



IAASB CONSULTATION ON ISA 500 (REVISED), AUDIT EVIDENCE

Issued 21 April 2023

ICAEW welcomes the opportunity to comment on the IAASB's Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to other ISAs, published by the IAASB on 24 October 2022, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at tdaf@icaew.com quoting REP 33/23.

This response of 21 April 2023 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 18,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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KEY POINTS

OVERALL OBSERVATIONS

1. The proposals will lead to enhanced consideration of the relevant attributes of information intended to be used as audit evidence. This will have a direct impact on audit quality and will enhance auditor focus in this area. However, the proposals have introduced some new concepts which may not have a direct impact on audit quality as they may not produce a material change in behaviour, such as the 'stand back' proposal that is discussed in our response to question 10 below.
2. Revising ISA 500 was intended to address the use of technology in obtaining audit evidence and we are disappointed this has not been included within the proposals, and therefore the revisions as a whole may not have met the initial intended objective. The proposals do not address the current issues surrounding the use of technology in audits, for example the type of evidence that can be obtained from technological sources or technology-based testing approaches. However, we note the high-quality technology-based examples given in the application guidance.
3. We have serious concerns about the ability of the auditor to obtain evidence about the accuracy and completeness of external information, when those attributes are deemed applicable. We suggest making it clearer that for external information, where accuracy and completeness are relevant, but it is not possible to obtain evidence in respect of these attributes, the auditor may focus on credibility of the external information instead.
4. There is inherent circularity within paragraph 10 whereby in evaluating the relevance and reliability of information, the auditor is required to obtain audit evidence, but evidence is defined as information to which auditors apply audit procedures to. In order to close this loop we suggest updating paragraph 10 to state that '*the auditor shall evaluate the accuracy and completeness of the information*'.

ANSWERS TO SPECIFIC QUESTIONS

Question 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?

5. Yes, the proposals do provide an appropriate principles-based reference framework for auditors when making judgements about audit evidence. However the proposed treatment of completeness and accuracy is a departure from a fully principles-based approach to the consideration of the attributes of relevance and reliability. Please also see our response to question 9. This framework may not shift the dial on behaviour and therefore may not produce a material change to audit quality improvement.
6. The proposals were intended to address the use of technology in obtaining audit evidence, however, as outlined within our response to question 4, more needs to be done to effectively address this issue.

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

7. Yes, the relationships to, and linkages with, other ISAs are clear and appropriate except for the 'stand back' requirement in relation to ISA 330 that is discussed in our response to question 10 below.

Question 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?

8. Yes, the proposals will lead to enhanced auditor judgement when considering the relevant attributes of information intended to be used as audit evidence. However, please see our

response to question 9 outlining our concerns over obtaining audit evidence over accuracy and completeness specifically.

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

9. The proportion of application material compared to the requirement has increased from the extant ISA, however the application material does include useful interpretations and examples. Please see paragraphs 17, 20, 21 and 25 for specific suggestions on the inclusion and exclusion of items within the requirements and application material.

Question 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?

10. No, we are disappointed that the proposed revisions to ISA 500 do not go far enough to address the current issues surrounding the use of technology in audits, for example the type of evidence that can be obtained from technological sources or technology-based testing approaches. However, we note the high-quality technology-based examples and we further recommend including an additional appendix that deals specifically with the use of technology in audits. This would include examples of procedures and techniques etc., and could be updated regularly to keep up with evolving technology.
11. We acknowledge the Board's work plan proposal to undertake a technology omnibus project, and we acknowledge the content within current staff guidance documents, but these are not visible enough. Therefore, we support work to constructively find a way to make this material more visible.
12. As the use of technology evolves, auditors are seeking increased direction from regulators and standard setters regarding the role of technology in obtaining audit evidence through international authoritative standards. By avoiding the issue, standard setters make auditors responsible for developing their own approaches and methodologies, or following conflicting local guidance, which leads to increased inconsistency across international networks.

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

13. Yes, the proposals and application material appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence.

Question 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?

14. Yes, we agree in principle with the 'input-output model' however, clarification is required on the definition of audit evidence to outline the scope of information for which relevant attributes would need to be considered, in accordance with the requirements. These would set out that only information, which is initially planned to be used as audit evidence, will be considered, and not all information that might theoretically exist.
15. Clarifying the scope of information, as referenced in the definition, will help to address concerns about potentially excessive documentation when complying with paragraph 9. These concerns have been discussed further in our response to question 8 below.

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

16. No, this is not appropriately described within the application material. Persuasiveness should be included within the definitions. In order to meet CUSP guidelines, the concept of persuasiveness should also be included within the requirements. We suggest adding this to

paragraph 8(b) to state that procedures should be designed and performed that are appropriate in the circumstances to obtain persuasive audit evidence.

17. The concept of the interrelationships between sufficiency, appropriateness and persuasiveness in paragraphs A13 and A14 should have more prominence and be included within the introduction to the standard.
18. It would be beneficial to include a graph showing the correlation between appropriateness and sufficiency in achieving persuasiveness, which would explain the interrelationship more clearly. Supporting implementation guidance may be a good location for this graph.

Question 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?

19. Yes, the proposals will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.
20. However, further to our response to question 6 above, in addition to clarifying the scope of information to be considered, we suggest adding further application material covering the documentation of the consideration of potential information including its attributes, to ensure that documentation requirements are not excessive.
21. Considerations outlined within paragraph A50 should be brought into the requirements. We suggest including wording from ISA 230, paragraph A2, which would allow auditors not to document consideration of the relevant attributes for clearly credible information; for example, information from a central bank.
22. There is inherent circularity within paragraph 10 whereby, in evaluating the relevance and reliability of information, the auditor is required to obtain audit evidence, but evidence is defined as information to which auditors apply audit procedures. In order to close this loop we suggest updating paragraph 10 to state that *‘the auditor shall evaluate the accuracy and completeness of the information’*, rather than *‘The auditor shall obtain audit evidence...’*.

Question 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?

23. Yes, we agree in principle that auditors should obtain audit evidence about the accuracy and completeness of information, when those attributes are applicable, regardless of whether the information comes from an internal or external source.
24. However, we have strong concerns over the ability of the auditor to obtain evidence about the accuracy and completeness of external information, when those attributes are deemed applicable.
25. We suggest adding the principles discussed within A63 to paragraph 10 of the requirements to make it clearer that alternative attributes may be more pertinent, for example the reliability, including credibility, of external information.
26. We also suggest that paragraph 10 of the requirements should refer to paragraph 9(a), in addition to 9(b), to highlight consideration of the source of the information.

Question 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?

27. No. It is unlikely that the ‘stand back’ requirement in paragraph 13(a) will change current auditor behaviour as it is a duplicate of the extant requirement within ISA 330, we therefore suggest removing it. Any additional ‘stand back’ requirements should be addressed within ISA 330, and a plurality of ‘stand back’ requirements should be avoided.

28. The requirement in paragraph 13(b) should remain to emphasise consideration of non-corroborating or contradictory audit evidence. This requirement could be added to paragraph 14 for simplification.

Question 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.

29. Paragraph A27 8(b) states that ‘the auditor may use various approaches to identify and select items for testing’. The word ‘identify’ is not included within the extant requirement and is not defined.
30. An interpretation of this guidance is that auditors can identify riskier items in a population and then select a sample from that population. If this is the intended purpose of the application material this would be very valuable to auditors, but this is currently unclear.
31. Paragraph A27 8(b) would benefit from a technology-based example whereby audit software is used to identify riskier items in a population. Please also see our response to question 4 above.

Request for General Comments

Question 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.

32. The circularity issue referred to in our response to question 8 above is highly likely to result in inconsistent translation and therefore application.

(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.

33. Yes, the proposed effective date will give a sufficient period to implement the new ISA.