

The International Audit and Assurance Standards Board

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Submitted Electronically

12th April 2023

Dear Willie Botha,

Proposed International Standard on Auditing 500 (Revised) Audit Evidence

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon *Proposed International Standard on Auditing 500 (Revised) Audit Evidence*.

Overall, we are supportive of the IAASB's objectives when revising ISA 500 to ensure that the purpose and scope of the standard is clear, appropriate links are made to other ISAs, automated tools and techniques are appropriately incorporated, and that ISA 500 emphasises the importance of professional scepticism. We recognise that there is an element of challenge in doing so as the extant version of the standard is admirable concise and clear.

We agree:

- That the balance of new requirements and application material is appropriate. With the wide range of possible sources of audit evidence available it is logical to take a principles-based approach to requirements, with additional application material to support auditors in making judgements about information intended to be used as audit evidence.
- That the proposed ISA 500 appropriately reinforces the role of professional scepticism when making judgements about information intended to be used as audit evidence, as it is a key factor in ensuring auditors are able to collect sufficient appropriate audit evidence.

Whilst we understand the logic underpinning the revised definition of audit evidence, we are concerned that in some instances the application of the "input/output model", whereby information can become audit evidence only after audit procedures are applied to it, could lead to an overly contrived approach to considering information and subsequent documentation. The new definition appears to encourage a mechanical, process driven approach to audit evidence rather than the application of professional judgement, and we strongly suggest the IAASB retains the current definition. Without this change, we are concerned that the revised text will not effectively meet UK regulatory requirements.

We are also concerned about the new material relating to accuracy and completeness of information intended to be used as audit evidence. We understand that the accuracy and/or completeness of information obtained externally from reputed sources may represent a lower risk than that of information obtained from other sources, we are concerned that the current drafting of the proposed standard presents this as a binary choice between performing procedures or not. In reality the auditor should consider the amount of work required for them to be comfortable regarding the accuracy and completeness of information on a case-by-case basis, where the internal/external nature of the information is only one factor. We believe the IAASB should review this approach and consider re-drafting the relevant sections.

Our detailed responses to each of the IAASB's consultation questions, including any further enhancements we propose, are set out in Appendix 1. If you have any questions about our response or wish to discuss any of our observations in more detail, please contact me, Jason Bradley (j.bradley@frc.org.uk) or Keith Billing (k.billing@frc.org.uk) by e-mail.

Yours Faithfully

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Appendix 1: Response to the questions set out in the Exposure Draft

Overall Questions

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?

- We are supportive of a principles-based reference framework for making judgements about audit evidence. We have specific detailed comments on some aspects of the proposed ISA, most notably on the new definition of audit evidence (see our response to Q6) and the material on how auditors should consider completeness and accuracy of information intended to be used as audit evidence (see our response to Q9).

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

- Yes, we agree that the relationships and linkages are clear and appropriate.

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?

- The extant version of ISA 500, paragraph 6, contains a strong, positive requirement that “The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.” This paragraph is frequently cited in enforcement cases in the UK and “appropriate in the circumstances” is a key enforcement tool that is applied when auditors have not designed and performed audit procedures in an appropriate manner when obtaining sufficient appropriate audit evidence.
- In the proposed ED 500, the equivalent paragraph is paragraph 8, which expands on extant paragraph 6. However, in expanding extant paragraph 6, the critical phrase “appropriate in the circumstance” (for the purpose of obtaining sufficient appropriate audit evidence) has been lost. In this regard we feel strongly that extant paragraph 6 should be reinstated.
- We continue to support the emphasis on the auditor’s responsibility to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory. However, as the emphasis on the nature, timing and extent of those procedures being designed and performed to meet the intended purpose is explained very well in paragraph A25, we do not feel it is necessary to repeat this point in the requirement.

- Accordingly, we offer the following alternative approach to paragraph 8 to address our concerns:

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

New8. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

8A. ~~For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall~~ In designing and performing audit procedures in accordance with paragraph NEW8, the auditor shall do so in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory: (Ref. Para. A15–A18)

~~(b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. (Ref. Para. A24–A33)~~

- We are unclear how paragraph 8 interacts with the requirements in ISA 315 and ISA 330. In particular, audit procedures must be designed to appropriately identify and assess risks as well as respond to the assessed risks of material misstatement and as such the brief references in the application material in our view, are not sufficient. We therefore suggest that the IAASB expand on the application material to make it clearer that paragraph 8 relates to all audit procedures, i.e audit procedures designed and performed in planning *and* performing the audit engagement.

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

- The FRC agrees that the balance between requirements and application is appropriate, given the wide range of potential sources of audit evidence. In these instances, principles orientated requirements with additional detail including in application material is the most appropriate to allow for flexible and adaptable approaches to obtaining audit evidence which can be more easily tailored to the circumstances of individual audit engagements.

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?

- We are supportive of additional clarity being provided on the use of automated tools and techniques. However, the wording of A22 and the characterisation of automation bias should be considered again. Bias is an issue not just for information generated by “automated systems” but also for simpler tools or techniques such as data analytics. As such we suggest the following wording in to ensure that other systems are appropriately captured:

“Digital Information or information that has been generated by means of automated systems, or through the application of automated tools or techniques may give rise to a risk of automation bias”

- Additionally, A23 does not mention training which is often the key factor in ensuring technology is deployed appropriately in audits. We suggest the IAASB considers adding in material on the importance of appropriate training to help avoid automation bias.

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

- We agree that the addition of paragraph 4 appropriately reinforces the need for auditors to exercise professional judgment in obtaining and evaluating audit evidence. We concur that given the vital importance of exercising appropriate professional scepticism in the course of obtaining audit evidence, and the fact that many recent UK enforcement proceedings have found a lack of scepticism, it is worth re-stating here.
- We encourage the IAASB to address professional scepticism directly within paragraph 12, as the exercise of professional judgment where there are doubts about the relevance and reliability of information intended to be used as audit evidence is vital.

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?

- We understand the logic underpinning the revised definition of audit evidence but are concerned that in some instances the application of the “input/out model” (that information can become audit evidence only after audit procedures are applied to it) could lead to an overly contrived approach to considering information. The new definition appears to encourage a mechanical, process driven approach to audit evidence rather than the application of professional judgement as to what does and does not constitute audit evidence. There is also a lack of clarity as to what does and does not constitute an “audit procedure” - for example there is no clarity on what could fall within “other audit procedures” in the third bullet point of paragraph A2, which by implication must be something other than described in the previous bullet points.
- The addition of “*to which audit procedures have been applied*” appears to be intended to confirm explicitly that the auditor is doing something with or to information before it becomes audit evidence. However, absent any consideration of the effectiveness of the procedures and the outcome of them it potentially does not add anything of substance to the definition.
- We suggest that the IAASB retains the current definition of audit evidence – information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based - and moves some of the new material on applying audit procedures to application material to aid auditors in considering audit procedures in more complex situations, where the type of audit procedure being applied is less obvious or requires

greater judgement. Without this change, we are concerned that the revised text will not effectively meet UK regulatory requirements.

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

- We agree that the application material generally describes the interrelatedness of sufficient, appropriate and persuasiveness appropriately, for example paragraphs A6 and A9 are clear and helpful. We do however believe that additional material should be included that either defines persuasiveness in the context of the ISAs or provides additional guidance on how this factor should be considered.

This is because the concept is discussed in the same context, and sometimes with equal weighting, as sufficiency and appropriateness (as discussed in paragraph 28 of the explanatory memorandum accompanying the proposed ISA) but it is not defined in the same way. The IAASB should consider how they might add additional clarity to the concept of persuasiveness.

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?

- We are supportive of the material included on evaluating the relevance and reliability of information, with the exception of the separate conditional requirement relating to accuracy and completeness as discussed below.
- A27-A33 is helpful material, but A33 should be positioned before the material on selecting specific items (A30 – A32) as we have encountered firms incorrectly performing audit testing when treating non-representative samples as though they are representative, leading to concerns around the sufficiency of audit evidence.
- A29 includes material on the use of automated tools and techniques to apply an audit procedure to all items in a population but does not discuss data quality or include considerations for auditors in relation to completeness. Ensuring completeness of the population being tested is vital when selecting all items for testing, particularly where automated tools and techniques are being utilised.
- A35 appears to be unnecessary application material as it stands to reason that what information is available affects how relevant it is, as evidence which does not exist could not possibly be relevant. We suggest that the IAASB deletes this paragraph.

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 are concerned about the new material relating to accuracy and completeness of information intended to be used as audit evidence, particularly paragraph 10 and the supporting material in paragraph A63. Whilst we understand that the accuracy and/or completeness of information obtained externally may ordinarily be less of a risk than that of information obtained internally from the entity themselves, we are concerned that this is presented as a binary decision in ED-500, to perform procedures or not, but we cannot envision a scenario where accuracy and/or completeness would not be important attributes on which the auditor would perform some procedures.

For example, if information is obtained externally, we would expect the auditor to consider, at the very least, the nature of the source, their reputation, and the training and qualifications of the source where it is an individual. The work effort required to ensure the information is accurate and complete is likely to be less onerous for external than internal information, but we believe it must still be considered.

- As such, we do not support the wording used in paragraph 10, particularly the use of the verb ‘consider’ which is used only when a reflection by the auditor about a specific matter or relevant matters in the circumstances is required¹. Instead, we believe that the IAASB should introduce a more robust requirement to determine accuracy and completeness. In addition, paragraphs A1 to A4 of the extant ISA 500 have useful material which we believe could be helpfully combined with some of the new material to aid the auditor in considering accuracy and completeness.

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<p>10. If the auditor considers that the accuracy and completeness attributes are applicable in <u>In</u> accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information.</p>
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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?

- We are supportive of the new “stand back” requirement.

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 encourage the IAASB to review the material in A30 – A32, in relation to “Selecting specific items” to ensure it is consistent with widely understood statistical principles. A31 states that selecting specific items from a population “*does not constitute audit sampling*”, though the description of the process, to select specific items based on their characteristics, aligns with established definitions of non-statistical sampling as the auditor is still picking a subset of the population to examine, even if it is not a representative one.
- We believe there is great value in aligning auditing standards with common mathematical language as this would be simpler to understand and lead to better outcomes when, for example, considering the extrapolation of errors. The increasing prominence of data analytics in audit, and entry into the profession by an increasing number of students from analytics background compounds the benefit of aligning the terminology used in auditing standards.
- We support the material included in paragraph 11 (a) which describes the auditor’s responsibilities in relation evaluating the competence, capability and objectivity of a management expert but note that IESBA are starting a project on the independence of experts so encourage the IAASB to have early discussed with IESBA to ensure consistency.

¹ See [IAASB Drafting Principles and Guidelines](#)

- ISA 200 includes a lot of references to ‘audit evidence’. Given that ISA 200 is a foundational standard, it would be helpful to retain the definition there, conformed if/as necessary with the final revisions.

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.

- We do not have any comments in relation to potential translation issues.

(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 are supportive of the proposed effective date.