April 24, 2023

International Auditing and Assurance Standards Board

Re: Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs

To the Board:

Crowe LLP appreciates the opportunity to comment on Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs (the Proposed Standard).

General Observations

We agree there is an overarching need to modernize the audit evidence standard, in light of changes in the auditing environment and advances related to technology. It is important that the approved standard is flexible enough to support its continued application, even as forms and sources of audit evidence and ways to perform audit procedures evolve based on developed and emerging technology. We also agree the final standard should be principles-based and allow for sufficient auditor judgment when evaluating information to be used as audit evidence.

We believe it is important for the International Auditing and Assurance Standards Board (IAASB) to coordinate and collaborate with other standard-setters and consider recently issued standards. Minimizing differences in standards reduces complexity for auditors and is likely to enhance audit quality.

Overall Questions

Q1: Is the purpose and scope of ED-500 clear?

A: Yes, the purpose and scope of the Proposed Standard are clear.

Q1(a): Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

A: Consistent with a principles-based standard, we believe the auditor should focus on evaluating the persuasiveness of audit evidence and the appropriateness of audit procedures. To achieve that, we believe there should be less focus in the auditing standards on the categorization and classification of audit procedures. One audit procedure can satisfy more than one objective and have more than one intended purpose. As an example, we believe that a properly designed audit data analytic can be both a risk assessment and substantive audit procedure. While paragraph 36 in the Explanatory Memorandum of the Proposed Standard states “The IAASB is of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which “category” the audit procedure falls).” We recommend...
that this view be more explicitly reflected within the Proposed Standard and application guidance, with appropriate references to ISA 330. We believe that conforming amendments should be made to ISA 330 to clarify that as the auditor determines their response to assessed risks of material misstatement, it is not necessary to categorize the planned audit procedures. These amendments should be clear that an audit procedure can satisfy more than one objective and have more than one intended purpose.

Further, paragraph 42 of the Explanatory Memorandum states: “The IAASB’s intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable).” We believe this could be more clearly stated in the standard; see our response to Question 8 below.

Q1(b)? Are the relationships to, or linkages with, other ISAs clear and appropriate?

A: We believe that there could be an unintended consequence to expect a more consistent assessment of authenticity by the auditor, based on its inclusion in the table in paragraph A56 along with other attributes such as accuracy and completeness. As noted in paragraphs A50 and A57, ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, guides the auditor to identify risks related to authenticity of information. We believe that this attribute is generally only relevant when a specific risk exists causing the auditor to determine that authenticity needs to be addressed. Paragraph A58 also presents authenticity as a more frequently applicable or common attribute.

In addition, see our response to Question 10 below, related to the new “stand back” requirement in the Proposed Standard.

Q4: 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?

A: What is provided in the Proposed Standard with respect to technology is sufficiently flexible for auditors to apply. While we appreciate the concepts included in the Proposed Standard related to technology, we encourage the IAASB to continue to advance its other projects related to technology, such as in the areas of audit data analytics and other automated tools and techniques. As previously noted, the issued standard should be future-proof to remain fit-for-purpose considering the continuous evolution in how technology impacts the sources and forms of audit evidence and the performance of audit procedures.

We believe that sufficient and appropriate audit evidence can be obtained both by the use of traditional audit procedures and via the application of technology in the audit. We agree that in some circumstances an automated tool and technique may be more effective or provide more persuasive audit evidence than manual procedures. For example, technology may allow the auditor to perform a more robust risk assessment or to efficiently apply further audit procedures to entire populations (vs. on a sample basis) to obtain more persuasive audit evidence. We note there is an emphasis on automation bias in the application guidance, over the other types of bias described in the Proposed Standard, based on the inclusion of additional paragraphs A22 and A23 specifically on automation bias. This emphasis may discourage the use of digital information or automated tools and techniques in the audit. In the Application Material, we recommend that risks discussed related to the use of technology in the audit (such as the risk of automation bias) be balanced with a similar amount of content explaining the benefits that can be obtained by the use of technology in an audit.
Specific Questions

Q6: 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?

A: We conceptually agree with the “input-output model,” in that something must be done to information obtained in order to utilize that information as audit evidence. However, we believe that there is a potential unintended consequence of stating that “information can become audit evidence only after audit procedures are applied to it” of a perception that the auditor has to apply audit procedures as described in the Appendix of the Proposed Standard, in order to satisfy this requirement. Our concern is increased by the content in Paragraph A34, which states “information can become audit evidence only after audit procedures are applied to it, including evaluating its relevance and reliability.” In many cases, we believe that procedures performed to evaluate the relevance and reliability of information obtained can alone be sufficient to turn it into audit evidence without applying additional audit procedures. Our recommendation is to instead utilize language requiring the auditor to “evaluate the information, taking into account the relevance and reliability, including its source, as necessary in the circumstances.”

Q7: Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?

A: Yes. However, as stated in our response to Q1 above, we believe that the final standard should be explicit that the auditor is not required to categorize or classify each audit procedure in order to make conclusions about the persuasiveness of audit evidence.

Q8: 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?

A: The Proposed Standard may unintentionally drive a checklist approach by referring in Paragraph 9(b) to “attributes that are applicable in the circumstances” and providing a tabular list of specific attributes of relevance and reliability. We note that paragraph 47 in the Explanatory Memorandum states “... the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.” Paragraph 48 notes “ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.” Further, paragraph 42 of the Explanatory Memorandum states “The auditor’s professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures”. We agree with these statements in the Explanatory Memorandum; however, these principles-based statements are not clear in the Proposed Standard. To avoid misinterpretation and consistent with our response to Question 6 above, we recommend language requiring the auditor to “evaluate the information intended to be used as audit evidence, taking into account the relevance and reliability, including its source, as necessary in the circumstances.” Guidance can indicate that the auditor should exercise professional judgment in determining what attributes are applicable in the circumstances, based on how the information will be used in the audit.

Q9: 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?

A: Yes, we agree with the separate conditional requirement related to accuracy and completeness, when read with the application guidance provided in paragraphs A63 and A64. However, paragraph 10 wording may be impacted by changes we believe are needed to paragraph 9(b) as noted in our response to Question 8 above. The driver of applicability of the paragraph 10 requirement is, based on the source of the information and its intended use, does the auditor need to focus on accuracy and completeness as part of evaluating the reliability of the information, in order to use it as audit evidence.
Q10: 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?

A: Paragraph 13 of the Proposed Standard requires an evaluation of the audit evidence obtained as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330. Paragraph 60 of the Explanatory Memorandum notes that this evaluation is intended to be performed at the same level as the auditor’s conclusion on whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330. We are not clear what the incremental requirement is in paragraph 13(a) of the Proposed Standard, and therefore it is not clear what the auditor is expected to document to evidence compliance with this requirement. We believe there is an unintended consequence for an expectation for the auditor to document the conclusions required by paragraph 13 at the audit procedure / audit evidence level.

Request for General Comments

Q12(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.

A: Firms will need sufficient time to update tools, methodology, and guidance to comply with the revised standard. We recommend that the final standard be effective no earlier than 24 months after the approval of the final standard.

We would be pleased to respond to any questions regarding our observations noted within this letter. If there are any other questions regarding this subject, please contact Kyle Owens at 630.575.4265 or kyle.owens@crowe.com or Linda Poeschel at 630.586.5268 or linda.poeschel@crowe.com.

Sincerely,

Crowe LLP