

**Subject:** FW: CA ANZ preliminary staff views of IAASB ED Proposed ISA 500 (Revised) Audit Evidence [SEC=OFFICIAL]

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**OFFICIAL**

Dear Matthew and Marina

The below are our high-level comments on the proposals contained in the IAASB's Exposure Draft *Proposed ISA 500 (Revised) Audit Evidence* (the ED) based on our outreach to date. These comments are preliminary CA ANZ staff views which may change as we finalise our joint submission to the IAASB with the ACCA. We hope the board finds them useful in its considerations.

**Overall comments**

We commend the IAASB for revising ISA 500 and for maintaining a principle-based approach in the standard.

ISA 500 is a key standard which sets the framework for the other 500 series standards and therefore it is important to get that framework right. While we have heard support for the need to revise ISA 500, we have also heard several concerns which need to be considered further. Some stakeholders commented that it is difficult to assess whether the ED establishes an appropriate framework until other standards in the 500 series are also revised.

*Balance of requirements and application material*

While the principles-based approach of the ED is clear, some stakeholder raised concerns about the balance of requirements versus application material (AM). AM can become de-facto requirements and push firms to adopt more compliance-based approaches. It would be beneficial if some of the AM could be moved to non-authoritative guidance. This is of particular concern in jurisdictions where auditing standards have legal enforceability.

*Work effort required*

Some stakeholders expressed concerns around both the use of the term 'evaluate' and the input-output model of audit evidence in relation to the level of work required. How much work is enough is judgemental and this has, historically, been an area where regulators interpret auditing standards differently to practitioners. Stakeholders expressed concerns that to avoid regulator disagreements, they may have to develop standard sets of procedures to address common forms of audit evidence, which again, results in a compliance focused audit approach, which can be detrimental to audit quality.

Some stakeholders questioned why the ED no longer differentiates between internally and externally sourced evidence as clearly as extant ISA 500.

While differences in judgement cannot be avoided in principles-based standards, non-authoritative guidance including detailed examples may be useful to avoid unintended consequences.

*Technology*

There was considerable concern about how the ED addresses technology. While stakeholders appreciate that technology changes quickly and for that reason referencing specific technologies in the requirements would be inappropriate, they felt that the ED does not go far enough to address technology. The following concerns were raised:

- Lack of clarity that the use of technology is an audit procedure.

- The ED requirements and AM seem to focus more on the use of technology tools in risks assessment rather than being clear they are appropriate in analytical and substantive procedures as well.
- The overall feedback was that the ED does not address the complexity of technology. The examples in the AM were viewed as too simplistic. For example, it was felt that auditors generally have a good understanding of the use of drones for inventory. Stakeholders felt that the AM needs to address more complex uses of technology such as data assurance. If this cannot be done in the standard, then the IAASB would need to provide non-authoritative guidance which can be updated more regularly to provide more detail about the use of technology in audit procedures. We are aware that several national standard setters (NSS) are developing or have released non-authoritative guidance to address aspects of the use of technology in audit. It would be preferable if the IAASB developed this non-authoritative guidance (assisted by NSS where necessary) to ensure a globally consistent approach.

*Linkages to ISA 330 and use of 'persuasiveness' as a term*

- Stakeholders commented that the linkage between the ED and ISA 330 needs to be clarified.
- They also questioned why use of the term "persuasiveness" is introduced in the AM, when it is not used in the requirements. There was confusion as to why it was singled out in the AM, when it is only one of the factors used to consider "sufficiency and appropriateness" under ISA 330. There were concerns that this introduces unnecessary complexity into the consideration of sufficiency and appropriateness.
- If the term "persuasiveness" is retained, the AM needs to address the relationship between the term and other key concepts such as sufficiency and appropriateness, and relevance and reliability.

*Relevance and reliability and the requirement to consider accuracy and completeness*

- There were strong views that it is not necessary to specifically call out consideration of accuracy and completeness in paragraph 10. Stakeholders felt that these are just two of the attributes of relevance and reliability and practitioners felt that this was again, adding complexity, when paragraph 9(b) already has a requirement to consider the applicable attributes of relevance and reliability.
- Concerns were also raised about the use of the term "applicable in the circumstances" in paragraph 9(b). Some stakeholders feel that this is another area where there is likely to be disagreements between regulators and practitioners that could have unintended consequences.

Kind regards

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