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Friday, 14 April 2023

Mr. Willie Botha
Program and Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue,
New York, New York 10017 USA

Via online submission: www.iaasb.org

Dear Willie,

The IAASB's Proposed International Standard on Auditing 500 (Revised) Audit Evidence

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 170,000 members working in over 100 countries and regions around the world. We welcome the opportunity to provide a submission on the Exposure Draft: Proposed International Standard on Auditing 500 (Revised) and Proposed Conforming and Consequential Amendments to Other ISAs (ED-500). We make this submission on behalf of our members and in the broader public interest.

We commend the IAASB for its efforts in undertaking this important project to enhance the requirements in ISA 500 *Audit Evidence*. Given this is the first project as part of the IAASB's efforts to modernise the 500 series of ISAs, we suggest that the IAASB ensures cohesiveness and consistency across all ISAs as this, and other projects, are undertaken.

We are of the view that ED-500 proposes a principles-based standard which sets out the overarching principles and requirements relating to audit evidence. Whilst we are supportive of the IAASB's overall objective of retaining a principles-based approach, we believe there is scope for developing and issuing further guidance in support of the standard.

Our detailed responses to the questions raised in the consultation paper are provided in the **Attachment** to this letter.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please Tiffany Tan, Audit and Assurance Policy Lead at tiffany.tan@cpaaustralia.com.au.

Yours sincerely,

Dr Gary Pflugrath FCPA
Executive General Manager,
Policy and Advocacy



Attachment

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?

Overall, we are of the view that ED-500 proposes a principles-based standard which sets out the overarching principles and requirements relating to audit evidence. Whilst we are supportive of the IAASB's overall objective of retaining a principles-based approach, we have received some feedback from stakeholders on specific proposals in the consultation. That feedback is that:

- although it is implicit that the future revisions of the other ISAs in the 500 series will support ISA 500 as a framework standard, it's difficult to assess the sufficiency and appropriateness of the proposals in ED-500 as the basis for a framework standard until we can assess the revisions proposed to the other relevant ISAs that complement ISA 500.
- the objective of ED-500 includes the evaluation of *'information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained'*. This overlaps with the requirements in ISA 330 *The Auditor's Responses to Assessed Risks* (ISA 330) to evaluate and *'conclude whether sufficient appropriate audit evidence has been obtained'*. Further distinction between ED-500 and ISA 330 on this matter is recommended to avoid duplicated work effort.

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?

We are of the view that that the proposed revisions in ED-500 will lead to enhanced auditor judgements when obtaining and evaluating audit evidence. We believe specifically stating 'Professional Judgment and Professional Scepticism' at the beginning of ED-500 will further emphasise and remind auditors about the importance of exercising professional judgment and maintaining professional scepticism throughout the planning and performance of the audit. Additionally, we are also supportive of the proposed requirement in the last bullet point in paragraph 4, as it is critical for auditors to consider not only whether some audit evidence obtained is consistent and corroborates other audit evidence, but as is equally important, for auditors to consider whether some audit evidence obtained is inconsistent or contradicts other audit evidence.

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

While noting that ED-500 should ensure the continuation of a principle-based standard, some of our stakeholders have raised concerns about the balance between requirements and application material (AM). For example, some key concepts such as 'attribute of the relevance of information' and 'reliability of information' in the AM could be moved to requirements or included as part of the definition of 'Appropriateness'. Additionally, concern has been raised that some of the material in AM could lead to a checklist-based approach. To avoid this, we suggest moving some of the more granular guidance included in AM (e.g., reference to automation bias in paragraphs A22 and A33) to an appendix or non-authoritative implementation material.

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?

ED-500 notes that, since the standard needs to withstand an evolving audit environment that includes increasing use of technology, it should accommodate, rather than being prescriptive about, the use of technology. Whilst we appreciate the rationale behind this approach, feedback we have received indicates that ED-500 has not dealt sufficiently with the use of technology in audit. We provide the following comments in this regard:

- There is a lack of practical guidance to illustrate **how** different automated tools and techniques can be used to perform audit procedures that are commonly applicable to entities, depending on the size of the entity. If such guidance cannot be included in the standard and AM, we recommend developing and issuing non-authoritative guidance material that

addresses the use of technology in obtaining audit evidence. This approach can facilitate more regular updates as technology and its use in audit evolves. For example, we see significant value in the non-authoritative support material, [Investigating Exceptions and Relevance of Performance Materiality When Using Automated Tools and Techniques](#), that was issued recently by the IAASB.

- We note that automated tools and techniques (ATT) are not defined in the ED-500, although a definition is included in the Proposed ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE). For consistency in understanding, we recommend that the definition for ATT be included in ED-500 and future revisions of other ISAs.
- We welcome the proposal to expand the scope of information that could constitute audit evidence, to include ‘digital information’ (paragraph A41). However, our stakeholders advised us that they felt that the concept of ‘digital information’ is not clearly articulated in the ED. ‘Digital information’ could broadly be categorised to include:
 - Digital data – information that is developed and/or stored within an IT system or obtained electronically from an external source
 - Digital documents – information which is obtained in electronic format, for example, an electronic confirmation
 - Information that has been transformed from its original medium into an electronic format, for example, a scanned version of an executed contract.
- Using different categories of digital information when obtaining audit evidence may require the auditor to perform different audit procedures to evaluate reliability. For example, with digital data the auditor may design audit procedures to test the effectiveness of controls over their accuracy and completeness. In contrast, inspecting underlying original documents to validate the authenticity of information in electronic form will be more appropriate as an audit procedure when evaluating the reliability of information that has been transformed from its original medium into a digital document. We recommend that the IAASB provides the distinction between, and clarity around, different audit procedures that may be required to evaluate the reliability of the different categories of ‘digital information’.

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

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’.

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?

Generally, we are supportive of the revised definition of audit evidence, and we believe the revised definition is an improvement over the extant definition. However, some of our stakeholders have expressed concern to us that the revised definition has a simplistic focus on the ‘input-output’ model, i.e., audit procedures are applied to information (the input) to arrive at conclusions (the output). We observe that gathering audit evidence is not just about undertaking audit procedures over information. For a more comprehensive definition of audit evidence, we recommend that the IAASB should expand on the definition to align it more clearly with the role of audit evidence as part of the audit process. This would include:

- obtaining appropriate (relevant and reliable) information where information could include corroborating and/or contradictory information
- applying effective audit procedures to the information obtained
- evaluating the sufficiency of audit evidence in order for the auditor to draw conclusions that form the basis for the auditor’s opinion and report.

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

The AM appropriately describes this interrelationship. We note that the concept of persuasiveness of audit evidence is in both ISA 200 and ISA 330. We are of the view that introducing the concept of persuasiveness into ISA 500 (paragraph A13) is appropriate and would better align with other ISAs. However, we recommend elevating the concept of persuasiveness of audit evidence to the requirements section, rather than being merely within the AM section.

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?

Consistent with our response to Question 1, to avoid duplicated work effort we urge the IAASB to clarify when, and under which standard (ISA 330 or ISA 500), the evaluation of the relevance and reliability of information needs to be performed.

We note that ED-500 proposes that the auditor should 'Evaluate' the relevance and reliability of the information to be used as audit evidence in contrast to the current requirement to 'Consider' the information. This change in verb suggests a higher level of work effort. Although paragraph 42 in Section 2-G of the ED seeks to explain that the intention is to create a robust evaluation of the relevance and reliability of information without causing any unnecessary burden on auditors, we do not believe paragraph 9(b) of ED-500 sufficiently clarifies the work effort needed. Accordingly, to avoid unnecessary burden on auditors in making this evaluation and to avoid any confusion around the appropriate level of work effort required, we recommend the IAASB either:

- include the IAASB's expectations in plain English (similar to the discussion in paragraph 42 of Section 2-G of the ED), in the AM section of ED-500; or
- maintain the status quo of 'Consider' as noted in paragraph 7 of extant ISA 500.

The IAASB should also consider including a reference to [Appendix 2: Work Effort Verbs of the IAASB Drafting Principles and Guidelines](#) in ED-500 (and in all other ISAs as they are updated in future). This will help to promote a common understanding of and awareness around the spectrum of work effort implied by commonly used verbs in the ISAs. It will also avoid inconsistencies in interpretation which could in turn result in inconsistency in work effort and audit documentation. For example, the work effort spectrum differs depending on whether the verb used requires the auditor to 'Remain alert to', 'Consider', 'Evaluate', 'Determine' or 'Conclude'.

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?

We agree with this separate conditional requirement, noting that accuracy and completeness are generally important considerations, particularly for information generated internally from the entity's information system. We are also of the view that there is helpful guidance provided in AM paragraphs A63 to A65, which reinforces the notion that professional judgement should be exercised when considering whether information possesses the attributes of accuracy and completeness.

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?

Overall, we are supportive of the new "stand back" requirement. We are of the view that auditors should "stand-back" and have checkpoints throughout the planning and performance of the audit. However, we are concerned about the potential duplication of work effort and documentation as a result of the "stand back" requirements in ISA 330 and as proposed in ED-500. Additionally, ED-500 does not include requirements and guidance about the form, content and extent of audit documentation required to meet the new "stand back" requirement. Further consideration of this issue and clarification is crucial to avoid duplicated work effort. Similar to our response to Question 8, we recommend that the IAASB clarifies its expectation in relation to the "stand back" requirement in the AM.

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.

We are concerned that the wording in paragraph 11(c) may have a dilutive effect on the responsibilities of the auditor when evaluating the information prepared by management's expert. The paragraph requires the auditor to 'Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements'. This requirement could be perceived as a lower-level requirement than is currently required in the extant ISA 500, that is, to 'Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion'.

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.**

We have no comments on this matter.

- 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.**

We agree with the proposed effective date.