

# **Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants**

24 April 2023

To: Mr Thomas R. Seidenstein  
The Chairman  
International Auditing and Assurance Standards Board  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via IAASB website

## **Submission on IAASB's Exposure Draft Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs**

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

### **General comments**

We welcome the opportunity to comment on the IAASB's ED-500, Audit Evidence and commend the IAASB for responding to the public interest demand for revision of this standard. We have consulted with a wide range of stakeholders in Canada, Australia, New Zealand, and Europe and have identified a number of areas where there is need for further refinement of the proposed standard.

### **Revision of the 500 series**

Our stakeholders raised concerns that the entire 500 series was not considered as a whole at the time of revising ED-500. While we understand that the Board's Strategy and Work Plan consultation period has only just come to an end, we suggest that the IAASB prioritises any narrow scope amendments to the ISA 500 series and considers whether full revisions of certain standards would be necessary to meet public interest demands.

### **Use of technology**

While we understand the challenge for the Board to develop a standard that is principles-based, future-proof, that is not prescriptive and at the same time accommodates the use of technology by the entity and the auditor, in our view the proposed ED-500 does not go as far as expected in relation to technology. Our stakeholders noted that it seems that the Board appears too cautious in its approach when it comes to embracing technology.

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We recognise that the application material was modernised to include examples such as the use of drone technology, however, it does not really address using technology in substantive procedures. Our stakeholders noted that the standard does not sufficiently address the use of technology in analytical procedures. There is also a lack of clarity as to what uses of technology constitute an audit procedure.

### **Interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence**

In our view the application material does not appropriately describe the interrelationship between sufficiency, appropriateness, and persuasiveness of audit evidence. We therefore suggest incorporating persuasiveness within the definitions section of ED-500 to help clarify the interrelationship with sufficiency and appropriateness. It may be necessary to provide further guidance on the interrelationship between ISA 500 and 330 to assist practitioners to implement the new standard.

### **Conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances**

We do not see a reason for emphasising the attributes of accuracy and completeness by comparison to all other attributes. Having a requirement that singles out specific attributes such as conditional requirement 10, gives more prevalence to accuracy and completeness than other attributes moving away from the principles-based approach of the proposed ED-500. We therefore suggest merging proposed requirement 10 with proposed requirement 9b) as noted in our response to Q9.

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com) and Antonis Diolas, Head of Audit and Assurance at ACCA via email: [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com).

Yours sincerely

#### **Amir Ghandar FCA**

Leader, Reporting and Assurance  
Chartered Accountants Australia and New Zealand  
[Amir.Ghandar@charteredaccountantsanz.com](mailto:Amir.Ghandar@charteredaccountantsanz.com)  
+61 2 9080 5866

#### **Antonis Diolas FCCA**

Head of Audit and Assurance  
ACCA  
[antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com)  
+44 20 7059 5778

# Submission on IAASB's ED-500

## Appendix A

### IAASB Questions

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

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

Yes, in our view ED-500 provides an appropriate principles-based reference framework for auditors when making judgements about audit evidence throughout the audit. However, in order to see if the ED-500 principles-based framework works, the other 500 series standards will need to be revised incorporating its approach.

Further, as noted in our response to Q9 below, we consider that the prevalence given to the attributes of accuracy and completeness as per para 10 of ED-500, does move away from a principles-based reference framework.

We do welcome the proposed standard's short length, and this was noted by our stakeholders. However, we also note that this does result in lengthy application material. This is a concern in certain jurisdictions, such as Australia, where there is legislative enforceability, which can result in the application material paragraphs potentially becoming de facto requirements. This in turn is likely to push firms to develop checklist approaches which is not necessarily beneficial for audit quality. We therefore suggest the IAASB consider moving some of the application material into non-authoritative guidance to avoid this issue.

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

We recognise the nature of ISA 500 as an overarching standard and ED-500 does make the linkages with other ISAs clearer than the extant standard, however, the need to refer back and forth remains quite complex to follow. Furthermore, we note duplication in some instances, such as the stand back requirement in para 13, which, in our view is not necessary given the stand back requirement in para 26 of ISA 330 and in other standards.

#### **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?**

The proposed revisions in ED-500 are likely to lead to a change in behaviour particularly when it comes to responding to changes in the information that is being used by auditors, including the nature and source of the information, a key public interest issue. However, as noted in response to Q4 below, the IAASB should go beyond what is currently proposed in the standard in terms of modernising and supporting a principles-based standard that recognises the evolution in technology.

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

As also noted in our response to Q1, we do welcome the proposed standard's short length, and this was particularly welcomed by our stakeholders. However, we do note that this does then result in

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lengthy application material. This is a concern in certain jurisdictions, such as Australia, where there is legislative enforceability which can result in the application material paragraphs potentially becoming de facto requirements. This in turn is likely to push firms to develop checklist approaches which is not necessarily beneficial for audit quality. We therefore suggest the IAASB consider moving some of the application material into non-authoritative guidance to avoid this issue.

### **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?**

While we understand the challenge for the Board to develop a standard that is principles-based, future-proof and not prescriptive and at the same time accommodates the use of technology by the entity and the auditor, in our view the proposed ED-500 does not go as far as expected in terms of technology. Our stakeholders noted that it seems that the Board appears too cautious when it comes to embracing technology.

We recognise that the application material was modernised to include examples such as the use of drone technology, however, it does not really address using technology in substantive procedures. Our stakeholders noted that the standard does not sufficiently address the use of technology in analytical procedures. There is also a lack of clarity as to what uses of technology constitute an audit procedure.

In our view the IAASB needs to collect feedback from firms on the ways that they are using technology and provide examples as to how these techniques might be used in obtaining audit evidence during the various stages of the audit. Furthermore, we suggest looking at the guidance issued by NSS such as the UK FRC paper [Addressing Exceptions in the use of Audit Data Analytics report Technological Resources](#), the Canadian Public Accountability Board paper [CPAB Exchange: Technology in the Audit and](#) the joint CPA Canada and AICPA paper [The Data Driven Audit: How Automation and AI are Changing the Audit and the Role of the Auditor](#) as examples that go further. Some of our stakeholders noted that many NSS have issued more detailed guidance on the use of technology and that this should be the role of the IAASB, not NSS. Where necessary, the IAASB could work together with NSS to produce guidance.

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

Yes, we find that the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence.

We are very pleased to note that the application material in ED-500 explicitly recognises how unconscious or conscious auditor biases may affect the engagement team's judgements noted in ISA 220 (Revised). In addition to the relevant biases referred to in para A19 of ED-500, ACCA's recently published report in collaboration with the Hellenic Accounting and Auditing Standards Oversight Board titled [Professional Scepticism and Cognitive Biases: Lessons learned from inspection findings](#), found that authority bias is also relevant in audit and assurance. Authority bias is the tendency to attribute greater accuracy to the opinion of an authority figure (unrelated to its

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content) and be unduly influenced by that opinion. In audit this is relevant when auditor's experts are involved, and we therefore recommend that the IAASB also takes this into consideration.

### **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?**

Yes, we support the revised definition of audit evidence and agree with the input-output model that information can become audit evidence only after procedures are applied to it.

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

No, in our view the application material does not appropriately describe the interrelationship between sufficiency, appropriateness and persuasiveness of audit evidence.

Our stakeholders noted that persuasiveness is only used in the application material and not in the requirements. Furthermore, we are sceptical as to why persuasiveness is singled out when it is only one of the characteristics that ISA 330 refers to. We therefore suggest incorporating persuasiveness within the definitions section of ED-500 to help clarify the interrelationship with sufficiency and appropriateness.

Furthermore, it would be helpful to describe the interrelationship of sufficiency, appropriateness and persuasiveness using a graph.

### **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?**

Yes, in our view the requirements and application material in ED-500 support an appropriate evaluation of relevance and reliability of information intended to be used as audit evidence. However, moving from 'consider' to 'evaluating' raises the bar and hence the question on how should auditors document this i.e., what would be enough for the regulators? We are also sceptical, as to how regulators are going to interpret what the auditor needs to do to an input to derive the output (i.e., how much work is enough?). Lack of clarity around the work effort may have unintended consequences and drive firms to develop lists of what procedures they think is acceptable for each type of input. This may adversely impact audit quality if firms spend finite resources increasing work effort where it is not required.

We therefore recommend that the standard provides more guidance regarding the documentation requirements of the proposed evaluation.

### **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 do not see a reason for emphasising the attributes of accuracy and completeness in comparison to all other attributes. Having a requirement that singles out specific attributes such as conditional requirement 10, gives more prevalence to accuracy and completeness than other attributes, moving

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away from the principles-based approach of the proposed ED-500. The reference to the attributes of accuracy and completeness can be used as an example and be incorporated in requirement 9b).

Proposed 9b) wording:

*The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures. For example, if the auditor considers that the accuracy and completeness attributes are applicable, the auditor shall obtain audit evidence about the accuracy and completeness of the information.*

Furthermore, we remain unclear as to what 'applicable in the circumstances' means as this could be interpreted differently by regulators and practitioners. If accuracy and completeness are more relevant for internally generated information and authenticity and bias credibility for external information, then this should be recognised in the proposed standard.

### **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?**

No, as noted in our response to Q1, we believe that the stand back requirement in para 26 of ISA 330 has the same objective and therefore, adding a new requirement in ED-500 is not likely to achieve any change in behaviour while duplicating the requirements for auditors. We recommend that para 13 be removed.

### **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.**

No other matters we wish to raise at this stage.

### **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.

We do not envision any further translation issues at the moment other than the circularity noted in our answer to Q10 above, which is also likely to affect translation.

**(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 support the IAASB's view that an appropriate effective date for the standard should be 18 months after the approval of the final ISA.



### Appendix B

#### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 135,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

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### About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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