence is generated, and reinforcing the exercise of professional scepticism in obtaining and not just evaluating audit evidence. The AUASB believes these concepts can be further emphasised in the application material to requirements 8 and 9 to reinforce the need for the auditor to focus their questioning mind on the process by which audit evidence is generated and not just on the evaluation of the audit evidence. Refer to Question 5 for further comments.



The AUASB notes that this principles-based reference framework is likely to have a direct impact on the future development of other evidentiary ISA's that may be prioritised for revision as part of the IAASB's 2024-2027 forward strategy and work plan e.g., ISA 520 *Analytical Procedures* and ISA 530 *Sampling*. It is unclear at this time as to whether the revision of these standards will provide more extensive requirements as appropriate, than that reflected in ED ISA 500 as the overarching framework standard. There will also need to be careful consideration of the interplay between ED ISA 500 and any future revisions to ISA 230 *Audit Documentation* and ISA 330 *The Auditor's Response to Assessed Risks* and the level of principles based approach taken for these ISAs if they directly reference a principles-based reference framework standard being ISA 500 *Audit Evidence*.

The AUASB's detailed responses to the specific questions asked in the Exposure Draft accompany this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact me or Marina Michaelides at mmichaelides@auasb.gov.au

Yours sincerely,

W R Edge
Chair

Overall Questions

1. *Is the purpose and scope of ED-500 clear? In this regard:*
 - (a) *Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?*
 - (b) *Are the relationships to, or linkages with, other ISAs clear and appropriate?*

Response

The AUASB are supportive of ED ISA 500 having been developed as a principles based reference framework to assist auditors in making enhanced judgements when obtaining and evaluating audit evidence. The relationships and linkages with other ISAs are clear and appropriate.

2. *What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 (see IAASB EM), will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?*

Response

The AUASB supports that the proposed revised ED ISA 500 will support the identified key public interest issues in paragraph 10 of the IAASB EM, in responding to changes in the information that is being used by auditors, including the nature and source of the information. The AUASB do have some comments around the concepts relating to modernising and evolution in technology and fostering the maintenance of professional scepticism, collectively leading to enhanced auditor judgements when obtaining and evaluating audit evidence. Refer to Question 4 and Question 5 for more detailed responses.

3. *What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 of IAASB EM)?*

Response

The AUASB acknowledges for a principles based framework standard that the requirements cannot include all the considerations that are in the application material. The application material provides further explanation of the underlying concepts and guidance for implementing the requirements.

In ED ISA 500 the application material does seem disproportionately detailed to explain the application of 14 requirements. This is evidenced by paragraphs A35-A83 focusing primarily on evaluating and the attributes of relevance and reliability.

The AUASB suggest that the IAASB may want to consider condensing and redrafting the application material in paragraph's A53-A65 into three areas: what are the attributes of relevance and reliability, what may affect the auditors use of professional judgement in relation to relevance and reliability and some relevant examples. The existing material appears too focused on 'the extent to which' attributes may be applicable in certain circumstances rather than 'whether' they are applicable so this may also need revisiting.

4. *Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?*

Response

The AUASB acknowledges that the IAASB has taken a conceptual and scalable approach to the use of technology by the entity and the auditor, including the use of automated tools and techniques. These concepts are only dealt with in a number of application material paragraphs and not in the requirements. The AUASB notes that there are more prevalent forms of technology used in current practice to undertake audit procedures

(e.g., artificial intelligence), which should be acknowledged in paragraph A17 where examples have been provided.

The AUASB also suggests that the IAASB may consider the use of appendices or other non-authoritative guidance to provide more complex examples or case studies on how the application material may be applied around the use of automated tools to undertake audit procedures (e.g., data assurance) under ED ISA 500. Providing some form of non-authoritative guidance which can be updated more regularly to provide the most current uses or types of technology that could be applied in audit procedures may be most useful for auditors.

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

Response

The AUASB notes that the IAASB has sought to embed a more robust application of professional scepticism across a number of requirements. Professional scepticism, by definition and application is focused on the evaluation of evidence and is directly related to requirements 13 and 14 (application material A84 to A88). The AUASB also agrees professional scepticism is a “mindset” which is difficult to articulate as an explicit requirement in the proposed standard, as it is a skill that is learned and developed by auditors through their training and ongoing professional development coupled with practical experience and application.

The AUASB agrees that the revised focus on both the information to be used as evidence and application of procedures on the information in order to convert information to evidence, enables the auditor’s scepticism to be directed not only toward the evaluation of evidence, but also the process by which that evidence is generated. The AUASB agree this is a positive development, however one that could easily be lost on those applying the revised standard. We believe that focusing auditors on the process by which audit evidence is generated reinforces the exercise of professional scepticism in obtaining and evaluating evidence.

The AUASB believe that there may be an opportunity for the IAASB to be explicit in the application material paragraphs to requirements 8 and 9, to reinforce the need for the auditor to focus their questioning mind on the process by which the audit evidence is generated and not just the evaluation of that evidence.

Specific Questions

6. *Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?*

Response

The AUASB support the revised definition of audit evidence as reflected as an “input-output model” to which audit evidence is derived, as an acknowledgement of the process rather than just the output.

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

Response

The AUASB notes that “persuasiveness” of audit evidence is neither used in the requirements (only referenced in the application material) nor explicitly defined in ED ISA 500. The concept of persuasiveness is used in ISA 330 as only one of the factors used to consider “sufficiency and appropriateness”. The AUASB suggest it may be more useful for auditors to either remove the concept from ED ISA 500 as the terms sufficiency (quantity) and appropriateness (quality) of audit evidence are well understood, or include it in requirement 8 and define the term in ED ISA 500.

The AUASB support that the definitions in 7(a) and 7(d) of appropriateness and sufficiency, and the application material in A5-A14 appropriately describes the interrelationship of sufficiency and appropriateness of audit evidence.

8. *Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?*

Response

The AUASB agree that the requirements and application material in paragraphs A35-A83 of ED ISA 500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. The AUASB recommend that the IAASB emphasises in the application material (e.g., A63-A65), that the calling out of accuracy and completeness, does not mean to diminish the importance and significance of the other attributes in the evaluation of relevance and reliability. Refer to other comments provided in response to Question 3.

9. *Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?*

Response

The AUASB supports the IAASB's approach on the use of the attributes of relevance and reliability and the approach with regard to the attributes of completeness and accuracy as they are consistent with extant ISA 500.

The AUASB believe that, in addition to the extant attributes of accuracy and completeness, the attributes of, authenticity, bias and credibility will be useful for the auditor when considering the reliability of information intended to be used as audit evidence. The AUASB acknowledge, however, that further guidance is needed in relation to the applicability of the attributes and how their applicability may be scalable.

The application material could provide further clarity on the applicability of the attributes of completeness and accuracy for tests of entire populations, information from external sources and audit evidence for a management's expert. Paragraph 11 of ED-500 states that "as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall...". It is unclear whether this means the requirement in paragraph 9b to consider the attributes of relevance and reliability, including completeness and accuracy, applies with respect to audit evidence prepared by a management's expert. While the application material provides examples of the consideration of certain attributes of relevance and reliability (e.g., paragraph A69 of ED-500 refers to creditability and bias), completeness and accuracy are not mentioned.

The AUASB also suggest clarifications related to the scalability of the nature, timing, and extent of audit procedures to evaluate relevance and reliability considering the intended purpose of the audit procedure to which the audit evidence relates would assist auditors.

10. *Do you agree with the new "stand back" requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?*

Response

The AUASB generally supports the new "stand back" requirement in paragraph 13 as an effective tool to use when evaluating if auditors have sufficient appropriate audit evidence. The AUASB note that there is some duplication of stand back requirements appearing in ED ISA 500 and ISA 330 and suggest further

consideration is given so there are no unintended consequences with regard to the auditors work effort required. It may be more effective to reference ISA 330 paragraphs 25-27.

The AUASB also considers that the IAASB may want to review paragraphs 13(a) and (b) and whether they should be in the opposite order so 13(b) where the auditor considers all audit evidence and assertions etc would come before the auditor evaluates the audit evidence obtained, meets the intended purpose of the audit procedures in 13(a). Usually the auditor would first determine the assertions to be tested, prior to determining audit procedures, so it may more closely reflect the work flow if the stand-back works in the same order.

11. *Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate*

Response

The AUASB are generally supportive of the incremental requirements on Management's Expert included in ED ISA 500 in 11 (c) (i) and (ii). The focus of the incremental requirements on these specific areas seems to be appropriate considering they may be seen as higher risk areas to the auditor when undertaking their work on the use of management's expert, as appropriate to the engagement circumstances.

Request for General Comments

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

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

Response

The AUASB has no comments on the translation.

The AUASB supports the proposed appropriate effective date for the standard to be for the financial reporting periods beginning approximately eighteen months after approval of the final ISA, with early adoption permitted.