

Reference #774417

24 April 2023

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
10017 USA

Submitted electronically at www.iaasb.org

Dear Willie

SAICA's Comment letter on the IAASB'S on Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa. We currently have approximately 47 000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee and its related project groups, representing members in practice and academia. We requested members of the working group to provide additional inputs to the comment letter.

The SAICA Assurance Guidance Committee (AGC) reviewed and approved the comment letter.

We welcome the opportunity to comment on the IAASB'S Exposure Draft for Proposed International Standard on Auditing 500 (Revised) *Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-500). We wish to express our appreciation for the work of the IAASB's Task Forces (IAASB Task Force) in addressing the fundamental topic of audit evidence.

Accompanying this cover letter, please find the comments prepared by SAICA on the Proposed International Standard on Auditing 500 (Revised) Audit Evidence.

Our comments have been provided under four sections:

- A. Overall comments.
- B. Responses to overall questions.
- C. Responses to specific questions.
- D. Responses to request for general comments.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Angel Sithole (Angels@saica.co.za).

Kind regards



Thandokuhle Myoli
Executive: Audit and Assurance

A. OVERALL COMMENTS

1. SAICA welcomes the efforts of the International Auditing and Assurance Standards Board (IAASB) in issuing ED-500, as the new requirements for audit evidence are designed to strengthen the auditor's approach to gathering audit evidence during the planning and performing of an audit and to clarify the interaction between ED- 500 and the other International Standards on Auditing (ISAs).
2. We acknowledge that the IAASB aims to achieve the following objectives with regards to the proposed amendments:
 - Clarify the purpose of ED- 500 and how it relates to the other ISAs.
 - Modernize how the standard deals with the variety of information available to an auditor, and the various sources of such information.
 - Recognize the use of technology, both in the context of:
 - An entity's use of technology in preparing the financial statements and in generating other underlying information; and
 - The auditor's use of technology in performing audit procedures.
 - Clarify the concept of sufficient appropriate audit evidence.
 - Emphasize the auditor's responsibility to exercise professional scepticism.
3. SAICA agrees with the overall principles included on the ED- 500. ED- 500 brings about a comprehensive approach and framework on gathering audit evidence, thus it is important that detailed application guidance is provided to ensure that there is a level of consistency across all audits and that firms do not develop audit methodologies that are too divergent or even contradictory.
4. SAICA has provided detailed responses below to the questions that were asked by the IAASB. Please refer to the section below for the details:

B. RESPONSES TO OVERALL QUESTIONS

5. 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?

5.1 Yes, for the reasons stated below, SAICA is of the view that ED-500 provides an appropriate principle-based framework for auditors when making judgements about audit evidence.

5.2 In evaluating relevance and reliability, the ED provides clear guidance regarding the auditor's consideration of:

- The source of the information (see paragraphs A47-A51); and the attributes of relevance and reliability of the information that are applicable in the circumstances (A52-A61)

ED-500 provides attributes which can be considered by the auditor when determining whether the audit evidence is relevant and reliable while allowing the auditor to make their own judgement as to whether all or some of the attributes are applicable.

- When considering the relevance of audit evidence, the principle in ED-500 is that the auditor needs to consider the end purpose of the procedure; whether the information meets the objective and purpose which the audit procedure seeks to achieve; whether there is a logical link between the information and the procedure and related assertion. The auditor also needs to consider the level of detail required and extent of time to which the information relates.
- For reliability, the standards provide attributes relating to whether the information is free from error, is authentic, complete and can be trusted. All these are principles to be considered by the auditor while still maintaining an independent mindset to assess if all the principles are applicable or not, without clouding the auditor's judgement.
- The principle-based framework allows the auditor to get to a conclusion by evaluating all criteria deemed to appropriate in the circumstances, given the objective of the audit procedure, while maintaining their professional judgement.

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

5.3 Yes, SAICA noted that there was an appropriate number of references to, and extractions from, the other relevant ISAs for example ISA 330, 315 etc. We believe an experienced auditor will be able to understand the relationships and linkages to the other ISAs.

5.4 We specifically noted the decision to maintain the additional guidance for selecting items for testing in ED- 500, and the link to paragraph A47 of ISA 330. This is appropriate to keep the selection of items in ED- 500, provided the link from ISA 330 to ED-500 is clear, as an auditor is likely to closely associate the sample size with the design of the audit procedure. The relationships or linkages with other ISAs are clear and appropriate.

5.5 ED-500 still includes the link to other ISAs where specific matters with regards to audit evidence are considered. and the link to the auditor's overall conclusion on whether sufficient appropriate audit evidence has been obtained is also appropriately referenced in ED-500.

6. 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?

6.1 Yes, we are of the view that the proposed revisions will lead to enhanced auditor judgments when obtaining and evaluating audit evidence. The revised approach will assist in highlighting some of the subconscious considerations and judgements applied by auditors in considering information to be used as audit evidence.

6.2 Some of the public interest issues raised during the development of ED-500 related to the form, content and extent of audit documentation when performing the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

6.3 ED-500 does not include guidance or good practices on how to document auditor judgement. We are of the view that there is an opportunity to include principle-based considerations to enhance the auditor's ability in documenting their professional judgement or an inclusion of good practices that auditors can consider in resolving doubt when applying judgement to ensure appropriate and sufficient documentation.

6.4 It is not always clear how the auditor can articulate their professional judgement in their documentation to allow another experienced auditor to come to the same conclusion, due to the subjective nature of judgement.

6.5 We therefore recommend that the IAASB provide clarity on the application material of ED-500 with regards to, what should the auditor consider when documenting their professional judgement or practical example of what best practice documentation one would include when applying professional judgement.

6.6 By allowing the auditor to apply their judgement when considering the criteria that affect relevance and reliability, may enhance audit quality.

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

7.1 Yes, ED- 500 has an appropriate balance. The requirements are kept short and straightforward, with several practical examples provided in the application material. This achieves a good balance between the requirements and application material.

7.2 When reading the standard, it is necessary to read the requirements of the standard including the application material for an auditor to understand and apply the revised ED. This should assist in enhancing audit quality.

8. 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?

8.1 Yes, we agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principle- based approach that is not prescriptive but accommodates the use of technology.

8.2 The evolving nature of technology and continuous drive for increased digital transformation within the work environment brings about the need to consider the use of technology by the entity and the auditor. ED-500 needs to be fit for purpose while addressing the evolution in technology.

8.3 Making ED-500 to be adaptable to the current business and audit environment, and to better reflect the digital era, while not being prescriptive with respect to the use of technology, but rather accommodating the use of technology by the auditor or the entity is a good balance.

8.4 ED-500 does not have some of the non-authoritative guidance previously provided by the IAASB on information technology. There are some stakeholders who had expectations that ED-500 would address some key questions driven by the increasing use of technology in the audit, including, amongst others, the nature and sufficiency of evidence obtained when testing entire populations using automated tools or techniques, and how to address outliers in such circumstances.

8.5 The IAASB has separately published non-authoritative guidance on the use of technology in the audit, which has, to some extent, sought to address these questions. The fact that ED-500, as an authoritative standard, does not address the questions raised on the non-authoritative guidance as part of the application material may be a disappointment to some stakeholders.

8.6 Another aspect which may be tied into the standard, not currently covered, is the auditor's responsibility and safeguards for the use of Artificial Intelligence (AI) during the audit. The auditor will need to have a clear policy in place for the use of AI and establish procedures to verify authenticity of working papers and audit evidence.

8.7 We are of the view that the application material could be expanded to include examples of types of automated tools and techniques and how these can be used as part of obtaining audit evidence.

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

9.1 Professional skepticism is defined in the ISAs as “*An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence*”.

- When dealing with professional scepticism, it is important for the auditor to understand the following key elements: mindset, attributes and action.
- **Mindset:** The auditor is required to conduct the audit with the necessary integrity and good faith.
- **Attributes:** have the necessary knowledge, skill and ability to perform the audit.
- **Action:** importance of performing a robust risk assessment and responding to the risk.

9.2 ED-500 Emphasises the importance of professional skepticism, including when:

- Designing and performing audit procedures in a manner that is not biased; (**Mindset**)
- Evaluating the relevance and reliability of information intended to be used as audit evidence; (**Action**) and

9.3 Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. (**Attributes**)In addition to the above, the application material in ED-500 appropriately reinforces the exercise of professional scepticism. Paragraph. 12 is a good place to include a reminder relating to professional scepticism, as it is currently only addressed in the application material and not in the requirements.

9.4 Based on the above we are of the view that the requirements and application material in the ED-500, appropriately reinforce the exercise of professional scepticism. The inclusion of the recommendation included in paragraph 9.5 above will further reinforce the exercise of professional scepticism.

C. RESPONSES TO REQUEST FOR SPECIFIC COMMENTS

10. 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?

10.1 The ED-500 updated definition of audit evidence is: Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor’s opinion and report.

- 10.2 ED-500 requires that information (i.e., the “input”) needs to be subject to audit procedures to become audit evidence (i.e., the “output”). The application material explains the concept of information intended to be used as audit evidence.
- 10.3 ED-500 includes a principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence while applying professional judgement on the applicability of the proposed attributes.
- 10.4 The revised definition provides a clear understanding of when information can be regarded as audit evidence and when it can be considered as part of an audit conclusion. We therefore support the definition and agree with the “input/output model”.
- 10.5 The proposed revisions should encourage a more active consideration by auditors about the information they intend to use as audit evidence and whether appropriate procedures were performed to the information before using it as audit evidence.

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

- 11.1 Yes, the application material appropriately describes the interrelationship of sufficiency and appropriateness of audit evidence.
- 11.2 ISA 330 par 7(b) requires an auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk of material misstatement. ED-500 introduces the concept of persuasiveness but not a definition of the term.
- 11.3 ED- 500 has additional application material (paragraphs A6-A9 of ED-500) to explain the interrelationship of these concepts, including factors that may affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness.
- 11.4 We are of the view that this leaves a gap of inconsistent application of the principle based considerations of persuasiveness due to subjective interpretation of the application material which may lead to inconsistency.
- 11.5 We suggest that the IAASB clarifies the concept of persuasive audit evidence in the application material by including the examples of good practice and elaborating on the concept of persuasiveness and further indicating the purpose of this concept as part of the application material.
- 11.6 This will help the auditor to understand the concept of persuasive audit evidence and ensure consistency amongst auditors. The auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by several factors, including the persuasiveness of the audit evidence.

12. 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?

12.1 Yes, the application material on the evaluation of the relevance and reliability of the information being used as audit evidence provides the auditors with detailed guidance and practical examples which may be considered when performing the audit procedures on information intended to be used as audit evidence.

12.2 The focus of the requirements and application material is to drive behaviours that support an appropriate evaluation of information intended to be used as audit evidence. A broader question is whether the focus on the relevance and reliability of “information” as opposed to the relevance and reliability of “audit evidence” will better support audit quality.

12.3 There will inevitably be questions about the nature and extent of work, and documentation thereof, related to the consideration of attributes of relevance and reliability. This is likely to include:

- a) in what circumstances are certain attributes expected to be applicable. how much work is needed to evaluate relevance and, more particularly, reliability, based on the nature and source of the information (scalability); and
- b) how to avoid a checklist mentality to the consideration of such attributes.

12.4 Included in the application material is an example in A59 – we are of the view that it would also be useful if the example is expanded for a no ROMM scenario, i.e., no further testing will be done on the listing as part of substantive testing – how much work should be done on the listing used as part of risk assessment procedures only.

13. 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?

13.1 Yes, we 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.

13.2 The IAASB included a separate conditional requirement (paragraph 10 of ED-500) for the auditor to obtain audit evidence about the accuracy and completeness of information if such attributes are applicable in the circumstances in accordance with paragraph 9(b).

13.3 The conclusion was that the separate requirement highlights the importance of considering the accuracy and completeness of information, particularly information generated internally from an entity’s information system, and is responsive to inspection findings from audit regulators.

13.4 There is also application material (paragraphs A63-A65 of ED-500) to explain circumstances in which the auditor may consider the attributes of accuracy and

completeness to be applicable in the circumstances, and how audit evidence about accuracy and completeness may be obtained.

13.5 We agree with the IAASB that the inclusion of a separate conditional requirement to obtain audit evidence about accuracy and completeness of information when the attributes are applicable is appropriate, given the importance of considering if the information obtained is free from error and includes all relevant events, circumstances, and attributes, which becomes even more critical when dealing with internally generated information from the entity's information system.

13.6 We are of the view that completeness and accuracy will not always apply and will depend on the nature of the information and the circumstance. Paragraph 10 highlights this properly and, using the guidance material, the auditor is provided with further clarity and examples of when to consider these criteria. We recommend that further guidance be provided with regards to documentation to enable the auditor to apply these criteria appropriately.

14. 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?

14.1 Yes, we agree with the proposed inclusion of the new “stand back” requirement. ED-500 makes the distinction of the quality of audit evidence depending on the relevance and reliability of the information intended to be used as audit evidence. In addition, paragraph 9 and A14 speaks to the sufficiency of the audit evidence leading to the persuasiveness of the audit evidence making it an alternative process.

14.2 However to avoid mis-interpretation, we are of the view that clarity needs to be provided as to what is the objective of the stand back and what type of information should the auditor consider when applying the stand back requirement.

15. 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. 21

15.1 There is an opportunity to add further guidance on the rapidly changing IT environment as part of the application guidance. There are different types of complex technology aspects and changes that auditors need to consider in the complex IT environment as part of the audit process i.e., artificial intelligence (AI).

15.2 A practical guidance document may assist the auditors in gathering audit evidence to address potential IT bias. The IAASB may provide further clarity on the following:

- A42. Third bullet, it is not clear how doing this procedure closer to the reporting date will assist where AI is used. This evidence would need to come from controls. AI of this nature continuously changes and updates, therefore substantive evidence may be less effective.
- A64. Third bullet under the example. It is not easy to follow the accuracy and completeness considerations. Is it the listing supporting the selections or the selection itself? This depends also in what context the journal is being tested. ISA 240 or substantive procedures addressing a specific assertion.

Request for General Comments

16. The IAASB is also seeking comments on the matters set out below:
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.

16.1 N/A – the IAASB standards are not translated in South Africa.

17. 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.

17.1 Yes. We are of the view that the proposed effective date is appropriate to be set 18 months after approval of a final ISA.