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Thomas Seidenstein
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Our ref SRA/288

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Dear Mr Seidenstein

Re: IAASB Exposure Draft, *Proposed International Standard on Auditing 500 (Revised), Audit Evidence*

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB (“ED-500”). We have consulted with, and this letter represents the views of, the KPMG network.

We set out our overarching comments below. Our more detailed responses to the specific questions posed by the IAASB are set out in Appendix 1 to this letter.

Overarching Comments

We are supportive of the IAASB in terms of its aims and objectives regarding the overall direction of the proposed standard. We are also supportive of the positioning of ED-500 as an overarching, principles-based standard addressing the auditor’s responsibilities in relation to audit evidence, with clear linkages to other ISAs that address audit evidence in relation to a particular aspect of the audit more specifically, with such responsibilities underpinned by the framework for making judgements about audit evidence set out in this proposed standard.

We believe the revisions to the standard, collectively, will help lead to enhanced auditor judgements when evaluating the relevance and reliability of information intended to be used as audit evidence, and in evaluating the audit evidence obtained. However, notwithstanding the above, we have several significant concerns in respect of the proposed updates to the standard, which we believe require clarification within the standard. We set out further details regarding these concerns, and our recommendations to address these, below.

Input/Output Model and Definition of Audit Evidence

We recognise the IAASB’s intention in introducing the “input/output model” in respect of audit evidence, wherein “information intended to be used as audit evidence” is the input, which only becomes “audit evidence”, i.e. the output, once the auditor applies audit

procedures to it to evaluate its relevance and reliability. We understand the IAASB's rationale for developing this approach as an important aspect of achieving their stated objective to respond to changes in the information that is being used by auditors, including the nature and source of information, and to ensure that auditors do not use information as audit evidence without having a sufficient basis for doing so. The distinction between information and audit evidence is important, and has become more so over time, given the significant increase in sources of information, especially external sources, and types of information available.

However, whilst we welcome the IAASB's efforts to make this distinction between information and audit evidence, we have concerns with the revised definition of audit evidence, which reflects the position that information (i.e., the input) needs to be subject to *audit procedures* to become audit evidence.

Firstly, whilst we agree that all information needs to be evaluated for relevance and reliability, in our view, an auditor does not necessarily need to apply "audit procedures" to information in order to evaluate whether it may be used as audit evidence. For example, when evaluating the relevance and reliability of an oral response to an inquiry of management, the auditor would not need to perform an audit procedure to consider the source of the information. Likewise, the auditor's consideration of attributes such as credibility and accuracy would likely focus on factors such as, for example, the role and tenure of the individual in the organisation, the consistency of the response with the auditor's expectations, and the auditor's experience regarding the historical reliability of responses from that individual. We do not believe these considerations involve applying audit procedures to the information.

Secondly, we are concerned that, as currently drafted, the reference to "audit procedures" may result in confusion as to the work effort required to evaluate the relevance and reliability of audit evidence. Please refer to our response to Question 6, in Appendix 1 to this letter, for further details.

We believe the auditor should *consider the source* of the information and the attributes of relevance and reliability that are applicable, such as the information's credibility, authenticity and its susceptibility to bias, and then *use their professional judgement* to determine what audit procedures, if any, are necessary to satisfy the requirements of paragraph 9 of ED-500. In certain cases, these considerations may not require audit procedures to be performed, i.e., inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry, which are the audit procedures described in other ISAs, and in the Appendix to ED-500. In other cases, they may require the performance of audit procedures but only to certain aspects of the evaluation (e.g. comparing information to its original source). Further, such considerations may not always be applied to the information itself but may be based on the auditor's understanding from historical experience with the source of the information.

Paragraph 9 of ED-500 and related application material appear to acknowledge this, e.g., paragraph 9 itself only requires the auditor to “consider” and does not make reference to “audit procedures”. We also highlight that we consider paragraph 9 of ED-500 to be broadly equivalent to paragraph 7 of extant ISA 500, which requires the auditor to “consider the relevance and reliability of the information to be used as audit evidence, including information from an external information source”, when designing and performing audit procedures. Our understanding is that the purpose of paragraph 9 of ED-500 (and related application material) is to provide a clearer structure and framework, including the introduction of the attributes of relevance and reliability, for auditors to assist them in making their considerations of the relevance and reliability of the information to be used as audit evidence, but is not intended to establish an incremental work effort, such that “audit procedures” would always be required to be performed in making these considerations.

Paragraph 10 of ED-500 appears to build on the requirement at paragraph 9, in that it explicitly refers to obtaining audit evidence, which would necessitate the performance of audit procedures, only in respect of the specific attributes of accuracy and completeness, as distinct from the other attributes of reliability (or attributes of relevance). We believe that this also indicates, therefore, that audit procedures are not *required* to be performed in respect of other attributes, otherwise there would be no need to include paragraph 10 as a separate, additional requirement. Further application material also suggests that “audit procedures” are not necessarily required in respect of other attributes.

Given the above, we believe it is critically important that the IAASB provide additional clarification to avoid inconsistent interpretation, which could result in significant inconsistency in work effort and audit documentation.

We recommend, therefore, that the proposed definition be amended to remove the reference to the application of “audit procedures” and instead place emphasis on the fact that the auditor needs to “evaluate” the information (by appropriately considering the source of the information and applicable attributes), i.e. in our view, the requirement as described at paragraph 9, which is focused on such an evaluation through consideration of relevant matters and attributes is fit for purpose and appropriate, and the definition should support and align with this. The application material could then clarify that the auditor exercises professional judgment when determining the nature, timing and extent of audit procedures to evaluate the relevance and reliability of information, and we believe it is important to clarify that only certain aspects of the evaluation may require audit procedures to be performed and, in certain cases, no audit procedures may need to be performed at all.

This would be our strongly preferred approach as we consider this would be clearer; the definition would align with the objective at paragraph 6b), the requirements at paragraphs 9 and 10, and also would ensure that the concept of “audit procedures” is applied consistently throughout the ISAs as a whole. However, if the IAASB decides to retain

the current definition, we would request that the IAASB provide more explicit clarification in the application material to this standard to address the concerns described above (including an example of an audit procedure that could be applied to a response to an inquiry of management to evaluate relevance and reliability) and explicitly acknowledge that the term “audit procedure” is intended to be broader than the audit procedures currently described in ED-500 and other ISAs, i.e. inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry.

Framework to Assist Auditors in Making Judgements

We are supportive of the introduction of the framework to assist auditors in making judgements when evaluating the relevance and reliability of information intended to be used as audit evidence, and in evaluating the audit evidence obtained. In particular, we welcome the development of the attributes of relevance and reliability, together with the further guidance in terms of considering these attributes. Overall, we consider this framework to be robust, whilst also being scalable to different types of entity, risks, and types and sources of information that may be used as audit evidence. However, we have certain concerns and related recommendations regarding aspects of the framework, including to:

- Address the interrelationships between attributes of reliability and provide greater clarity/guidance as to how considerations of an attribute, e.g. credibility, may assist the auditor in considering other applicable attributes, such as completeness and accuracy;
- Include examples of information from external information sources for which it may be appropriate to obtain audit evidence about the attributes of accuracy and completeness;
- Clarify the “entry point” to paragraph 10, in respect of when it is necessary to obtain audit evidence about the attributes of accuracy and completeness of information from external information sources;
- Provide greater clarity regarding the difference in work effort envisaged by paragraph 10, i.e., regarding the incremental steps the auditor would need to take to address the explicit requirement in paragraph 10 to obtain audit evidence when the attributes of accuracy and completeness are applicable, in addition to the “considerations” required by paragraph 9, in certain circumstances.

Please refer to our detailed responses to the questions posed by the IAASB, in particular, Questions 8 and 9, in Appendix 1 to this letter for further details.

Use of Technology, Including Automated Tools and Techniques

We recognise the IAASB's aim, in modernising the standard for use in the digital environment, that the standard remain principles-based, in line with the fact that this is an overarching standard, rather than taking a more prescriptive approach. We also recognise the IAASB's intention in taking this approach, that this helps to enable the standard to be applied and remain evergreen as the technology landscape continues to evolve, with increasing use made of automated tools and techniques by both entities and auditors, and as new tools and techniques are developed over time.

We consider that a number of the changes made to ED-500 are helpful in paving the way for auditors to make better use of technology in performing an audit, including the acknowledgement that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing an audit procedure manually. Please refer to our response to Question 4, in Appendix 1 to this letter, for more details.

We are supportive of the updates to ED-500 to move away from an emphasis on the classification of the different types of audit procedures that may be performed to obtain audit evidence (risk assessment procedures, further audit procedures and other audit procedures, as well as different types of further audit procedures), recognising that procedures performed using automated tools and techniques may fall within different types of audit procedures and/or may involve a blend of different types of procedures. Furthermore, we welcome the acknowledgement that the types of procedures described in ED-500 and other ISAs may not fully describe the procedure being performed when using automated tools and techniques.

However, in light of the fact that the IAASB states that appropriately modernising the standard with regard to the use of technology in an audit is a key objective of the IAASB in undertaking this project, we consider that, in general, the changes to the standard, both in terms of its tone, including the language used, as well as the more detailed considerations and examples set out, could go further in order to better achieve the IAASB's stated objectives. We consider that the AICPA Statement on Auditing Standards (SAS) 142, *Audit Evidence* takes a somewhat more progressive tone overall in terms of the use of automated tools and techniques and it includes a comprehensive example at A69 *Exhibit A — Using ADAs to Simultaneously Accomplish Multiple Audit Procedures*, which illustrates in detail the use of an audit data analytic (ADA) that simultaneously accomplishes the objectives of both risk assessment and substantive audit procedures.

ED-500 includes an emphasis on automation bias, both in terms of information that has been generated by automated systems as well as when obtaining audit evidence using automated tools and techniques. The concept of automation bias is discussed as a pervasive theme throughout the application material. Whilst we agree that it is important to be aware of this form of bias, and that this emphasis is consistent with the greater emphasis on professional skepticism within the ED, we note that, as currently drafted, this may over-emphasise the risks of such bias in using electronic information, and when

using automated tools and techniques to obtain audit evidence as compared to the potential risks and biases when performing a procedure using information generated manually and when executing a procedure using manual techniques. We therefore recommend a more balanced discussion of risks, including when performing procedures manually versus using automated tools and techniques, that would convey the relative pros and cons of each approach. We consider that balanced application material addressing the different risks and the forms of bias introduced at A19 would be better aligned with the principles-based approach of the ISA overall, and would better support the auditor in making judgements based on the circumstances.

We also highlight that there are certain challenges in the use of data and analytics tools in obtaining audit evidence, which it is important for the IAASB to consider further. We believe that changes to ISA 500, as the foundational standard, are not sufficient on their own to enable the broader use of data and analytics tools on the audit and we recommend that conforming changes to the more prescriptive requirements, set out in other standards, are necessary to address these challenges. These include:

- Performance of risk assessment procedures and further audit procedures concurrently;
- Substantive procedures;
- Specific considerations for inventory; and
- External confirmations.

Please refer to our response to Question 4, in Appendix 1 to this letter, for further details. We understand that these, and other, more granular concerns, in respect of different types of procedures are being explored by the IAASB Technology Consultation Group. We recommend that the work of that group be prioritised and the ISAs, including ED-500, be updated/expanded to address the output of that project and additional more detailed examples be provided in the form of supplementary materials to guide auditors when using D&A techniques.

Professional Skepticism

We also note that the proposed revisions in ED-500 are intended to collectively lead to enhanced auditor judgements when obtaining and evaluating audit evidence by fostering the maintenance of professional skepticism when making judgements about information to be used as evidence, and sufficient appropriate audit evidence. Whilst we consider that the requirements and related application material included in ED-500 in relation to the exercise of professional skepticism will be helpful in achieving this aim, we recommend certain enhancements to this material.

In particular, as we describe in our response to Question 8, in Appendix 1 to this letter, we recommend expanding examples to address the interrelationships between the different attributes of reliability, such as how consideration of credibility may support

consideration of attributes such as bias and even completeness and accuracy, with emphasis on the use of professional judgement and professional skepticism in considering these attributes. This is likely to be particularly important when evaluating information from certain external information sources.

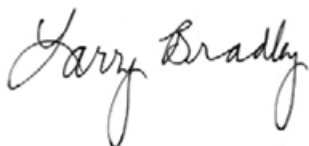
In connection with this, we suggest that the guidance regarding the attribute of authenticity include an explicit cross-reference not only to ISA 240.14, which sets out the auditor's responsibilities (and limitations to these) in respect of the authenticity of records and documents that the auditor intends to use as audit evidence, i.e. that the auditor may accept these as genuine unless they have reason to believe to the contrary, but also to the related application material at ISA 240.A10, which states that "an audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication."

We also recommend that the standard be further strengthened in respect of the application of professional skepticism through stronger links to ISA 600 in relation to matters such as inconsistencies in audit evidence obtained across a group, and the use of component auditors to assist the group auditor in their evaluation of the sufficiency and appropriateness of audit evidence across the group as a whole; ISA 580, *Written Representations* considerations, and ISA 700, *Forming an Opinion and Reporting on Financial Statements* considerations.

We also reiterate our concerns described in the section above, entitled *Use of Technology, Including Automated Tools and Techniques*, regarding the material introduced in respect of automation bias, which we consider may result in auditors being unnecessarily wary of obtaining audit evidence using automated tools and techniques, and for which we recommend a more balanced discussion.

Please contact Sheri Anderson at sranderson@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely



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Appendix 1 – Specific Questions Posed by IAASB

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-500. In this regard, comments will be most helpful if they are identified with specific aspects of ED-500 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals in ED-500, it will be helpful for the IAASB to be made aware of this view.

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 judgements about audit evidence throughout the audit?

We are supportive of the IAASB in terms of its aims and objectives and regarding the overall direction of the proposed standard. In particular, we are supportive of the principles-based approach to the auditor's responsibilities relating to audit evidence when designing and performing audit procedures, including evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained.

We are also supportive of the positioning of this standard as an overarching standard addressing the auditor's responsibilities in relation to audit evidence, with clear linkages to other ISAs that address audit evidence in relation to a particular aspect of the audit more specifically, with such responsibilities underpinned by the framework for making judgements about audit evidence set out in this standard.

In particular, we welcome the inclusion of the application material addressing the attributes of relevance and reliability of audit evidence, accompanied by more detailed guidance and examples in respect of these attributes, which we consider will assist auditors in exercising sound professional judgement in this area. However, we set out certain concerns and related recommendations regarding aspects of the framework in our responses to the specific questions below.

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

We consider the relationships to, and linkages with, the other ISAs to be clear and appropriate, aligned with the intention that this is an overarching standard that underpins judgements made about audit evidence throughout the audit, including in respect of more specific requirements regarding audit evidence in connection with certain, specific areas of the audit, addressed in other ISAs.

In particular, we recognise the clear links to the foundational requirement at ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 17, for the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the audit opinion. We also consider that the inclusion of paragraph 3 in ED-500, which explains that this is an overarching standard, applicable to all audit evidence obtained during the audit, with other ISAs addressing the audit evidence to be obtained for specific matters, is helpful in clarifying this relationship. In addition, we welcome the inclusion of the Appendix to the proposed standard, which further describes the relationship of the proposed ISA to the other ISAs and reminds auditors of material in other ISAs which addresses the audit evidence to be obtained for specific matters.

We note that paragraph 3 of ED-500 states that ISA 330, *The Auditor's Responses to Assessed Risks* deals with the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained. We recognise that paragraph 8b) of ED-500 builds on this as it requires the auditor to design and perform audit procedures, for the purpose of obtaining sufficient appropriate audit evidence, the nature and timing of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures, and paragraph 13 further develops, and closes the loop with, these requirements as it requires the auditor, as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.26, to evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures and consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence. Whilst the inclusion of these requirements may be somewhat duplicative of requirements in ISA 200.17, ISA 330, and ISA 315 (Revised), we support the inclusion of these also in ED-500, given that this is a foundational standard in respect of audit evidence. We suggest that the IAASB include clearer, more specific linkage at paragraphs 8b) and 13 to the related paragraphs in ISA 200, ISA 330 and ISA 315 (Revised) by the use of specific cross-references.

We recommend that there are clearer linkages to ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* regarding audit evidence to be used on group audits, including in respect of matters such as involvement of component auditors in the design of procedures to obtain sufficient appropriate audit evidence; the exercise of professional skepticism in evaluating audit evidence; the consideration of audit evidence across the group as a whole when performing the standback as described at paragraph 13 of ED-500, and the consideration of any inconsistencies in audit evidence across the group.

We also recommend, in our responses to the questions below, that clearer linkages to other ISAs be established at certain points, e.g. to ISA 580, *Written Representations* and ISA 700, *Forming an Opinion and Reporting on Financial Statements*, in respect of professional skepticism when management is unwilling to provide certain audit evidence,

and, in the application material addressing the attribute of authenticity, not only to ISA 240.14, which sets out the auditor's responsibilities (and limitations to these) in respect of the authenticity of records and documents that the auditor intends to use as audit evidence, i.e. that the auditor may accept these as genuine unless they have reason to believe to the contrary, but also to the related application material at ISA 240.A10, which states that "an audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication."

We also recommend, in our response to Question 4, that, as part of modernising ISA 500, as the foundational standard addressing audit evidence, to recognise the evolution in technology, the IAASB explore conforming amendments to the more prescriptive requirements in respect of audit evidence in other ISAs, including ISA 315 (Revised), ISA 330, ISA 501, ISA 505 and ISA 520.

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

We understand that the proposed revisions in ED-500 are intended to address certain key public interest issues, as described below, and in doing so, are intended to collectively lead to enhanced auditor judgements when obtaining and evaluating audit evidence:

- Responding to changes in the information that is being used by auditors, including the nature and source of information;
- Modernising and supporting a principles-based standard that recognises the evolution in technology; and
- Fostering the maintenance of professional skepticism when making judgements about information to be used as evidence, and sufficient appropriate audit evidence.

We believe the revisions to the standard, collectively, will help lead to enhanced auditor judgements when evaluating the relevance and reliability of information intended to be used as audit evidence, and in evaluating the audit evidence obtained. In particular, we believe the principles-based approach to making this evaluation, as described in our response to Question 1, is appropriate, and the application material is, in general, sufficiently detailed to explain the concepts and requirements, and what these are intended to address, clearly. We are also supportive of the framework to assist auditors in making such judgements, in particular, the development of the attributes of relevance and reliability, with the further guidance in terms of assessing these attributes. Overall, we consider this framework to be robust, whilst also being scalable to different types of entity, risks, and types and sources of information that may be used as audit evidence.

We set out certain concerns regarding aspects of the framework, and our related recommendations to address these issues, in our responses to other questions posed by the IAASB, in particular, Questions 8 and 9.

We also consider the material related to management's experts to be clear and helpful and we welcome the positioning of this such that it builds on the core requirement to evaluate the relevance and reliability of information intended to be used as audit evidence.

We believe that the changes made in respect of emphasising the importance of professional skepticism, as described below in our response to question 5, below, will help to drive auditor behaviour that keeps such considerations front of mind when evaluating relevance and reliability of audit evidence, and in evaluating whether sufficient appropriate audit evidence has been obtained.

We set out further comments in relation to the changes made in our responses to the specific questions below, which address these aspects individually, and we provide recommendations to address our concerns.

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

We consider that there is an appropriate balance of requirements and application material, commensurate with the fact that this is a principles-based and foundational standard. The requirements are therefore higher-level in nature, with the application material being more detailed to provide further explanation of overarching concepts, guidance in respect of the requirements, including what they are intended to cover, and a robust framework for auditors in applying judgement when evaluating the relevance and reliability of information to be used as audit evidence and evaluating the audit evidence obtained. We believe that this will help auditors to take a robust and consistent approach, and also address scalability considerations. We also note that the relative balance of requirements and application material in ED-500 is very similar to that in the extant ISA 500 standard.

We suggest, in response to other, more specific questions, where we consider that additional clarification may be added through the inclusion of further application material or examples, to help auditors apply their judgement in a robust and consistent manner.

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?

We recognise the IAASB's aim, in modernising the standard for use in the digital environment, that the standard remains principles-based, in line with the fact that this is

an overarching standard, rather than taking a more prescriptive approach. We also recognise the IAASB's intention in taking this approach, that this helps to enable the standard to be applied and remain evergreen as the technology landscape continues to evolve, with increasing use made of automated tools and techniques by both entities and auditors, and as new tools and techniques are developed over time.

We consider that a number of the changes to ED-500 are helpful in paving the way for auditors to make better use of technology in performing an audit. For example, paragraph A3 of ED-500 highlights that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than performing an audit procedure manually. It also notes that it may not be possible or practicable to perform an audit procedure manually, e.g. when analysing, processing, organising, structuring or presenting large volumes of data or information. Paragraph A17 expands on this concept, noting that an automated tool may enable the auditor to interrogate a large data set of transactions more easily, and that, by doing so, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the transactions, which may result in more persuasive audit evidence.

We are supportive of the updates to ED-500 to move away from an emphasis on the classification of the different types of audit procedures that may be performed to obtain audit evidence (risk assessment procedures, further audit procedures and other audit procedures, as well as different types of further audit procedures), recognising that procedures performed using automated tools and techniques may fall within different types of audit procedures and/or may involve a blend of different types of procedures. Furthermore, we welcome the acknowledgement that the types of procedures described in ED-500 and other ISAs may not fully describe the procedure being performed when using automated tools and techniques. For example, A18 notes that the auditor may design and perform an audit procedure that achieves more than one purpose, e.g. substantive procedures or tests of controls in accordance with ISA 330 concurrently with risk assessment procedures in accordance with ISA 315, when efficient to do so. A18 highlights that in these circumstances, the auditor is required to comply with the requirements of the applicable ISAs that address the design and performance of such audit procedures.

However, in light of the fact that the IAASB states that appropriately modernising the standard with regard to the use of technology in an audit is a key objective of the IAASB in undertaking this project, we consider that, in general, the changes to the standard, both in terms of its tone, including the language used, as well as the more detailed considerations and examples set out, could go further in order to better achieve the IAASB's stated objectives. We consider that the AICPA Statement on Auditing Standards (SAS) 142, *Audit Evidence* takes a somewhat more progressive tone overall in terms of the use of automated tools and techniques and it includes a comprehensive example at A69 Exhibit A — *Using ADAs to Simultaneously Accomplish Multiple Audit Procedures*, which illustrates in detail the use of an audit data analytic (ADA) that simultaneously accomplishes the objectives of both risk assessment and substantive audit procedures.

ED-500 includes an emphasis on automation bias, both in terms of information that has been generated electronically as well as when obtaining audit evidence using automated tools and techniques. The concept of automation bias is discussed as a pervasive theme throughout the application material, not only at A19, where it is described as an example of a bias, together with examples of confirmation bias, anchoring bias and availability bias, but also elsewhere, e.g. at A22 to A23, where it is described in more detail, together with actions that the auditor may take to mitigate the risk of such bias when using automated tools and techniques. A61 also describes this form of bias and encourages the auditor to consider this risk when evaluating the relevance and reliability of such information intended to be used as audit evidence. Whilst we agree that it is important to be aware of this form of bias, and that this emphasis is consistent with the greater emphasis on professional skepticism within the ED, we note that, as currently drafted, this may over-emphasise the risks of such bias in using electronic information, and when using automated tools and techniques to obtain audit evidence as compared to the potential risks and biases when performing a procedure using information generated manually and when executing a procedure using manual techniques. We therefore recommend a more balanced discussion of risks, including when performing procedures manually versus using automated tools and techniques, that would convey the relative pros and cons of each approach. We consider that balanced application material addressing a range of different risks and the forms of bias introduced at A19, would be better aligned with the principles-based approach of the ISA overall, and would better support the auditor in making judgements based on the circumstances.

In connection with this, we note that at times ED-500 co-mingles the concepts of electronic data, i.e. information that is developed and/or stored within an entity's IT system or obtained electronically from an external source, and electronic documents, i.e. information which is obtained in electronic documentary form. We recommend that the standard more clearly distinguish between the two and set out considerations with respect to each. We refer the IAASB to SAS 142, *Audit Evidence*, which defines electronic information separately and distinguishes between electronic documents and data at paragraph A11, and which provides further guidance regarding establishing the reliability of each, in a balanced way. It also addresses information that has been transformed from its original medium into an electronic format and discusses additional audit procedures to address reliability, e.g. testing controls over the transformation and maintenance of the information, at A28 and A29, which we consider would be helpful to include within ED-500.

We also highlight that there are certain challenges in the use of data and analytics tools in obtaining audit evidence, which it is important for the IAASB to consider further. We believe that changes to ISA 500, as the foundational standard, are not sufficient on their own to enable the broader use of data and analytics tools on the audit and we recommend that conforming changes to the more prescriptive requirements, set out in other standards, are necessary to address these challenges. These include:

— **Performance of Risk Assessment Procedures and Further Audit Procedures Concurrently**

Although ED-500 (and the ISAs in general) describe that obtaining sufficient appropriate audit evidence is an iterative process, the concept of performing risk assessment procedures and then further audit procedures to respond to those risks identified is fundamental to the ISAs, with ‘bright lines’ remaining between the procedure types and an expectation overall of a sequential approach.

ED-500 is helpful in acknowledging that the auditor may take a concurrent approach, however, we believe that, without further clarification, auditors may lack the confidence to perform these procedures concurrently given it is unclear how compatible this is with the iterative, sequential approach to assessing the risks of material misstatement and then designing and performing further audit procedures to respond to assessed risks that is described in the requirements of the ISAs. We therefore recommend that consideration be given to clarifying how concurrent performance of risk assessment and further audit procedures is compatible with the requirements either within the ED or by updating other ISAs, e.g. ISA 315 (Revised); ISA 330, and ISA 520, *Analytical Procedures*, as part of this project.

We also recommend that the IAASB include a detailed example of the use of automated tools/techniques to concurrently perform risk assessment and substantive audit procedures, similar to that set out in SAS 142 at A69, as referred to above.

— **Substantive Procedures**

There is a clear distinction within the ISAs, currently, between tests of details and substantive analytical procedures, but as lines become blurred between these types of procedures, in application, and as testing moves towards interrogating 100% of a population, this presents new challenges in designing and performing these procedures, and interpreting the results, as the ISAs direct the auditor to interpret the results differently, depending on the classification of the procedure. Furthermore, the role of controls testing comes into question in situations where the auditor is able to interrogate 100% of the population and/or is addressing risks of material misstatement more generally, rather than the distinct sub-components of “inherent risk” and “control risk” sequentially.

We therefore recommend that the IAASB explore conforming amendments to the more prescriptive requirements set out in ISA 315 (Revised); ISA 330, and ISA 520, and ISA 530, *Audit Sampling*, as part of the changes to modernise the ISAs as the IAASB appears to intend, to enable auditors to use automated tools and techniques to meet not only the objectives of those standards, but also to ensure that the more

prescriptive requirements/approach as currently set out in those standards¹ are sufficiently flexible to permit the broader use of automated tools and techniques.

We also suggest that the standard explicitly recognise that the performance of substantive audit procedures using automated tools and techniques, in certain circumstances, may not clearly be substantive analytical procedures or tests of details, although they may contain elements of each, and are, rather, a different type of procedure to obtain audit evidence. Such explicit clarification would enable the auditor to focus on the results of such procedures and use these as audit evidence, without being constrained by the need to classify the procedure and follow the specific requirements of the ISAs in relation to each type. We highlight that the Explanatory Memorandum, at paragraph 36, notes that challenges in this area were identified during outreach activities “as the use of new audit tools and techniques may involve a blend of procedures, or the types of the procedures described in the ISAs may not fully describe the procedure being performed.” The IAASB also notes, in that paragraph, that they are “of the view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances... rather than the type of the procedure (i.e. which “category” the audit procedure falls into).” We recommend that this view be clearly stated in the revised standard itself, for example, by expanding the material currently set out at A18.

— ***Specific Considerations for Inventory***

We recognise that in describing how the form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor’s evaluation of the relevance and reliability of the information, A42 of ED-500 provides an example of how the design of an audit procedure to inspect the physical condition of the entity’s inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation techniques.

Whilst this is helpful, we recommend that the IAASB explore more comprehensive revisions to requirements relating to inventory. In light of the fact that an increasing number of entities use highly automated, continuous inventory systems, and the concept of observing the performance of a count at a particular point in time may be somewhat outdated in respect of obtaining audit evidence over the existence and condition of inventory at such entities, we believe it is timely to consider whether the

¹ For example, when an assessed risk of material misstatement at the assertion level is a significant risk, ISA 330.21 requires the auditor to perform substantive procedures that are specifically responsive to that risk, and that when the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

requirements in ISA 501.4-8 and related application material need to be modernised. We acknowledge that the IAASB Proposed Strategy and Work Plan 2024-2027 includes a potential project to modernise ISA 501 to reflect current methods for obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory and we would welcome such a project.

— **External Confirmations**

We note that in addressing the use of external confirmations, ISA 505.7 requires the auditor to maintain control over external confirmation requests, including return information being sent directly to the auditor, and sending the requests to the confirming party. In connection with this, paragraph A11 of that standard explains that receipt of a response indirectly may indicate doubts about the reliability of a response, and paragraph A12 notes that responses received electronically may involve risks as to reliability, as proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect.

Whilst we agree with the overarching messages in ISA 505, we note that certain external confirmations, e.g. bank confirmations, are now increasingly provided using electronic means, and ISA 505 has not been modernised to address these technology changes and the implications for the audit approach, including in respect of the requirement for the auditor to “maintain control” over the process. We recommend that, as part of modernising ISA 500 to recognise the evolution in technology, the IAASB explore conforming amendments to ISA 505 as part of this project. We recognise that the IAASB Proposed Strategy and Work Plan 2024-2027 also includes a potential project to modernise ISA 505 to reflect technology-based confirmation processes and, again, we would welcome such a project.

We understand that these, and other, more granular concerns, in respect of different types of procedures are being explored by the IAASB Technology Consultation Group. We recommend that the work of that group be prioritised and the ISAs, including ED-500, be updated/expanded to address the output of that project and additional more detailed examples be provided in the form of supplementary materials to guide auditors when using D&A techniques. Supplementary guidance is preferable in certain circumstances as it allows the ISAs to remain evergreen, whilst detailed examples can be included in guidance that is adapted as technology solutions are developed, including considerations in terms of next-generation technology, such as AI and Blockchain. Furthermore, as innovative solutions are developed at pace, guidance solutions may be capable of faster development and delivery than regular re-opening of standards.

Lastly, we recommend that the standard include an example regarding the implications of data privacy laws and regulations with respect to using automated tools and techniques in obtaining audit evidence, when discussing access to information when designing audit procedures, given the significant implications and jurisdictional variations in these laws and regulations.

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

We note that the proposed revisions in ED-500 are intended collectively to lead to enhanced auditor judgements when obtaining and evaluating audit evidence by fostering the maintenance of professional skepticism when making judgements about information to be used as evidence, and sufficient appropriate audit evidence. Whilst we consider that the requirements and related application material included in ED-500 in relation to the exercise of professional skepticism will be helpful in achieving this aim, we recommend certain enhancements to this material.

We welcome the inclusion of paragraph 4, to introduce professional skepticism as an overarching concept and to give upfront emphasis within the standard as to how professional skepticism may be applied in obtaining and evaluating audit evidence, specifically when designing and performing audit procedures in a manner that is not biased; when evaluating the relevance and reliability of information intended to be used as audit evidence, and when considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. We note that this is also reinforced by the explicit requirement in paragraph 8a) for the auditor to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory, and also by the introduction of the standback in paragraph 13, where the auditor is required to consider all evidence obtained including evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

We support the inclusion of application material to assist the auditor in applying professional skepticism, for example, material in relation to biases, attributes of relevance and reliability of information intended to be used as audit evidence, and factors that may affect the auditor's judgement. However, please refer to our response to Question 4 regarding the material introduced in respect of automation bias, which we are concerned may result in auditors being unnecessarily wary of using information generated by automated systems, and for which we recommend a more balanced discussion.

We recommend, in our response to Question 8, that the application material and examples provided are expanded, to address the interrelationships between the different attributes of reliability, such as how consideration of credibility may support consideration of attributes such as bias and even completeness and accuracy, with emphasis on the use of professional judgement and professional skepticism in considering these attributes. This is likely to be particularly important when evaluating information from external information sources. For example, A37 states *"In some circumstances, the audit procedures used to evaluate relevance and reliability may be straight forward, (e.g. comparing the interest rate on a loan that is based on the prime rate established by a*

central bank of the jurisdiction to published information from the central bank).” However, we do not consider this example to be very helpful or clear, as comparing an interest rate to a central bank website may confirm that the information agrees to the source, but would not provide information as to the reliability of that source, which is what we would consider to be the key issue in terms of reliability of the information in this example. Instead, we believe that a consideration of this nature would need to take into account attributes such as the credibility of the source (in particular, the reputation of the central bank), which we consider, in this example, would also indicate that the process the source uses to develop the information published is appropriate and considers the information needs of a broad range of users, and the authenticity of the information (the fact that this is published on the central bank’s website). The auditor would need to use professional judgement and professional skepticism in making these considerations.

In connection with this, we suggest that the guidance regarding the attribute of authenticity include an explicit cross-reference not only to ISA 240.14, which sets out the auditor’s responsibilities (and limitations to these) in respect of the authenticity of records and documents that the auditor intends to use as audit evidence, i.e. that the auditor may accept these as genuine unless they have reason to believe to the contrary, but also to the related application material at ISA 240.A10, which states that “An audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication.”

We also recommend that the standard be further strengthened in respect of the application of professional skepticism through stronger links to ISA 600 in relation to matters such as inconsistencies in audit evidence obtained across a group, and the use of component auditors to assist the group auditor in their evaluation of the sufficiency and appropriateness of audit evidence across the group as a whole.

Furthermore, we suggest that guidance be included addressing exercising professional skepticism in scenarios where management is unwilling to provide certain audit evidence (e.g. where management refuses to provide a requested representation) or where the auditor may have doubts about the reliability of such evidence, at paragraph A12, which could be more clearly linked both to ISA 580, *Written Representations* considerations, and also to ISA 700, *Forming an Opinion and Reporting on Financial Statements* considerations.

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?

We are supportive of the definition at ED-500 paragraph 7b) in referring to audit evidence “that the auditor uses to draw conclusions that form the basis for the auditor’s opinion, **and report** [emphasis added]”, to align with ISA 200.A30 which refers to both the opinion

and the report, as audit evidence is also critical to enable the auditor to prepare and issue the auditor's report. We are supportive of the other references in ED-500 being only to the opinion, as in these other instances, the references are in the context of obtaining sufficient appropriate audit evidence in relation to drawing reasonable conclusions on which to base the auditor's opinion, more specifically.

We recognise the IAASB's intention in introducing the "input/output model" in respect of audit evidence, wherein "information intended to be used as audit evidence" is the input, which only becomes "audit evidence", i.e. the output, once the auditor applies audit procedures to it to evaluate its relevance and reliability. We understand the IAASB's rationale for developing this approach as an important aspect of achieving their stated objective to respond to changes in the information that is being used by auditors, including the nature and source of information, and to ensure that auditors do not use information as audit evidence without having a sufficient basis for doing so. The distinction between information and audit evidence is important, and has become more so over time, given the significant increase in sources of information, especially external sources, and types of information available.

However, whilst we welcome the IAASB's efforts to make this distinction between information and audit evidence, we have concerns with the revised definition of audit evidence, which reflects the position that information (i.e., the input) needs to be subject to *audit procedures* to become audit evidence.

Firstly, whilst we agree that all information needs to be evaluated for relevance and reliability, in our view, an auditor does not necessarily need to apply "audit procedures" to information in order to evaluate whether it may be used as audit evidence. For example, when evaluating the relevance and reliability of an oral response to an inquiry of management, the auditor would not need to perform an audit procedure to consider the source of the information. Likewise, the auditor's evaluation of attributes such as credibility and accuracy would likely focus on factors such as the role and tenure of the individual in the organisation, the consistency of the response with the auditor's expectations and the auditor's experience regarding the historical reliability of responses from that individual. We do not believe these considerations involve applying audit procedures to the information, i.e. these are not procedures of inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry, which are the "audit procedures" described in other ISAs, and in the Appendix to ED-500.

Secondly, we are concerned that, as currently drafted, the reference to "audit procedures" may result in confusion as to the work effort required to evaluate the relevance and reliability of audit evidence. Notwithstanding our belief that there may be instances when audit procedures do not need to be performed at all to evaluate the relevance and reliability of certain types of audit evidence, we also have concerns that application material is not sufficiently clear as to the relevant considerations when determining the nature, timing and extent of audit procedures to be performed for this purpose. For example, ED-500.A37 notes that the audit procedures to evaluate the

relevance and reliability may be straight forward “(e.g. comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank).” This audit procedure would confirm the source of the information but does not necessarily address the attributes of relevance and reliability that may be applicable in the circumstances. We acknowledge that the IAASB describes, in the Explanatory Memorandum, at paragraph 42, that it does not want to create an unnecessary burden for auditors in evaluating reliability of information and we recognise that ED-500 includes application material to clarify that the extent of procedures that would need to be performed will vary according to the circumstances and in some cases may be more in the nature of making a consideration and/or applying professional judgement. A40 notes that the auditor is not required to document the consideration of every attribute of relevance and reliability of information and A50 states “If the information comes from a highly reputable source, such as a central bank of the jurisdiction, the auditor’s work effort in considering the reliability of the information may not be extensive.” This language suggests that “audit procedures” are not necessarily required, however, we do not believe this is sufficiently clear. For example, having performed an audit procedure to compare the interest rate to published information by the central bank, is it sufficient to simply consider whether the central bank is a highly reputable external information source? We believe that this consideration may be sufficient and would not likely need the performance of audit procedures. However, we believe others could interpret the definition in ED-500 as meaning audit procedures are required to be applied to information when considering the attributes of relevance and reliability that applicable in the circumstances.

We believe the auditor should *consider* the source of the information and the attributes of relevance and reliability that are applicable, such as the information’s credibility, authenticity and its susceptibility to bias, and then use their professional judgement to determine what audit procedures, if any, are necessary to satisfy the requirements of paragraph 9 of ED-500. In certain cases, these considerations may not require audit procedures to be performed, i.e., inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry, which are the audit procedures described in other ISAs, and in the Appendix to ED-500. In other cases, they may require the performance of audit procedures but only to certain aspects of the evaluation (e.g. comparing information to its original source). Further, such considerations may not always be applied to the information itself, but may be based on the auditor’s understanding from historical experience with the source of the information.

Paragraph 9 of ED-500 and related application material appear to acknowledge this, e.g., paragraph 9 itself only requires the auditor to “consider” and does not make reference to “audit procedures”. We also highlight that we consider paragraph 9 of ED-500 to be broadly equivalent to paragraph 7 of extant ISA 500, which requires the auditor to “consider the relevance and reliability of the information to be used as audit evidence, including information from an external information source”, when designing and performing audit procedures. Our understanding is that the purpose of paragraph 9 of ED-500 (and related application material) is to provide a clearer structure and framework,

including the introduction of the attributes of relevance and reliability, for auditors to assist them in making their considerations of the relevance and reliability of the information to be used as audit evidence, but is not intended to establish an incremental work effort, such that “audit procedures” would always be required to be performed in making these considerations.

Paragraph 10 of ED-500 appears to build on the requirement at paragraph 9, in that it explicitly refers to obtaining audit evidence, which would necessitate the performance of audit procedures, only in respect of the specific attributes of accuracy and completeness, as distinct from the other attributes of reliability (or attributes of relevance). We believe that this also indicates, therefore, that audit procedures are not *required* to be performed in respect of other attributes, otherwise there would be no need to include paragraph 10 as a separate, additional requirement. Further application material also suggests that “audit procedures” are not necessarily required in respect of other attributes.

Given the above, we believe it is critically important that the IAASB provide additional clarification to avoid inconsistent interpretation, which could result in unnecessary audit procedures being performed and work documented.

We recommend, therefore, that the proposed definition be amended to remove the reference to the application of “audit procedures” and instead place emphasis on the fact that the auditor needs to “evaluate” the information (by appropriately considering the source of the information and applicable attributes), i.e. in our view, the requirement as described at paragraph 9, which is focused on such an evaluation through consideration of relevant matters and attributes is fit for purpose and appropriate, and the definition should support and align with this. The application material could then clarify that the auditor exercises professional judgment when determining the nature, timing and extent of audit procedures to evaluate the relevance and reliability of information, and we believe it is important to clarify that only certain aspects of the evaluation may require audit procedures to be performed and, in certain cases, no audit procedures may need to be performed at all.

This would be our strongly preferred approach as we consider this would be clearer; the definition would align with the objective at paragraph 6b), the requirements at paragraphs 9 and 10, and also would ensure that the concept of “audit procedures” is applied consistently throughout the ISAs as a whole. However, if the IAASB decides to retain the current definition, we would request that the IAASB provide more explicit clarification in the application material to this standard to address the concerns described above (including an example of an audit procedure that could be applied to a response to an inquiry of management to evaluate relevance and reliability) and explicitly acknowledge that the term “audit procedure” is intended to be broader than the audit procedures currently described in ED-500 and other ISAs, i.e. inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry.

Lastly, we also highlight that we do not believe that all evidence needs to specifically corroborate or contradict assertions in the financial statements, as currently described in ED-500. For example, the fact that management refuses to respond to an inquiry is reliable, and certainly relevant to the audit, but it does not necessarily contradict particular assertions in the financial statements.

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

We are supportive of the introduction of additional material into ED- 500 to address the question of “how much audit evidence is enough?”, given the significant increase in information sources in recent years, including as a result of technological advances, and the linkage to the concept of “persuasiveness” to help address this uncertainty. We note that the concept of “persuasiveness” is already described in other ISAs, e.g. ISA 330, which requires, at paragraph 7b), the auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk, and describes the relationship of persuasiveness to sufficiency and appropriateness. We recommend that the IAASB describe this concept also in ED-500, since this is the overarching standard on audit evidence.

We support the IAASB’s decision to retain the concepts of sufficiency and appropriateness as defined in the extant standard, for clarity and ease of use, as these are fundamental concepts, which are well understood and are not considered to be broken. We welcome the inclusion of additional application material in ED-500 that is based on application material in the extant standard, which focuses on the interrelationship of these concepts, and their relationship to persuasiveness, for example, at A6, and also at A13, which describes that information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive audit evidence. It also explains how the concept relates to sufficiency, with further application material expanding on this interrelationship, and how matters such as the source of the information, and the attributes of relevance and reliability, that are applicable in the circumstances, affect persuasiveness and therefore sufficiency of audit evidence.

We also consider that this material describing the interrelationship will better support the auditor in fulfilling the requirements of ED-500 at paragraphs 8b) and 9b), which refer to the intended purpose of the audit procedures, as well as requirements to address doubts about the relevance or reliability of information intended to be used as audit evidence, and in considering inconsistent audit evidence when evaluating the audit evidence obtained, i.e. that inconsistencies in audit evidence may make this less persuasive, and the auditor may need to obtain additional 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?

We are supportive of the requirements and application material in ED-500 regarding the evaluation of the relevance and reliability of information intended to be used as audit evidence. We consider the changes to be responsive to the significant increase in information available from external sources, as well as the evolution in technology, and, in general, will provide a more robust framework, that supports a principles-based approach, for the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. In particular, we welcome the application material addressing the attributes of relevance and reliability, and the examples provided.

Notwithstanding the above, however, we recommend, in our response to Question 6, that the IAASB amend the definition of “audit evidence” to remove the reference to the need to apply “audit procedures”, and instead, place emphasis on the fact that the auditor needs to “evaluate” the information (by appropriately considering the source of the information and applicable attributes), which would be our strongly preferred approach, or, if the IAASB decides to retain the current definition, we would request that the IAASB provide more explicit clarification in the application material to address our concerns (including an example of an audit evidence procedure that could be applied to a response to an inquiry of management to evaluate relevance and reliability) and explicitly acknowledge that the term “audit procedure” is intended to be broader than the audit procedures currently described in ED-500 and other ISAs, i.e. inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry.

In connection with this, we recommend that the application material and examples are further developed to address the interrelationships between attributes of reliability and to provide greater clarity/guidance regarding these, for example, that the credibility of an information source may in itself be considered when evaluating other attributes, even completeness and accuracy. This is likely to be particularly important in respect of the evaluation of information from certain external information sources, as it may not be possible to develop a sufficient understanding regarding the accuracy and completeness of such information directly, for example, when the process or model used by an external source to develop such information is confidential/proprietary. However, this would not necessarily constitute a scope limitation. We recommend that the application material provide guidance and examples regarding how the procedures performed over the accuracy and completeness of information may depend on the circumstances. A 48-50 describe sources of information and the implications of these, e.g. A 50 notes that the source of the information may affect the auditor’s professional judgement regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of evaluation necessary, but further detail would be helpful. We note that there is helpful content regarding information from external information sources at paragraphs A39-44 of the extant standard, in particular, examples of factors that may be relevant when the auditor considers the relevance and reliability of such information, at paragraph A41, that has not been included in the application material to the ED. Such factors include the nature and authority of the information source, e.g. whether the source has a legislative mandate to provide the information; the ability of the entity to influence the source; the competence, reputation and track record of the source in preparing the

information, and evidence of general market acceptance of the information by users, and whether the source accumulates information or directly 'sets' market transactions, amongst others. We recommend that this guidance be added to ED-500, also with appropriate references to use of professional skepticism and professional judgement in considering these factors, to further support the auditor in evaluating relevance and reliability of information from external information sources.

Please also refer to our comments in response to Question 9, which note that although ED-500 appears to intend that the attributes of accuracy and completeness are capable of broad application, to both internal and external information sources, the examples in the application material seem to focus mainly on internal information sources. We therefore recommend the inclusion of additional examples regarding information from external sources, with an emphasis on the evaluation of other, interrelated attributes, e.g. credibility, in order to provide audit evidence relating to the attributes of accuracy and completeness, as well as further guidance regarding performing audit procedures directly to evaluate the attributes of completeness and accuracy e.g., by reconciling an external confirmation to an entity's accounting records and investigating any reconciling items.

We also believe it is important to clarify whether the reference to the attribute of "bias", described at paragraph A56, is intended to refer to possible bias in a broad sense by the preparer of the information (irrespective of whether the information is from an internal or an external information source) or whether it is intended to refer more narrowly to the concept of susceptibility to "management bias", in which case we believe this is intended to be a consideration that is limited to internal information, including information prepared by a management's expert, or other external sources over which management may be able to exert influence. We note that certain examples in the application material appear to suggest that this relates more specifically to management bias, however, other examples, e.g. at A37, which describes pricing information from an external source, may make reference to bias in the broader sense. We also note that certain references, e.g. at A50, are specifically to the concept of management bias. We therefore recommend that the IAASB provide clarification at A56. We highlight that we consider that it would be impracticable in most cases for an auditor to identify and respond to indicators of potential "bias" in the broader sense when considering external information sources, as the auditor would be very unlikely to have a sufficiently detailed understanding of the preparer, and the process to develop the information, in order to be able to make an evaluation of bias directly. If the IAASB's intention is to refer to bias in the broader sense, we suggest that the material at A56 be amended to refer to whether the information is "susceptible to" bias rather than whether it is "free from" bias. Accordingly, the auditor may consider susceptibility to bias when evaluating the relevance and reliability of information but is not expected to conclude that the information is free from bias. We believe this would be similar to the concept of the auditor remaining alert to conditions that cause the auditor to believe that a document may not be authentic, but is not required to form a conclusion regarding authenticity, as the auditor is not trained, and does not have the expertise to do this, as described in ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

In connection with the above, we note that in certain situations, an auditor may be able to obtain “comfort” over certain attributes by considering the attribute of credibility, in particular, when information is from an external information source, and therefore we recommend that the IAASB clarify that the attribute of “credibility” also relates to market acceptance of the source as credible and trustworthy, considering the reputation of the source and the views of the market/a broad range of users of the information.

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?

We are supportive of the inclusion of the requirement, at paragraph 10, for the auditor to obtain audit evidence about the accuracy and completeness of information when these particular attributes are applicable in the circumstances, subject to our concerns set out below regarding the entry point to this requirement, i.e. in circumstances where completeness and accuracy are considered to be applicable, but in a “softer” sense whereby considering other attributes, e.g. credibility and authenticity may address completeness and accuracy. We consider that the inclusion of this requirement as a separate requirement to those at paragraph 9 gives it greater emphasis and helps to clarify that audit evidence is *always* required to be obtained, i.e. audit procedures are required to be performed, when the attributes of accuracy and completeness are applicable, whilst helping avoid the implication that audit procedures, as opposed to considerations, would generally need to be applied, and documented, when considering other attributes of relevance and reliability of information. Please refer to our response to Question 6 in which we raise concerns regarding the use of the term “audit procedures” in respect of the evaluation of the relevance and reliability of information to be used as audit evidence.

We agree with the IAASB’s decision that paragraph 10 should be a conditional requirement, aligned with the principles-based nature of the standard, and given that the types of audit procedure and the source of the information are likely to have a significant bearing on the determination as to whether the attributes of accuracy and completeness are applicable, as described in the application material.

We consider the related application material will provide helpful guidance to auditors in making this determination, e.g. at A59, which provides an example that contrasts between risk assessment procedures (in which accuracy and completeness may be less relevant) and further audit procedures to respond to assessed risks of material misstatement (in which procedures to obtain audit evidence about accuracy and completeness may be necessary).

We welcome the fact that the application material continues to emphasise that accuracy and completeness ordinarily will be important attributes when evaluating information generated internally from the entity’s information system for further audit procedures (e.g.

at A63/A64). We also recognise the IAASB's intentions in broadening this requirement to address all information sources, both internal and external, as opposed to only internal information sources, as required in the extant standard to allow for the fact that these attributes may also be important for information from external sources. However, we note that the examples set out in the application material are focused on internal information, and we therefore recommend that additional examples, specifically focused on information from external information sources (e.g., a response to an external confirmation request, or information from a pricing service), are also provided.

We also highlight that this requirement may be impracticable for auditors in respect of information from external information sources in certain circumstances, as they would be unlikely to be able to obtain a sufficiently detailed understanding of the preparer, and the process/model to develop the information (which may often be proprietary to the external source), directly, in order to be able to obtain "audit evidence" about the attributes of accuracy and completion. In this regard, we recognise that A63 states that "For information obtained from a source external to the entity, the auditor may be more focused on other [than accuracy and completeness] attributes of reliability, including the credibility of the source providing the information." However, we consider this guidance to be unclear as to whether it means:

- That the requirement at paragraph 10 is not actually triggered, i.e., the intention of A63 is to clarify that although the attributes of accuracy and completeness may be somewhat applicable when considering whether information from an external information source is reliable, usually the attribute of credibility (and/or other attributes as appropriate in the circumstances, e.g. authenticity) are more relevant and the auditor is focused on these, considering these attributes as required at paragraph 9 of the standard, with such considerations also addressing completeness and accuracy to the extent necessary, when these are less relevant attributes; or
- The requirement in paragraph 10 is triggered, however, consideration of credibility (and/or other attributes) would be sufficient to provide "audit evidence" over the attributes of accuracy and completeness in respect of information from certain external information sources over which the auditor would not be able to obtain audit evidence about the attributes of accuracy and completeness directly. This may be the case, for example, when information is provided by a Central Bank and the consideration of aspects of credibility, such as general market acceptance of the information, the track record and reputation of the Central Bank may be deemed sufficient to address the attribute of accuracy. In other circumstances, if credibility (and/or other relevant attributes) are not applicable, e.g. where market acceptance is not relevant or cannot be established, then audit procedures would likely be required to be performed to address accuracy and/or completeness directly (e.g. for a response to an external confirmation request, with audit procedures performed in respect of the information contained therein, such as reconciliation to information prepared by the audited entity, and evaluation of the consistency of the two sources

of information, which are independent, providing audit evidence regarding accuracy and completeness, or where there are differences, the auditor investigating these and obtaining audit evidence over these differences).

If the intention is the former, we recommend that the applicability of the conditional requirement at paragraph 10 be clarified in the context of a spectrum of relevance/applicability of attributes and the interrelationships between these, i.e. that considerations in respect of certain, primary attributes may also address other attributes that are somewhat relevant, but to a lesser extent, e.g. when consideration of credibility, as the primary applicable attribute would address accuracy, which may also be relevant but to a lesser extent, and the conditional requirement at paragraph 10 is only triggered when accuracy or completeness are primary attributes. Please refer to our response to Question 8 regarding our recommendation that the IAASB provide further clarity and examples in respect of the interrelationships between attributes of reliability, and also include content regarding information from external information sources at paragraphs A39-41 of the extant standard, in particular, the examples of factors that may be relevant for the auditor to consider when evaluating the relevance and reliability of such information, at paragraph A41, that has not been included in the application material to ED-500.

If the intention is the latter, we recommend that the IAASB provide clarity as to whether consideration of credibility (and/or other relevant attributes, as appropriate in the circumstances, e.g. authenticity) would be sufficient to provide “audit evidence” over the attributes of accuracy and completeness in respect of certain external information sources. In particular, it would be important to clearly describe what incremental steps the auditor should take to address the explicit requirement in paragraph 10 to perform “audit procedures”, in addition to the “considerations” required by paragraph 9. In connection with this, we refer to our concerns in our response to Question 6 regarding the use of the term “audit procedures” in respect of the input/output model.

We also recommend that the IAASB include content regarding information from external information sources at paragraphs A42-A43 of the extant standard, which sets out guidance regarding audit procedures that may be performed, including when the attribute of credibility is not applicable, or when credibility cannot be evaluated or the evaluation of credibility is insufficient to address applicable accuracy and/or completeness attributes.

We also highlight that the requirement at paragraph 10 refers to circumstances in which the “accuracy **and** [emphasis added] completeness attributes are applicable”. We question whether the IAASB intends this requirement to be directed to circumstances in which both attributes are applicable, or whether this would be more correctly expressed as “accuracy **or** completeness”, which we believe is the IAASB’s intention.

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?

We are supportive of the inclusion of a “stand back” requirement, at paragraph 13, for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.26. We note that the concept of a standback has been introduced into a number of other revised ISAs in recent years, and we consider the concept to be applicable here on a similar basis.

In connection with the linkage of the standback requirement to ISA 330.26, we support the IAASB’s decision to include wording regarding whether the audit evidence appears to corroborate or contradict the assertions in the financial statements in both ED-500.13(b) and ISA 330.26, as, although somewhat duplicative, this is an important requirement that should be part of both ISA 330 as a specific standard addressing procedures performed to respond to assessed risks, as well as in ED-500, as the overarching standard addressing audit evidence. The inclusion also provides an important link to ISA 700 regarding forming an opinion on the financial statements, as noted by the IAASB. We recommend that this linkage be strengthened by the inclusion of a specific cross-reference here to ISA 700.11, and we also recommend that the standard explicitly clarify that the overarching requirement at ISA 500.13(b) is met through complying with the requirements at ISA 330.26 and ISA 700.11.

We also agree with the IAASB’s observation that the inclusion of a standback requirement helps to close the loop regarding the requirement at paragraph 8b) for the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those procedures, and therefore also provides a stronger linkage to ISA 315.35. We recommend that the standard also provide a specific cross-reference to ISA 315.35, for clarity.

We support the IAASB’s stated aim that the standback requirement emphasises the importance of the exercise of professional skepticism, as the auditor is required to consider all audit evidence obtained, including inconsistent audit evidence/ evidence that appears to contradict the assertions in the financial statements. We suggest, however, that the emphasis on professional skepticism could be strengthened here by explicit reference to professional skepticism, as well as professional judgement, in the application material.

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.

We do not have any additional matters to raise.

Request for General Comments

12. The IAASB is also seeking comments on the matters set out below:

(a) Translations – Recognising that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.

We do not have any specific comments in this area.

(b) 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 IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

We consider this timeframe to be reasonable and appropriate.