

April 24, 2023
International Auditing and Assurance Standards Board
To: Mr. Thomas R. Seidenstein (Chair)
529 Fifth Avenue
New York, NY 10017
USA
Submitted electronically

Subject: Comments on the IAASB's proposed revisions to International Standard on Auditing (ISA) 500 (Revised), Audit Evidence

Dear Mr. Seidenstein,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB) request for comments on its Exposure Draft Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs (ED-500). As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
 - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
 - Promoting collaboration and consistency in regulatory activity.
 - Initiating and leading dialogue with other policymakers and organisations that have an interest in audit quality.
 - Forming common and consistent views or positions on matters of importance to its members, while considering the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisations.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by IFIAR.

Overall comments

5. We support the efforts of the IAASB to modernize ISA 500, *Audit Evidence* to accomplish the objectives described on page five of the ED-500 Explanatory Memorandum. However, in our view, not all those objectives have been sufficiently met. The balance of our response will highlight areas where we believe the proposed requirements in ED-500 should be strengthened.

Accuracy and completeness of information intended to be used as audit evidence when that information is produced by the entity (IPE)

6. Insufficient scrutiny of the reliability of IPE¹ attracts a significant number of inspection findings by audit regulators based on IFIAR's annual Survey of Inspection Findings². We are concerned about the proposal to remove the requirement in paragraph 9(a) of extant ISA 500 which requires that the auditor evaluate whether IPE is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances, obtaining audit evidence about the accuracy and completeness of the information. The IAASB is instead proposing a principles-based requirement that would require the auditor to determine which attributes are applicable to information intended to be used as audit evidence, which may include the attributes of accuracy and completeness for IPE, based on a consideration by the auditor of the intended purpose of the audit procedure.
7. Although it is useful to have broad principles in the auditing standards that apply to a variety of circumstances, particularly given that auditors are using a greater variety of sources of information in their audits, we also believe that having prescriptive procedures is also warranted in certain circumstances. In addition to the possible risk of error associated with IPE, IPE may also be susceptible to being inappropriately altered by management (e.g., by overriding internal controls) and the attributes of accuracy and completeness of IPE are generally applicable when evaluating the reliability of IPE. The removal of the prescribed procedure in paragraph 9(a) of extant ISA 500 may result in less scrutiny by auditors of the reliability of IPE in circumstances where that would not be appropriate.
8. We further do not believe that the new conditional requirement introduced in paragraph 10 of the proposed standard is as robust as the requirement in paragraph 9(a) of extant ISA 500. The application material that relates to this requirement describes the attributes of accuracy and completeness as being "ordinarily" applicable for information generated internally from the entity's information system (i.e., which is a type of IPE). We are concerned that paragraph 10 appears to have relegated the important requirement in extant ISA-500.9(a) to the ED-500 application material.

Evaluating the appropriateness of work performed by management's expert

9. We are concerned about the proposal to remove the explicit requirement in paragraph 8(c) of extant ISA 500 which requires auditors to evaluate the appropriateness of management's expert's work as audit evidence for the relevant assertion. The IAASB is proposing to remove the requirement because the requirement is implicit in the principles-based requirement in paragraph 8(b) of ED-500.
10. It will not always be obvious to auditors that the requirement in paragraph 8(c) of extant ISA 500 is now implicit in paragraph 8(b) of ED-500. Removing the explicit requirement may lead to more auditors failing to appropriately evaluate the work of management's experts. Use of experts and specialists is a recurring thematic area in IFIAR's Survey of Inspection Findings. Those inspection findings often involve auditors deferring to conclusions reached by management's experts without an appropriate evaluation of the appropriateness of their work.

¹ Our reference to IPE includes information intended to be used as audit evidence that comes from the audited entity's accounting records, management, or other sources internal to the entity.

² [2022 Survey of Inspection Findings](#)

Persuasiveness of audit evidence

11. The following are examples in the application material to ED-500 and the conforming amendments to ISA 330 where the term persuasiveness has been used that will require additional clarification in ED-500 or ISA 330 (i.e., through further conforming amendments) or both:
- a. Paragraphs A3 and A17 of ED-500 make reference to the term persuasiveness within the context of the use of automated tools and techniques (ATT). Although we agree that the use of ATT may allow auditors to obtain more persuasive audit evidence, we believe that it is important for the IAASB to provide more examples to illustrate the point. The suggestion that the use of ATT could yield more persuasive audit evidence without additional context or clarification may exacerbate automation bias and, accordingly, lead to a deterioration in audit quality.
 - b. Paragraph A19 of ISA 330 makes a reference to persuasiveness within the context of obtaining information from an external information source. It would be helpful to auditors to understand what is meant by information from an external information source being more appropriate and, therefore, more persuasive. Auditors would benefit from the addition of practical examples in the application material to clarify when external information may yield more persuasive audit evidence than IPE.

Doubts about the reliability of information intended to be used as audit evidence

12. We do not believe the application material that deals with the requirement in paragraph 12 (paragraphs A81 – A83) provides a broad enough range of considerations for auditors when there are doubts about the reliability of information intended to be used as audit evidence depending on the source of that information. For example, although paragraph A83 does guide auditors to consider the risk of fraud when doubts are identified about the reliability of information obtained from management, there are several other implications that auditors need to be considering including whether there are deficiencies in internal controls related to the preparation and maintenance of that information and the related implications for the audit.

Authenticity of information intended to be used as audit evidence

13. Auditors are increasingly obtaining information in their audits (e.g., documents and records) that is in digital format. This is partly attributable to the increasing digitalization of the information systems of audited entities. Digital records and documents are at an increased risk of being altered inappropriately by management of the audited entity and others. We believe that the IAASB should revisit as part of the Audit Evidence project whether the fundamental principle in ISA 200 that auditors *may accept records and documents as genuine unless the auditor has reason to believe the contrary* remains appropriate. We recommend that the IAASB remove paragraph A57 from the ED-500 application material while the merits of this principle are reconsidered.

Breadth of the evaluation contemplated by the IAASB in the new stand back requirement

14. We are concerned that the stand-back requirement proposed by the IAASB, specifically paragraph 13(b), could be interpreted by auditors to mean that they would be justified in disregarding information obtained during the audit that is intended to be used as audit evidence (i.e., which is not yet evidence because it has not been subjected to audit procedures) that is inconsistent with audit evidence and/or contradicts assertions in the financial statements. The stand back requirement should be broadened to include consideration by auditors of all information, not limited to audit evidence, obtained during the audit.

The work effort to evaluate relevance and reliability of information used in risk assessment procedures

15. We are concerned that there are some paragraphs in the application material (e.g., paragraphs A59 and A64) which could reasonably be interpreted by auditors to mean that generally less testing is required of the relevance and reliability of information (i.e., information intended to be used as audit evidence) used to perform risk assessment procedures (i.e., in contrast to more testing for information that is used to perform further audit procedures).
16. Although we agree that less work may be justified when evaluating the relevance and reliability of information used in a risk assessment procedure in some circumstances (i.e., particularly when the relevance and reliability of that information will be implicitly tested as part of the auditor's further audit procedures), that will not always be the case. For example, the work effort could be just as significant for information used to perform risk assessment procedures when that information is used to support the auditor's conclusion that there are no assertion-level risks of material misstatement associated with a class of transactions. Our concern in that example is that the information used by the auditor to support the risk assessment may not be relevant or reliable and that, accordingly, the assessed risks may not be appropriate. Furthermore, the relevance and reliability of that information will not likely be tested as part of the auditor's further audit procedures because the absence of assertion-level risks would justify little additional testing.

Role of professional skepticism

17. We note that the IAASB had the objective of emphasizing the importance of applying professional skepticism in ED-500 (i.e., paragraph 4). However, that objective has not been fully met because the applicable application material does not describe in enough detail the expectation of auditors regarding the critical role of professional skepticism. The ISAs should reflect some of the changes made by the International Ethics Standards Board for Accountants (IESBA) to the Code of Ethics that promote the role and mindset expected of professional accountants. Examples include focus on auditor integrity, strength of character to act appropriately and the need for auditors to have an inquiring mind. This would also ensure that there is a common requirement for all auditors regardless of whether the auditors are required to comply with the IESBA Code of Ethics in their respective jurisdictions.

Documentation

18. We recommend that ED-500's documentation requirements be strengthened to include the following:
 - a. Conclusions reached when performing the new "stand back" requirement of paragraph 13;
 - b. Details about inconsistencies identified further to paragraph 14 and the auditor's responses to those inconsistencies as described in paragraphs 14(a) and (b); and
 - c. Significant judgments such as when it is determined that certain attributes like completeness and accuracy of IPE utilized within risk assessment or other audit procedures were not considered applicable.

Other

19. We recommend that the IAASB clarify the meanings of some terms included in the application material related to the conditional requirement in paragraph 10 of the proposed standard. Paragraph A64 includes references to the terms 'ordinarily' and 'may not always' as follows: "The attributes of accuracy and completeness *ordinarily* will be applicable for information generated internally from the entity's information system used in performing further audit procedures but *may not always* be applicable when performing risk assessment procedures." We recognize the term 'ordinarily' is referred to in the CUSP drafting principles and guidelines document as a term that could be used to send a stronger message. However, these terms should be defined and practical examples should be added in the application material to help auditors understand in what circumstances it would be appropriate not to test the accuracy and completeness of IPE when used to perform further audit procedures or risk assessment procedures.
20. Paragraph A2 specifies that audit evidence may be obtained by performing risk assessment procedures. We understand that this idea arises out of the new way that audit evidence is being defined in ED-500 and specifically that information obtained during the audit becomes audit evidence only after it has been subjected to audit procedures. However, this raises the question of how much weight auditors should ascribe to this audit evidence when gathering information in response to assertion-level risks. We recommend that the IAASB clarify in the application material what weight, if any, auditors should ascribe to audit evidence obtained from performing risk assessment procedures.
21. We recommend that the interaction between the requirement of paragraph 8 related to designing and performing audit procedures to obtain sufficient appropriate audit evidence and the requirements within ISA 330 should be better explained, to avoid circular references between the standards.
22. Regarding the requirement related to when auditors identify doubts about the relevance or reliability of information intended to be used as audit evidence in paragraph 12(a) of ED-500, we recommend that the IAASB amend the requirement to "determine which" instead of "determine whether". We cannot contemplate a situation when no modifications or additions to audit procedures will be necessary when doubts are identified and, accordingly, the requirement should be to determine which modifications or additions are necessary.
23. We recommend that the language in the application material of the extant standard stating that inquiry alone ordinarily does not provide sufficient audit evidence be reinstated in the application material to ED-500, instead of the current proposal of moving that material to the appendix.
24. We recommend that paragraph A14 be strengthened by stating that obtaining more audit evidence cannot compensate for its poor quality as we are unaware of circumstances where obtaining more of the same poor-quality evidence would provide sufficient appropriate audit evidence.
25. We recommend that paragraph A22 relating to the risk of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence includes consideration of outputs generated by automated systems. In addition, we recommend that paragraph A23:
 - a. Provide an example of instances or situations when vulnerability to automation bias may be greater; and

- b. Include the need for the auditor to assess whether the use of the ATT is appropriate in the circumstance to meet the intended purpose of the audit procedure, notwithstanding the fact that the ATT itself has been approved by the auditor's firm.
26. In a number of cases, we recommend the examples provided be enhanced to provide more useful guidance to auditors:
- a. Due to the increase in remote performance of various audit procedures, requiring an increase in professional skepticism in evaluation of such evidence, we recommend paragraph A42 includes increased detail of the design considerations for audit procedures carried out remotely. We recommend specific considerations related to inventory counts performed remotely be presented as conforming amendments to ISA 501.
- b. We recommend paragraph A55 be revised to note that inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion at a point in time, and that further audit evidence may be required to support existence at year end.
27. Paragraph A45 includes a reference to ISA 600 which includes examples of circumstances of audit evidence with access restrictions. However, we recommend such examples be repeated within the standard, without reference to a group audit, as they are applicable to all audit evidence. In addition, the footnote with reference to ISA 600 paragraph A29 seems to be incorrect and should reference paragraph A39.
28. We recommend that paragraph A80 relating to circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include deficiencies in internal controls, without limiting to those identified by the auditor.

Please do not hesitate to contact me or James Ferris, Chair of the IFIAR Standards Coordination Working Group (SCWG), to discuss any of our comments.

Yours faithfully,



Duane DesParte, IFIAR Chair

Cc: Takashi Nagaoka, IFIAR Vice Chair
James Ferris, SCWG Chair,
Stacy Hammett, SCWG Vice Chair
Carl Renner, Executive Director