

24 April 2023

Mr. Willie Botha  
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## Exposure Draft: Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs

Dear Mr. Botha

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, *Proposed International Standard on Auditing 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-500), issued by the International Auditing and Assurance Standard Board (IAASB).

We support the revision to this International Standard on Auditing (ISA) as extant ISA 500 needs revision to remain fit for purpose given the evolving environment and to enhance the auditor's judgments related to the information intended to be used as audit evidence. On balance, we support a principles-based approach to evaluate information intended to be used as audit evidence and to conclude on its sufficiency and appropriateness, but believe further guidance is needed to provide clarity and consistency on its application by the auditor, as outlined in our responses to specific questions. We also have several recommendations to improve and clarify the linkage between ED-500 and other standards.

Further, in today's digital world, an increased reliance on data and the proliferation of automated tools and techniques are altering the financial reporting environment for the entity and the auditor. We agree that modernizing ISA 500 to better reflect the digital era is an important objective. While we support the principles-based approach that accommodates the use of technology, we believe that more clarity can be provided in certain areas to acknowledge the changing landscape, and the significant role that data and technology play, as the auditor considers audit evidence. Data as information, and the procedures applied to that data to obtain audit evidence using automated tools and techniques, need to be positioned as an integral part of the standard. Our responses to the specific questions below include suggestions for further enhancements to ISA 500 in this regard.

*Q1. 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 support the purpose and scope of ED-500.

In regard to Q1 (a), we are supportive of a principles-based approach to evaluate information intended to be used as audit evidence and to conclude on its sufficiency and appropriateness. However, we have two overarching concerns, which are expanded upon in our responses to subsequent questions:

- ▶ We believe that, in addition to the extant attributes of accuracy and completeness, the attributes of, authenticity, bias and credibility will be useful for the auditor when considering the reliability of information intended to be used as audit evidence. However, we believe that further guidance is needed related to the applicability of the attributes and how their applicability may be scalable (refer to our response to Q9). We also believe that the authenticity and bias attributes need a clearer linkage with the auditor's responsibilities related to fraud under ISA 240 (refer to our response to Q5).
- ▶ Paragraph 8(b) of ED-500 requires the auditor to design and perform audit procedures such that the nature, timing and extent of such procedures are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures. Paragraph 13(a) requires the evaluation of whether audit evidence obtained meets the intended purpose of the audit procedures. The intended purpose of the audit procedure is a prominent new component in the principles-based reference framework. We have a concern around the ability of the auditor to consistently and accurately define the intended purpose of an audit procedure, particularly in distinguishing a risk assessment procedure from a substantive procedure. Refer to our response to Q8 for further discussion of the challenges of applying paragraphs 8(b) and 13(a).

In regard to Q1 (b), we believe there should be a clearer linkage in ED-500 to:

- ▶ The auditor's use of automated techniques for substantive procedures and whether the requirements of ISA 330 or ISA 520 are applicable. Refer to our response to Q8.
- ▶ The evaluation of audit evidence as proposed in paragraph 13 of ED-500 and the existing requirements for related evaluations in paragraph 35 of ISA 315 (Revised 2019), paragraph 26 of ISA 330 and paragraph 11 of ISA 700 (Revised). Refer to our response to Q10 for further discussion and recommended clarifications.

*Q2. 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 believe the proposed revisions in ED-500 will enhance the auditor's judgments when obtaining and evaluating audit evidence.

However, we have concerns about ED-500 supporting consistency in auditor judgments when applying the principles-based reference framework, particularly when the auditor is using automated techniques. Refer to our responses to Q3, Q4, Q8 and Q9 for further discussion.

*Q3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?*

We agree with the structure and nature of the requirements as these set forth a framework that will facilitate a principles-based approach when evaluating audit evidence. However, as noted in responses to subsequent questions, we do not believe the application material is as robust as it needs to be in certain areas, including:

- ▶ As described in our response to Q4, we do not believe the application material has been modernized enough to reflect the effects of the advancements in entities' technologies as well as in automated tools and techniques used by auditors.
- ▶ As described in our response to Q5, we believe the application material should further recognize the importance of maintaining professional skepticism and evaluating audit evidence to the auditor's responsibilities relating to fraud in an audit of the financial statements.
- ▶ As described in our response to Q8, we believe the application material should better address the fundamental challenge of distinguishing between a risk assessment procedure and a substantive procedure, particularly when automated techniques are applied to entire populations of data.
- ▶ As described in our response to Q9, we believe the application material should provide further clarity on the applicability of the attributes of completeness and accuracy for tests of entire populations, and information intended to be used as audit evidence from an external source and from a management's expert. We also suggest clarifications related to the scalability of the nature, timing and extent of audit procedures to evaluate relevance and reliability considering the intended purpose of the audit procedure to which the audit evidence relates.
- ▶ As described in our response to Q10, while we agree with a "stand back" requirement for the evaluation of audit evidence, we believe the relationship between this stand back requirement and similar requirements in other ISAs should be clarified.

*Q4. 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?*

As previously noted, we believe the requirements of ED-500 support a principles-based approach, and because of being principles-based, we agree that these requirements accommodate the use of technology. However, we do not believe that the application material in ED-500 has been modernized enough to reflect the application of the requirements to the effects of the advancements in entities' technologies as well as the automated tools and techniques used by auditors. We have the following specific suggestions for further enhancements:

- ▶ Paragraph A3 of ED-500 puts forth the concept that the use of automated tools and techniques may provide more persuasive audit evidence and that often the form of information (e.g., large volumes of data) will necessitate the application of these techniques to obtain audit evidence. We agree that automated tools and techniques are effective in analyzing, processing, organizing and structuring information. We also believe that with increased digitization and complexity of IT environments, the auditor will increasingly apply automated tools and techniques to process and understand information.

Automated techniques often involve the performance of certain of the types of audit procedures outlined in the Appendix to ED-500, including analytical procedures, recalculation and reperformance. It is generally straightforward for the auditor to execute these types of procedures using automated tools and techniques and apply the requirements of the related ISAs (i.e., ISA 330, ISA 500 and ISA 530). However, automated techniques applied to an entire population of data can also be executed using a type of audit procedure that is not clearly considered in the Appendix to ED-500. The ability to disaggregate, visualize, analyze and inspect an entire population of data from multiple perspectives (e.g., time, preparer, source), with general expectations as to how the data should behave given the auditor's understanding of the entity's business model and financial reporting processes, represents an interrogation of the population of items (e.g., "data interrogation", "data mining", "scanning"). While this type of audit procedure does not clearly align with the types of audit procedures within the Appendix to ED-500, we believe it is somewhat consistent with the description of inspection. As such, we encourage the IAASB to expand the description of an inspection procedure to include the disaggregation, visualization, analysis and inspection of data from multiple perspectives within the Appendix of ED-500. Additionally, we believe that the bullet on automated techniques in paragraph A29 should be expanded to explain that an inspection of an entire population of items can be performed through data analysis. At a minimum, we suggest data analysis as an audit procedure should be recognized in some manner in the Appendix of ED-500 with supporting explanation as to how it reconciles to the existing types of audit procedures.

- ▶ We believe the guidance outlined in paragraphs A27 through A32 of ED-500 provides a useful explanation of the available approaches for identifying and selecting items for testing, including when using automated techniques. However, we believe that it is necessary to further clarify these paragraphs to expand upon the effects of the use of automated techniques as an inspection of an entire population, as explained in the previous bullet. We have the following specific suggestions to enhance the guidance in this section of application material:
  - ▶ Paragraph A30 of ED-500 notes that key items may be selected for testing based on unusual or anomalous characteristics. It is important for the standard to acknowledge that, when using automated techniques, this method of selecting key items is generally performed in conjunction with selecting all items for testing. In other words, the use of an automated technique that inspects the entire population of items can facilitate the auditor's identification of key items.
  - ▶ Paragraph A31 of ED-500 then states that, "...selecting specific items from a population does not provide audit evidence concerning the remainder of the population". Generally, we agree with this statement. However, we do not agree that this is the case when the selection of the specific items was made in combination with using an automated technique to inspect the entire population of items. When we determine appropriate criteria to identify key items in a

population and systematically apply these criteria to the entire population, this analysis provides audit evidence for the items in the representative population (i.e., the entire population less key items) because we have determined that the anomalous characteristics are not present in the remaining population. Therefore, the risk of material misstatement in the remaining population has been reduced (i.e., detection risk can be reduced to an appropriately low level). It is important for the standard to acknowledge that, when using automated techniques applying an approach to select key items in combination with an inspection of the entire population, this can result in a strategy that leaves no untested portion of a population. To be designed appropriately, however, this testing approach needs to consider non-sampling risk (i.e., the risk that not all anomalous items have been identified and selected for key item testing).

- ▶ As is relates to the consideration of automation bias in ED-500, we note the following:
  - ▶ There should be a clear distinction in the standard between the auditor's use of automated techniques in obtaining audit evidence and the entity's use of automated techniques within its financial reporting processes. Paragraph A22 of ED-500 recognizes that information generated by automated systems may give rise to a risk of automation bias. We believe that this refers to the entity's information and its use of automated systems (i.e., this is a bias that can be inherent in the information obtained from the entity by the auditor). Paragraph A23 of ED-500 then considers bias that may result from the use of automated tools and techniques. We believe that this refers to the auditor's use of automated tools and techniques to apply audit procedures to the entity's information to obtain audit evidence. We believe these distinctions should be clarified.
  - ▶ Paragraph A23 of ED-500 acknowledges that automated techniques may provide more persuasive audit evidence, but then cautions against the risk of automation bias. It then states that a possible action to mitigate the risk of automation bias is to determine whether the auditor's firm permits the use of the automated tool or technique and whether the firm has determined that the automated tool or technique is appropriate for use. We agree with this statement and the reference to International Standard on Quality Management (ISQM) 1. However, auditors may also use software to design automated tools or techniques that are customized to obtain audit evidence for the particular audit engagement. In such instances, the engagement partner takes responsibility for the effective functioning of the custom solution, as required by paragraph 25 of ISA 220 (Revised). We believe that paragraph A23 of ED 500 should be expanded to address automated techniques developed at the engagement level with reference to ISA 220 (Revised) to refer to the engagement partner's responsibility for the appropriate use of technological resources on the audit engagement. In either circumstance, however, whether an automated tool or technique is sanctioned by the firm or reliance is established by the engagement team, the important objective is that the auditor has established that it is appropriate to use the automated tool or technique in the audit because either the firm or the auditor has determined that it functions as designed and a basis has been established for relying on the information generated from its use.
  - ▶ Finally, while paragraph A23 of ED-500 describes a means by which to mitigate automation bias, the manner in which both paragraphs A22 and A23 are constructed appears to over emphasize automation bias (while other biases are not expanded upon)

and that emphasis contradicts the objective of modernizing the standards. We believe that the inclusion of additional considerations of automated tools and techniques, as further expanded upon in this section, will balance the potentially negative connotation related to automation bias and prevent discouraging auditors from applying technology to enhance audit quality.

- ▶ As emerging technologies become more mainstream (e.g., the entity's use of RPA or machine learning), entities are applying these technologies in their financial reporting processes, which introduces new or changing risks of material misstatement to the financial statements. As the pace of change continues to accelerate, management, those charged with governance and auditors will need to have a clear understanding of the roles and responsibilities that govern an entity's technology and innovation strategies and address the risks arising from the entity's use of emerging technologies in the financial reporting processes. While we understand that these considerations are emerging, we believe the application material in ED-500 should include an acknowledgement of the challenges that the auditor can face in obtaining audit evidence when the entity employs emerging technologies in their financial reporting processes. The challenges involved will evolve over time and we would expect that many of the specific challenges may be best addressed through non-authoritative guidance, such as that resulting from the IAASB's disruptive technologies initiative. Providing timely non-authoritative guidance that is also updated on an ongoing basis will assist auditors in dealing with the effects on the audit from the entity's use of emerging technologies and advancements in those technologies.
- ▶ We believe clarifications should be made to paragraph A42 in ED-500 to more accurately address the auditor's responsibilities when the entity uses technology that learns and changes over time (i.e., applications that incorporate Artificial Intelligence) in the financial reporting processes. When the auditor identifies such an IT application as one that is subject to risks arising from the entity's use of IT (as defined in ISA 315 (Revised 2019)), the auditor needs to consider the unique risks to the integrity of the information processed by this IT application, which in turn will affect how the auditor evaluates information from it that is intended to be used as audit evidence. Specifically, paragraph A42 of ED-500 states that "... the entity may use machine learning technology to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In this case, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome". We do not believe that adjusting the timing of procedures performed adequately addresses the risks introduced by the use of an application that learns and evolves over time (i.e., Artificial Intelligence or machine learning). We believe the example should be amended to instruct the auditor to consider the unique risks arising from the entity's use of IT that affect the integrity of the information used by the IT application and the relevance and reliability of the output of the IT application over the audit period when designing audit procedures.

*Q5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?*

Yes, we believe ED-500 appropriately reinforces the exercise of professional skepticism in obtaining and evaluating audit evidence. Specifically, including authenticity and bias as attributes when

considering whether information intended to be used as audit evidence is reliable, and the related guidance, is helpful to reinforcing the exercise of professional skepticism.

However, we believe enhancements should be made to paragraph 4 of ED-500 to recognize the importance of maintaining professional skepticism and evaluating audit evidence to the auditor's responsibilities relating to fraud in an audit of the financial statements. As the auditor evaluates audit evidence, the auditor should consider the potential for management override of controls as this can affect the reliability of audit evidence (i.e., whether it is authentic and free from intentional bias).

We also believe paragraph A44 of ED-500 should be further clarified. When the auditor receives information in a form different from the expected form, we believe that the auditor should consider whether authenticity is an applicable attribute for evaluating such information, as well as considering the possible connection to management override of controls. Guidance of this nature would be more helpful than the current focus of this paragraph on the auditor mitigating unconscious biases, which we do not believe is very clear, and if retained, is in need of clarification.

*Q6. 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. We agree that only information to which audit procedures are applied can become audit evidence (i.e., "input-output model").

*Q7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?*

Yes, we believe that the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence is appropriately described in the application material.

*Q8. 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 can support an appropriate evaluation of information intended to be used as audit evidence; however, we see risks of inconsistency in practice in the application of the requirements. Certain of these risks arise from our concerns about the auditor's ability to determine the applicable attributes and the nature, timing and extent of audit procedures needed to evaluate the relevance and reliability of information. Refer to our response to Q9 for further discussion of our concerns on the application of the attributes.

As noted in our response to Q1, the incorporation of the intended purpose of the audit procedure into the framework for evaluating information obtained as audit evidence is a prominent new component of ED-500. We believe the auditor faces some fundamental challenges in clearly identifying the intended purpose of an audit procedure, particularly when an audit procedure may achieve (or may appear to achieve) more than one purpose.



Enhancing distinction between risk assessment procedures and further audit procedures, specifically substantive procedures

As referenced in paragraph A18 of ED-500, ISA 315 (Revised 2019) states that the auditor may obtain audit evidence from risk assessment procedures and further audit procedures concurrently. We are supportive of this concept, and recognize it occurs in practice, more frequently when the auditor uses automated techniques.

The organization of the ISAs separates requirements related to risk assessment procedures and further audit procedures. While this was a clear distinction in the past, the pace of change, the availability of information, and the ability to analyze large volumes of information has significantly affected how the auditor designs and performs audit procedures.

As a result, the distinction between risk assessment procedures and further audit procedures is becoming increasingly blurred.

However, to achieve compliance with ISA 500 and other relevant ISAs (as required in paragraph A18 of ED-500), it is important for the auditor to determine if audit procedures that appear to be multi-purpose, particularly those involving automated techniques, are resulting in a conclusion that there is no risk of material misstatement (i.e., these are risk assessment procedures only) or if these procedures are both risk assessment procedures and substantive procedures that concurrently identify and respond to risks of material misstatement. Understanding this difference is important to the proper determination of significant classes of transactions, account balances and disclosures (which are defined as those for which the auditor has identified a related risk of material misstatement) in accordance with ISA 315 (Revised 2019), and for which the auditor has specific requirements to understand the entity's information system as well as to design and perform further audit procedures in accordance with ISA 330. We believe ED-500 should provide further guidance to enhance the distinction between risk assessment procedures and further audit procedures.

Specific considerations when using automated techniques

When auditors use automated techniques, they face an additional challenge related to designing substantive procedures as it is not clear in ISA 330 or ISA 520 how data analysis audit procedures align with the existing types of substantive procedures (i.e., substantive analytical procedures and tests of details). However, the ability for the auditor to make this distinction is important to properly apply the relevant ISA that addresses each of them as required by paragraph 8(b) of ED-500.

Per our discussion in Q4, we believe that performing data analysis can sometimes constitute an inspection of an entire population. Therefore, we also believe that such a data analysis procedure is a test of detail when used as a substantive procedure. This would clarify the intended purpose of data analysis procedures of this nature (i.e., the requirements of ISA 330 would apply rather than ISA 520).

However, a data analysis procedure can be a substantive analytical procedure when the procedure involves disaggregation of data that allows us to set expectations for the purpose of an analytical procedures with high precision, particularly when using structural modeling or statistical techniques. In this case, it would be useful to clarify that ISA 520 would apply.



*Q9. 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?*

No, we do not believe the requirement should be entirely conditional, as we believe there are situations when completeness and accuracy are always relevant attributes. For example, completeness and accuracy of information must be relevant attributes when the auditor applies an audit procedure to an entire population of items representing transactions recorded by the entity, even when the information is used for risk assessment procedures, and particularly when the population represents a data extraction to which automated techniques are to be applied. In this situation, the premise is that the auditor has extracted the entire population and that the auditor has not modified the data during the extraction process. Without an entire population, the auditor may miss the identification of a risk of material misstatement.

However, we believe that there can be scalability in the persuasiveness of the evidence obtained about completeness and accuracy based on the intended purpose of the audit procedure (i.e., risk assessment v. substantive) and this scalability applies regardless of whether automated techniques are applied. We believe the guidance should acknowledge this scalability. In particular, paragraph A36 of ED-500 states that the nature, timing and extent of audit procedures to evaluate relevance and reliability of information are influenced by the attributes applicable in the circumstances; however, this guidance does not acknowledge that those audit procedures can also be scalable based on the intended purpose of the audit procedure to which the audit evidence relates.

It is also important to acknowledge that often the use of data in an automated technique begins as a risk assessment procedure but then extends to a substantive procedure, as discussed in our response to Q8. We believe that it is important to caution the auditor on the possibility of an evolving purpose of an audit procedure when determining the nature, timing and extent of audit procedures to evaluate completeness and accuracy.

We also believe there could be more clarity and examples about the applicability of the attributes of relevance and reliability when information intended to be used as audit evidence is from an external source. In our view, the application material related to the attributes of accuracy and completeness in paragraphs A63-A65 of ED-500 are biased to information from internal sources. For example, paragraph A63 of ED-500 states that “accuracy and completeness ordinarily will be applicable for information generated internally from the entity’s information system.” This could be interpreted that such attributes do not ordinarily apply to information from external sources. We view this paragraph as one that would benefit from recognizing scalability in the nature, timing and extent of audit procedures to evaluate completeness and accuracy, as it may not be possible for the auditor to fully verify these attributes for external sources, but they remain applicable attributes in many cases. Further, when completeness and accuracy cannot be fully verified, this can result in credibility and bias becoming important attributes to evaluate as it relates to the external source. Further, the examples in A64 of ED-500 of when an auditor may consider the attributes of accuracy and completeness are all information from internal sources.

Similar to the clarifications suggested related to information from an external source, we believe clarifications on the applicability of the attributes of accuracy and the completeness for information intended to be used as audit evidence that has been prepared by a management’s expert is also needed. Paragraph 11 of ED-500 states that “as part of the auditor’s evaluation in accordance with

paragraph 9, the auditor shall...". It is unclear whether this phrase means the requirement in paragraph 9b to consider the attributes of relevance and reliability, including completeness and accuracy, applies with respect to audit evidence prepared by a management's expert. While the application material provides examples of the consideration of certain attributes of relevance and reliability (e.g., paragraph A69 of ED-500 refers to creditability and bias), completeness and accuracy are not mentioned.

*Q10. 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 understand the rationale for the new "stand back" requirement in paragraph 13 of ED-500; however, for us to support the new "stand back", we believe the relationships among the "stand back" requirements in ISA 315 (Revised 2019), ISA 330, ISA 700 (Revised) and this new "stand back" need to be clarified to achieve consistency in implementation. Currently:

- ▶ Paragraph 35 of ISA 315 (Revised 2019) requires the auditor to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.
- ▶ Paragraph 26 of ISA 330 requires the auditor to evaluate whether sufficient appropriate audit evidence has been obtained.
- ▶ Paragraph 11 of ISA 700 (Revised) requires the auditor to take into account the conclusion made in accordance with ISA 330.26 when concluding whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement.

We do not believe that the new ED-500 "stand back" should have what currently appears to be an overlapping purpose with the existing ISA 330 "stand back". Instead, we believe that ISA 500 should have the overarching "stand back" evaluation on whether sufficient appropriate audit evidence has been obtained, rather than ISA 330. We have outlined our thought process on how the "stand back" requirements could work together, including suggested changes to achieve a clearer linkage among them:

- ▶ The current requirement in ISA 315 (Revised 2019) remains appropriate (i.e., whether audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement).
- ▶ We suggest a conforming change to ISA 330 be made to recast the evaluation in ISA 330 to be whether sufficient appropriate audit evidence has been obtained to respond to the assessed risks of material misstatement, which is consistent with the objective of ISA 330.
- ▶ We then suggest that the overarching "stand back" evaluation in ISA 500 would be whether sufficient appropriate audit evidence has been obtained, which takes into account both audit evidence obtained from risk assessment procedures to provide an appropriate basis to identify and assess risks of material misstatement (ISA 315 (Revised 2019)) and the audit evidence obtained to respond to assessed risks of material misstatement (ISA 300).

- ▶ Paragraph A85 of ED-500 should then recognize that the auditor's evaluation required by paragraph 13 (a) of ED-500 is made in the context of the requirements of ISA 315 (Revised 2019) and ISA 330 (rather than only in the context of the requirements of ISA 330). The absence of reference to ISA 315 (Revised 2019) here is inconsistent with the explanation in paragraph A84 of ED-500 that audit evidence is also obtained from risk assessment procedures.
- ▶ The auditor's conclusion from the overarching requirement in ISA 500 would then be considered as part of the evaluation in ISA 700 (Revised) to form the auditor's opinion (i.e., a conforming change would also be needed to ISA 700 (Revised) to refer to ISA 500, rather than ISA 330).

While our suggested approach requires conforming amendments to ISA 330 and ISA 700 (Revised), we believe it is a clearer and more appropriate evaluation framework to support the conclusion that sufficient appropriate audit evidence has been obtained.

*Q11. 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.*

Our additional comments include:

- ▶ We believe the inclusion of remote observation techniques in paragraphs A41 and A42 of ED-500 is helpful in modernizing the auditing standard. Specifically, the example in paragraph A42 of ED-500 recognizes that remote observation techniques may be used to inspect the physical condition of inventory. We believe the IAASB should consider whether a conforming amendment should be made to ISA 501 to clarify whether "attendance" at physical inventory counting can be achieved using remote observation techniques.
- ▶ Paragraph A34 of ED-500 states "Such information ordinarily is expected to result in audit evidence to support the conclusions that form the basis for the auditor's opinion and report." Not all information obtained is audit evidence, as explained in the remaining sentences of A34 of ED-500. Therefore, we believe this sentence should be deleted.
- ▶ We suggest the following clarifications are made to the example in paragraph A60 of ED-500 as follows:
  - ▶ The first bullet states "If the responses corroborate management's assertions, the attribute of bias may be more applicable in the circumstances". It is not clear who would be exhibiting bias (e.g., is it those charged with governance or management).
  - ▶ In the second bullet, only the attributes of accuracy and completeness are mentioned as being applicable in the circumstance. We believe the attribute of management bias would also be applicable in such circumstance and suggest it is added to the example.
- ▶ We suggest the following edit to the first bullet of paragraph A20 of ED-500: "For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks of material misstatement or the auditor's ..."

*Q12. 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.*

No comment.

*(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.*

Given approval of the final revised ISA 500 is currently targeted for June 2024, we believe that an effective date for audits of financial statements for periods beginning on or after 15 December 2025, which is 18 months after the targeted approval of the final revised standard, would provide a sufficient period to support effective implementation. Should the approval date be later than June 2024, we believe that an effective date of audits of periods beginning on or after 15 December 2026 may be more appropriate.

We also believe the IAASB should consider the effective date of the final revised ISA 500 in context of its other standard-setting projects and the planned effective dates of other new and revised standards. Consideration needs to be given to the required collective amount of time that is appropriate to effectively implement the suite of standards that are planned to be finalized over the next 24 months in determining the appropriate effective dates for each of the respective standards.

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We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Eric Spiekman, Global Professional Practice ([Eric.Spiekman@ey.com](mailto:Eric.Spiekman@ey.com)).

Yours sincerely,

*Ernst & Young Global Limited*