

Audit Evidence – Question 5

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

Q05 - Agree**2. Regulators and Audit Oversight Authorities****Botswana Accountancy Oversight Authority (BAOA)**

Yes, the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence as the ED provides guidance on the assessment of audit evidence such as being alert to audit evidence that is inconsistent with other audit evidence obtained and being alert to conditions that may indicate possible fraud.

3. National Audit Standard Setters**Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)**

5. We understand that it adequately reinforces the exercise of professional skepticism, particularly section 4 of the standard, which specifies an approach based on the critical evaluation of evidence during the planning and execution stages of the audit. The exemplification included in this section is conceptually clear and is complemented by the contents of the Application Guide, where the treatment of biases is extensively developed, among others (A19).

Hong Kong Institute of Certified Public Accountants (HKICPA)

We agree that ED-500 has appropriately reinforced the application of professional skepticism in obtaining and evaluating audit evidence.

Japanese Institute of Certified Public Accountants (JICPA)

Yes.

New Zealand Auditing and Assurance Standards Board (NZAuASB)

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.

Public Accountants and Auditors Board Zimbabwe (PAAB)

PAAB agrees that because ED500 is bringing key awareness about professional skepticism in connection with collecting and utilising audit evidence and also making sure that the same concept is adopted at the planning stage of the audit.

4. Accounting Firms

Baker Tilly International (BTI)

We agree that the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

Deloitte Touche Tohmatsu Limited (DTTL)

DTTL believes that the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism.

Mo Chartered Accountants (MCA)

In so far as it is an addition to the new standard is welcome as it takes on added emphasis to exercising professional judgment.

PKF International Limited (PKF)

We agree that the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism.

The addition of paragraph 4 within the 'Introduction', and its prominence within the standard, sets the tone for the auditor to adopt the required mindset when applying all of the requirements of ED-500.

Equally, the application guidance supports the auditor to apply professional skepticism when evaluating the 'information to be used as audit evidence' and the 'audit evidence'. For example, paragraphs 19-23 include really clear examples of what to avoid to ensure that audit procedures are undertaken in a manner that is not biased.

RSM International Limited (RSM)

Yes, ED-500 appropriately reinforces the exercise of professional scepticism in obtaining and evaluating audit evidence.

5. Public Sector Organizations

Office of the Auditor General of Canada (OAG)

Yes, we agree that ISA 500 (Revised) appropriately reinforces the exercise of professional skepticism in obtaining and evaluating audit evidence.

Provincial Auditor of Saskatchewan (PAS)

Yes, the need for professional skepticism is highlighted throughout requirements and application material.

6. Member Bodies and Other Professional Organizations

Botswana Institute of Chartered Accountants (BICA)

We agree that ED-500 has appropriately reinforced the application of professional skepticism in obtaining and evaluating audit evidence.

Center for Audit Quality (CAQ)

Yes, the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

Chamber of Auditors of the Czech Republic (CA CR)

Chamber of Auditors of the Czech Republic (CA CR) welcomes the ED as it aims to increase applying professional scepticism when making judgements about information to be used as audit evidence.

Yes.

Chartered Accountants Ireland (CAI)

We believe that the requirements and the application material appropriately reinforce the exercise of professional skepticism.

European Federation of Accountants and Auditors for SMEs (EFEAA)

We believe that the requirements and application material appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

Federation of Accounting Professions of Thailand (FAPT)

Yes, they do.

Institute of Chartered Accountants in England and Wales (ICAEW)

Yes, the proposals and application material appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence.

Institute of Chartered Accountants of Nigeria (ICAN)

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

Institute of Chartered Accountants of Scotland (ICAS)

We believe that the requirements and application material in ED 500 do appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence.

Institute of Internal Auditors (IIA)

Finally, commentary provided addressing the use of professional skepticism in the assessment of audit evidence sufficiency aligns with best practices in the internal audit function as well.

Instituto Mexicano de Contadores Publicos (IMCP)

Yes, we consider that the application material contributes to the exercise of professional skepticism.

Korean Institute of Certified Public Accountants (KICPA)

We agree with the IAASB's requirement for the auditor to exercise professional skepticism when evaluating the information intended to be used as audit evidence and when making judgements about whether the audit evidence obtained is sufficient and appropriate. In addition, the paragraphs requiring the auditor to evaluate the information and audit evidence obtained (paragraphs 11, 13, 14) are also consistent with the aforementioned requirement.

Malaysian Institute of Accountants (MIA)

Yes, especially given the new “stand back” requirement. Please see our response in Question 10 below for more details.

Malaysian Institute of Certified Public Accountants (MICPA)

We are of the view that the requirements and application material of ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

Nordic Federation of Public Accountants (NRF)

Yes, we are supportive of these proposals, and we think the IAASB has succeeded in drawing attention to these important considerations and perspectives, including by providing helpful guidance.

Pan-African Federation of Accountants (PAFA)

PAFA agrees that the requirements and application material appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

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.

The Malta Institute of Accountants (TMIA)

Yes - The proposed revisions should encourage a more active consideration by auditors about the information they intend to use as audit evidence and about whether they obtained the evidence that they set out to obtain from planned procedures.

Wirtschaftsprüferkammer (WPK)

We agree.

7. Individuals and Others

Altaf Noor Ali (ANA)

5.1 Yes.

Q05 - Agree with comments

1. Monitoring Group

International Organization of Securities Commission (IOSCO)

Professional Skepticism

Generally, we believe ED 500 would contribute to improvements in the exercise of professional skepticism related to audit evidence as it emphasizes maintaining professional skepticism in certain key areas. We believe the guidance and examples related to designing and performing audit procedures in a manner that is not biased supports the understandability of the requirements. We would like to commend the Board as we believe this is an example where ED 500 includes a meaningful and important link to another standard without repeating requirements. We recommend the Board similarly provide guidance and examples related to maintaining professional skepticism when performing the following:

Evaluating the relevance and reliability of information intended to be used as audit evidence.

Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

2. Regulators and Audit Oversight Authorities

Financial Reporting Council (FRC)

We agree:

That the proposed ISA 500 appropriately reinforces the role of professional scepticism when making judgements about information intended to be used as audit evidence, as it is a key factor in ensuring auditors are able to collect sufficient appropriate audit evidence.

We agree that the addition of paragraph 4 appropriately reinforces the need for auditors to exercise professional judgment in obtaining and evaluating audit evidence. We concur that given the vital importance of exercising appropriate professional scepticism in the course of obtaining audit evidence, and the fact that many recent UK enforcement proceedings have found a lack of scepticism, it is worth re-stating here.

We encourage the IAASB to address professional scepticism directly within paragraph 12, as the exercise of professional judgment where there are doubts about the relevance and reliability of information intended to be used as audit evidence is vital.

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

Yes. We acknowledge that the IAASB aims to emphasize the importance of applying professional skepticism in ED-500 (paragraph 4). However, the applicable application material lacks sufficient detail regarding the auditor's expectation and the critical role of professional skepticism. The ISAs should align with changes to the IESBA Code that promote the role and mindset of professional accountants. This will ensure a universal requirement for all auditors, regardless of the jurisdiction's relevant ethical requirements. We acknowledge that this issue may be addressed in a broader project to align ISAs with the IESBA's definition of professional skepticism.

3. National Audit Standard Setters

American Institute of Certified Public Accountants (AICPA)

We agree with reinforcing the need for professional skepticism, but think the Board should continue to emphasize professional judgment as well, particularly in paragraph 4. We suggest the following:

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. This ISA further emphasizes exercising professional judgment and maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:

- 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, including taking into account how the information will be used in determining and performing the audit procedures.
- Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

Australian Auditing and Assurance Standards Board (AUASB)

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.

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.

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.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Yes, in the application material. Although the application material is to some extent too extensive and the examples too basic (i.e., the use of different types of actuaries as experts, A70).

It should however be made clearer that it is the persuasiveness of audit evidence that the auditor needs to critically assess or evaluate. The definition of professional scepticism in ISA 200 refers to a critical assessment without explaining exactly what about the audit evidence is to be critically assessed. We therefore suggest adding this within this definition as a conforming amendment.

Canadian Auditing and Assurance Standards Board (AASB)

We support how professional skepticism is highlighted throughout the standard.

We recommend clarifying paragraph A19 to better align with current academic research that indicates it is not possible to eliminate all biases since some are unconscious. It’s our understanding through our outreach that academic studies conclude it is only possible to reduce or minimize biases once you are aware of them. As such, we recommend the following revision to paragraph A19:

A19. ISA 220 (Revised)²² explains that unconscious or conscious auditor biases may affect the engagement team’s professional judgments in designing and performing audit procedures. While it may not be possible to eliminate biases, the auditor actively works towards mitigating or reducing known biases. And ISA 220 (Revised) provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor’s exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor’s purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

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

Regarding the objective to emphasize in the IAASB International Standards, and particularly in ISA 540 on Auditing Accounting Estimates, the application of professional scepticism, we consider that the revised content of ISA 500 Audit evidence will help in reinforcing the exercise of professional skepticism, but we suggest adding clearer linkages with ISA 540 revised.

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

In our view, most of the requirements and guidance in the draft are related to reinforcing the exercise of professional skepticism in obtaining and evaluating audit evidence. In particular, the strengthening of the evaluation of the relevance and reliability of audit evidence in the requirement in paragraph 9 (b) by requiring a consideration of the attributes of relevance and reliability will reinforce the exercise of professional skepticism. The same applies to the requirement to design and perform audit procedures in an unbiased manner as set forth in paragraph 8 (a), evaluating the competence, capabilities and objectivity of an expert in paragraph 11 (a), dealing with doubts about the relevance or reliability of audit evidence in paragraph 12, and dealing with inconsistent audit evidence in paragraph 14.

However, we have identified a number of issues that we believe would improve auditor understanding of these matters and thereby also further aid auditors in exercising professional skepticism.

First, we note that the definition of professional skepticism includes a critical assessment of audit evidence. However, this definition does not aid auditors in their consideration of what about evidence is being critically assessed. The application material in paragraph A22 of ISA 200 speaks of questioning inconsistent evidence and the reliability of documents, etc. and the consideration of the sufficiency and appropriateness of audit evidence. We note that the reliability of documents (which represent evidence), and hence appropriateness of evidence, and the sufficiency and appropriateness of evidence all relate to the persuasiveness of evidence. Dealing with inconsistent evidence also relates to questions about the reliability of that evidence and hence the persuasiveness of evidence.

We note that one of the recommendations of the IAASB’s Professional Skepticism Subgroup in paragraph 33 of its Board Agenda paper entitled “Professional Skepticism: Issues and Recommendations” submitted to the Board for its June 2017 meeting was for the definition of professional skepticism to be augmented to clarify that it is the persuasiveness of audit evidence that is being critically assessed. As we note in our response to Question 7 below, this may need to be supported by a definition of persuasiveness. We therefore urge the IAASB to clarify in the definition of professional skepticism that the persuasiveness of audit evidence is being critically assessed. While making these changes, in line with the use of verbs for auditor actions as set forth in the CUSP Project, we also suggest that the word “assessment” be replaced with “evaluation”. The new definition of professional skepticism would therefore read as follows: “An attitude

that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical evaluation of the persuasiveness of audit evidence”. We believe this change would improve auditor exercise of professional skepticism by directing auditors as to what about audit evidence ought to be critically evaluated.

Second, we note that in some cases the Draft uses the pairs “corroborate vs. contradict” and in other cases it uses the pair “consistent vs. inconsistent” to refer to information that is not aligned with other information. In line with the recommendation in the Board Agenda Paper from the IAASB’s Professional Skepticism Subgroup in entitled “Professional Skepticism—Issues and Recommendations: Requirement to Seek Contradictory Evidence” submitted to the Board for its June 2017 meeting, we believe that the use of the pair of terms “consistent vs. inconsistent” is superior to the use of “corroborate vs. contradict” because the term “contradictory” is limited to cases in which the inconsistencies between information are diametrically opposed, as opposed to also considering inconsistencies that are not diametrically opposed. We believe that using the pair “inconsistency” vs. consistency” would improve the exercise of professional skepticism by prompting auditors to consider a wider range of inconsistencies beyond those that are diametrically opposed and may in fact help improve auditor identification of possible or suspected fraud. Using two different pairs of terms within one standard also begs the question as to why some requirements take a narrow view (contradictory) and others take a wider view (inconsistent). We recognize that the Board was hesitant to move towards changing the use of terms when the change was originally proposed but believe that the consistent use of terms and an improvement in the exercise of professional skepticism in relation to the evaluation of audit evidence through the use of superior terms ought to be addressed as part of the audit evidence project. In addition, regardless of whether the terms consistent/inconsistent or corroborative/contradictory are used, these terms should always be used in conjunction with what audit evidence is consistent/inconsistent with (other audit evidence or assertions in the financial statements).

Third, while the wording in paragraph 12 with respect to “doubts about relevance or reliability of information” and “resolving doubts” have been in ISA 500 for a long time, we do not believe that the wording is conducive to auditor understanding the nature of the decisions and work effort that auditors need to take or undertake, respectively, and how these decisions and work effort may affect their exercise of professional skepticism. We note that there is effectively no such thing a “no doubt” and that the threshold “beyond any reasonable doubt” used in the burden of proof of criminal trials goes beyond the degree to which auditors should be required to reduce their doubts. Consequently, the words in paragraph 12 “if the auditor has doubts” and “necessary to resolve the doubts” appear to indicate the need to have no doubt, which would be equivalent to obtaining absolute assurance. The requirement in paragraph 9 correctly refers to evaluating the relevance and reliability of information, which indicates these are matters of degree, not to whether the information is relevant and reliable, which would not be correct. The application material in paragraphs A54 and A56 clarifies that both relevance and reliability relate to degrees – that is, the degree to which information relates to meeting the purpose of the audit procedure and the degree to which auditor may depend upon information, respectively. This implies that both relevance and reliability are both matters of degree, where the threshold as to whether information is sufficiently relevant or reliable depends upon the purpose for which the information is being used.

For these reasons, we suggest changing the wording in paragraph 12 to read “If the auditor regards the information intended to be used as audit evidence to be not as relevant or reliable as needed to fulfill the purpose for which it is being used”. In addition, paragraph 12 (a) would need to read “Determine whether modifications or additions to audit procedures are necessary to conclude whether the information intended to be used as audit evidence is as relevant or reliable as needed to fulfill the purpose for which it is being used”. As a consequence, paragraph 12 (b) would need to be changed to read: “If the auditor is unable to

conclude whether the information intended to be used as audit evidence is as relevant or reliable as needed to fulfill the purpose for which it is being used, consider...”.

Royal Dutch Institute of Chartered Accountants (NBA)

The NBA agrees that the approach taken in ED-500 appropriately reinforces professional skepticism. With respect to the evaluation of audit evidence (paragraph 13 and 14), the NBA would suggest that the auditor not only considers whether audit evidence obtained is indicative of inconsistencies with other evidence. NBA suggests to clarify that other information that would be indicative of inconsistencies should be subjected to audit procedures including to assess its relevance and reliability. This results in this other information being elevated to audit evidence, which then is covered by the evaluations required by paragraphs 13 and 14.

Further, the NBA notes that neither paragraph 12 nor paragraph 14 refer to skepticism, which is striking since these two paragraphs do have a very clear relationship with skepticism.

The NBA would suggest to clarify that any information indicative of potential inconsistencies, will be subjected to audit procedures so that it is used in the step back requirements. Please refer to our response to Question 5 for more details.

4. Accounting Firms

BDO International (BDO)

We believe that the requirements and application material in ED-500 do appropriately reinforce the importance of professional skepticism in obtaining and evaluating audit evidence. In particular, we support:

The inclusion of a new section within the ‘Scope’ section (ED-500.4) which makes the link to the ISA 200 requirements and emphasizes that professional skepticism needs to be considered at both the planning and execution of audit evidence stages. We believe that ensuring ED-500 considers potential bias by auditors at the planning stage and not just at the evidential stage is important.

The guidance relating to automation bias in ED-500.A22-A23, which explains how the use of automated tools and techniques may affect auditor bias, and how the awareness of such bias may help to mitigate impediments to the auditor’s exercise of professional skepticism.

However, while we are supportive of the materials to reinforce the exercise of professional skepticism, we would recommend emphasizing the importance of maintaining professional skepticism when the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence (ED-500.12) and when there are inconsistencies in audit evidence (ED-500.14) in the application materials. For example, adding specific examples or explanatory material would be helpful regarding how professional skepticism is maintained when determining whether modifications or additional audit procedures are necessary to resolve the doubts and/or when there are inconsistencies in audit evidence.

Crowe Global (CROWE)

The requirements and application material appropriately reinforce the exercise of professional scepticism. As noted above, we feel that the requirements should be more comprehensive, and doing so reinforces what auditors are expected to do to exercise professional scepticism.

Ernst & Young Global Limited (EY)

Yes, we believe ED-500 appropriately reinforces the exercise of professional skepticism in obtaining and evaluating audit evidence. Specifically, including authenticity and bias as attributes when considering

whether information intended to be used as audit evidence is reliable, and the related guidance, is helpful to reinforcing the exercise of professional skepticism.

However, we believe enhancements should be made to paragraph 4 of ED-500 to recognize the importance of maintaining professional skepticism and evaluating audit evidence to the auditor's responsibilities relating to fraud in an audit of the financial statements. As the auditor evaluates audit evidence, the auditor should consider the potential for management override of controls as this can affect the reliability of audit evidence (i.e., whether it is authentic and free from intentional bias).

We also believe paragraph A44 of ED-500 should be further clarified. When the auditor receives information in a form different from the expected form, we believe that the auditor should consider whether authenticity is an applicable attribute for evaluating such information, as well as considering the possible connection to management override of controls. Guidance of this nature would be more helpful than the current focus of this paragraph on the auditor mitigating unconscious biases, which we do not believe is very clear, and if retained, is in need of clarification.

Grant Thornton International Limited (GT)

We are supportive of the enhanced emphasis related to the exercise of professional skepticism in ED-500 and the connection made to ISA 200. However, we question whether the emphasis being placed on professional skepticism deemphasises the exercise of professional judgment. Further we question whether too much focus is given to automation bias to the detriment of other biases that the auditor may experience. We recommend that consideration is given to whether the guidance around automation bias could be streamlined.

KPMG International Limited (KPMG)

Professional Skepticism

We also note that the proposed revisions in ED-500 are intended to collectively lead to enhanced auditor judgements when obtaining and evaluating audit evidence by fostering the maintenance of professional skepticism when making judgements about information to be used as evidence, and sufficient appropriate audit evidence. Whilst we consider that the requirements and related application material included in ED-500 in relation to the exercise of professional skepticism will be helpful in achieving this aim, we recommend certain enhancements to this material.

In particular, as we describe in our response to Question 8, in Appendix 1 to this letter, we recommend expanding examples to address the interrelationships between the different attributes of reliability, such as how consideration of credibility may support consideration of attributes such as bias and even completeness and accuracy, with emphasis on the use of professional judgement and professional skepticism in considering these attributes. This is likely to be particularly important when evaluating information from certain external information sources.

In connection with this, we suggest that the guidance regarding the attribute of authenticity include an explicit cross-reference not only to ISA 240.14, which sets out the auditor's responsibilities (and limitations to these) in respect of the authenticity of records and documents that the auditor intends to use as audit evidence, i.e. that the auditor may accept these as genuine unless they have reason to believe to the contrary, but also to the related application material at ISA 240.A10, which states that "an audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication."

We also recommend that the standard be further strengthened in respect of the application of professional skepticism through stronger links to ISA 600 in relation to matters such as inconsistencies in audit evidence obtained across a group, and the use of component auditors to assist the group auditor in their evaluation of the sufficiency and appropriateness of audit evidence across the group as a whole; ISA 580, Written Representations considerations, and ISA 700, Forming an Opinion and Reporting on Financial Statements considerations.

We also reiterate our concerns described in the section above, entitled Use of Technology, Including Automated Tools and Techniques, regarding the material introduced in respect of automation bias, which we consider may result in auditors being unnecessarily wary of obtaining audit evidence using automated tools and techniques, and for which we recommend a more balanced discussion.

We note that the proposed revisions in ED-500 are intended collectively to lead to enhanced auditor judgements when obtaining and evaluating audit evidence by fostering the maintenance of professional skepticism when making judgements about information to be used as evidence, and sufficient appropriate audit evidence. Whilst we consider that the requirements and related application material included in ED-500 in relation to the exercise of professional skepticism will be helpful in achieving this aim, we recommend certain enhancements to this material.

We welcome the inclusion of paragraph 4, to introduce professional skepticism as an overarching concept and to give upfront emphasis within the standard as to how professional skepticism may be applied in obtaining and evaluating audit evidence, specifically when designing and performing audit procedures in a manner that is not biased; when evaluating the relevance and reliability of information intended to be used as audit evidence, and when considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. We note that this is also reinforced by the explicit requirement in paragraph 8a) for the auditor to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory, and also by the introduction of the standback in paragraph 13, where the auditor is required to consider all evidence obtained including evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

We support the inclusion of application material to assist the auditor in applying professional skepticism, for example, material in relation to biases, attributes of relevance and reliability of information intended to be used as audit evidence, and factors that may affect the auditor's judgement. However, please refer to our response to Question 4 regarding the material introduced in respect of automation bias, which we are concerned may result in auditors being unnecessarily wary of using information generated by automated systems, and for which we recommend a more balanced discussion.

We recommend, in our response to Question 8, that the application material and examples provided are expanded, to address the interrelationships between the different attributes of reliability, such as how consideration of credibility may support consideration of attributes such as bias and even completeness and accuracy, with emphasis on the use of professional judgement and professional skepticism in considering these attributes. This is likely to be particularly important when evaluating information from external information sources. For example, A37 states "In some circumstances, the audit procedures used to evaluate relevance and reliability may be straight forward, (e.g. comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank)." However, we do not consider this example to be very helpful or clear, as comparing an interest rate to a central bank website may confirm that the information agrees to the source, but would not

provide information as to the reliability of that source, which is what we would consider to be the key issue in terms of reliability of the information in this example. Instead, we believe that a consideration of this nature would need to take into account attributes such as the credibility of the source (in particular, the reputation of the central bank), which we consider, in this example, would also indicate that the process the source uses to develop the information published is appropriate and considers the information needs of a broad range of users, and the authenticity of the information (the fact that this is published on the central bank's website). The auditor would need to use professional judgement and professional skepticism in making these considerations.

In connection with this, we suggest that the guidance regarding the attribute of authenticity include an explicit cross-reference not only to ISA 240.14, which sets out the auditor's responsibilities (and limitations to these) in respect of the authenticity of records and documents that the auditor intends to use as audit evidence, i.e. that the auditor may accept these as genuine unless they have reason to believe to the contrary, but also to the related application material at ISA 240.A10, which states that "An audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication."

We also recommend that the standard be further strengthened in respect of the application of professional skepticism through stronger links to ISA 600 in relation to matters such as inconsistencies in audit evidence obtained across a group, and the use of component auditors to assist the group auditor in their evaluation of the sufficiency and appropriateness of audit evidence across the group as a whole.

Furthermore, we suggest that guidance be included addressing exercising professional skepticism in scenarios where management is unwilling to provide certain audit evidence (e.g. where management refuses to provide a requested representation) or where the auditor may have doubts about the reliability of such evidence, at paragraph A12, which could be more clearly linked both to ISA 580, Written Representations considerations, and also to ISA 700, Forming an Opinion and Reporting on Financial Statements considerations.

We recommend, in our response to Question 8, that the application material and examples provided are expanded, to address the interrelationships between the different attributes of reliability, such as how consideration of credibility may support consideration of attributes such as bias and even completeness and accuracy, with emphasis on the use of professional judgement and professional skepticism in considering these attributes. This is likely to be particularly important when evaluating information from external information sources. For example, A37 states "In some circumstances, the audit procedures used to evaluate relevance and reliability may be straight forward, (e.g. comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank)." However, we do not consider this example to be very helpful or clear, as comparing an interest rate to a central bank website may confirm that the information agrees to the source, but would not provide information as to the reliability of that source, which is what we would consider to be the key issue in terms of reliability of the information in this example. Instead, we believe that a consideration of this nature would need to take into account attributes such as the credibility of the source (in particular, the reputation of the central bank), which we consider, in this example, would also indicate that the process the source uses to develop the information published is appropriate and considers the information needs of a broad range of users, and the authenticity of the information (the fact that this is published on the central bank's website). The auditor would need to use professional judgement and professional skepticism in making these considerations.

Mazars (MZ)

Overall, we believe that the revised content will help in reinforcing the exercise of professional scepticism, but we suggest adding clearer linkages with ISA 540 revised.

MNP LLP (MNP)

Overall, we believe the requirements and application material in ED-500 will reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence. However we believe the language in 8(a) may be interpreted to be overly proscriptive. 8(a) states that “the auditor shall design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory”. It is important that requesting evidence for management’s inputs, estimates or assertions, such as under ISA 540.18(b), not be misinterpreted as bias towards corroboration. To avoid this misinterpretation, we recommend revising the above requirement to say “...obtaining only corroborative audit evidence and excluding contradictory audit evidence”.

Additionally, the preamble from paragraph 8 to paragraph 8(b) reads as “For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures.” This language could be more easily understood if it said “the auditor shall design and perform audit procedures which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures.” A25 sufficiently discusses the nature, timing and extent of procedures therefore it could be excluded from the requirement paragraph.

PriceWaterhouseCoopers (PwC)

We are supportive of the additional emphasis given in ED-500 to consideration of auditor biases and the need to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements. See also our response to question 2 in respect of professional judgement, for which our comments apply equally to the exercise of professional scepticism.

We believe that the proposed changes in ED-500, when considered collectively, aim to emphasise the importance of exercising professional scepticism and applying professional judgement when evaluating the sufficiency and appropriateness of audit evidence obtained by auditors. We support these aims.

5. Public Sector Organizations

Swedish National Audit Office (SNAO)

Requirement 8 and application material I A.19-33.

We think that they appropriately reinforce the exercise of professional skepticism. Though we would like to emphasize that how it is structured right now may drive the auditor to gather evidence just to ensure that the listed biases are avoided. Our suggestion would be to put emphasize on when this in particular is important. That is stated in A.21 as the last part. Could be described upfront.

Reading A.24, it could be interpreted that an inquiry may give you as pervasive audit evidence as an external confirmation. Which somehow could be read as contradictory to the suggested revision of paragraph 2 in ISA 501 – External confirmations, which reads: Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more appropriate than evidence generated internally by the entity. Suggestion to use another example or clarify the statement in A 24.

The last example in the box says that more extensive audit procedures could be more pervasive. We agree but would suggest adding the quality perspective as well.

U.S. Government Accountability Office (GAO)

The requirements reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence. We believe the addition of a paragraph in the application material referencing or expanding on paragraph A22 from ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, would clarify the definition of professional skepticism in the application materials. In addition, we believe that paragraph 8a and related application materials are unclear. We believe that the language can be improved regarding how to document auditor's consideration of contradictory evidence and the basis for the auditor's determination that audit procedures are unbiased.

6. Member Bodies and Other Professional Organizations

Accountancy Europe (AE)

Yes, the application material of the ED-ISA 500 is expected to reinforce the exercise of professional scepticism by the auditor.

Professional scepticism is one of the fundamental concepts in financial statements audit and its definition in ISA 200 refers to critical assessment of audit evidence. ED-ISA 500 could clarify that the auditor needs to critically assess the “persuasiveness” of audit evidence. Alternatively, the definition in ISA 200 can be revised as a conforming amendment.

We believe that ISAs should be viewed as a single set of professional standards. Consequently, it is not always helpful, and thus not necessary, to remind a concept (such as professional scepticism and use of professional judgement) or to repeat a requirement from a specific ISA in another standard. Auditors already shall consider and comply with all ISA requirements applicable to the engagement they conduct. Excessive cross-referencing can be distracting and increase complexity of the standard without adding any value.

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

can be improved to reinforce the appropriate exercise of professional scepticism (see our response to Question 5),

We believe that there are opportunities for improvements in the proposed standard that will further reinforce the appropriate application of professional scepticism.

We believe that there is a further opportunity for the IAASB to reinforce (and clarify) the exercise of professional scepticism in obtaining and evaluating audit evidence.

Professional scepticism, by definition (and application) is focused on the evaluation of evidence and is directly relevant to the requirements in Paragraph 13 and 14 of the proposed standard (and the application material in paragraphs A84 to A88). With the revised focus on both the information to be used as evidence and application of procedures on that information in order to convert information to evidence, the auditor's scepticism is directed not only toward the evaluation of evidence, but also the process by which that evidence is generated. We believe that this is a positive development, but is an improvement that may be lost on those applying the revised standard.

Audit research distinguishes between sceptical judgments, sceptical intentions and sceptical actions (e.g., Nelson 2009; Nolder and Kadous 2018) and a common finding in the research literature is that while auditors may make more sceptical judgments (e.g., questioning the reliability of information intended to be

used as audit evidence), they do not express intentions and propose actions that will address the expressed level of scepticism (see Hurtt et al. 2013 for a review). 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. In this regard, Bell et al. (2005) argues for the merit in focusing auditor's attention inward toward their own fallible judgments and Grenier (2017) and Harding and Trotman (2017) both demonstrate the merit in focusing the auditor's attention on process.

We do not, however, believe that the proposed standard realises its potential in terms of fostering the appropriate exercise of professional scepticism and we believe that there is an opportunity for the IAASB to elaborate on the application material applicable to paragraphs 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.

We further note the reinforcement of the neutral professional scepticism perspective in the proposed standard, with the emphasis on not performing procedures that will bias the evidence obtained towards being either corroborative or contradictory. We are concerned, that the proposed standard, especially as a reference framework, may constrain the exercise of professional scepticism where asymmetric doubt is appropriate. One such area is the auditor's consideration of fraud. In such a situation, a presumptive doubt scepticism perspective is likely to be more effective (Quadackers et al. 2014). We therefore believe that paragraph 8(a), as presently drafted, constrains the effective application of professional scepticism when the circumstances call for ex-ante bias. It also creates a conflict between paragraphs 8(c) and 8(b) in that 'appropriate in the circumstances' may involve procedures deliberately aimed at generating evidence that is biased toward corroborative or contradictory evidence. We believe that paragraph 8(a) should be rephrased to require that audit procedures be performed in a manner "...that is not inappropriately biased towards obtaining ..." and application material expanded to highlight the circumstances where the auditor may perform audit procedures that assume some asymmetric doubt.

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

Yes, we find that the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence.

We are very pleased to note that the application material in ED-500 explicitly recognises how unconscious or conscious auditor biases may affect the engagement team's judgements noted in ISA 220 (Revised). In addition to the relevant biases referred to in para A19 of ED-500, ACCA's recently published report in collaboration with the Hellenic Accounting and Auditing Standards Oversight Board titled Professional Scepticism and Cognitive Biases: Lessons learned from inspection findings, found that authority bias is also relevant in audit and assurance. Authority bias is the tendency to attribute greater accuracy to the opinion of an authority figure (unrelated to its content) and be unduly influenced by that opinion. In audit this is relevant when auditor's experts are involved, and we therefore recommend that the IAASB also takes this into consideration.

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

1, b) – The linkages are clear and so are the choices (mainly those related to the definitions). However, we believe that reporting the concepts of professional skepticism and professional judgment, already included in other standards, may not be useful.

Moreover, we deem necessary a coordination with the requirements 13 and 14 of ISA 240, according to which “unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine”. While, according to ED-500 it seems that the auditor is supposed to perform procedures before accepting records and documents as genuine.

5 - Yes. ED-500 contains a specific paragraph on professional skepticism and provides for its use in defining and implementing the audit procedures so that they are not influenced, and in evaluating the relevance and reliability of the information to be used as audit evidence (ED-500, 4). This requirement will enhance the use of professional skepticism, but these procedures should be coordinated with the concept of professional skepticism included in an appropriate segment of ISA 240. (See comment n. 1)

CPA Australia (CPAA)

Feedback we have received indicates there is general agreement that ED-500 has increased the focus, and reinforces the exercise, of professional scepticism.

ED-500 places significant emphasis on biases as the basis for an auditor exercising professional scepticism. However, we are of the view that there is scope for further reinforcement of the exercise of professional scepticism. Moreover, we believe that it is more than just a focus on bias considerations, as it also includes the need to have an inquiring mind. We note that in ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards (ISA 200), bias is not a key consideration when exercising professional scepticism. To reinforce the exercise of professional judgment and professional scepticism more effectively, the wording in the 3rd bullet point of paragraph 4 could be emphasised by replacing ‘Considering all audit evidence obtained’ with ‘evaluating or critically assessing all audit evidence obtained’.

IFAC SMP Advisory Group (SMPAG)

The SMPAG believes that the requirements and application material appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

In our view, para. 10 could be made clearer by changing the position of ‘information’ and ‘audit evidence’ – “...the auditor shall obtain information about the accuracy and completeness of information intended to be used as audit evidence”.

It is in assessing the “persuasiveness” of audit evidence where the auditor will apply professional skepticism, so we believe a definition would be helpful. In addition, the definition of professional skepticism in ISA 200 refers to a critical assessment of audit evidence without explaining exactly [we believe it is the persuasiveness] what about the audit evidence is to be critically assessed, so a conforming amendment to ISA 200 would be helpful.

Institute of Certified Public Accountants of Uganda (ICPAU)

We believe that the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence. However, we also believe that additional application material is necessary to evaluate inconsistencies in audit evidence as well as information obtained from multiple sources.

Institute of Singapore Chartered Accountants (ISCA)

The emphasis on the importance of professional skepticism and inclusion of application material on auditor bias is an important step in reinforcing the exercise of professional skepticism.

In some ways, the promotion of the usage of technology in the proposed standard can potentially help auditors reduce auditor bias. For example, using technology to select testing samples or in risk assessment to identify audit focus areas can be more objective than performing these activities manually. Modernising the standard to recognise and encourage the usage of technology would contribute to the desired outcome of reducing auditor bias.

We feel that the areas below can be further emphasised or elaborated for clarity.

Emphasis on importance of understanding the entity and its environment

If the process of understanding the entity and its environment, including the impact of IT, is not performed in a robust manner, auditors may not appreciate the business rationale behind the entity's transactions made that can help them identify irregularities in audit evidence. Hence, this process is crucial in reinforcing the exercise of professional skepticism in obtaining and evaluating audit evidence and should be more prominently emphasised in the standard.

Dealing with inconsistencies in audit evidence

An area that needs to be clarified is whether the “inconsistent evidence” mentioned under paragraphs 13(b) and 14 refers to evidence that the auditor obtains or comes across in the course of performing planned audit procedures. It may not be practical to expect the auditor to intentionally seek out inconsistent evidence.

The guidance on investigating exceptions in the recently issued IAASB's FAQs on Investigating Exceptions and Relevance of Performance Materiality when Using ATT may be included here.

Obtaining information from multiple sources

It would be helpful to provide additional guidance and application examples on when the auditor would need to consider obtaining information from multiple sources in accordance with paragraph A21 and the extent of such additional procedures.

Also, as the environment that businesses are operating in become more complex and unpredictable, risks around fraud and going concern are amplified. The focus on the auditor's mindset and demonstration of professional skepticism has never been more critical. The ability of auditors to exercise professional skepticism is influenced and supported by firm culture and proper allocation of time and resources to audit engagements, which will be driven by the new quality management standards that came into effect at the end of last year. The enhancements proposed in the ED that highlight the risk of auditor bias will further help to strengthen the auditor's skillset and execution in these areas. With the updates to ISA 500 (Revised) and the new quality management standards working hand in hand, we are hopeful of better application of professional skepticism in audits.

Instituto de Auditoria Independente do Brasil (IBRACON)

We agree with the proposed requirements and AM but suggest enhancing the linkage with the auditor's responsibilities related to fraud under ISA 240 in paragraph 4 of ED-500 mentioning the management override of controls and by emphasizing in the AM the importance of maintaining professional skepticism when there are doubts about the reliability or when there are inconsistencies of information intended to be used as audit evidence.

South African Institute of Chartered Accountants (SAICA)

Professional skepticism is defined in the ISAs as “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”.

When dealing with professional scepticism, it is important for the auditor to understand the following key elements: mindset, attributes and action.

Mindset: The auditor is required to conduct the audit with the necessary integrity and good faith.

Attributes: have the necessary knowledge, skill and ability to perform the audit.

Action: importance of performing a robust risk assessment and responding to the risk.

ED-500 Emphasises the importance of professional skepticism, including when:

Designing and performing audit procedures in a manner that is not biased; (Mindset)

Evaluating the relevance and reliability of information intended to be used as audit evidence; (Action) and

Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. (Attributes) In addition to the above, the application material in ED-500 appropriately reinforces the exercise of professional scepticism. Paragraph. 12 is a good place to include a reminder relating to professional scepticism, as it is currently only addressed in the application material and not in the requirements.

Based on the above we are of the view that the requirements and application material in the ED-500, appropriately reinforce the exercise of professional scepticism. The inclusion of the recommendation included in paragraph 9.5 above will further reinforce the exercise of professional scepticism.

Q05 - Disagree

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Role of professional skepticism

We note that the IAASB had the objective of emphasizing the importance of applying professional skepticism in ED-500 (i.e., paragraph 4). However, that objective has not been fully met because the applicable application material does not describe in enough detail the expectation of auditors regarding the critical role of professional skepticism. The ISAs should reflect some of the changes made by the International Ethics Standards Board for Accountants (IESBA) to the Code of Ethics that promote the role and mindset expected of professional accountants. Examples include focus on auditor integrity, strength of character to act appropriately and the need for auditors to have an inquiring mind. This would also ensure that there is a common requirement for all auditors regardless of whether the auditors are required to comply with the IESBA Code of Ethics in their respective jurisdictions.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies (CEAOB)

Professional judgment and professional scepticism to be further emphasised

15. Finally, we think that focusing on professional judgment and professional scepticism only in the introduction section and in the application and other explanatory material is

insufficient and that the ED should also address what professional judgment and professional scepticism in the context of audit evidence entail.

16. We thus strongly urge the IAASB to reinforce the requirements as proposed in the specific comments below.

Irish Auditing and Accounting Supervisory Authority (IAASA)

Professional judgment and professional scepticism to be further emphasised

Focusing on professional judgment and professional scepticism in the introduction section and

the application and other explanatory material is insufficient. The body of the ED should also address what professional judgment and professional scepticism entail in the context of audit evidence.

We thus strongly urge the IAASB to reinforce the requirements in the standard, as proposed in the “specific comments” section below.

Q05 - No specific comments

4. Accounting Firms

Crowe LLP (CROWE LLP)

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:

7. Individuals and Others

Shuichiro Tsumagari (ST)

Thomson Reuters (TR)