

Proposed International Standard on Auditing 500 (Revised)
Audit Evidence (including proposed consequential amendments to other standards)

RESPONSE:

Name of Respondent:	Jamie Drummond/Gillian Morrison
Organization (<i>where relevant</i>):	PKF International
Country/Region/Jurisdiction:	Global

Overall Questions

1. Is the purpose and scope of ED-500 clear? In this regard:

Response:

In our opinion, the purpose and scope of ED-500 is clear.

We have one comment for the IAASB to consider in the 'Scope' paragraphs:

1) Paragraph 1 – Placement of Application Guidance Referencing

The Application guidance (A1-4), referred to in paragraph 1, supports the auditor's overall responsibilities relating to audit evidence and performing audit procedures. We recommend that the reference to these paragraphs is placed at the end of the first sentence, rather than at the end of the paragraph, to better reflect the overall subject matter.

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

Response:

We agree that the ED-500 provides an appropriate principles-based reference framework for auditors.

(b) Are the relationships to, or linkages with, other ISAs clear and appropriate?

Response:

In general, we agree that ED-500 appropriately addresses the relationships with and linkages to other ISAs.

In our opinion, paragraph 2 clearly highlights the linkage between ISA 500 (Revised) and ISA 200 and helps to put the objectives of ISA 500 (Revised) into context with the overall responsibilities of the auditor.

We would propose that the IAASB also considers the following:

1) Paragraph 3 – Reference to specific ISAs

To help clarify the relationship between ED-500 and other ISAs and to ensure that users understand that 'other ISAs' may need to be applied in addition to ED-500, to appropriately address specific matters, we would propose amending the wording in this paragraph as follows:

'This ISA is applicable to all audit evidence obtained during the audit. Other ISAs should be applied, in addition to ED-500, to address specific matters (e.g., audit evidence related to risk assessment procedures performed in accordance with ISA 315 (Revised 2019)).'

2) Paragraph 3 – Reference to ISA 330

For consistency, and to ensure equal prominence with the reference to ISA 200 in paragraph 2, we would propose promoting the following ISA 330 reference to combine it with paragraph 2:

'In addition, ISA 330 deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.'

An alternative option would be to create a separate paragraph (paragraph 3) to specifically address the above.

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

Response:

In our view:

- the application of ED-500 will help to enhance auditor judgments when obtaining and evaluating audit evidence.
- the principles-based approach provides auditors with a practical reference framework to apply when evaluating the information intended to be used as audit evidence and the quality of the evidence obtained.
- ED-500 requires the auditor to 'stop and think' about the quality of the information obtained for use as audit evidence and the new definition of audit evidence 'enforces' this requirement (i.e., it is explicit that information obtained cannot be used as audit evidence without the auditor performing certain procedures to evaluate that evidence first).

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

Response:

In our view, ED-500 has an appropriate balance between requirements and application 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?

Response:

We agree that the standard should not be prescriptive with respect to the use of technology and that the principles-based approach can be effectively applied to the use of technology.

However, we would challenge the IAASB to consider whether the ED-500 has gone far enough to actively promote and support the use of automated tools and techniques in performing procedures to collect audit evidence. There is no reference to automated tools or techniques within the main body of the standard itself with all references included in the application material and there are very few examples given.

The use and uptake of automated tools and techniques, as part of the audit process, continues to grow. However, adoption has not been universal, and some practitioners remain reluctant to shift away from traditional audit processes which do not make significant use of newer technologies. In our view, the IAASB should consider whether this reluctance could be partially attributable to the limited extent of promotion of technologies within the ISAs, which might, in turn, cause a perception that regulators are not supportive to the use by practitioners of such tools for collecting audit evidence. In this regard, we would propose that the IAASB considers whether ED-500 could do more to alleviate such concerns that may still exist within the profession and support firms in adopting a new approach involving the use of automated tools and techniques.

For example, we would propose that the 'Scope of the ISA' includes a reference to automated tools and techniques, highlighting the use of and 'acceptability' of these technologies within ED-500. The following amendment could be made paragraph 1:

'This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures, including those procedures that involve the use of automated tools and techniques. (Ref: Para A1-A4)'

We would also recommend that the IAASB includes more detailed examples that draw attention to or recognize the use of technology by the entity and by the auditor. References to automated technologies throughout the application guidance are general in nature, excluding the sections on auditor bias and automation bias. We would propose that different types of automated tools and techniques could be mentioned and demonstrated within the appendix when discussing the types of audit procedures.

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

Response:

We agree that the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism.

The addition of paragraph 4 within the 'Introduction', and its prominence within the standard, sets the tone for the auditor to adopt the required mindset when applying all of the requirements of ED-500.

Equally, the application guidance supports the auditor to apply professional skepticism when evaluating the 'information to be used as audit evidence' and the 'audit evidence'. For example, paragraphs 19-

23 include really clear examples of what to avoid to ensure that audit procedures are undertaken in a manner that is not biased.

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?

Response:

We agree and support the new definition and the ‘input-output model’.

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

Response:

In our view, the application material appropriately supports the interrelationship described above.

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?

Response:

In our view, the requirements and application material in ED-500 should help 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?

Response:

In our view, the separate requirement for ‘completeness’ and ‘accuracy’ gives these attributes undue focus and attention, which may or may not be merited, depending on the nature and purpose of the audit procedure and the information being evaluated. We are concerned that this may result in auditors inadvertently paying less attention to other important attributes.

We recommend that the IAASB reconsiders their decision to have a separate conditional requirement and propose that these 2 attributes are given prominence within the application guidance (A56). They may also consider it appropriate to include examples which provide context to why ‘completeness’ and ‘accuracy’ are important and should be considered by the auditor under certain circumstances.

An alternative approach would be for the IAASB to maintain requirement 10 but to consider adding a similar paragraph which addresses the requirement to obtain audit evidence about authenticity, bias and credibility attributes.

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?

Response:

We agree that it is appropriate to have a “stand back” requirement within the proposed ED-500 but we would recommend that the IAASB provides more extensive guidance to help auditors apply this requirement in practice.

Specifically, we would like the IAASB to clarify whether requirement 13(b) applies to all audit evidence gathered and evaluated at the end of the audit or whether it is intended to apply to the audit evidence obtained from each specific audit procedure performed.

Where this requirement is to be addressed at the end of the audit, we would recommend that the IAASB includes more guidance to help the auditor understand how to apply this requirement in practice. Given that audit evidence will already have been evaluated when performing specific audit procedures, we would recommend that the IAASB provides more examples of procedures that may be performed to evaluate the overall audit evidence obtained.

Alternatively, if the IAASB intends this requirement to apply only to the evidence obtained from specific audit procedures, we would recommend that they clarify how this differs from requirement 9.

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.

Response:

We would like to raise the following matters for consideration by the IAASB:

1) Paragraph 6, ‘Objectives’

We would propose that the IAASB consider updating the structure and wording of the ‘Objectives’ paragraph. Objective 6(b) is a new objective and whilst we agree with its purpose, we recommend that the IAASB review the placement of this objective relative to the extant objective (6a), to ensure that the stages of an audit are represented clearly and accurately. We propose the following wording:

‘The objectives of the auditor are to:

- (a) Design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining information intended to be used as audit evidence;*
- (b) Evaluate 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; and*
- (c) Draw reasonable conclusions on which to base the auditor’s opinion [and report] from the audit evidence obtained.’*

2) Paragraph 7, ‘Definitions’

The term, *‘Information intended to be used as Audit Evidence’* is explained within the application guidance (A34) of ED-500. In our opinion, as this is a new term and as the understanding of this term is critical to the effective application of this standard, a definition should be included within the main body of the standard.

We recommend including a definition with paragraph 7, such as:

‘Information intended to be used as audit evidence –

Information obtained in various forms and from various sources, that may become audit evidence after applying audit procedures, including evaluating the relevance and reliability of the information.'

3) Paragraph 8(b) and Application guidance A24-33

ED-500 includes a requirement in paragraph 8(b) whereby, 'the auditor shall design and perform audit procedures, the nature, timing and extent of which are appropriate in the circumstances'. This requirement contains a reference to application guidance (A24-33). However, whilst paragraphs A24-33 provides useful guidance on the 'nature' and 'extent' of the audit procedures, there is no guidance provided on 'timing' of these procedures. We recommend that the IAASB re-evaluates whether guidance on 'timing' should also be included in these application notes.

4) Paragraph 12 and 14

Paragraph 12 requires the auditor to consider whether modifications or additions to audit procedures are necessary when there are doubts about the relevance or reliability of information to be used as audit evidence. It also requires the auditor to consider the effect on other aspects of the audit if the doubts cannot be resolved.

Similarly, paragraph 14 requires the auditor to consider what modifications or additions to audit procedures are necessary to address inconsistencies in audit evidence obtained and to consider the effect on other aspects of the audit.

We recommend that the IAASB reviews whether to include a requirement for the auditor to consider the effect on the audit report where doubts about the relevance or reliability of information cannot be resolved and/or where inconsistencies in audit evidence cannot be overcome.

We recognize that the application guidance (A93) addresses inconsistencies in information with conclusions on a significant matter but would propose that the IAASB considers if this is sufficient to address all circumstances.

5) Application Guidance – A18

We noted a small omission of a closed bracket within the final sentence.

6) Application Guidance A18

We recommend that the IAASB reconsiders the wording of the following sentence in order to clearly reflect its intention, '*For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs*'.

We suggest revising the wording as follows:

'For an audit procedure to achieve more than one purpose, the auditor must comply with the requirements of the relevant ISAs'.

7) Application Guidance – A48

We noted a small omission of a space between sentences 2 and 3, within bullet point 2.

8) Application Guidance – A79

We noted a possible error in paragraph A79, which discusses, '*evaluating the relevance of information with regards to the period of time to which it relates*'. This paragraph is cross referenced to application guidance (A54). In our view, this should be paragraph A55.

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.

Response:

We do not have any comments to share 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.

Response:

We agree that the proposed timeline provides a sufficient period to support effective implementation of the revised standard.