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Dear Tom,

Response to the International Audit and Assurance Standards Board (IAASB)'s Exposure Draft (ED) International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence*

EFAA appreciates the opportunity to provide our comments to the [IAASB's proposed International Standard on Auditing \(ISA\) 500 \(Revised\), *Audit Evidence*](#) (ED). Our response has been prepared with input from our Assurance Expert Group. Through our representation on the IAASB Consultative Advisory Group (CAG) we have also been able to provide input as the IAASB has developed the ED.

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members.

GENERAL COMMENTS

EFAA is concerned to ensure that professional standards and regulation is scalable and proportionate to the capacities of SMPs and their SMEs clients and tailored to the needs and characteristics of SMPs and SMEs. We are also concerned that SMPs will be least likely to respond to this important consultation for various reasons, including lack of awareness as well as lack of time and resources. In the absence of sufficient engagement with SMPs there is a real risk of non-response bias with the consequence that the strategy and work plan will be biased in favour of large accountancy firms and regulators, standard setters and other stakeholders from large western economies working in English.

EFAA, therefore, strongly encourages targeted outreach to the SMP community so that SMPs are aware of ED-500 and that they can *either* respond directly *or* by participating in the development of a response by their professional accountancy organisation (PAO) or national standard setter (NSS). The IAASB might wish to facilitate this by running a short online survey or providing such a survey to PAOs or NSS for them to use so that the feedback is prepared on a consistent basis.

We are generally supportive of the proposals in ED-500, especially the principles-based approach. We recognize that technological change is not new but that the pace of that change is unprecedented and will only get faster. Furthermore, it's impossible to predict what new technologies will emerge.

We are not aware of any major deficiencies with the extant standard and yet the number of changes and volume of new material are considerable. Much of the new application material either duplicates material in other ISAs or repeats material elsewhere in the ISA. The standard now reads like a reference manual. We suggest that on finalisation of the standard that the Board help SMPs implement it by way of an explanation of the changes and how these changes are expected to modify auditor behavior.

QUESTIONS IN EXPOSURE DRAFT

1. Is the purpose and scope of ED-500 clear? In this regard:

(a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

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

We believe the purpose and scope are clear.

The principles-based reference framework for auditors is appropriate and helpful for auditors making judgements about audit evidence throughout the audit.

The linkages to other standards are also clear and appropriate.

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

We recognize the need for the IAASB to address the public interest issues raised, in particular modernizing the standard to reflect technological change.

We are concerned, however, that the revised standard might result in more documentation and not substantially change SMP auditor behavior since many SMPs audit less complex entities (LCE) that have simple accounting policies and are unlikely to test the boundaries on accounting treatments.

We are not aware of any major deficiencies with the extant standard and yet the number of changes and volume of new material are considerable. Much of the new application material either duplicates material in other ISAs or repeats material elsewhere in the ISA. The standard now reads like a reference manual. We suggest that on finalisation of the standard that the Board help SMPs implement it by way of an explanation of the changes and how these changes are expected to modify auditor behavior.

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

We have some concerns over the balance of requirements and application material.

While we do not consider there should be more requirements, nor that any application material should be elevated to requirements, overall the volume of application material to the requirements seems disproportionate with 93 paragraphs (up from 68 in the extant standard) for seven requirements.

While the requirements are concise and easy to comprehend, much of the the application material is repetitive, with lots of detailed descriptions and explanations for what is in other standards, and reads like a reference book. We fear SMPs will fail to focus on what is important. That said, much of the material is useful. Hence, we suggest it either be housed in a separate guidance document or else made more concise.

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 agree that ED-500 is appropriately balanced.

We recognize that technological change is not new, but that the pace of that change is unprecedented and will only get faster. Furthermore, it's impossible to predict what new technologies will emerge. Hence, the need for a principles-based approach that can anticipate and accommodate change.

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

We believe that the requirements and application material appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence.

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 support the revised definition audit evidence.

We agree with the “input-output model” that information can become audit evidence only after audit procedures are applied to it.

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

We believe the application material appropriately describes the interrelationship of the sufficiency, appropriateness and persuasiveness of 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 believe 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.

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 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.

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 generally agree with the new “stand back” requirement.

We are concerned about the level of documentation that will be required by practice inspectors. We suggest that the IAASB clearly indicate the amount of documentation that is expected so as to moderate the expectations of inspectors.

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 have no other matters to raise.

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

(a) Translations—Recognizing 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.

(b) Effective Date—Recognizing 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 have no comments on translations.

We support the proposed effective date.

CONCLUDING COMMENTS

We trust that the above is clear but if you have any questions please do not hesitate to contact us.

Yours faithfully,

Salvador Marin
President

Paul Thompson
Technical Director