

International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017
USA

April 24, 2023

IAASB Exposure Draft : Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs

We appreciate the opportunity to comment on the Exposure Draft of Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs (ED-500).

The attached are our comments and observations.

We hope they provide useful input in finalizing the proposed revisions.

Yours sincerely,

Hidehiko Yuki
Executive Board Member, Auditing Standards
The Japanese Institute of Certified Public Accountants (JICPA)

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

Yes.

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?**

Refer to our comments on Question 8 below.

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

We believe that the balance between requirements and application material is appropriate.

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 believe that ED-500 is insufficient to reflect the use of technology and to make financial statement audits more effective and efficient. We suggest that other relevant standards related to the use of technology are to be revised in the future as well.

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

Yes.

Responses to 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?

Yes.

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

We consider the explanation of the interrelationships in paragraphs A5 and A6 are unclear in light of the following points.

- The last sentence of paragraph A5 states that "the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence." On the other hand, paragraph A6 states that "Sufficiency and appropriateness together affect the persuasiveness of audit evidence." It seems that explanations are circulating each other in these two paragraphs.
- We believe the term "persuasiveness of audit evidence" is used from two perspectives: (1) the persuasiveness "considered necessary by the auditor" as a result of risk assessment, and (2) the persuasiveness "provided by audit evidence" obtained after the audit procedures are performed. Clarifying the explanation by using these two perspectives would help to resolve the above circulation and to better explain the interrelationship between sufficiency, appropriateness, and persuasiveness. In other words, paragraph A5 could clarify the relationship by explaining the persuasiveness, which the auditor considered necessary as a result of risk assessment (i.e., (1) above), affects the auditor's determination as to what constitutes sufficient appropriate audit evidence. On the other hand, paragraph A6 could clarify the relationship from the perspective of (2) above by explaining the sufficiency (quantitative measure) and appropriateness (qualitative measure) of audit evidence, which are obtained as a result of performing audit procedures, affects the persuasiveness provided by the audit evidence. Furthermore, we would suggest deleting "taking into account the assessed risks of material misstatement and relevant assertions" in paragraph A6 to make the relationship clearer. This phrase is based on the perspective (1) above; however, the relationship is not clear if it is explained from both perspectives (1) and

(2) together at the same time.

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 believe it is important that additional explanations of the background and the IAASB's intention be provided as follows within and outside the ED-500, so that 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:

- In the extant ISA 500 "Audit Evidence," paragraph 7 requires the auditor to consider the relevance and reliability of information to be used as audit evidence, and paragraph 9 states, "when using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes" (underline added). On the other hand, paragraph 9 of the ED-500 requires "the auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence" (underline added). In other words, for information obtained from external sources, the wording has changed from "consider" to "evaluate" the relevance and reliability of the information, which can be read as enhancing the procedures that the auditor shall perform. However, we understand that this change addresses the diversification of information and aims to set principles-based approach applied to all information intended to be used as audit evidence so that the auditor makes appropriate professional judgments depending on the circumstances. We therefore understand that the IAASB's intention is not to significantly enhance the procedures with respect to the relevance and reliability of information obtained from external sources.
- Paragraph A63 of ED-500 explains that "the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information" (i.e., other than completeness and accuracy) with respect to the relevance and reliability of information obtained from a source external to the entity. We believe that additional guidance and examples should be provided in paragraph A63 of ED-500, given the potential practical difficulties in application of paragraph A63 of ED-500. We suggest that such additional guidance and examples include how the auditor should consider the attributes of accuracy and completeness. In particular, the guidance is necessary regarding under what circumstances the attributes of

accuracy and completeness is applicable to evaluate external sources in accordance with paragraphs 9 (b) and 10, and how to obtain audit evidence about accuracy and completeness of information if applicable.

- Furthermore, ED-500 should explain in application materials why a principles-based approach to both internal and external sources of information is needed, and should also explain scalability, particularly in assessing the relevance and reliability of external sources of information. Such additional explanation would help auditors better understand the intention of ED-500 and avoid unnecessary burdens against principles-based approach and the scalability. This approach is similar to application materials in ISA 315 (Revised 2019) “Identifying and Assessing the Risks of Material Misstatement” that explain “why” the requirements are needed, such as paragraph A14 which explains “Why Obtaining Audit evidence in an Unbiased Manner is Important.”
- In addition, we suggest that the underlined content of paragraphs 42 and 47 of Section 2-G of the Explanatory Memorandum (herein shown as below) should be included as a guidance in the application materials of ED-500. While paragraph A40 of ED-500 states, "this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information," the underlined contents in paragraphs 42 and 47 of Section 2-G are not described in detail in the requirements or application materials of ED-500. We are anxious that the way of thinking shown in paragraphs 42 and 47 of Section 2-G might not be sufficiently understood by auditors, resulting in unnecessary burdens on auditors, such as the use of the attributes in ED-500 as a checklist.

Paragraphs 42 and 47 in Section 2-G of the Explanatory Memorandum (underline added):

Para.42: (...) 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). The reference to “given the intended purpose of the audit procedures” in paragraph 9(b) of ED-500 addresses this scalability by indicating that 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.

Para.47: As described in paragraph 42 above, the IAASB cautioned against creating

an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, 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.

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?

Yes, we agree. In particular, we think it is useful to explain the situation where the auditor may be more focused on other attributes of reliability, such as credibility in the case of external sources (refer to paragraph A63 of ED-500).

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?

Yes, we agree.

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.

Yes. Refer to our comments below.

11-1: Inconsistency of description (paragraphs 7(c) and A66)

- There is an inconsistency between paragraph 7(c) and paragraph A66 in the description of the management’s experts. Paragraph 7(c) defines the management expert as “An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements” (underline added). On the other hand, paragraph A66 states, “Management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.” (underline added), which does not mention “auditing.” If there is no specific reason for the differentiation, we

suggest that the descriptions be consistent.

11-2: Clarification of the term “applicable” (paragraphs 9(b) and 10)

- As commented above, we agree with the concept of paragraph 9. It is important for the auditor to consider the attributes of relevance and reliability of information depending on the circumstances, and the consideration of the attributes of accuracy and completeness should not be required for all information.
- However, we believe that the meaning of the word "applicable" in paragraphs 9 and 10 needs to be clarified. Paragraph 9(b) states, “(...the auditor shall consider...) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures,” and paragraph 10 states, "If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information.” We believe that there is no case in which the accuracy and completeness of the information is not applicable at all, even if the information is provided by an external source. In other words, although degrees of applicability vary depending on the circumstances, the attributes of accuracy and completeness would always be applicable. We therefore believe that the use of the term "applicable" in paragraphs 9 and 10 may give an inaccurate impression that audit evidence for the accuracy and completeness of the information shall always be obtained.
- In order to avoid such misunderstanding, we suggest clarifying that the meaning of “the accuracy and completeness attributes” in paragraph 10 shown as above does not mean the nature of the information itself, but rather the attributes mean that the auditor is required to consider when evaluating the relevance and reliability of the information.

11-3: Reconsideration of wording (paragraph A3)

- The last sentence of paragraph A3 says, " For example, an automated tool and technique may be more effective in analyzing, processing, organizing, structuring or presenting large volumes of data or information” (underline added). On the other hand, the definition of audit evidence in paragraph 7(b) states, “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” (underline added). The phrase "data or information" in paragraph A3 may create a misunderstanding that data is different from information and therefore data is no longer included in audit evidence. We suggest that "or information" be deleted in paragraph A3 or change the wording to read,

"information such as data."

11-4: Consistent use of the term (Paragraphs A22, A41 and A61)

- Paragraphs A22 and A61 both use the phrase "Digital Information or information that has been generated by automated systems" (underline added), which is read as "Digital Information" or "information generated by automated systems" and they are two different technical terms. Paragraph A41, on the other hand, uses the phrase "Digital information, which includes documents in digital form and data stored in an IT system. Such digital information may be manually captured, converted into a digital format, or electronically generated." This sentence could be read such that "digital information" includes "information generated by automated systems." We suggest consistent use of the term "digital information" throughout the ED-500 since what is meant by "digital information" seems to be inconsistent.

11-5: Possible rewording (paragraph A47)

- The third bullet point in the example of paragraph A47 states, "The information may have been generated by an IT application that uses a highly complex programming language. The auditor may use an IT programming expert to assist in understanding how the information is generated" (underline added).
- We believe some of the difficulties in understanding the process of information generation are also caused by databases, network configurations, and other factors and not necessarily limited to programming languages. Therefore, we suggest using the term "system" instead of "programming languages" in paragraph A47.

11-6: Possible rewording (paragraph A50)

- The first sentence in paragraph A50 says, "The source and form of the information intended to be used as audit evidence" (underline added). However, we believe that "and form" should be deleted because paragraph A50 refers only to the source of information and referring to the "form" is irrelevant.

11-7: Clarification (paragraph A57: Reliability)

- The second sentence of paragraph A57 refers to the first sentence of paragraph A23 (paragraph A24 in ISA 200 of the 2021 Handbook) of ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" which states that "The auditor may accept records and

documents as genuine unless the auditor has reason to believe the contrary.” Although the relationship between "genuine" and "authenticity" is not clear, it can be interpreted from this statement that the attribute of authenticity need not be considered (or it is not applicable) in the assessment of reliability unless the auditor has reason to believe ingenuine. To make it clear, we suggest that a guidance be provided as to when the attribute of authenticity is applicable.

11-8: Additional example (paragraph A60: Use of Technology)

- We suggest adding "sources of information" to the list of other factors that affect the auditor’s professional judgment in paragraph A60. Paragraph A50 states, “The source of the information may also affect the auditor’s professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the auditor’s evaluation of the relevance and reliability of the information.” Therefore, we believe that adding “sources of information” as one of the factors in paragraph A60 would be consistent with the description in paragraph A50 and would better connect with paragraph A62.

11-9: Additional guidance (Use of Technology)

- We expect that the use of technology in auditing will continue to spread out. Given this in mind, we suggest additional application materials or implementation guidance that provides considerations or examples of procedures by categorizing the use of technology in broad perspective. For example, it could be categorized as (1) use of technology by auditor (e.g., AI assisted audit procedures) and (2) use of technology by entity (e.g., trust services such as electronic seal) being subject to audit procedures. We believe this will be useful for audit practice.

11-10: Terminology (Automated Tools and Techniques: ATT)

- Many of the technology related explanations or descriptions refer the term "automated tools and techniques (ATT)” and replacing words to “automated” are proposed often in the proposed conforming and consequential amendments to other ISAs. However, we are not certain whether all technology-based tools and techniques can be described as "automated" since they could also involve manual elements.
- Therefore, we suggest reconsidering the appropriateness of using the term "automated" and possibly changing it to another term, such as "technology-utilized tools or techniques," or clarifying the meaning of ATT in the standard. It is important to avoid

misunderstanding that an audit procedure using ATT does not require auditor's professional judgment or any other involvement.

11-11: Editorial comments – inconsistencies found in referenced paragraph numbers.

- Paragraph A36 refers to "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 (see paragraphs A52 - A61)", which should be (see paragraphs A48 - A52) and (see paragraphs A53 - A62), respectively.
- In footnote 34 of paragraph A57, the reference is to ISA 200, paragraph A23 (2020 IAASB Handbook), but based on the 2021 IAASB Handbook, it should be paragraph A24.
- Paragraph A79 refers to paragraph A54, but it should be paragraph A55.
- Paragraph A85 refers to paragraph A83, but it should be paragraph A84.

11-12: Inconsistent phrases

- The phrase "information intended to be used as audit evidence" (underline added) is used throughout the ED-500. However, in paragraph A51 of ED-500 and conforming and consequential amendment to ISA 540 (Revised) "Auditing Accounting Estimates and Related Disclosures," paragraph 30 does not include the term "intended" in the phrase (i.e., "information to be used as audit evidence." Unless they are intentionally used differently, the phrase should be consistently used throughout the standard.
- Paragraphs A69 states, "as management may have an influence on the professional judgments of the management's expert" (underline added) and paragraph A72 states, "A broad range of circumstances may influence the professional judgments of the management's expert" (underline added). Both refer to the professional judgment exercised by the management's experts; however, we are not sure if management's expert could exercise professional judgments. By definition in Glossary, "professional judgment" is a judgment exercised by an auditor or an assurance practitioner in the context of audit, review, or assurance engagement, and we understand it is not exercised by management's expert.
- The title of paragraph A76 is "Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 11(c))" (underline added). However, the relating requirements in paragraph 11 (c) states, "Obtain an understanding about" (underline added). Since 5.1.2 of the CUSP states, "Obtain an understanding of"

(underline added), it would be better to use "of" in paragraph 11(c) as well.

11-13: Consistency with the revision of ISA 570 (Revised)

- Given the fact that the current project for revision of ISA 570 (Revised) "Going Concern" includes use of information from sources external to the entity as one of the key issues to address, we would like you to make sure the consistency between ED-500 and revision of ISA 570 (Revised).

General Comments:

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

(a) Translations

No specific comments.

(b) Effective Date

We support the proposal that the timeframe between approval of the final standard and its application is approximately 18 months.

(End)