

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, 10017
USA

05 April 2023

Comment letter relating to the IAASB's "Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs"

Dear Board Members,

1. The Irish Auditing and Accounting Supervisory Authority (IAASA) appreciates the opportunity to comment on the IAASB's Exposure Draft "Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs" issued in October 2022.
2. IAASA is the independent statutory body in Ireland responsible for oversight of the audit profession and adoption of standards on auditing, professional ethics and internal quality control, as well as the inspection and promotion of improvements in the quality of audits of public interest entities.
3. IAASA is committed to improving audit quality through the adoption of high-quality auditing and professional standards. In addition, IAASA seeks to ensure that audits appropriately meet the needs of the market.
4. This response builds on the comments raised in our letter dated 31 May 2019 relating to the IAASB's proposed strategy for 2020-2023 and work plan for 2020-2021.
5. IAASA is a member of the Committee of European Auditing Oversight Bodies (CEAOB). Our response also includes findings identified during inspections of PIE audits recorded in the CEAOB findings database where the related deficiencies are not addressed in the proposed revisions to ISA 500, as well as standard deficiencies identified and reported by the inspection teams of CEAOB members relating to audit evidence.

Overall comments and concerns

6. IAASA supports the IAASB's initiative and efforts to understand and consider issues related to audit evidence.
7. We particularly support the objectives pursued by the IAASB:
 - To modernise the standard to be adaptable to the current business and audit environment, in particular while considering a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques; and

- To emphasise the importance of professional scepticism of the auditor.
8. However, we wish to express our concerns on the proposed ED as we disagree with various proposals.
 9. The assessment of the appropriateness and sufficiency of audit evidence cannot be treated in isolation, and is central to the determination of the scope and extent of audit procedures required by the ISAs.
 10. According to the CEAOB findings database, audit engagement findings identified by regulators during inspections of PIE audits frequently refer to audit evidence. These findings include those relating to ISA 500, which is one of the top three most cited audit standards for inspection findings in the CEAOB database.
 11. We further note that, based on the collation of deficiencies in the auditing standards identified by CEAOB inspection teams, ISA 500 was flagged as requiring improvement, along with ISA 501 Audit Evidence – Specific Considerations for Selected Items, ISA 505 External Confirmations, ISA 520 Analytical Procedures, ISA 530 Audit Sampling and ISA 330 The Auditor’s Responses to Assessed Risks.

Narrow scope of current audit evidence project

12. The proposed amendments relate to ISA 500 with only minor amendments to other audit evidence standards. The level and recurrence of findings in the CEAOB findings database points to a need for an in-depth analysis of audit evidence related issues, covering all the standards on this topic.
13. Our comment letter dated 3 June 2019 relating to the IAASB’s proposed strategy for 2020-2023 and work plan for 2020-2021 stated that the audit evidence project should cover refining the provisions on materiality, audit sampling, and analytical procedures.
14. The other audit evidence standards listed in paragraph 11 also required consideration. We have included some more detailed comments with regards to those other standards in the appendix attached to this letter.

Reduction of specificity in the requirements

15. We do not agree with your statement that the requirements in the ED are stronger because the standard is principle-based and applicable to all audit procedures. We believe that implementation of the proposed principles-based requirements alone will not achieve the IAASB’s aims. Some of the proposed amendments are likely to lead to application problems as they do not provide sufficient direction for auditors. This will lead to a lack of consistency in how the standard is applied both between auditors and across jurisdictions. It will also cause significant challenges for regulators to enforce a standard that is open to a range of interpretations. The requirements need to be strengthened and more detailed in order to improve audit quality.
16. While application material, guidance and illustrations are useful, they are not a substitute for requirements in the body of the standard. In this context, we have identified in this letter a number of areas in the proposed application material that should be made mandatory in order to ensure audit quality.

Professional judgment and professional scepticism to be further emphasised

17. 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.
18. We thus strongly urge the IAASB to reinforce the requirements in the standard, as proposed in the “specific comments” section below.

Specific comments

Definitions

19. The definition of audit evidence should state that it relates to all information, irrespective of the source. While this is explained in both the explanatory memorandum and application material, this point is too important to only be in the application material.
20. The language in paragraphs A1 and A2 of the ED is not fully consistent with the definition of audit evidence. While paragraphs A1 and A2 of the ED state that audit evidence is “primarily obtained from audit procedures” or “obtained through designing and performing audit procedures”, the definition of audit evidence in paragraph 7 is “information to which audit procedures have been applied”.

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

21. The requirement to design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence (Paragraph 8 of the ED) should be linked to the requirements to design and perform audit procedures responsive to the assessed risks in ISA 330, The Auditor’s Responses to Assessed Risks.
22. In addition, this section should deal with the audit procedures to be performed in order to classify from “information” as “audit evidence”.

Information Intended to Be Used as Audit Evidence

23. The concept of “persuasiveness” is extremely important. Explaining this concept and its interrelationship with the sufficiency and appropriateness of audit evidence in the application material only is insufficient. Assessment of the persuasiveness of audit evidence should be required as it is the case for relevance and reliability.
24. In addition, the attributes of reliability to be examined by the auditor for each type of information (i.e. accuracy, completeness, authenticity, bias, credibility as stated in paragraph A56 of the ED) should be added to the requirements of the standard and not just included in the application material.
25. Paragraph 10 of the ED is a separate requirement focused on the attributes of completeness and accuracy. However, the difference in the terms used in paragraph 9 of the ED (i.e. “evaluate the relevance and reliability of information intended to be used as audit evidence considering the attributes applicable in the circumstances”) and paragraph 10 of the ED (i.e. “obtain audit evidence about the

accuracy and completeness”) is confusing and could lead to the risk that the auditor pays less attention to the three other attributes (authenticity, bias and credibility). If an attribute has been determined as applicable, the same level of requirements should apply.

26. Removing the distinction between internal and external sources of information in extant ISA 500 may lead to a less critical approach by auditors to internal sources of information, particularly information produced by the entity. It is important to draw the auditor's attention to and require vigilance on internal sources of information and on information produced by the entity in the requirements of the standard, not just in the application material.
27. We also believe that there should be a separate requirement on the importance of the relevance and reliability of audit evidence obtained from external sources of information. This was an important consequential amendment to ISA 540 (Revised), drawing auditor's attention to non-reliable external sources of information. Further, we believe that paragraph A42 of extant ISA 500 provides clearer guidance on the procedures to be performed and the term “external source of information” should be kept in the definition section of the standard.
28. Paragraph A57 of the ED references ISA 200 on accepting documents and records as genuine, unless there is ‘reason to believe’ the contrary. We question whether ‘reason to believe’ is a too high threshold and whether a consequential amendment to ISA 200 should be considered. Further, the work effort required here is unclear and could be better explained.

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

29. The requirement of extant ISA 500 to evaluate the appropriateness of the management expert's work should be retained. In addition to the CEAOB inspection findings raised in instances where the appropriateness of a management expert's work has not been sufficiently evaluated by auditors, some CEAOB inspection teams have suggested the standard should contain more prescription on the depth of the procedures required to come to a conclusion on appropriateness.
30. Additionally, paragraph 11(b) does not state (as noted in paragraph 54 of the explanatory memorandum) that the auditor is required to understand the underlying information that has been prepared by management's expert, including understanding the assumptions and data the expert used. While paragraph A74 of the ED mentions examples of matters the auditor “may” consider, the requirement in paragraph 11(b) should be strengthened and require the auditor to understand the underlying information prepared by management's expert including understanding the information, assumptions and methods used. The requirements should prevent overreliance by auditors on management experts' information as sufficient audit evidence.
31. In addition, “obtaining an understanding” only, as required by paragraphs 11(b) and (c) does not provide any guarantee on the relevance and reliability of the information.

Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence

32. Where the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence further work is necessary. Therefore we suggest replacing the requirement to ‘determine

whether modifications or additions to audit procedures are necessary' by 'determine what additional audit procedures are necessary and perform those procedures' in paragraph 12(a) of the ED.

Evaluating the Audit Evidence Obtained

33. In light of the distinction between 'information' and 'audit evidence', we suggest clarifying that all information should be assessed in light of the requirements in paragraph 13(b) and 14 of the ED. Even information on which no audit procedures are performed should be assessed for consistency, and follow up should be done on any inconsistencies identified between audit evidence and other information known by the auditor.

Conforming and consequential amendments arising from proposed ISA 500 (Revised)

34. As part of the conforming amendments, ISA 501 should be updated to:

- reflect the example provided in paragraph 5 of Appendix to the ED regarding the use of automated techniques to perform inventory counts; and
- set out additional requirements and guidance when the auditor uses such remote observation techniques to perform inventory counts.

I hope that you find the comments useful. Please do not hesitate to contact me if you have any questions.

Yours faithfully



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Appendix 1 – Areas of potential improvements related to audit evidence identified in other standards

ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

The standard should provide an additional requirement requiring the auditor to maintain control over the lawyer's letter of inquiries process in call cases. Paragraph 10 of ISA 501 currently only requires this in the two situations specified in the standard.

The standard should also clarify that the lawyer's response to the auditor's inquiries alone does not represent sufficient audit evidence to validate the accuracy of a provision or a disclosure for complex and significant litigation.

ISA 505 - EXTERNAL CONFIRMATIONS

The standard should require that, in specific cases, even where external confirmations have been received directly by the auditor, the auditor should perform additional procedures in order to consider the information included in the confirmation responses as reliable (i.e. confirmation alone cannot be considered as sufficient audit evidence).

In addition, the standard should explain that for confirmations from custodian banks or inter-company confirmations evidence of reliability is obtained if the effectiveness of the process to prepare the confirmation responses is known and tested.

When performing alternative audit procedures due to non-response to a confirmation request, the standard should require the auditor to obtain external audit evidence where possible. If only internal audit evidence is available, the standard should require the auditor to reduce the reliance put on these procedures.

ISA 520 - ANALYTICAL PROCEDURES

The standard should provide additional guidance to better explain how to determine the amount of difference from the expectations that can be accepted without further investigation (i.e. the "threshold").

The standard should also clarify if and when such an amount can be above the overall materiality.

ISA 530 - AUDIT SAMPLING

The standard should give practical examples of sample calculations and sampling methods.

The standard should provide guidance to help the auditor in the determination of the tolerable misstatement, especially when a financial statement line item consists of multiple accounts that are all subject to individual non-statistical sampling.

ISA 330 - THE AUDITOR'S RESPONSES TO ASSESSED RISKS

The standard should clarify that, where tests of controls are performed during the interim period, audit evidence shall be obtained for the remaining period if there have been significant changes in the design and implementation of controls after the interim period.

The standard should also clarify whether the threshold for selecting material classes of transactions, account balances and disclosures under ISA 330 paragraph 18 is the materiality for the financial statements as a whole or the performance materiality.

The links with ISA 315 need to be strengthened by:

- Providing additional guidance and illustrative examples of situations where substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level;
- Providing additional guidance on how the sliding scale of risks impacts the level of audit evidence necessary; and
- Defining and explaining the different categories of controls (i.e. manual controls, automated controls and semi-automated controls) and by providing additional guidance on the nature and extent of audit procedures that the auditor can put in place to test the IT general controls and IT application controls.

The standard should provide additional requirements on audit documentation that should be retained in the audit file when using audit tools and techniques, including but not limited to the memorandum outlining the findings and conclusions and the way the tests using audit tools and techniques have been performed.