

11 April 2023

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
Submission via IAASB website

Dear Willie,

***Exposure Draft: Proposed International Standard on Auditing 500 (Revised) Audit Evidence***

Thank you for the opportunity to comment on the Proposed ISA 500 (Revised) *Audit Evidence*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) on the specific questions raised in the exposure draft (the ED).

The External Reporting Board (XRB) is the Independent Crown Entity responsible for issuing accounting, audit and assurance and climate standards for New Zealand reporting entities. We enable high quality, trusted, and integrated reporting through frameworks and standards that are internationally credible and locally relevant. We are focused on reporting and assurance in New Zealand that promotes trust, confidence, transparency and accountability. The XRB delegates responsibility for issuing auditing and assurance standards to the NZAuASB.

In formulating this response, the NZAuASB sought input from a range of New Zealand constituents. A virtual feedback forum was held in March 2023, and we posted a webcast on our website and YouTube in December 2022. The NZAuASB also received submissions from various New Zealand stakeholders.

All feedback has helped inform the NZAuASB in developing its attached response, which reflects both the views of stakeholders and the independently formed views of the NZAuASB itself. Overall, we are supportive of the changes in the standard, however there are some further suggested changes, which we have highlighted below and in the attached submission.

We note that while the proposed standard does not fully address the changes in technology in a detailed way, we nevertheless agree with the need of the standard to be principles based. Further illustrative guidance, providing examples of current technology, would be useful to support the standard. We also recommend that the board expedites the updating of the 500 series, as well as ISRE 2400, to take into account the changes relating to technology.

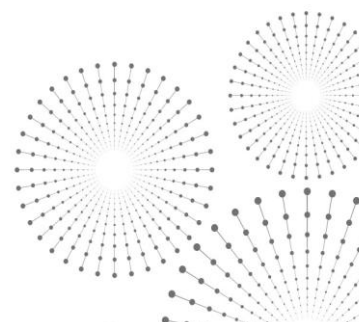
We noted some concern regarding the duplication of stand-backs now appearing in ED-500 and ISA 330, and the potential for it to require further unnecessary work. It would be more efficient for there to be only one stand-back in the suite of auditing standards relating to evaluating the sufficiency and appropriateness of audit evidence.

Should you have any queries concerning our submission please contact either myself at the email address provided below or Misha Pieters (misha.pieters@xrb.govt.nz).

Yours sincerely,



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**Submission of the New Zealand Auditing and Assurance Standards Board**

***Proposed International Standard on Auditing 500 (Revised) Audit Evidence***

**Overall Questions**

**Q1. *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**

1. We consider that the ED-500 does provide an appropriate principles-based framework for auditors. No concerns have been raised by stakeholders on this matter.
2. The relationships to, or linkages with, other ISAs are clear and appropriate. We consider it reasonable and appropriate for ED-500 to link with other standards.

**Q2. *What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?***

**Response**

3. We agree that the proposed revisions in ED-500 may lead to enhanced auditor judgements when obtaining and evaluating audit evidence. For example, requiring the auditor to consider automation bias, should lead an auditor to be more professionally sceptical over such evidence.

**Q3. *What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?***

**Response**

4. We believe that there is an appropriate balance of requirements and application material. Our stakeholders have not raised any issues in terms of the balance of requirements and application material.

**Q4. *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**

5. We note that while the proposed standard does not fully address the changes in technology in a detailed way, we nevertheless agree with the need of the standard to be principles based. For example, it was felt that auditors generally have a good understanding of the use of drones for inventory. Stakeholders felt that the application material needs to address more complex uses of

technology such as data assurance. If this cannot be done in the standard, then the IAASB should consider providing non-authoritative guidance which can be updated more regularly to provide more detail about the use of technology in audit procedures.

6. We also recommend that the board expedites the updating of the 500 series, as well as ISRE 2400, to take into account the changes relating to technology. This includes providing more clarity that the use of technology is an audit procedure.
7. We note the positive move away from *computer-assisted audit techniques* to *automated tools and techniques* and changes of terminology from *electronic media* to *digital media*.
8. We note that automated tools and techniques are not defined in the standard, yet are defined in the Proposed ISA for LCE (para 2.3 of the Proposed ISA for LCE's standard). We recommend that a definition is included in ED-500 (or other relevant standard) for consistency.

**Q5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?**

#### **Response**

9. We note that the exercise of professional scepticism is reinforced throughout the standard, including in:
  - Designing and performing audit procedures in a manner that is not biased;
  - Evaluating the relevance and reliability of information intended to be used as audit evidence; and
  - Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

We agree that the requirements and application material appropriately reinforce the exercise of professional scepticism.

#### **Specific Questions**

**Q6. 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**

10. We support the revised definition of audit evidence and agree with the input-output model. Stakeholders consulted agree with the change of the audit evidence definition and the input-output model

***Q7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?***

**Response**

11. The application material appropriately describes the interrelationship. We do note that the persuasiveness of audit evidence is not defined but do not consider it necessary for such a definition to be included in the standard. However, we do note that persuasiveness is only included in the application material, and not the requirements section. The IAASB should consider introducing this concept within the requirements section, rather than introduce this new concept just within the application material.

***Q8. 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**

12. We agree that the requirements and application material in the ED will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. We do not see that paragraph 9.(b) “given the intended purpose of the audit procedures” provides any indication on scalability. We recommend a plain English explanation in the application guidance on the IAASB’s expectations; to provide an indication on scalability (similar to the discussion in the significant matters section of the ED), and to avoid any confusion or disagreement, that could potentially occur on such matters of judgement, between auditors and regulators.
13. We also agree that consideration on the relevance and reliability should be undertaken on all information intended to be used as audit evidence. Our stakeholders noted that there are some important biases not currently discussed in the proposed standard, which include overconfidence bias, hindsight bias, averaging bias, and representativeness bias. We note that the ED-500 does replicate some of the bias in ISA 220, but not all, including overconfidence bias. We encourage the IAASB to expand the coverage of biases in the proposed standard.

***Q9. 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**

14. We agree with the separate conditional requirements. We also consider that accuracy and completeness of information should be considered based on professional judgement (i.e., only when those attributes are applicable in the circumstances).

**Q10. 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**

15. General consensus is that a stand-back is an effective tool to use when evaluating if auditors have obtained sufficient appropriate audit evidence.
16. We do note some concern with the duplication of stand-back’s appearing in ED 500 and ISA 330, and suggest further consideration is given to this so there are no unintended consequences – e.g., the unlikely event that regulators requiring auditors to prepare two stand-back documents to satisfy both ED 500 and ISA 330 requirements. An option may be to simply include a reference to ISA 500 at para 25-27 of ED 330. Paras 13-14 of ED 500 could then be incorporated with the contents of ISA 330, paragraphs 25-27 (“Evaluating the Sufficiency and Appropriateness of Audit Evidence”).
17. We recommend that paragraphs 13 (a) and (b) should swapped around so the content of 13 (b) becomes 13 (a), and vice-versa. This would mean that an auditor would firstly *Consider* all evidence obtained and the consistencies and corroboration with assertions and then *Evaluate* whether the audit evidence obtained meets the intended purpose of the audit procedures. Usually the auditor would first determine the assertions to be tested, prior to determining audit procedures, so it makes sense that this stand-back works in the same order.
18. We note, the potential for bias to be introduced when auditors return to their original judgment. Anchoring bias, where auditors over-weigh their initial judgment when ‘standing back’ and reflecting on that judgment may be particularly troublesome in this setting. We encourage the IAASB to explicitly make reference back to the discussion of biases in paragraph A19 – A23 when revising the application material relating to the stand back requirements in paragraph 13, and to present a more complete coverage of biases that may threaten the quality of audit evidence. See also our response to Question 8.

**Q11. 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**

19. We have the following additional editorial suggestions:
20. **Paragraph A47 term: “foreign language”**

In paragraph A47 an example shown, where an auditor’s expert is used, is: “... information may be in a foreign language and may need to be translated...” In New Zealand (and presumably some other countries), there is more than one official language (English, te reo Māori and New Zealand Sign Language) and so a translation may be required for a non-foreign language. With recent law changes in New Zealand, there will be times when an auditor is presented with information that is not in the presentational language of the financial statements, and they may need to engage an auditor’s expert to translate. The language used in that case would not be a *foreign* language. We

recommend that this sentence is altered to read “The information may be in a language other than the presentational language of the financial statements, and may need to be translated”.

**21. Consequential change to ISA 240 (on page 59 of the Exposure Draft document)**

The consequential amendment documented in the ED states:

*“If the auditor has identified a fraud or has obtained audit evidence ~~information~~ that indicates a fraud may exist, the auditor shall communicate these matters, ... , on a timely basis with the appropriate level of management ...”*

We suggest that “audit evidence or information” is the correct wording to be used in this instance. Otherwise, the auditor is required to collect audit evidence that indicates a fraud may exist, which is often time-consuming and onerous. They may have found the fraud in information before that information became audit evidence, so deleting the reference to information is not necessary.

**22. Consequential change to ISA 505 (on pages 69 and 70 of the Exposure Draft document)**

There is a very minor inconsistency in the headings above paras 16 and A24. We suggest both are titled “Evaluating the Results of the External Confirmation Procedures”

**23. Paragraph A63 – example of internally generated information.**

We suggest that the sentence in paragraph A63 is amended to “...For example, accuracy, reliability, and completeness ordinarily will be applicable for information generated internally from the entity’s information system...”

Reliability is just as important for internally generated information as it is for externally generated information, therefore should be an attribute to be considered for internally generated information.

## Request for General Comments

**Q12. The IAASB is also seeking comments on the matters set out below:**

***(b) Effective Date—Recognizing 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

24. We agree with the proposed effective date.