



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**

MINISTERO DELLA GIUSTIZIA

Il Presidente

EdN/INT/gp

Rome, 24 April 2023

Tom Seidenstein
IAASB Chair

Filed via the website

Subject: Proposed International Standard on Auditing 500 (Revised): Audit Evidence

Dear Mr Chair,

CNDCEC is pleased to provide its comments on the proposed International Standard on Auditing 500 (Revised): Audit evidence.

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

ED-500 comprises a concise "Requirements" section, and an extensive "Application and other explanatory material" section.

The input-output models together with the stand back approach will lead to an increased reliability of the audit work, but also to a greater amount of work for both the auditor and the audited entity, besides higher risks of objections to the work carried out, raised by authorities, regulators and judicial bodies.

You will find hereunder the answers to overall and specific questions. Thank you for the opportunity to comment.

Best regards,

Elbano de Nuccio

Overall questions

1. *Is the purpose and scope of ED-500 clear? In this regard:*
 - a. *Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?*
 - b. *Are the relationships to, or linkages with, other ISAs clear and appropriate?*

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

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.

2. *What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?*

2 – If, on one hand, applying the input-output principle to the audit evidence is expected to lead to an improvement of the audit results, on the other, the fact that the information may become audit evidence only when subject to audit procedures requires more work and generates higher risks that the audit work is called into question, since every information included in the working papers and used by the auditor as audit evidence shall be evaluated. For these reasons, we suggest introducing in the standard a greater diversification and scalability of the evaluating activities to be carried out by the auditor based on the different nature of the audit evidence used. For example, bank statements or other documents from third parties that should be tested, or the objections (i.e. due to the lack of additional testing procedures on the acquisition of documents) that could be made to the auditor by authorities, regulators and judicial bodies.

3. *What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?*

3 – As already pointed out, the application material is extensive and very detailed, thus supporting the quite concise requirements. However, we believe that some requirements could have been further developed, in particular, those dealing with the results obtained from automated procedures and the related automation bias.

4. Do you agree 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, including the use of automated tools and techniques?

4 – Partially agree. Regarding the use of technology, ED-500 is strongly principle based, and deals with to technology mostly in the application material (§A.3 e A.4). However, there is a slight lack of clarity on the procedures the auditor should perform with reference to the evaluation of the audit evidence obtained from the use of such technologies (data analytics, machine learning, AI, etc.) that are affecting, and will affect more and more in the future, the audit activity.

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

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)

Specific Questions

- 6 Do you support the revised definition of audit evidence? In particular, do you agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it?

Yes, we do, but only partially, since we have some doubts about the model. It is undeniable that it enhances the reliability of the audit evidence, but there is need to pay attention to the fact that the auditor does not have enforcing power in obtaining the information and testing it using other procedures. In addition, the input-output model could lead to a greater responsibility assigned to the auditor in obtaining audit evidence and to the risk of objection raised by authorities, regulators, and judicial bodies. In addition, the model will require the employment of more resources both for the auditor and the audited entities and management representations may lose “weight” and value. Finally, useful illustrations could be provided with reference to the circumstances in which there is no need to document the evaluation of the relevance and reliability of the audit evidence since it is unquestionable.

7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness, and persuasiveness of audit evidence?

7 - Yes. We found particularly useful the example in ED-500, A.17, on the interrelationship between the type of audit procedures and their value as audit evidence and the example in A.24 about the persuasiveness of the audit evidence obtained through the audit procedures designed and performed by the auditor. So, it becomes more and more important to define the right combination of procedures to be performed.

Also, the paragraph on the Automation Bias is very useful, and we believe it could be successfully incorporated in the “Requirements” section of the standard.

8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?

8- *Yes, in general, we think ED-500 will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence*

9. *Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?*

9- *Yes. Paragraph 10 requires the auditor to obtain audit evidence about the accuracy and completeness of the information, in particular those generated internally on which the audit regulators expect the auditor to do more work. Paragraph 12 establishes that in case of doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall reconsider the procedures performed otherwise he/she could experience limitations, however we wish that IAASB will provide more specific case-studies also based on the inspection findings from audit regulators mentioned in the explanatory memorandum.*

10. *Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?*

We generally agree. Specifically, paragraph 13 emphasizes the exercise of professional skepticism requiring the auditor 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”. However, such requirement will oblige to employ more resources to obtain both corroborating and contradictory audit evidence. Also in this case, we suggest considering that the auditor does not have enforcing powers and then could not be able to obtain such audit evidence.

11. *Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.*

No

Request for General Comments

- 12 *The IAASB is also seeking comments on the matters set out below:*

- a. *Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.*
- b. *Effective Date—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*

12, a) *No potential translation issues to report.*

12, b) *We agree with the time frame as indicated.*