

Audit Evidence – Question 1.(a)

1.(a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

Q01.(a) - Agree**2. Regulators and Audit Oversight Authorities****Botswana Accountancy Oversight Authority (BAOA)**

Yes, the purpose and scope of the ED is clear because the exposure draft does provide an appropriate principle-based reference framework for auditors when making judgements about audit evidence as it is not prescriptive, and it is more flexible and accommodative towards different circumstances i.e. it acknowledges that the landscape in which business and audit operates in, keeps evolving, particularly in the area of technology.

Independent Regulatory Board for Auditors and Institute of Chartered Accountants of Namibia (IRBA & ICAN)

The purpose and scope of ED-500 are clear. The exposure draft provides a suitable principles-based reference framework for auditors to make judgments about audit evidence.

We appreciate the introduction of the Appendix in ED-500 and the relocation of some explanatory material from extant ISA 500 because all these propositions are helpful. We also acknowledge and welcome the inclusion of useful examples that enhance our understanding of the proposed changes. The references to ISA 315(Revised), ISA 330 and other ISAs that may require the auditor to obtain audit evidence for specific matters are clear and appropriate.

3. National Audit Standard Setters**Australian Auditing and Assurance Standards Board (AUASB)**

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.

Canadian Auditing and Assurance Standards Board (AASB)

We support the clarified scope and purpose outlined in ED-500.

Compagnie Nationale des Commissaires aux Comptes and Conseil National de l'Ordre des Experts-Comptables (CNCC & CNOEC)

Regarding the purpose and the scope of ED-500 Audit evidence, we believe that the revised standard provides an appropriate principles-based reference framework capable to deal with the rapidly changing environment.

We also consider that overall, the requirements are clear, and the application material is useful.

Our detailed comments are expressed below.

Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)

a) We consider that it provides an adequate framework where the following aspects stand out, among others:

Emphasizes with greater emphasis from the beginning of the standard what is related to professional judgment, professional skepticism and the absence of bias in the search for audit evidence.

Defines, in accordance with the new content of the standard, what is understood by audit evidence, indicating that it is information to which audit procedures have been applied.

Clearly expresses the path to follow when there are doubts about the relevance or reliability of the information that is intended to be used as audit evidence, and

Includes for the first time the interrelationship between the sufficiency, adequacy and persuasiveness of audit evidence

Japanese Institute of Certified Public Accountants (JICPA)

Yes.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

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.

4. Accounting Firms

Baker Tilly International (BTI)

a) Yes.

The scope of ED 500 as set out in paragraphs 1 to 3 is clear.

MNP LLP (MNP)

We believe that ED-500 provides an appropriate principles-based reference framework, as paragraph 1 clearly articulates that ISA 500 deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures.

PKF International Limited (PKF)

We agree that the ED-500 provides an appropriate principles-based reference framework for auditors.

In our opinion, the purpose and scope of ED-500 is clear.

RSM International Limited (RSM)

In overall terms we support ED-500 and believe that it provides an appropriate principles-based reference framework for auditors.

Yes, we believe that the ED-500 provides an appropriate principles-based reference framework for auditors.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAG)

(a) Yes, we agree that ED-500 provides an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit.

Provincial Auditor of Saskatchewan (PAS)

Yes, ED-500 provides an appropriate principles-based reference framework.

Yes, the purpose and scope of ED-500 are clear.

Swedish National Audit Office (SNAO)

Yes.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We agree with the principles-based reference framework as this framework it makes it a requirement for auditors to evaluate the relevance and reliability of information intended to be used as audit evidence. This will also ensure that auditors perform appropriate processes when identifying and assessing information intended to be used as audit evidence thus enhancing their judgments about audit evidence.

European Federation of Accountants and Auditors for SMEs (EFEAA)

The principles-based reference framework for auditors is appropriate and helpful for auditors making judgements about audit evidence throughout the audit.

We are generally supportive of the proposals in ED-500, especially the principles-based approach.

We believe the purpose and scope are clear.

Federation of Accounting Professions of Thailand (FAPT)

Yes.

Institute of Chartered Accountants of Nigeria (ICAN)

In our view, the purpose and scope of ED-500 is clear as provided in the exposure draft.

Instituto Mexicano de Contadores Publicos (IMCP)

We consider that ED-500 provides an appropriate principle-based framework for auditors when making judgments about audit evidence and that the relationships or links to other ISAs are clear and appropriate.

Korean Institute of Certified Public Accountants (KICPA)

In our views, ED-500 provides an appropriate description of the auditor's responsibilities relating to audit evidence when designing and performing audit procedures (paragraph 1) and its link to other ISAs (paragraph 3).

Malaysian Institute of Accountants (MIA)

Overall, our Board is generally supportive of the IAASB's proposals in the ED, especially on the principles-based approach.

The purpose and scope of ED-500 are clear. The principles-based reference framework allows auditors to have the flexibility in exercising judgments when obtaining audit evidence. For example, ED-500 focuses on the objective of the procedure performed and whether it achieves its intended outcome rather than on the type of audit procedure.

Malaysian Institute of Certified Public Accountants (MICPA)

The ED-500 provides an appropriate principles-based reference framework for auditors when making judgements about audit evidence throughout the audit.

Pan-African Federation of Accountants (PAFA)

The purpose and scope of ED-500 is clear and provides an appropriate principles-based reference framework for auditors to make judgments about audit evidence throughout the audit.

SRA

We studied the memorandum which provides background to en and an explanation of the Exposure Draft of proposed International Standard on Auditing.

We are glad to confirm that we agree with the proposals, as described in the above mentioned ED.

Wirtschaftsprüferkammer (WPK)

We agree to and support the IAASB on the development of this draft standard.

The draft demonstrates that the revision of an ISA is possible without dragging out the standard disproportionately. Furthermore, the standard is relatively easy to read and understand.

Overall, we welcome the fact that the material requirements of the extant ISA 500 have essentially been retained.

We very much support all efforts to clarify the purpose and scope of ISA 500 and modernize ISA 500 to the current business and audit environment. As well we support the IAASB by emphasizing the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained. We are of the opinion that the IAASB has presented a coherent draft that addresses the mentioned objectives appropriately and makes the standard fit for the future. We expect that the revised standard will not result in significant additional work effort for the auditor in obtaining and assessing audit evidence.

7. Individuals and Others

Altaf Noor Ali (ANA)

Yes.

Q01.(a) - Agree with comments

1. Monitoring Group

International Organization of Securities Commission (IOSCO)

Audit evidence is critically important to the execution of high quality audits. We believe that enhancements to the ISAs that promote consistent practice and effective actions by auditors in obtaining and evaluating audit evidence, with the appropriate level of professional skepticism, would contribute favorably to audit quality.

We recognize the Board's time and effort on this project and we appreciate the positive evolution of the Paper compared to the extant standard. We appreciate the opportunity to comment on the Paper and have outlined our views regarding certain topics that have been highlighted therein. More broadly, given the applicability of ED 500 to all audit evidence, we encourage the Board to consider the associated outcomes

of ED 500 and whether the concepts are appropriate for sustainability assurance. In doing so, we recognize other ISAs may address the audit evidence to be obtained for specific matters.

Considering the importance of audit evidence in the execution of high quality audits, we are supportive of the IAASB's approach to retain the principles-based approach. While we acknowledge the Board's effort in providing additional guidance and examples in the "Application and Other Explanatory Material", we believe further guidance and examples are fundamental in supporting a clear understanding of the principles-based requirements. We elaborate on this in more detail below.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

We are supportive of a principles-based reference framework for making judgements about audit evidence. We have specific detailed comments on some aspects of the proposed ISA, most notably on the new definition of audit evidence (see our response to Q6) and the material on how auditors should consider completeness and accuracy of information intended to be used as audit evidence (see our response to Q9).

3. National Audit Standard Setters

American Institute of Certified Public Accountants (AICPA)

We support the IAASB's intent to provide an appropriate principles-based reference framework for auditors and generally agree that the exposure draft accomplishes that objective. However, there are certain concepts and requirements we think need further clarification to enhance understandability and ensure consistent application. See responses to the remaining questions that follow for more details.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

The requirements are short and relevant. We also support the principle-based approach. However, ED-500 includes a lot of revisions, and we wonder how many of those are intended to and will actually lead to changing behaviour. Our biggest concern although relates to the overwhelming documentation requirements.

We do not see a substantive difference to extant ISA 500 and what is going to change compared to extant ISA 500.

Hong Kong Institute of Certified Public Accountants (HKICPA)

As elaborated further in our detailed response, there are several areas where we seek clarification from the IAASB or recommend inclusion of illustrative examples:

The possible practical difficult to apply the principles-based reference framework.

Overall, we agree with the principles-based reference framework of ED-500, i.e., information (the "input") needs to be subject to audit procedures to become audit evidence (the "output"). This framework applies to all audits without exception. It effectively strengthens the extant ISA 500, which requires the auditor to "consider" the relevance and reliability of information, while ED-500 makes it a requirement to evaluate the relevance and reliability of information intended to be used as audit evidence. We believe the framework has the potential to drive auditors to undertake a thorough thought process in identifying and assessing information intended to be used as audit evidence, thereby enhancing their judgments about audit evidence throughout the audit and enhance quality in audit engagements.

However, some of our stakeholders are conscious about the practical difficulty in applying the framework. For instance, one of the examples in paragraph A50 explains that if the information comes from a highly reputable external information source, such as a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be extensive.

In practice, for an external information published by the government or a government agency (e.g., the GDP growth rate of a certain country) without alternative source, it might be difficult for auditors to apply any concrete audit procedures to assess its attributes of reliability under paragraph A56; it is likely that the auditor could only evaluate its reliability using professional judgment. Accordingly, we seek clarification from the IAASB that whether information in circumstances as such could be qualified as audit evidence, i.e., no concrete audit procedures but professional judgment is applied.

We support the IAASB's commitment in revising the standard such that it stays relevant when auditors deal with the variety of nature and sources of information. It also fosters professional skepticism when making judgment about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, in turn, attributes to higher audit quality.

Overall, we are supportive of the proposals of the ED, including:

The principles-based reference framework for auditors when making judgments about audit evidence throughout the audit.

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

On the whole, we take the view that the draft provides an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit. However, we have identified a number of issues that we describe in the responses to the questions below and in our comments in Appendix 2 to this comment letter that indicate that some improvements may be needed.

Public Accountants and Auditors Board Zimbabwe (PAAB)

PAAB agrees to the purpose of ED 500 since its states out its focus points clearly and all are relevant i.e.

- Developing a principles-based approach to considering and making judgments about information to be used as audit evidence.
- Recognizing the nature and sources of information in the current business and audit environment.
- Modernising ISA 500 to be adaptable to the current business and audit environment.
- Considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques.
- Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained.

ALTERNATIVELY

- Principles-based gives off an implied indication that it is or at least certain parts of the requirements are voluntary much like the rules based and principles based approach. It is always the best way to keep things open, adaptable, fit-for-purpose and we encourage as much of it as possible but with the ever-evolving nature of the financial circumstances of businesses, there may be improper interpretation of "principles"

Royal Dutch Institute of Chartered Accountants (NBA)

The NBA supports the principles-based character of the ISAs, and notes that ED-500 is built on that basis. However, the NBA is concerned that the principles as set out in ED-500 are too high-level for auditors to implement in their audits, and that this standard therefore does not sufficiently and appropriately support auditors in making judgements about audit evidence.

The NBA would urge IAASB to better clarify the expectations that auditors are supposed to meet, by expanding on how auditors could fulfill the requirements whilst cutting down on application material of text-book nature.

The NBA wonders whether ED-500 as currently drafted will sufficiently guide auditors in making determinations about audit evidence. The concern is that the principles set in ED-500 are too high-level, and that auditors will have significant difficulty understanding what is expected of them, both in terms of work effort and in terms of documentation.

4. Accounting Firms

BDO International (BDO)

We agree that ED-500 serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Further, ED-500 provides an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit and highlighted through inclusion of additional content on professional judgment and professional skepticism within the Scope section.

The extension of the Objective paragraph to include evaluation of information to be used as audit evidence also makes it clear that this is an equally important consideration within the principles-based framework. However, we are concerned with the clarity of paragraph 6(b) regarding the objectives of the auditor. To improve the clarity, we recommend separating paragraph 6(b) into two points as set out below:

- (b) Evaluate the relevance and reliability of information intended to be used as audit evidence to determine whether such information can appropriately be considered as audit evidence to support the conclusions that form the basis for the auditor's opinion and report, and
- (c) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedure(s) performed to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

We also support the new restructured Requirement sections that have been included within ED-500. We believe, as set out, these requirements correlate much more closely to audit evidence considerations during the course of an engagement than the extant structure.

Crowe Global (CROWE)

A principles-based approach is essential for the performance of an audit in the public interest. The approach to obtaining audit evidence should reflect the outcome of the risk assessment. Therefore, the body of the standard should reflect more the linkage with ISA 315 (Revised 2019) and ISA 330. We acknowledge the references in the application material, but this acknowledgement and linkage is important in the main body of the standard.

Crowe LLP (CROWE LLP)

We also agree the final standard should be principles-based and allow for sufficient auditor judgment when evaluating information to be used as audit evidence.

A: Consistent with a principles-based standard, we believe the auditor should focus on evaluating the persuasiveness of audit evidence and the appropriateness of audit procedures. To achieve that, we believe there should be less focus in the auditing standards on the categorization and classification of audit procedures. One audit procedure can satisfy more than one objective and have more than one intended purpose. As an example, we believe that a properly designed audit data analytic can be both a risk assessment and substantive audit procedure. While paragraph 36 in the Explanatory Memorandum of the Proposed Standard states “The IAASB is of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which “category” the audit procedure falls).” We recommend that this view be more explicitly reflected within the Proposed Standard and application guidance, with appropriate references to ISA 330. We believe that conforming amendments should be made to ISA 330 to clarify that as the auditor determines their response to assessed risks of material misstatement, it is not necessary to categorize the planned audit procedures. These amendments should be clear that an audit procedure can satisfy more than one objective and have more than one intended purpose.

Further, paragraph 42 of the Explanatory Memorandum states: “The IAASB’s intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable).” We believe this could be more clearly stated in the standard; see our response to Question 8 below.

A: Yes, the purpose and scope of the Proposed Standard are clear.

Deloitte Touche Tohmatsu Limited (DTTL)

DTTL agrees that the proposed standard has improved upon extant ISA 500 to make it more principles-based, with a few exceptions. As reflected in our cover letter, as well as responses to question 8 and question 9, DTTL recommends certain revisions to the language within the requirements and application material to further emphasize the principles-based framework, rather than prescriptive requirements concerning auditor’s judgments and documentation.

Ernst & Young Global Limited (EY)

We support the purpose and scope of ED-500.

In regard to Q1(a), we are supportive of a principles-based approach to evaluate information intended to be used as audit evidence and to conclude on its sufficiency and appropriateness. However, we have two overarching concerns, which are expanded upon in our responses to subsequent questions:

We 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. However, we believe that further guidance is needed related to the applicability of the attributes and how their applicability may be scalable (refer to our response to Q9). We also believe that the authenticity and bias attributes need a clearer linkage with the auditor’s responsibilities related to fraud under ISA 240 (refer to our response to Q5).

Paragraph 8(b) of ED-500 requires the auditor to design and perform audit procedures such that the nature, timing and extent of such procedures are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. Paragraph 13(a) requires the evaluation of whether audit evidence obtained meets the intended purpose of the audit procedures. The intended purpose of the audit procedure is a prominent new component in the principles-based reference framework. We have a concern around the ability of the auditor to consistently and accurately define the intended purpose of an audit procedure, particularly in distinguishing a risk assessment procedure from a substantive procedure. Refer to our response to Q8 for further discussion of the challenges of applying paragraphs 8(b) and 13(a).

KPMG International Limited (KPMG)

We are supportive of the IAASB in terms of its aims and objectives and regarding the overall direction of the proposed standard. In particular, we are supportive of the principles-based approach to the auditor's responsibilities relating to audit evidence when designing and performing audit procedures, including evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained.

We are also supportive of the positioning of this standard as an overarching standard addressing the auditor's responsibilities in relation to audit evidence, with clear linkages to other ISAs that address audit evidence in relation to a particular aspect of the audit more specifically, with such responsibilities underpinned by the framework for making judgements about audit evidence set out in this standard.

In particular, we welcome the inclusion of the application material addressing the attributes of relevance and reliability of audit evidence, accompanied by more detailed guidance and examples in respect of these attributes, which we consider will assist auditors in exercising sound professional judgement in this area. However, we set out certain concerns and related recommendations regarding aspects of the framework in our responses to the specific questions below.

We are supportive of the IAASB in terms of its aims and objectives regarding the overall direction of the proposed standard. We are also supportive of the positioning of ED-500 as an overarching, principles-based standard addressing the auditor's responsibilities in relation to audit evidence, with clear linkages to other ISAs that address audit evidence in relation to a particular aspect of the audit more specifically, with such responsibilities underpinned by the framework for making judgements about audit evidence set out in this proposed standard.

We believe the revisions to the standard, collectively, will help lead to enhanced auditor judgements when evaluating the relevance and reliability of information intended to be used as audit evidence, and in evaluating the audit evidence obtained. However, notwithstanding the above, we have several significant concerns in respect of the proposed updates to the standard, which we believe require clarification within the standard. We set out further details regarding these concerns, and our recommendations to address these, below.

Mazars (MZ)

In principle we agree with principle-based standards, however regulators may take different positions in different jurisdictions, making it difficult to apply a consistent global methodology. A key challenge in this standard, regarding regulator perspectives and interpretation, is "When is enough evidence really enough"?

Enhanced consideration of relevant attributes of information to be used as evidence may improve audit quality in larger/more complex engagements, although see our comments elsewhere regarding scalability.

We are concerned that the standard may increase costs on smaller engagements, but it is less clear whether there will be sufficient increase in quality in these engagements.

We respectfully ask the IAASB develop a roadmap of what has changed and what auditors are expected to do differently when the standard is revised to support effectiveness in implementation.

Our specific responses below also consider whether ED-500 will change auditor behaviour including professional judgment and scepticism aimed to enhance consistency and quality and “when is enough audit evidence really enough?”.

We support the relocation of the types of audit procedures to the Appendix in ED–500, including the addition of examples to demonstrate the use of automated tools and techniques (ATT).

Mo Chartered Accountants (MCA)

The IAASBs set of attributes of relevance and reliability measures is a good minimum measure to determine the veracity and persuasiveness of the audit evidence and yet again human judgments have to be made as to the relevance and reliability of audit evidence. As explained emphasis must be on this for, without it the information used in automation may be irrelevant and of little or no value.

In permitting leeway to either adopt and use technology we concur.

In theory the principles-based approach does provide a reference framework for auditors when making judgments about audit evidence in as far as determining the relevance and reliability on an engagement by engagement basis. Yet it remains open ended and subject to interpretation.

Certain guidelines may be put in place similar to the consideration of internal and external evidence relevance and reliability.

Principles-based gives off an implied indication that it is or at least certain parts of the requirements are voluntary much like the rules based and principles based approach. It is always the best way to keep things open, adaptable, fit-for-purpose and we encourage as much of it as possible but with the ever-evolving nature of the financial circumstances of businesses, there may be improper interpretation of “principles”. A definition of principles-based may be required to explain the depth and breadth of the extent of the principle. The scope of principles appears to be skewed toward mainly the aspect of technology and the auditor’s decision on whether or not they may use such tools and techniques. We believe it can be applied in a much broader way but should never be a substitute for not obtaining evidence that is relevant, reliable and adequately persuasive. In spite of technology we believe that professional judgment is key in all aspects and this cannot be machine or software- obtained.

The purpose and scope is clear, well defined and the accommodation and adaptability to current trends and audit practices will assist in what is hopefully better quality audit evidence.

The scalability provisions are necessary and should allow the auditor scope and latitude to determine what best suits the circumstances and how most efficiently and effectively to gather audit evidence.

Under paragraph 4 of the scope, in designing audit procedures, the auditor should, in conjunction with professional scepticism maintain an enquiring mind and ensure that adequate judgement is brought to bear on audit evidence obtained and management explanations given. A culture of challenge should be encouraged with emphasis on ensuring that biases are avoided and procedures are applied to information used in gathering audit evidence in an appropriate manner. Thus we propose that on the 4th bullet in paragraph 4 we include after professional scepticism the words “appropriate and adequate challenge of management”.

PriceWaterhouseCoopers (PwC)

The requirements in ED-500 are sufficiently principles-based. However, we believe that certain of the proposed concepts and requirements require clarification for the standard to be operable and to support auditors in making consistent professional judgements, when presented with similar facts and circumstances, about:

- the nature, timing, and extent of procedures necessary to evaluate the relevance and reliability of information the auditor intends to use as audit evidence; and
- documentation expectations with respect to the auditor's consideration of the attributes of relevance and reliability of such information.

Our responses to questions 2 and 5-10 describe the aspects of those concepts and requirements that we believe do not currently provide a sufficient framework for making consistent judgements and our recommendations for how these aspects may be addressed.

5. Public Sector Organizations

U.S. Government Accountability Office (GAO)

We believe that the exposure draft of International Statements of Audit 500, Audit Evidence (ED-500), has a clear purpose and scope. The exposure draft can be improved with some clarification in a few areas as noted in our responses to the following questions.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

In addition, it is not clear what auditors will need to do differently in practice as a result of this revision and how these changes will improve audit quality. Therefore, it will be very useful if the IAASB issues a short summary of the changes compared to extant ISA 500 along with the final pronouncement.

Yes, the purpose and the scope of the ED-ISA 500 is clear, and it provides an appropriate principles-based framework. However, we believe that the public interest objectives set in the project proposal have not been fully met. This is mainly because the impact of technology has not been properly addressed in the revision (see our response to Question 4) and other audit evidence-related standards under ISA 500 series were not included in the scope of the project.

Accounting and Finance Association of Australia and New Zealand (AFAANZ)

In summary, we feel that the proposed standard;

can be improved by providing additional application and other explanatory material to minimise the risk of shadow standards developing and to realise the benefits of the principles-based approach (see our response to Question 1),

We support the principles-based reference framework but caution that a principles-based approach may lead to shadow standards that may be more restrictive than that originally intended. Application material may need to be revised to help ensure the benefits of the principles-based approach are realised.

We support the principles-based framework in that research highlights that a principles rather than rules-based approach is likely to have a more positive impact on audit quality as the type and amount of work that the auditor does is tailored to the unique circumstances of each engagement (e.g., Willekens and Simunic 2007; Sin et al. 2015). The effectiveness of a principles-based approach, however, rests on the ethics and

competence of those applying the standards (Knechel et al. 2013). Encouragingly, we acknowledge the strength of the extant ethics codes and quality management standards underlying the current suite of international standards on auditing.

We do, however, caution that principles-based standards can lead to differences in professional judgments (e.g., Peecher et al. 2013) and encourage auditors into a defensive mindset to minimise the risk of being second guessed by audit quality inspectors (e.g., Kang et al. 2015; Peecher et al. 2013). In addition, the potential for ex-post interpretation of the standards being different from ex-ante interpretation is increased when considering principles-based standards, and this may lead to ‘shadow’ standards that are less principles-based and more stringent than the ‘official’ standard (Knechel 2016). Similarly, Boland et al. (2020) discuss unofficial standard setting by inspection. To the extent that this is the case, the benefits of the principles-based reference framework might not be fully realised. This is particularly the case in the proposed standard where the auditor’s required work effort is determined by what is judged to be ‘applicable in the circumstances’ (see paragraph 9). Ye and Simunic (2013) highlight the importance of balancing precision in auditing standards so as to encourage an optimal level of work effort.

Notwithstanding the IAASB’s stated aversion to creating an unnecessary burden on auditors in evaluating the relevance and reliability of information, and emphasis that the attributes of relevance and reliability are not intended to be used as a checklist, we fear that this may be the way paragraph 9 is interpreted.

To address this concern, the IAASB may need to redraft the application and explanatory material that relates to the exercise of the auditor’s judgment as to whether, and the degree to which, attributes of relevance and reliability are applicable. We believe that the existing material in paragraphs A53 – A62 is too focused on ‘the extent to which’ attributes may be applicable rather than ‘whether’ they are applicable.

Center for Audit Quality (CAQ)

The CAQ appreciates the opportunity to share our views and provide input on the International Auditing and Assurance Standards Board’s (IAASB or the Board) Exposure Draft of Proposed International Standard on Auditing (ISA) 500 (Revised), Audit Evidence (the Exposure Draft or ED-500). Herein we refer to information in the Exposure Draft included in Section 1 through Section 3 as the “Explanatory Memorandum.”

We support the Board’s stated objectives in the Exposure Draft and the key public interest issues the Board seeks to address through the proposed changes. Specifically, we support the Board’s goal to develop a principles-based approach for making judgments about information intended to be used as audit evidence (IIUAE). Auditors use professional judgment when evaluating information to be used as audit evidence. The ways auditors evaluate information through the use of technology and automated tools and techniques is evolving. To ensure the Board develops an ISA that stands the test of time, it is key that the final ISA 500(R) be sufficiently principles-based. We support the focus on the appropriateness of audit evidence in the circumstances rather than the categorization of such audit evidence. While we make some suggestions to clarify this notion below, we believe that focusing on the overall persuasiveness of audit evidence, regardless of procedure type, will facilitate the auditor’s adoption of the final ISA 500(R) and support continued innovation in the audit.

To ensure the final ISA 500(R) is clear and consistently interpreted and applied, in line with the Board’s stated intentions, we offer feedback about specific proposed requirements, application material, and appendices that we encourage the Board to address in the final ISA 500(R). Our specific concerns are highlighted in the responses to the questions below (see Specific Feedback).

Overarchingly, we have two primary concerns as follows:

Elements in the Explanatory Memorandum are not sufficiently incorporated into ED-500

The requirements, application material, and appendices when read in combination with the Explanatory Memorandum provide a fulsome picture of the Board's intent for the final ISA 500(R). It would be beneficial to include certain elements of the Explanatory Memorandum in the final requirements and application material to support the consistent interpretation and adoption of the final ISA 500(R). We highlight these opportunities in our responses to Q4, Q6, Q7, and Q8 below. In summary:

As stated in paragraph 42 of the Explanatory Memorandum, “[t]he IAASB's intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable).” The requirements and application material within the final ISA 500(R) should be updated to clarify how the requirements are scalable.

The IAASB's “view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances ... rather than the type of audit procedure (i.e., in which “category” the audit procedure falls),” stated in Paragraph 36 of the Explanatory Memorandum should be more explicitly addressed in the text of the final ISA 500(R).

To avoid creating an unnecessary burden on auditors in evaluating and documenting the relevance and reliability of information, as well as to avoid fostering a “checklist mentality” in such evaluation, the text of the final ISA 500(R) should incorporate the views included in paragraphs 47 and 48 of the Explanatory Memorandum – specifically, the views that not all of the attributes of relevance and reliability may be applicable in the circumstances, that the attributes in ED-500 are not intended to be used as a checklist, and that the auditor is not required to document the consideration of every attribute of relevance and reliability of information.

We support the Board's project objective to “[d]evelop a principles-based approach to considering and making judgments about information to be used as audit evidence.” We believe that certain changes should be made in the final ISA 500(R) to ensure clear and consistent application and interpretation of the principles-based framework for auditors when making judgments about audit evidence. For example, in responses to Q6, Q7, and Q8 below, we refer to certain concepts in the paragraphs of the Explanatory Memorandum that we believe will aid auditors in applying and interpreting the final ISA 500(R) consistently and in line with the Board's views and objectives.

Yes, we believe the purpose and scope of ED-500 are clear.

Chamber of Auditors of the Czech Republic (CA CR)

Yes, the purpose and the scope of the ED-ISA 500 is clear, and it provides an appropriate principles-based framework for auditor when making judgements. We believe that the changed definition of audit evidence and enhanced application part of the standard stress the importance of applying professional scepticism when evaluating reliability and relevance of information. However, we are afraid that the lack of clear documentation requirements (only information included in A40 which is too general) can lead to overdocumentation in the audit file (see also response to Question 2 below).

Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (CA ANZ & ACCA)

Yes, in our view ED-500 provides an appropriate principles-based reference framework for auditors when making judgements about audit evidence throughout the audit. However, in order to see if the ED-500 principles-based framework works, the other 500 series standards will need to be revised incorporating its approach.

Further, as noted in our response to Q9 below, we consider that the prevalence given to the attributes of accuracy and completeness as per para 10 of ED-500, does move away from a principles-based reference framework.

We do welcome the proposed standard's short length, and this was noted by our stakeholders. However, we also note that this does result in lengthy application material. This is a concern in certain jurisdictions, such as Australia, where there is legislative enforceability, which can result in the application material paragraphs potentially becoming de facto requirements. This in turn is likely to push firms to develop checklist approaches which is not necessarily beneficial for audit quality. We therefore suggest the IAASB consider moving some of the application material into non-authoritative guidance to avoid this issue.

Chartered Accountants Ireland (CAI)

We feel that the draft ISA does provide an appropriate framework and relationships with other ISAs are sufficiently clear except as noted below.

Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili (CNDCEC)

First of all, we have noticed that ED-500 introduces significant changes to the ISA 500 currently in force. Accordingly, we believe that, when the updated ISA 500 is issued, any IAASB support material (e.g., factsheet, first implementation guide, etc.) will be of great help, as happened in the past for other projects.

1, a) – Yes, we believe the purpose and scope of ED-500 is clear. ED-500 includes a few principle-based requirements and a quite extensive application material. The changes introduced seem to be quite radical and provide for the audit procedures to be carried out also on the information intended to be used as audit evidence so to evaluate their sufficiency, appropriateness, and persuasiveness (ED-500, A6-A9). A list of the major changes to the current ISA 500 would be particularly welcome. Furthermore, the application material provides a useful guide to the implementation of such procedures. However, it is specified that it is the auditor's judgment to establish as to what constitutes sufficient appropriate audit evidence, including their persuasiveness (ED-500, A5). In our opinion, a more detailed explanation of the concept of persuasiveness related to the professional judgement would be appropriate.

CPA Australia (CPAA)

Overall, we are of the view that ED-500 proposes a principles-based standard which sets out the overarching principles and requirements relating to audit evidence. Whilst we are supportive of the IAASB's overall objective of retaining a principles-based approach, we have received some feedback from stakeholders on specific proposals in the consultation. That feedback is that:

although it is implicit that the future revisions of the other ISAs in the 500 series will support ISA 500 as a framework standard, it's difficult to assess the sufficiency and appropriateness of the proposals in ED-500 as the basis for a framework standard until we can assess the revisions proposed to the other relevant ISAs that complement ISA 500.

the objective of ED-500 includes the evaluation of 'information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained'. This overlaps with the requirements in ISA 330 The Auditor's Responses to Assessed Risks (ISA 330) to evaluate and 'conclude whether sufficient appropriate audit evidence has been obtained'. Further distinction between ED-500 and ISA 330 on this matter is recommended to avoid duplicated work effort.

We are of the view that ED-500 proposes a principles-based standard which sets out the overarching principles and requirements relating to audit evidence. Whilst we are supportive of the IAASB's overall objective of retaining a principles-based approach, we believe there is scope for developing and issuing further guidance in support of the standard.

IFAC SMP Advisory Group (SMPAG)

The SMPAG believes a principles-based approach is appropriate and very important as an underpinning for auditors making judgements about audit evidence throughout the audit.

However, we are concerned that the scope and purpose could be unclear because ED-500 is viewed as a "reference framework" (paras. 14 and 32 of the explanatory memorandum). This may explain the numerous references to other standards, but it may not be clear to practitioners. We noted an extensive use of cross references, which could be distracting and not necessarily helpful. Extant ISA 500 could be compared to ISA 230, Audit Documentation because they both focus on matters that are pervasive through the entire audit process. These standards should be more general in scope and complemented by more specific requirements in other standards. This structure remains in ISA 230 but is now not clear for ED-500 because it is a "reference framework", includes multiple references to other standards and has a high volume of "independent" application material.

In addition, it is difficult to assess the sufficiency and appropriateness of the proposals in ED-500 as the basis for a framework standard until the proposed revisions have been made to other relevant ISAs that underpin ISA 500.

The SMPAG supports the IAASB's principles-based approach and limited number of requirements.

Institute of Certified Public Accountants of Uganda (ICPAU)

We believe that the ED-500 provides an appropriate principle- based framework for auditors when making judgments about audit evidence throughout the audit especially in regards to:

Use of technological tools and techniques when gathering audit evidence.

Evaluation of the sources of audit evidence and how they affect the relevance and reliability of the audit evidence.

The appropriateness of the design and performance of the audit procedures

However, we are of the view that additional application material is necessary to enable users of the standard appreciate the attributes of persuasive audit evidence.

Institute of Chartered Accountants in England and Wales (ICAEW)

Yes, the proposals do provide an appropriate principles-based reference framework for auditors when making judgements about audit evidence. However the proposed treatment of completeness and accuracy is a departure from a fully principles-based approach to the consideration of the attributes of relevance and reliability. Please also see our response to question 9. This framework may not shift the dial on behaviour and therefore may not produce a material change to audit quality improvement.

The proposals were intended to address the use of technology in obtaining audit evidence, however, as outlined within our response to question 4, more needs to be done to effectively address this issue.

Institute of Chartered Accountants of Scotland (ICAS)

Whilst the ED 500 proposals provide an appropriate principles-based reference framework for auditors when making judgements about audit evidence throughout the audit, we believe that the IAASB has missed an opportunity to better reflect the practical challenges faced by auditors when making use of technology to obtain audit evidence. Additionally, we are not convinced that the proposed changes will lead to a significant increase in audit quality.

Yes, ED 500 provides an appropriate principles-based reference framework for auditors when making judgements about audit evidence throughout the audit. What is not clear, however, is exactly what auditors will have to do differently in practice and therefore whether it will have a positive impact on audit quality.

Instituto de Auditoria Independente do Brasil (IBRACON)

Yes for (a) and (b). As ED-500 is an overarching standard related to audit evidence, it provides an appropriate principles-based framework to auditors and linkages with other ISAs through application material. However, we believe that further guidance is needed related to the applicability of the attributes and how scalability can be applied.

Nordic Federation of Public Accountants (NRF)

We do support that ED-500 has a limited number of requirements and the principles-based approach.

We support the principles-based approach and the limited number of requirements.

In terms of clarifying the purpose and scope of the standard, we notice that ED-500 is referred to as being a “reference framework”. We would encourage the IAASB to clarify the meaning of that term, especially what it means regarding structure and content compared to for example ISA 230 Audit Documentation since both standards focus on matters that are pervasive through the entire audit process.

South African Institute of Chartered Accountants (SAICA)

Yes, for the reasons stated below, SAICA is of the view that ED-500 provides an appropriate principle-based framework for auditors when making judgements about audit evidence.

In evaluating relevance and reliability, the ED provides clear guidance regarding the auditor’s consideration of:

The source of the information (see paragraphs A47-A51); and the attributes of relevance and reliability of the information that are applicable in the circumstances (A52-A61)

ED-500 provides attributes which can be considered by the auditor when determining whether the audit evidence is relevant and reliable while allowing the auditor to make their own judgement as to whether all or some of the attributes are applicable.

When considering the relevance of audit evidence, the principle in ED-500 is that the auditor needs to consider the end purpose of the procedure; whether the information meets the objective and purpose which the audit procedure seeks to achieve; whether there is a logical link between the information and the procedure and related assertion. The auditor also needs to consider the level of detail required and extent of time to which the information relates.

For reliability, the standards provide attributes relating to whether the information is free from error, is authentic, complete and can be trusted. All these are principles to be considered by the auditor while still

maintaining an independent mindset to assess if all the principles are applicable or not, without clouding the auditor's judgement.

The principle-based framework allows the auditor to get to a conclusion by evaluating all criteria deemed to appropriate in the circumstances, given the objective of the audit procedure, while maintaining their professional judgement.

The Malta Institute of Accountants (TMIA)

Yes

Yes, however inclusion of examples relating to the use of automated tools and techniques (ATT) will assist the auditor to put into practice the principles highlighted, including the link between ATT and data analytics and substantive procedures.

Q01.(a) - Disagree

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Reduction of specificity in the requirements

13. Second, we do not agree with your statement that the requirements in the ED are stronger because the standard is principle-based and is applicable to all audit procedures. We believe that implementation of the proposed principles-based requirements alone will not achieve the IAASB's aims. Some of the proposed amendments will likely lead to application problems, as they do not provide sufficient direction for auditors but only high level considerations. In our view, this will lead to a lack of consistency in how the standard is applied both between auditors and across jurisdictions. It will also cause significant challenges for regulators to enforce a standard that is open to a range of interpretations. For us, the requirements need to be strengthened and more detailed in order to improve audit quality.

14. While application material, guidance and illustrations are useful, we believe that they are not a substitute for requirements. For this purpose, we have identified, in the specific comments below, a number of areas in the application material that should be mandatory in order to ensure audit quality.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Reduction of specificity in the requirements

We do not agree with your statement that the requirements in the ED are stronger because the standard is principle-based and applicable to all audit procedures. We believe that implementation of the proposed principles-based requirements alone will not achieve the IAASB's aims. Some of the proposed amendments are likely to lead to application problems as they do not provide sufficient direction for auditors. This will lead to a lack of consistency in how the standard is applied both between auditors and across jurisdictions. It will also cause significant challenges for regulators to enforce a standard that is open to a range of interpretations. The requirements need to be strengthened and more detailed in order to improve audit quality.

While application material, guidance and illustrations are useful, they are not a substitute for requirements in the body of the standard. In this context, we have identified in this letter a number of areas in the proposed application material that should be made mandatory in order to ensure audit quality.

4. Accounting Firms

Grant Thornton International Limited (GT)

The proposed standard sets out a framework whereby information (the “input”) needs to be subject to audit procedures to become audit evidence (the “output”). While this is generally true in an audit, it is not always the case. Audit evidence needs to encompass all information, whether obtained from audit procedures designed and performed by the auditor, or obtained from other sources, and that is used by the auditor in arriving at the conclusions on which the auditor’s opinion is based.

While we generally agree with the fundamental principles of ED-500, we are of the view that the definition of audit evidence combined with the manner in which the requirements are written creates circularity, as well as confusion, which may detract from achieving audit quality. In particular, the manner in which the concept of “information intended to be used as audit evidence” has been introduced distracts from the auditor’s responsibilities to evaluate information and the results of audit procedures to form a conclusion. The focus of the standard has become the information and not audit evidence itself.

For example, as currently drafted, ED-500 implies that the following information would need to be subject to audit procedures to establish its reliability before additional procedures are performed to turn it into audit evidence:

Information obtained to perform risk assessment analytical procedures, such as interim financial information for purposes of performing risk assessment analytical procedures. In this example, the results of the risk assessment analytical procedures provide audit evidence. However, this audit evidence has not been obtained by performing procedures on the interim financial information to turn that information into audit evidence.

All invoices inspected as part of performing a test of details or test of controls. In this example, audit evidence is obtained by inspecting source documents, not by performing procedures on the source documents to turn that information into audit evidence.

Typically, in practice, these audit procedures, to establish relevance and reliability and to turn information intended to be used as audit evidence into audit evidence, would be performed concurrently, i.e., one audit procedure could be designed to achieve two objectives. In this example, audit evidence is obtained by inspecting source documents, not by performing procedures on the source documents to turn that information into audit evidence.

Accordingly, in an audit, information may be used in, and may also be obtained from, performing audit procedures. Such information may be internal (that is, prepared by the entity) or from external information sources. We agree that the auditor needs to take into account the relevance and reliability of such information and that the attributes facilitate the auditor’s consideration of relevance and reliability. However, the use of the phrase “intended to be” introduces unnecessary complexity in understanding the auditor’s responsibilities based on the various scenarios that may arise. This phrase infers the specific identification of information as well as the separate performance and documentation of procedures related to the relevance and reliability of such information, even though procedures may be performed concurrently to obtain sufficient appropriate audit evidence, as described in paragraph A37 of ED-500. We propose the IAASB eliminate the use of the phrase “intended to be” throughout ED-500.

Further, based on the definition of audit evidence, which indicates that audit evidence is all the information “to which audit procedures” have been applied, we believe the requirement in paragraph 14 of ED-500 might be misapplied in practice. The definition of audit evidence needs to more clearly include both

information used by the auditor that is supportive and corroborative as well as contradictory. As currently written, if an auditor receives or obtains certain information but does not perform procedures on that information to turn it into audit evidence, the requirement in paragraph 14 of ED-500 could be inappropriately viewed as not relevant, even if the information obtained is contradictory to other audit evidence. For example, while performing certain inquiries, the auditor is informed about a suspected fraud by an employee of the entity. This information may result in audit evidence that is consistent with other audit evidence, or it may result in audit evidence that is inconsistent. However, if the auditor does not perform audit procedures on that information, that information will not become audit evidence and the auditor will never make a determination of whether that audit evidence is inconsistent with other audit evidence obtained, therefore the proposed requirement in ED-500 will not be considered by the auditor.

To address the circularity that may be created by the proposed definition of audit evidence, we recommend that the definition be amended based on the description of audit evidence included in the Public Company Accounting Oversight Board (PCAOB)'s Audit Evidence standard as follows:

All the information, whether obtained from audit procedures or other sources to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. Audit evidence consists of both information that corroborates and contradicts management's assertions regarding the financial statements.

We welcome the efforts to revise ISA 500 to clarify its purpose and scope and to modernize the standard to be adaptable to the current business and audit environment. However, we are concerned that the amendments proposed in ED-500 do not achieve the intended objectives of the project and question whether they will significantly enhance audit quality or change auditor behaviour. Further we are concerned that additional amendments may result from future standard-setting projects to achieve the desired enhancement of audit quality and change in auditor behaviour. For example, the IAASB's Proposed Strategy and Work Plan includes a potential technology targeted or omnibus project to undertake a targeted or broad-spectrum update of the ISAs for the impact of technology. This project could result in additional amendments to ED-500 subsequent to its approval.

Purpose and scope of ED-500

We support the efforts to set a principle-based framework for auditors when making judgments about audit evidence throughout the audit. However, as we elaborate in our detailed response, the proposed amendments to the definition of audit evidence in combination with a focus on the information intended to be used as audit evidence and the manner in which the requirements are written has created circularity and confusion, which may detract from achieving audit quality. In this regard, we recommend that consideration is given to amendments to ED-500 to refocus the definition of audit evidence and the proposed requirements towards the auditor's responsibilities to evaluate all information and the results of audit procedures performed in forming a conclusion over the sufficiency and the appropriateness of the audit evidence obtained.

Q01.(a) - No specific comments

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

5. Public Sector Organizations

Office of the Auditor General of Alberta (OAGA)

We have only answered questions 3, 4 and 8 of Exposure Draft: Proposed International Standard on Auditing 500 (Revised). Our response to questions 3, 4 and 8 of the Exposure Draft is below:

6. Member Bodies and Other Professional Organizations

Institute of Internal Auditors (IIA)

Institute of Singapore Chartered Accountants (ISCA)

7. Individuals and Others

Shuichiro Tsumagari (ST)

Thomson Reuters (TR)