

Subject: FW: IAASB ED ISA 500 Follow Up [SEC=OFFICIAL]

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Dear Marina,

We appreciate the opportunity to provide our preliminary views on the Audit Evidence Consultation paper. The below comments are CPA Australia staff views which may change as we finalise our submission to the IAASB on the Consultation Paper, ISA 500 Audit Evidence (ISA 500).

Principles based standard

Overall, we are supportive of ISA 500 being a principle-based standard which sets out the overarching principles and requirements relating to audit evidence. Whilst we are supportive of the IAASB's overall objective of retaining a principles-based approach, we have heard mixed feedback from stakeholders on specific proposals in the consultation:

- Although it is implicit that the future revision of the other ISAs in the 500 series will support ISA 500 as a framework standard, it's difficult to assess the sufficiency and appropriateness of the proposals in ED-500 as the basis for a framework standard until we can assess the revisions made to the other relevant ISAs that underpin ISA 500.
- The objective of ED-500 includes the evaluation of 'information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained' which overlaps with the requirements in ISA 330 *The Auditor's Responses to Assessed Risks* (ISA 330) to evaluate and 'conclude whether sufficient appropriate audit evidence has been obtained'. Further distinction between ED-500 and ISA 330 on this matter is recommended to avoid duplicated work effort.
- Given ED-500 should lead to a principle-based standard, some stakeholders raised concerns about the balance between requirements and application material (AM). For example, some key concepts such as 'attribute of the relevance of information' and 'reliability of information' in the AM could be moved to requirements. Additionally, concern has been raised that some of the material in AM could lead to a checklist-based approach. To avoid this, we suggest moving some of the more granular guidance included in AM (e.g., reference to automation bias in paragraphs A22 and A33) to an Appendix or non-authoritative implementation material.
- IAASB should consider including a reference to [Appendix 2: Work Effort Verbs of the IAASB Drafting Principles and Guidelines](#) in ED-500. This will help promote a common understanding of and awareness around the spectrum of work effort implied by commonly used verbs in the ISAs to avoid inconsistencies in interpretation, which could result in inconsistency in work effort and audit documentation. For example, the work effort spectrum differs depending on whether the verb used requires the auditor to 'Remain alert', 'Consider', 'Evaluate', 'Determine' or 'Conclude'.

Modernising and supporting a principles-based standard that recognises the evolution of technology

We appreciate that ED-500 needs to withstand an evolving audit environment that includes increasing use of technology, and therefore, should not be prescriptive with respect to the use of technology, but rather accommodates the use of technology by the auditor. However, feedback we have received indicates that ED-500 has

not dealt with the use of technology in audit sufficiently. This includes a lack of practical guidance to illustrate how different automated tools and techniques can be used to perform audit procedures that are commonly applicable to entities, depending on the size of the entity.

We also welcome the IAASB expanding the information that could constitute audit evidence to include 'digital information' as stated in A41. However, stakeholders felt that the concept of 'digital information' is not clearly articulated in the ED. 'Digital information' could be broadly categorised to include:

- Digital data – information that is developed and/or stored within an IT system or obtained electronically from an external source
- Digital documents – information, which is obtained in electronic format, for example an electronic confirmation
- Information that has been transformed from its original medium into an electronic format, for example, a scanned version of an executed contract.

Using different categories of digital information may require the auditor to perform different audit procedures to evaluate its reliability. For example, for digital data, auditor may design audit procedure to test the effectiveness of controls over their accuracy and completeness. Whereas, inspecting underlying original documents to validate the authenticity of information in electronic form will be more appropriate as an audit procedure when evaluating the reliability of information that has been transformed from its original medium into an electronic format. We recommend the IAASB to provide the distinction of, and clarity around different audit procedures that may be required to evaluate the reliability of the different categories of 'digital information'.

Revised definition of Audit Evidence

Generally, we are supportive of the revised definition of audit evidence. We believe the revised definition is an improvement to the extant definition of audit evidence. However, some stakeholders have expressed concern that the revised definition has an unnecessarily increased focus on the 'input-output' approach. Stakeholders felt that gathering audit evidence is not just about undertaking audit procedures to information. Gathering audit evidence is a process which starts with obtaining appropriate (relevant and reliable) information where information could include corroborating and/or contradictory information, applying effective audit procedures to the information obtained and lastly to evaluate the sufficiency of audit evidence in order for auditor to draw conclusions that form the basis for the auditor's opinion and report.

For a more comprehensive definition of audit evidence, we recommend that the IAASB should expand on the definition to step out the process more clearly and also to include part of ED-500 paragraph A1, that is, 'Audit evidence comprises evidence that supports and corroborates management's assertions and evidence that contradicts such assertions'.

Interrelationship between Relevance & Reliability and Persuasiveness

The concept of persuasiveness of audit evidence is in both ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (ISA 200) and ISA 330. We believe introducing the concept of persuasiveness into ISA 500 as detailed in paragraph A13 is appropriate and would better align with other ISAs.

Fostering the Appropriate Exercise of Professional Scepticism

Feedback we have received indicates there is general agreement that professional scepticism needs to be reinforced in the ED and that it is more than bias considerations, as it also includes the need to have an inquiring mind. ED-500 places significant emphasis on biases as the basis for an auditor exercising professional scepticism. However, bias is not a key consideration in ISA 200 when applying professional scepticism. Some stakeholders felt that to reinforce professional judgment and professional scepticism, the wording in the 3rd bullet point of paragraph 4 could be emphasised by replacing 'Considering all audit evidence obtained' with 'Evaluating or critically assessing all audit evidence'.

Use of a Management's Expert (Para 11, A66-A78)

Some stakeholders expressed concerns that the wording in paragraph 11(c) may have a dilutive effect on the responsibilities of the auditor when evaluating the information prepared by management's expert. The paragraph requires the auditor to 'Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements', which could be perceived as a lower-level

requirement than what is currently required in the extant ISA 500 to 'Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion'.

Please feel free to reach out if you would like to discuss our feedback above.

Kind regards,

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