



International Organization of Securities Commissions  
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7 March 2023

Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017 U.S.A.

Our Ref: 2023/O/C1/IAASB/PM/112

**Subject Line: *Proposed International Standard on Auditing (ISA) 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs***

Dear Willie:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed International Standard on Auditing (ISA) 500 (Revised), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs* (the Paper or ED 500).

As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

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## Overall Comments

### *General*

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.

We believe the objectives of each individual standard should be sufficiently distinct from other standards to avoid overlap and confusion. In addition, while we believe linking to other standards is appropriate (rather than repeating the same requirements in various standards), such linking should be meaningful. As such, we have provided recommendations where we believe there are opportunities for improvements in this area.

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.

### *Project Scope and Linkage with Other Standards*

We agree with the Board that ED 500 provides important underpinning for auditors when making judgments about audit evidence throughout the audit. However, we believe the Board should take a more holistic approach when considering the project objectives in context of other relevant standards. More specifically, we do not believe that the objective of ED 500 is sufficiently distinct from the objective of ISA 330, *The auditor's responses to assessed risk*. The stated objective of ED 500 includes the evaluation of information intended to be used as



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audit evidence, and ***audit evidence obtained***, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained. Whereas ISA 330 also includes the evaluation of the sufficiency and appropriateness of ***audit evidence obtained*** more broadly to support conclusions made.

As a result of overlap in the objectives of ED 500 and ISA 330, we have identified some examples of duplication of requirements in the following paragraphs as it relates to the evaluation of audit evidence obtained: ED 500.1 and ISA 330.1; ED 500.6(a) and ISA 330.3; and ED 500.13(b) and ISA 330.26. Additionally, with regard to the new “stand back” requirements (ED 500.13-.14) for the auditor to evaluate audit evidence obtained, while we support the requirement, we believe it is more aligned with the objectives of ISA 330.

We believe the objective of ED 500 should focus on the evaluation of information intended to be used as audit evidence and the evaluation of whether the audit evidence provides a basis for conclusion, and ISA 330 should focus on the evaluation of the sufficiency and appropriateness of audit evidence obtained to support conclusions. Therefore, we recommend the Board evaluate the areas of overlap within ED 500 and ISA 330 and potentially relocate more applicable proposed requirements to ISA 330 to better align with the objectives of each individual standard. With this in mind, we do not agree with the Board’s decision to delay these and other possible enhancements to ISA 330 as we believe enhancements to ISA 330 are necessary in order to meet the Board’s stated project objective to evaluate whether sufficient and appropriate audit evidence has been obtained.

### *Technology*

We are supportive of the IAASB’s approach to follow a principles-based approach to enable the standard to be applied in an evolving environment with increasing use of technology by both the entity and the auditor. We recognize that the application material in ED 500 has been enhanced to illustrate how the principles-based requirements apply when using technology. We believe an opportunity exists to further expand on the incorporation of the use of technology in order to meet the stated objective of ISA 500 modernization. Some suggestions for your consideration include:

- Providing more examples where technology is used in the performance of the various types of audit procedures in the Appendix. For example, the use of remote observation tools, performing recalculation procedures on 100 percent of populations, or the use of data analytics to perform risk assessment or substantive procedures to name a few.
- Additional guidance may also be helpful in determining when an audit procedure is a



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test of details or substantive analytical procedure when using technology, as such determination may impact when the requirements within other ISAs become applicable e.g. ISA 520, *Analytical procedures*; ISA 530, *Audit sampling*; etc.

- Expanding the guidance in ED 500.A32 or providing further example(s) of using automated tools and techniques to select items for testing. For example, establishing criteria to identify items for further investigation and factors for the auditor to consider when evaluating items identified.
- Providing clarification of how auditors apply requirements in ED 500.14 and .A91 when using technology and the auditor has identified items that are inconsistent with expectations established or exhibit characteristics that are unusual for a population. For example, factors for auditors to consider whether those items provide audit evidence that contradicts the auditor’s risk assessment, indicates previously unidentified risks of misstatement, represents a misstatement or control deficiency, or indicates a modification to risk assessment or planned audit procedures is needed.
- Providing guidance related to the unique risks related to digital information. For example, an entity’s data retention policies and availability of digital information, risks relating to the transformation of the information from its original form, or, where information is only in digital form, whether testing the operating effectiveness of IT related controls may be necessary.

As technology continues to advance at a rapid pace, become more complex, and impact the way business and audits are conducted, we encourage the Board to remain flexible by issuing practical application material upon the identification of key emerging issues related to technology in a timely manner. We also continue to encourage the Board to collaborate with the International Ethics Standards Board for Accountants (IESBA) as it relates to their technology-related projects to align associated outcomes, where relevant. One example where the Board can collaborate with the IESBA is on the consistency of terminology used related to technology and the need for consistency for users of the International Code of Ethics for Professional Accountants, including International Independence Standards (the Code) and the ISAs. For example, we observe that the IAASB utilizes the term “automated tools and techniques” within ED 500. However, it does not appear that the same term is referenced in the recently approved revisions to Part 3 of the Code applicable to Professional Accountants in Public Practice.



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### *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.

### *Definitions*

While we generally agree that information becomes audit evidence once audit procedures have been applied, we believe that the definition should not be limited *only* to information to which audit procedures have been applied as we believe there are instances where certain information obtained, or lack of information obtained, may be used by the auditor to draw conclusions. We also recommend the Board consider adding the concept that audit evidence consists of information that corroborates or contradicts assertions in the financial statements, to the definition of audit evidence as we believe this addition will further reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

We are supportive of the IAASB's decision to introduce the concept of persuasiveness in ED 500 given the auditor's responsibility to obtain more persuasive audit evidence the higher the auditor's assessment of risk in accordance with ISA 330. We would, however, recommend including a definition of 'persuasiveness' to the standard and expanding on the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence within the application material.

### *Evaluating Information Intended to Be Used as Audit Evidence*

While we agree that sufficiency and appropriateness are the foundational aspects of audit



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evidence, we believe both these aspects should be evaluated for information intended to be used as audit evidence and a complete discussion of both aspects should appear in the requirements and application material. Specifically, we note the auditor's requirements to evaluate the relevance and reliability, or appropriateness, of information intended to be used as audit evidence. However, the auditor does not have a related requirement to evaluate the sufficiency of information intended to be used as audit evidence. Additionally, we recommend the Board consider whether the definitions of appropriateness and sufficiency within paragraph 7 should be narrowed to audit evidence or broadened to information intended to be used as audit evidence.

As it relates to the evaluation of the attributes of relevance and reliability, we question the ability for auditors to evaluate attributes whenever applicable in the circumstance, including accuracy and completeness. For example, completeness may be an *applicable* attribute, however, it may not represent a risk related to the reliability of the information intended to be used as audit evidence, such as with information obtained from external sources. The related application guidance describes the auditor's requirement related to the attributes of relevance and reliability based on the *degree to which* the attributes are applicable in the circumstances and the *degree to which* the auditor may depend on such information which we believe is more appropriate. In general, we believe the Board should reconsider what the appropriate "threshold" is when evaluating the attributes of relevance and reliability, such as the concept of the *degree to which* the attribute is applicable, in order to support a consistent and appropriate evaluation of the attributes of the relevance and reliability of information.

#### *Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

We believe there should be a more meaningful linkage from the requirements in ED 500 paragraph 11 to the requirements in ISA 540 (Revised), *Auditing accounting estimates and related disclosures*, paragraph 30. As such, we believe the application material in ED 500 paragraph A68 should be elevated to the requirements.

Similarly, we believe the requirements in ISA 540 (Revised) paragraph 30 should be strengthened by stating the auditor *shall* comply with the relevant requirements in paragraphs 21-29 when the auditor evaluates information intended to be used as audit evidence prepared by a management expert in accordance with paragraph 11 of ISA 500 (Revised).

#### *Documentation*

While we acknowledge the Board's addition of paragraph A40 to provide a linkage to ISA 230, *Audit documentation*, for requirements and guidance about the form, content and extent of



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audit documentation, we do not believe the guidance provided will result in consistent practice. We believe specific documentation requirements and/or guidance related to ED 500 is needed such as the documentation requirements of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence, among others.

### Specific Comments

Paragraph 9 - *“The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence, including [text added]. ~~In making this evaluation, the auditor shall consider~~ [text deleted].”* We believe the requirement within paragraph 9 should be strengthened as the performance requirement associated with a *consideration* is not always clear, could be perceived as inherently optional, and may result in inconsistent application.

Paragraph 9(a) - We recommend that the Board include the concept that information obtained from a knowledgeable source that is independent of the company is more reliable than information obtained only from internal company sources

Paragraph 9(b) – *“The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose(s) [text added] of the audit procedures.”* We suggest this edit to acknowledge there may be more than one purpose to a procedure.

Paragraph 12(a) – *“Determine ~~whether~~ what [text deleted and added] modifications or additions to audit procedures are necessary to resolve the doubts”* We suggest strengthening the requirement as we believe any doubts would require further action to resolve.

Paragraph 14 – *“If the auditor obtains audit evidence that is inconsistent with other audit evidence or that contradicts the assertions in the financial statements [text added] (...)”* We suggest this edit as we believe a requirement to perform additional procedures when audit evidence does not corroborate assertions in the financial statements is needed.

Paragraphs A1 and A2 – We recommend updating the wording in these two paragraphs to more closely align to the wording in paragraph 1 as the current wording is inconsistent with the definition.

Paragraph A13 – *“(...) However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.”* We believe this sentence could benefit from an example where increasing the quantity of audit evidence by performing the same type of audit procedure provides more persuasive audit evidence and an example where it does not.



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Paragraph A17– “...*the auditor may use an automated tool to interrogate [emphasis added] a large data set of transactions more easily.*” We note that the use of the word “interrogate” may create translation issues and suggest using a different word such as “analyze”.

Paragraph A23 – “(...) *Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater. (...)*” We believe this sentence could benefit from examples where vulnerability to automation bias may be greater.

Paragraph A25 – “(...) *An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriately low level.*” We believe this sentence could benefit from an example.

Paragraph A57 – “(...) *ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. (...)*” We believe this requirement should be strengthened and more closely align to the auditor’s requirement to evaluate the reliability of information intended to be used audit evidence i.e. the auditor should consider the authenticity in their evaluation of reliability of the information provided rather than accepting the information as genuine unless the auditor has reason to believe the contrary.

Paragraph A64 – We believe this reference should be A59, not A58.

Paragraph A78 – We recommend the IAASB reconsider this paragraph as it is too narrowly focused on addressing considerations related to deficiencies specifically around information prepared by management’s expert and not more broadly related to management’s use of information from all sources.

Paragraph A80 – “(...) *Deficiencies in internal control ~~identified by the auditor~~ [text deleted], particularly when there is a significant deficiency in internal control. (...)*” We recommend not limiting the factor to only those control deficiencies identified by auditors.

Appendix (and paragraph A17) – “(...) *However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.*” We believe this sentence could benefit from further guidance and/or examples, specifically describing when inquiry alone could provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level or of the operating effectiveness of controls.

We suggest the Board consider adding a reference in ISA 300, *Planning an audit of Financial Statements*, to ED 500 related to obtaining audit evidence during planning.



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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551- 5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

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