

Subject: FW: ISA 500 comment letter [SEC=OFFICIAL]

OFFICIAL

Dear Matthew _____

EY Australia, welcomes the opportunity to offer its views on the Consultation Paper Exposure of the IAASB's Proposed ISA 500 (Revised), issued by the International Auditing and Assurance Standard Board (IAASB) and related Australian Auditing Assurance Standard Board (AUASB) specific questions described below.

We support the IAASB's and AUASB's efforts on the revision of ISA 500 in remaining fit for purpose in the current evolving environment and to enhance the auditor's judgements related to the information intended to be used as audit evidence. We continue to support a principles-based approach to evaluate information intended to be used as audit evidence and conclude on its sufficiency and appropriateness, but believe further guidance is required to provide clarity and consistency on its application.

Please find attached out EY global draft comment letter response to ISA 500. To reiterate this is draft and not for the public viewing or distribution, only for AUASBs use as it is still undergoing internal review. The date for the IAASB submission is after the AUASB submission date and hence the global response will not be finalised by then, but as in the past is useful for the board to understand our view for your submission.

In addition to Q1 and Q9 in the attached from the IAASBs questions we do have the following comments:

- We struggle to understand how in practice we could apply A37 (final sentence) and A46 to certain scenarios in testing relevance and reliability to information, when there is only one source. For example, in the motor car industry or the aircraft industry, they use what is called a 'redbook' and 'aircraft bluebook', which is produced every year by a central body/organisation and has the market value of vehicles and aircraft. When using this as audit evidence, how would we challenge (from A37, perform audit procedures, including tests of controls, to evaluate the reliability of information) this? How do I challenge methods and assumptions used in developing those books? This is unlike say gold or copper where there are many industry benchmark reports to use as comparisons. Normally we would rely on the industry body producing the book and their objectivity but what else is required? Similarly, in the past I have explained house valuations in the banking industry use a system called Valex (used by all banks), do I need to look at the competence, capability, objectivity of the person (that's if I could find the actual person) who performed the valuation of a house (sometimes in remote parts of the country) when looking at origination documentation for the loan and LVR ratios etc? How would I challenge the methods and assumptions they used in the valuation? Normally we would rely on the Valex system (3rd party information) and those accreditations are run by the bank on who they agree to use. Do I need to look at those systems/controls of a bank used to provide accreditation, taking into account the client I may be auditing may only use the Valex system and not decide or control those elements? Do I take it further in asking for a ASAE 3402 report or something like that? I state these

questions as the regulator in the past has raised these points, and thus how far do we need to go to mitigate these aspects? Does this mean possibly more scope limitations as suggested by A46?

- Para. A56, our question is how much is enough. In an audit we would have determined our risks and what could go wrongs, designed procedures that cover relevant assertions (this is the relevance element of A55) and any risks of fraud that we identified (ISA 315 and 240). Are we now required, for each of those relevant assertions, to link them to attributes and mitigate the attribute (A56 reliability)? Para. A57 on reliability further states....*ISA 200 explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.* It could be interpreted that we are now required to document that there is no contrary evidence or bias and therefore why we can accept it (when read with the relevant aspects of Paragraphs A55-A58).
- Para. A75 could be interpreted as always requiring the involvement of an auditor's expert whenever a management's expert is involved. Is it possible to obtain sufficient and appropriate audit evidence without that knowledge and expertise e.g. by comparing to reports from other experts in the field that are publicly available? Again, this is an area that has been challenged by our regulator in the past, and therefore further application guidance is important.

In addition for the Australian specific questions below we only have two comments;

- Question 3 – GS005 should be added to the work program for updating and to align with ISA 500
- Question 5 - Any update of an ISA (and a local ASA) requires an increase in cost, to train professionals to be alert on the changes in the standard even where the changes are not significant (in this case they are), update working papers and/or technology solutions we have to ensure requirements of the standard are met. We cannot be specific on exact costs until the final standard is issued and we are able to perform a full implementation review, as well as an analysis on current state and proposed changes. A range of 5% - 10% is a general guideline of increase in costs when a change of standard occurs, depending on the change and extra effort required. If there are multiple standards that come into effect at the same time this would also impact costs towards the upper end of a range.

Australian specific questions

The AUASB is especially interested in stakeholders' views on:

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?
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?
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.
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.
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;
 - (b) The estimated extent of costs, in percentage terms (relative to audit fee); and
 - (c) Whether expected costs outweigh the benefits to the users of audit services?
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)?
7. Are there any other significant public interest matters that stakeholders wish to raise?

If have any questions please do not hesitate to contact me.

Regards

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