

## Invitation to Comment:

### Draft Comment Letter–IAASB ED 500(*Proposed Amendment to ISA 500*)

**Deadline for completion of this Invitation to Comment:**

**Close of business 15 February 2023**

**Please submit to: [standards@paab.org.zw](mailto:standards@paab.org.zw)**

#### Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the draft comment letter on the IAASB ED 500 (*Proposed Amendment to ISA500*).

#### Who should respond to this Invitation to Comment?

All auditing stakeholders in Zimbabwe which we shall randomly select.

#### How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return to [standards@paab.org.zw](mailto:standards@paab.org.zw) by close of business on 15 February 2023.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

#### Privacy and other policies

Your comments will be on public record and posted on our website unless you request confidentiality, and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at [secretary@paab.org.zw](mailto:secretary@paab.org.zw) before submitting your letter.

### Comments are most helpful if they:

- (a) respond to the questions as stated.
- (b) specify the paragraph(s) to which they relate.
- (c) contain a clear rationale.
- (d) identify any wording in the proposals that is difficult to translate; and
- (e) include any alternative approach the IAASB should consider, if applicable.

### Instructions for completion

The PAAB has published this separate document for respondents to use for submitting their comments if they wish.

This document presents all the questions in the Exposure Draft in a table with spaces for responses. The PAAB has come up with its draft responses and these are presented below. You are invited to comment on the views provided by the PAAB in the open spaces. Respondents are encouraged to complete this document electronically. Respondents need not comment on all questions in the Invitation to Comment. Respondents are encouraged to indicate **whether they agree/disagree with the PAAB's response** and their reasons for the disagreement(s). Comments to be received by end of day **15 February 2023**. Link to the Exposure draft [ISA 500 Audit Evidence](#)

### Background of the project

In December 2020, the IAASB approved a project proposal to update ISA 500. Section II of the project proposal provides further background about the project, including the audit evidence-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal. The project objectives, can be summarized as follows:

- Clarify the purpose and scope of ISA 500 and explain its relationship with other standards.
- Develop a principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, recognizing the nature and sources of information in the current business and audit environment.
- Modernize ISA 500 to be adaptable to the current business and audit environment, while 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.

### Work done by the PAAB on the ED 500.

The PAAB follows a due process in its development of consultations and responding to consultation from International standard setting boards and other boards.

Under the due process, the PAAB consults with key stakeholders affected or interested in the project.

In developing its responses below, the PAAB has conducted its research and have then drafted the responses below. The PAAB is now seeking your valuable comments on its draft

## PAAB STAKEHOLDER CONSULTATION ON ED 500 AUDIT EVIDENCE PROJECT

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional, and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at [www.paab.org.zw](http://www.paab.org.zw)

Any questions arising from this submission should be directed to:

Admire Ndurunduru

Secretary

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Tel: + 263 4 301 063, + 263 4 301 096

Mobile: + 263 772 833 555

Email: [secretary@paab.org.zw](mailto:secretary@paab.org.zw)

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<b>Name of Respondent:</b>	Muhammad Umar
<b>Organisation:</b>	Mo Chartered Accountants (Zimbabwe)
<b>Responsibility</b>	Partner
<b>Jurisdiction:</b>	Zimbabwe
<b>Correspondence and/or email address:</b>	<a href="mailto:muhammadumarkb16@gmail.com">muhammadumarkb16@gmail.com</a>
<b>Date</b>	7 February 2023

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### Questions

Do you support our view that purpose of ED500 is clear (Draft comment letter, appendix 1, solution to question 1a). Please explain why or why not?

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 4<sup>th</sup> bullet in paragraph 4 we include after professional scepticism the words “appropriate and adequate challenge of management”.

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

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

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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 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.

Do you support our view that ED500s relationships, or linkages with, other ISAs are clear and appropriate (Draft comment letter, appendix 1, solution to question 1b). Please explain why or why not?

On the whole the linkages are well documented, clear and appropriate. ISA 240 is mentioned in the conforming and consequential amendments arising from proposed ISA 500 (revised). As is well understood, it is not the overarching and or primary objective for the auditor to detect fraud but recent scandals have brought to the fore the necessity to ensure that the auditor does some work in relation to ensuring that as a minimum the design and performance of audit procedures could be designed such that the work has some degree of focus on fraud. For example, consideration of the fraud triangle (incentive, opportunity, rationalisation) will somewhat lead an auditor toward ensuring that high risk areas in this respect are afforded adequate attention. The expectation of users is that auditors cannot wholly negate and absolve themselves from ensuring that fraud is not present. In respect of errors, these could also have characteristics of fraud laced-in and non-detection could result in the financial statements not representing a true and fair view.

It is important to note that with digital advances a clear distinction must be drawn, that not only misstatements in the financial statements may indicate the possibility of fraud or error but with the growing use of estimates, complex accounting and endless fraud schemes, the fraud could be lying in plain sight. This realisation should be front and centre at all times, for example

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manipulation of a system to obtain an unfair advantage. In spite of all appearing above board and following system processes the underlying basis may indicate fraud.

With regard to para 11 of the standard regarding use of the work of external or management expert the issue of independence ought to be considered strongly and whether or not there is rotation of such experts much like the ethical and independence standards guiding auditors. There may be a tendency to consider rote and trite that once evidence regarding 11 a-c is obtained, there is no need to zone in on other matters like familiarity and independence. This notion may be used on a wider scale and extended to other matters to ensure relevance, reliability and persuasiveness of audit evidence. An example of independence is pertinent in the use of experts in IFRS 17 – Insurance Contracts where the reliance placed on the output from such experts is widespread, significant and without independence and ethical boundaries a great many possibilities may arise that may impact the fair presentation of financial statements.

With regard to paragraph 12, should a certain source create doubts as to the reliability and relevance of information to be used as audit evidence, the in using this same source as future source should be viewed with professional scepticism and the auditor must be required to make a judgement as to the continued veracity and credibility of use.

Unrelated, yet relevant to the issue of audit evidence, we believe that similar to ISA 501 where certain balance/ transaction and disclosure items are explained as a rule, and audit evidence methods and expectations are given for inventory, litigation and claims and segment information similar standards can be drafted for other critical areas within and relevant to an entities financial reporting. This serves as a standard of expectation and can always be scalable, adaptable and act as a guideline for audit evidence.

Do you support our view that the increased use of professional skepticism and the use of technology will lead to enhanced auditor judgements when obtaining and evaluating audit evidence (Draft comment letter, appendix 1, solution to question 2). Please explain why or why not?

Emphasis that use of technology does not negate from the requirement to adopt professional scepticism and auditor judgement.

Automation bias should be avoided and it will be critical that in spite of the benefits and efficiency of technology it is not fool-proof and thus maybe fallible, for example if the selection for a certain

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population is done on a wrong characteristic or in a manner that will not achieve the intended objective and thus not constitute sufficient appropriate evidence. Here, reviewers in the audit team are the first line of defence and need to ensure that such use of technology is appropriate and persuasive.

Judgment and professional scepticism are intrinsic traits of any auditor but the extent to which this is used needs to be extended due to biases inherently prevalent in our thoughts and experiences. When assessing relevance, reliability and ensuring that evidence is persuasive professional scepticism is key. For example, regarding estimates and assumption, where a market does exist to obtain the input variable for the underlying transactions and balances the auditor will place reliance on management's best estimates. Notwithstanding the lack of available evidence, a sceptical mind is required including using sound judgment to determine the rationale of managements view (earnings management or bonus tied to profit or other metrics) which can then either be corroborated and or contradicted and should no adjustments be made then consideration of the impact on the audit report should be assessed.

Do you support our view that ED 500 has an appropriate balance of requirements and application material (Draft comment letter, appendix 1, solution to question 3). Please explain why or why not?

The requirements essentially cover all the necessary matters related to audit evidence and the emphasis of considering ISA 330 in designing audit procedures is appropriate. Paragraph 11 should include independence and ethical requirements for management experts. The current evaluation of the skills and competences of the expert should include independence and ethical requirements to avoid familiarity and advocacy threats.

Do you support our view that ED 500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor (Draft comment letter, appendix 1, solution to question 4). Please explain why or why not?

With technology being at the forefront of most organisations and nay in all our lives the mention of use of technology is necessary and relevant.

It has to be borne in mind that appropriate and correct methodologies should be used to obtain relevant and reliable audit evidence that is of a sufficient enough level of persuasiveness. This has to be at the core of the mission and objective of the audit team.



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Technology is used to varying degrees at audit firms and the fact that its open and flexible is a positive knowing that the capacity to maintain and adopt technology is not at the disposal of all.

Do you support our view that the application material in ED-500 appropriately reinforces the exercise of professional skepticism in obtaining and evaluating audit evidence (Draft comment letter, appendix 1, solution to question 5). Please explain why or why not?

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

Do you support our view that the revised audit evidence definition and the usage of input output model when assessing the authenticity of audit evidence is relevant (Draft comment letter, appendix 1, solution to question 6). Please explain why or why not?

The revised "audit evidence" definition is more definitive on the purpose of the information but fundamentally is no different from the previous definition. Notwithstanding we support the proposed more concise definition which informs that information needs to be subject to audit procedures to take the form of audit evidence.

The input-output model does adequately reflect the starting point of audit evidence up to the point where it crystallises to come up and form the body of actual audit evidence necessary in producing a quality and correct audit opinion.

Do you support our view that the ED 500 application material appropriately describes the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence (Draft comment letter, appendix 1, solution to question 7). Please explain why or why not?

The depth with which these three aspects are discussed is adequate and appropriate. The 3 items are inter-woven and require discussion in the same vein hence this was helpful. Further the risk response aspect and persuasiveness is explained clearly.

Do you support our view that the material in ED 500 supports an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence (Draft comment letter, appendix 1, solution to question 8). Please explain why or why not?

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The only concern is with the principles-based approach to judgments. Judgments could either be wrong due to the risk assessment being incorrect or due to the human and experience factor but with the review process and the iterative nature of evaluation this may be mitigated.

Do you support our view that the separate conditional requirement to obtain audit evidence about the accuracy and completeness of internally generated information is appropriate (Draft comment letter, appendix 1, solution to question 9). Please explain why or why not?

Internally generated audit evidence is not on the surface of it independent hence the additional scrutiny with which it is viewed. A greater degree/level/threshold of professional scepticism is required and as much as we concur with ascertaining accuracy and completeness of it, other factors like integrity of those responsible for that information and their link to management, intentional or unintentional bias and over-reliance being placed on such information could lead to material misstatements. We believe that should internally generated information be used as audit evidence, faithful presentation and prudence (particularly with estimates (goodwill, impairment, virtual currency holdings, other intangibles and items that speak to the integrity of management and those charged with governance) should be the guiding over-arching basis of judgment. In as much as accuracy and completeness are factors the underlying financial information needs to be true and fair hence the net has to be cast further afield and consideration of other factors will have to take centre stage, with equal weight and prominence. Where internally generated information is used as audit evidence

Do you support our view that the new “stand back” requirement, which requires the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding the audit is appropriate (Draft comment letter, appendix 1, solution to question 10). Please explain why or why not?

The stand-back provision is another opportunity for the Auditor to evaluate (take stock) and assess the quality and sufficiency of the audit evidence obtained. It does not end with simply collecting information, evaluating for relevance and reliability and then reporting but rather should involve the auditor critically evaluating the audit evidence and concluding if the evidence supported the conclusions reached. To this end the stand-back requirement is positive.

In closing the loop does entail the auditor also considering the design and performance of appropriate audit procedures? What may be required is a principle-based, tailored checklist approach across all material line items. Does this need to be documented and what form will it

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take. Without encouraging tick-box adoption at this stage the auditor could evaluate upon planning and gathering information and also at the finalisation stage.

Do you support our view that there are no other matters that ED 500 should attend to now (Draft comment letter, appendix 1, solution to question 11). Please explain why or why not?

The concepts introduced by ED500 are clear and relevant. The principles-based approach should be adaptable to a wider area than merely technology particularly so businesses evolving in their markets and with the advent of non-traditional forms and methods of finance and a push for everything to be digital. With the afore-mentioned in mind over and above professional scepticism, challenge of those charged with governance and management cannot be extricated. For, in the absence of adequate and appropriate challenge of those that are accountable to shareholders (whose interest the auditor serves and who appoint the auditors) familiarity and overlooking critical elements is bound to occur. Documentation of challenge is equally critical and the ability to refute (where appropriate) management views is what is required for enhancement of audit quality and its growth.

We believe that there may be changes required in other standards that have a bearing of ED500 and these need to easily be assimilated as part of the proposed conforming and consequential amendments to other ISAs whenever they arise to keep relevant and equip the auditor with the necessary knowledge to ensure that audit requirements are fulfilled based on a standard applicable to all for uniformity and understanding.

Do you support our view that we do not need any translations in the Zimbabwean context of ED500 and also supporting the view that the effective date for the standard to be implemented would be for financial reporting periods beginning approximately 18 months after approval of the final ISA is appropriate (Draft comment letter, appendix 1, solution to question 12). Please explain why or why not?

ED 500 can easily be adopted in Zimbabwe without any translations necessary except that due to the complex nature of local financial reporting and to ensure that the needs of user requirements of those financial statements are met, there needs to be enhanced diligence and greater scepticism on a transaction level basis.

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Otherwise, the purpose and scope and all the proposed conforming and consequential amendments to other ISAs will be easily assimilated on the individual engagement basis, firm and regulatory basis.

18 months from 1 July 2023 to 31 December 2024 for full adoption and implementation of the standard is reasonable.