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International Auditing and Assurance Standards Board

International Federation of Accountants

529 5th Avenue

New York, NY 10017, USA

■ KICPA's comments on "Proposed ISA 500 (Audit Evidence) and Proposed Conforming and Consequential Amendments to Other ISAs"

The KICPA is pleased to have an opportunity to comment on the Exposure Draft issued by the International Auditing and Assurance Standards Board for Accountants (IAASB), regarding the Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs. KICPA is a strong advocate of IAASB for your relentless efforts to serve the public interest by setting high-quality international standards for auditing, assurance, and other related standards, and by facilitating the convergence of international and national auditing and assurance standards.

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-500. In this regard, comments will be most helpful if they are identified with specific aspects of ED-500 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-500, it will be helpful for the IAASB to be made aware of this view.

In general, the KICPA agrees with the proposals in ED-500. For some specific aspects of ED-500, please refer to our comments as described below.

Overall Questions

Q1. 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?

In our views, ED-500 provides an appropriate description of the auditor's responsibilities relating to audit evidence when designing and performing audit procedures (paragraph 1) and its link to other ISAs (paragraph 3).

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

ED-500 address the auditor's responsibilities relating to audit evidence. It also provides an appropriate description of its linkage to ISAs 200, 315, 330 in paragraphs 2 and 3.

Q2. What are your views about whether the proposed revisions in ED-500, when considered collectively, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?

In our opinion, the proposed revisions in ED-500 will lead to enhanced auditor judgments when conducting audit procedures, because it 1) defines a principles-based approach to allow the auditor to apply relevant auditing standards given changes in audit environment, such as shifts in technology/principles which are utilized in assessing information intended to be used as audit evidence, and 2) stresses the importance of professional skepticism when making judgments about information and audit evidence.

Q3. What are your views about whether ED-500 has an appropriate balance of requirements and application material?

The KICPA believes that ED-500 has an appropriate balance, considering that ED-500 requirements capture the principles-based approach only, while sufficient practical guidance is provided by application material.

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?

The principles-based approach is expected to allow the auditor to apply auditing standards in an evolving audit environment driven by technological development, enhancing the scalability of standards.

Q5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?

We agree with the IAASB's requirement for the auditor to exercise professional skepticism when evaluating the information intended to be used as audit evidence and when making judgements about whether the audit evidence obtained is sufficient and appropriate. In addition, the paragraphs requiring the auditor to

evaluate the information and audit evidence obtained (paragraphs 11, 13, 14) are also consistent with the aforementioned requirement.

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?

We support the revised definition of audit evidence, in particular the “input-output model” that information can become audit evidence only after audit procedures are applied to it.

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

In our opinion, paragraph A6 of ED-500 appropriately describes the interrelationship of the sufficiency, appropriateness and 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?

The paragraph 9 of ED-500 adopts a scalable principles-based approach, which is deemed appropriate as it enables varying levels of efforts to evaluate the relevance and reliability of information applicable in different situations.

However, the application material needs to contain additional specific description and examples of decision-making process, etc., that can help the auditor to determine if specific attributes of relevance and reliability are applicable. Paragraph 9 of ED-500 requires the auditor to consider the attributes of relevance

and reliability that are 'applicable in the circumstances' when evaluating the relevance and reliability of information. And paragraphs 10, A57 and others require the auditor to determine if specific attributes such as accuracy, completeness and authenticity are applicable in the circumstances. The auditor's decision on whether specific attributes of relevance and reliability are applicable in the circumstances is critical, as such decision dictates subsequent audit procedures to be performed. However, the auditor is likely to experience difficulties in making decision, because the proposed application material (A53~A69) does not provide sufficient information. Therefore, the auditor may turn to a checklist approach, focusing on verifying the existence of all attributes outlined in the application material. Hence, there is a need to provide further details such as the circumstances where each attribute of relevance and reliability is or is not applicable and what is the basis for making such decision.

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?

Paragraph 10 of ED-500 states that if the auditor considers that the accuracy and completeness attributes are applicable, the auditor shall obtain audit evidence about the accuracy and completeness of the information. However, as described in our comments in response to Q8, it is not clear what "if the accuracy and completeness attributes are applicable" means.

Paragraph A63 of ED-500 prescribes that the accuracy and completeness are usually applicable for information generated internally from the entity's information system and that for information obtained from a source external to the entity, the auditor may focus more on other attributes of reliability, outside accuracy and completeness. However, it does not describe clearly what is the basis

for such classification. Further rationale and explanation should be provided to support such classification.

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?

According to paragraph 60 of the explanatory memorandum of ED-500, the IAASB makes it clear that the evaluation prescribed in paragraph 13 of ED-500 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 paragraph 26 of ISA 330. The KICPA agrees with the “stand back” requirement, as long as no additional burden is imposed on the auditor as described by the IAASB.

Q11. 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.

• **Proposed deletion of paragraph 8(C) of the extant ISA**

Paragraph 8(c) of the extant ISA 500 requires evaluation of the appropriateness of the work of a management’s expert. Paragraph A49 of the extant ISA 500 describes that the assumptions and methodologies used and the completeness of source data, among others, are some of the factors to be considered in evaluating the appropriateness. ED-500 deleted the paragraph 8(c) of the extant ISA 500 because its requirement was deemed redundant with paragraph 8(b) of ED-500.

However, it is not clear how the requirement in the paragraph 8(c) of the extant ISA 500 duplicates with the paragraph 8(b) of ED-500. The requirement to evaluate the appropriateness of the work of a management’s expert in the paragraph 8(c)

of the extant ISA 500 may be misunderstood as an unnecessary process, if no additional explanation is provided.

Therefore, the requirement and application material relevant to the paragraph 8(b) of ED-500 need to indicate specifically that the process to evaluate the appropriateness of the work of a management's expert is necessary. They also need to provide specific examples of considerations required in evaluating the appropriateness of the work of a management's expert, as described by paragraph A49 of the extant ISA 500.

If paragraph 8(c) of the extant ISA 500 needs to be deleted due to duplication, the application material needs to provide relevant reasons to support the deletion and to prevent misperception that the evaluation of the appropriateness of the work of a management's expert is an unnecessary process.

- **Need for clear explanation regarding the circumstance where the attribute of 'authenticity' is applicable**

Paragraph 9 of ED-500 requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. Paragraph A56 explains the attributes of reliability and specifies 'authenticity' as one of such attributes. In addition, paragraph A57 of ED-500 states that the auditor can determine if the attribute of authenticity is applicable in the circumstances when evaluating the reliability of information intended to be used as audit evidence. It also adds that ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.

However, as described in our answer to Q8, more specific explanation is required with regard to the circumstance where the attribute of authenticity is applicable. In addition, paragraph A57 does not provide additional explanation as to how the auditor's decision on applicability of the authenticity attribute is linked with ISA

200 requirement. This can lead to confusion in practical application of requirements and to inconsistency in requirements between ISA 500 and ISA 200/240. For example, if no clear explanation is provided, the paragraph A57 may make a reader to think that the auditor has to decide whether the attribute of authenticity is applicable even when the auditor has no reason not to believe the records and documents are not authentic and that the applicability of the authenticity attribute can be determined based on such decision. But this is inconsistent with ISA 200 requirement that the auditor may accept records and documents as genuine.

Therefore, the application material needs to add clear explanation as described below.

- The attribute of authenticity is not applicable if the auditor has no reason not to believe that records and documents are not authentic;
 - Therefore, the auditor may decide the attribute of authenticity is not applicable in the circumstance, without additional review.
- **Need to add relevant details, including access to audit-related big data**

The automated tools and techniques described in ED-500 includes big data analysis. However, access to big data can be restricted due to applicable laws and regulations including Personal Information Protection Act. As such, we request to include restricted access to big data as one of examples in paragraph A45 where restricted access to information intended to be used as audit evidence is described.

Request for General Comments

Q12. 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 have no particular comment.

(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 have no particular comment.