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21 March 2023

Dear Chair,

SUBMISSION – IAASB’S PROPOSED ISA 500 (REVISED)

We appreciate the opportunity to provide comment to the Australian Auditing and Assurance Standards Board on the Audit Evidence Consultation Paper on the *IAASB’s Proposed ISA 500 (Revised)*.

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We support the International and Australian Auditing and Assurance Standards Boards’ efforts to facilitate greater consultation in the standard setting process. We acknowledge that the requirements within the Audit Evidence Consultation Paper on *IAASB’s Proposed ISA 500 (Revised)*. “the ED” are principles based and conceptually make sense, however there are a significant number of application material paragraphs that add many layers and potential complexities to what constitutes relevant and reliable audit evidence in common scenarios and the extent of procedures and documentation. In addition, while referencing to the use of technology, the ED does not sufficiently address how technology could be used by auditors to enhance audit efficiency and effectiveness, i.e. it is largely additive. Further, the ED lacks guidance on how and where in the audit technology can be practically applied, nor does the ED make clear how it will enhance audit quality or provide benefits to the users of the financial statements. In short, the ED appears to identify more questions and create additional complexity and compliance requirements without providing examples grounded in real world scenarios or exploring the practical opportunities to utilise technology to actually enhance audit quality and effectiveness.

Our detailed responses to the questions contained in the ED are attached to this letter and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Yours sincerely,

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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?

Yes, ED-500 provides a principles-based reference framework. However, it is clear that substantial additional documentation may be required to capture the consideration of the reliability (including the 5 attributes of reliability), and relevance of the audit information to be used in audit procedures. Paragraph 47 of the background information (page 25) alludes to the potential of this as follows:

"...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."

What might be useful is an appendix to the standard that provides a summary/overview of the different concepts, elements and factors relating to audit evidence. For example, sufficiency, appropriateness, quantity, quality, reliance, reliability, accuracy, completeness, 5 attributes of reliability, different types of information, internally generated, externally sourced information, etc. for some specific common types of information received by an auditor.

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

Yes, but the quantum of the relationships and linkages does not necessarily facilitate the auditor using the standard in an effective and efficient manner.

2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 (see IAASB EM below), will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?

As stated above, substantial additional documentation may be required to capture the consideration of the reliability (including the 5 attributes of reliability), and relevance of the audit information to be used in audit procedures. Whether this enhances auditor judgement or simply increases the complexities (even in common non-complex scenarios) and documentation of considerations which auditors already make will depend on an individual auditor's extant documentation on their file.

The fact that much of the relevant guidance is in the "A" paragraphs and the extensive use of "may" and other subjective terms mean that the standard is open to interpretation and debate and will be a significant potential point of contention in any regulatory or legal discourse.

If the IAASB does not provide some supporting guidance/examples then we would be requesting and expecting that the AUASB do this should the standard be approved in its current format.

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

Refer to responses above. A lot of the application material has subjective terms without substantive practical examples, of when it could or could not apply. Should the standard be released as is, obtaining regulatory input as to what their expectations are prior to it being effective would be extremely beneficial to avoid differences of opinion on matters which could be clarified. That is, there are many common circumstances so why not provide these as examples of the expectations to avoid confusion/debate.

The vast majority of information that the auditor will need to consider sits within the application material. As an example, Information Intended to be Used as Audit Evidence has 4 requirement paragraphs and 50 application material paragraphs. It seems like auditors will be evaluating audit evidence based predominantly on what sits in guidance rather than the requirements of the standard. This leaves it open for interpretation, judgement, inconsistency of application as well as potential challenge from regulators and/or future litigants.

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?

ED-500 has included some references to the use of technology however, there continues to be a strong inference that analytical tools are not further audit procedures but are limited in practice to risk assessment procedures. The only specific exception to this is the last bullet point in para A29 relating to selecting all items of a population for testing, which is not utilising technology to generate audit evidence but to select items for testing (however this is a generic statement and not expanded on at all).

More clarification on whether common analytical tools are or are not further audit procedures in of their own right would be beneficial and is not an unreasonable expectation given the current landscape and extensive use of data and technology, e.g. some scenarios grounded in current technology and concepts either from the IAASB or the AUASB would enhance the capacity of auditors to utilise technology to increase audit quality and effectiveness. Currently there are numerous commercial and proprietary technologies which have largely similar approaches and outputs which could be used to illustrate technology use as audit evidence in further audit procedures.

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

ED-500 does consistently focus on the relevance and reliability of information to be used which is an expression of professional scepticism. However, the concept of professional scepticism and the application of professional judgment is increasingly diluted due to the copious number of application material paragraphs that overlay more and more different concepts and potential considerations.

The attempts to define and redefine professional scepticism with guidance and lists are complicating a fundamentally simple concept of "does it make sense based on the evidence the auditor has obtained?".

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?

The concept and definition are reasonable and the definition of "audit procedures" is sufficiently clear in ISA 500.A2

The auditor obtains audit evidence by designing and performing audit procedures, including:

- *Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)8 or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;*
- *Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:*
 - *Tests of controls, when required by the ISA or when the auditor has chosen to do so; and*
 - *Substantive procedures, including tests of details and substantive analytical procedures; or*
- *Other audit procedures that are performed to comply with the ISAs*

We would however recommend that if the standard setters are going to use the terminology "input/output" to define the model that it be incorporated into the standard so there is alignment and clearer understanding.

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

The application material is useful to a degree, however, given the apparent importance of “persuasiveness” in the standard, the fact that the term is unused in the definitions (para 7 of the standard) or the requirements of the standard, it seems to be an omission from the requirements section of the standard. Given that persuasiveness is only referenced in the application material currently, it further supports our comments above that there are added layers of detail and complexity (some of which may be unnecessary) in the application material.

It is still not clear why persuasiveness is explicitly pulled into and extensively referred to in ED-500 when it is only one of many factors that is referenced in ISA 330 when the auditor is using professional judgement as to what constitutes sufficient appropriate audit evidence.

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?

In respect of providing a framework for evaluating the relevance and reliability of the information intended to be used as audit evidence the framework seems appropriate. In respect of the quantum of documentation and the effort to document in accordance with the framework, it is difficult to see how this actually impacts audit quality in a substantive and positive way.

There is a big risk that this becomes a checklist approach rather than a principles based approach and auditors start losing sight of the purpose of what they are doing and why. The framework does not currently adequately address the question of “how much is enough?”, and seems to be more focused on checking whether the information is relevant and reliable rather than whether it provides sufficient and appropriate evidence for the purpose intended and in aggregate to support the opinion.

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?

Similar to the comment to question 8, auditors would not perform work on schedules that they believe to be irrelevant, unreliable, incomplete or inaccurate, so the point is conceptually comprehensible however the quantum of effort does not seem to align to an increase in audit quality and it is difficult to understand the costs versus benefits.

Refer to para

A36 Evaluating the relevance and reliability of information intended to be used as audit evidence involves performing audit procedures. The nature, timing and extent of such audit procedures may vary and are influenced by the auditor's consideration of:

- *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).*
 -
- the wording used is potentially confusing and references to performing audit procedures on the relevance and reliability of the information before performing audit procedures on the actual information, and then concepts of accuracy and completeness are overlayed to the reliability aspect. Also, one of the biggest areas of concern, uncertainty and challenge for auditors, as well as “what is expected and how much is enough?”.

<p>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?</p>
<p>The auditor already has this obligation in forming their overall audit conclusion in accordance with ISA 330. Therefore, the inclusion of this explicitly within ED-500 seems redundant, and is in effect a conclusion so that the auditor can form a conclusion.</p> <p>We are unsure as to what value this is adding to the audit and what form and content it would take as well as what the expectation would be in relation to how this is documented. The audit requirements already include a stand back concept in the final analytical procedures, and in forming a conclusion, the inclusion of standback in the evidence standard seems repetitious.</p>
<p>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.</p>
<p>Refer to comments above. There are a number of subjective / conditional requirements in the standard, but there is a shortage of practical examples of when these would or would not be applicable, and what the extent of appropriate, practical documentation would be.</p>
<p>Request for General Comments</p> <p>12. The AUASB is also seeking comments on the matters set out below:</p> <p>(a) Effective Date—Recognising 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 AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ASA?</p>
<p>Subject to clarity on the breadth and extent of the additional documentation contemplated in ED-500, and the potential impact on audit software and templates, a minimum of 18 months would be appropriate.</p>
<p>Australian specific questions</p> <p>The AUASB is especially interested in stakeholders’ views on:</p>
<p>1. Further to question 7 above and with reference to paragraph 9 of the IAASB ED, do Australian stakeholders think that anything further could be considered to address the issue of sufficiency of audit evidence and its interrelationship with the appropriateness and persuasiveness of audit evidence?</p>
<p>As referred to above, persuasiveness is given significant importance in the guidance and the ED-500 questions but is not a term which is defined in the standard requirements which seems an oversight.</p>
<p>2. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted?</p>
<p>N/a</p>
<p>3. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions.</p>
<p>N/a</p>

4. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions.

It is unclear how this will actually enhance audit quality in substance i.e. how does the proposed changes to the audit standard actually enhance or amend the opinion?

5. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

(a) Where those costs are likely to occur;

The effort to write and describe the relevance and reliability of information for each and every piece of documentation to be used within the audit will impact the audit planning and fieldwork substantially.

(b) The estimated extent of costs, in percentage terms (relative to audit fee); and

Unknown at this time

(c) Whether expected costs outweigh the benefits to the users of audit services?

The end user of the financial statements will obtain, little or no benefit from the documentation of the relevance and reliability of the information used in the audit for a number of reasons:

1. The end user will never see the documentation of the relevance and reliability of audit evidence although they would be expecting and assuming that an auditor would use relevant and reliable information to form their conclusion. Are end users willing to pay for additional compliance obligations on the auditor?
2. The process is already being performed by auditors, as no auditor would utilise irrelevant or unreliable information to form their conclusion, however the number of different consideration factors and procedures and the extent of documentation seems potentially onerous and unlikely to change their evaluation of the information.

The documentation obligation does, however, provide a compliance burden for auditor's and an additional area for litigators and/or regulators to challenge the audit findings, over a matter which unless the information is not relevant or reliable, whether it was documented as such, would not change the end conclusion of the audit.

Examples of what the documentation could look like in some common non-complex and more complex situations would be helpful to bring this to life to understand the nature and extent of documentation and what might be expected. (as per below)

6. What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 500 (specific questions/examples would be helpful)?

Practical examples of procedures and documentation, not principles but actual completed documentation, of relevance and reliability for common scenarios e.g.

- Invoices being tested
- Bank confirmations
- Reports from systems

i.e. what procedures should be performed and how this could be documented for a given set of typical facts?

7. Are there any other significant public interest matters that stakeholders wish to raise?

The increased compliance costs on the auditor, will not be easily recoverable from the client who likely will perceive no benefit from the additional procedures and documentation. Therefore, it is likely that the additional time will increase the pressure on auditors through a focus on compliance not on actual audit quality.