



IAASB - International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, 10017  
USA

24 April 2023

**Re: Comment letter relating to the IAASB's Exposure Draft ISA 500 (Revised), *Audit Evidence***

Dear Mr. Seidenstein,

1. The Committee of European Audit Oversight Bodies ("CEAOB") appreciates the opportunity to comment on the IAASB consultation on its Exposure Draft *ISA 500 (Revised), Audit Evidence* (hereafter "ED") issued in October 2022. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the CEAOB International Auditing Standards Sub-group and adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. This response builds on previous comments raised in our letter dated 3 June 2019 relating to the IAASB's proposed strategy for 2020-2023 and work plan for 2020-2021.
4. Our response also takes into consideration the findings identified during inspections of PIE audits collected in the CEAOB findings database for which the related deficiencies identified have not been addressed in the proposed revisions to ISA 500, as well as the standard deficiencies identified and reported by inspection teams related to audit evidence.

**Overall comments and concerns**

5. The CEAOB supports the IAASB's initiative and efforts to understand and consider issues related to audit evidence.
6. According to our CEAOB findings database, audit engagement findings identified during inspections of PIE audits by regulators frequently refer to audit evidence, including ISA 500, which ranks in the top 3 of the most cited audit standards for inspection findings.
7. Furthermore, according to the mechanism put in place within the CEAOB to collect standards deficiencies identified by our inspection teams, ISA 500 was flagged as requiring improvement, together with ISA 501 *Audit Evidence – Specific Considerations for Selected Items*, ISA 505 *External Confirmations*, ISA 520 *Analytical Procedures*, ISA 530 *Audit Sampling* and ISA 330 *The Auditor's Responses to Assessed Risks*. The assessment of the appropriateness and sufficiency of audit evidence can not be treated in isolation, and is central to the determination of the scope and extent of audit procedures required by the ISAs.



8. We particularly support the objectives pursued by the IAASB:
  - To modernise the standard to be adaptable to the current business and audit environment, in particular while considering a wide variety of circumstances regarding the use of technology by the entity and the auditor, including the use of automated tools and techniques; and
  - To emphasise the importance of professional scepticism of the auditor.
9. However, we wish to express our concerns on the proposed ED as we disagree with various proposals.

*Too narrow coverage of the project*

10. First, the proposed amendments are only focused on ISA 500 with minor amendments to other standards, while the level and recurrence of findings in our CEOB findings database would point out the need for an in-depth analysis of audit evidence related issues, encompassing other standards relevant to the topic.
11. The CEOB comment letter dated 3 June 2019 relating to the IAASB's proposed strategy for 2020-2023 and work plan for 2020-2021 made it clear that the audit evidence project should cover, among other things, refining the provisions on materiality, audit sampling, and analytical procedures.
12. For us, the other standards mentioned in paragraph 7 of this letter should have been considered in this project. We have included some more detailed expectations with regards to those other standards in the appendix that forms part of this comment letter.

*Reduction of specificity in the requirements*

13. Second, we do not agree with your statement that the requirements in the ED are stronger because the standard is principle-based and is applicable to all audit procedures. We believe that implementation of the proposed principles-based requirements alone will not achieve the IAASB's aims. Some of the proposed amendments will likely lead to application problems, as they do not provide sufficient direction for auditors but only high level considerations. In our view, this will lead to a lack of consistency in how the standard is applied both between auditors and across jurisdictions. It will also cause significant challenges for regulators to enforce a standard that is open to a range of interpretations. For us, the requirements need to be strengthened and more detailed in order to improve audit quality.
14. While application material, guidance and illustrations are useful, we believe that they are not a substitute for requirements. For this purpose, we have identified, in the specific comments below, a number of areas in the application material that should be mandatory in order to ensure audit quality.

*Professional judgment and professional scepticism to be further emphasised*

15. Finally, we think that focusing on professional judgment and professional scepticism only in the introduction section and in the application and other explanatory material is



insufficient and that the ED should also address what professional judgment and professional scepticism in the context of audit evidence entail.

16. We thus strongly urge the IAASB to reinforce the requirements as proposed in the specific comments below.

## Specific comments

### *Definitions*

17. The definition of audit evidence should emphasise that it relates to all information, irrespective of the source. Although this is well explained in the explanatory memorandum and in the application material, we think this clarification is too important to be only included in the application material.
18. We believe paragraphs A1 and A2 of the ED are not fully consistent with the definition of audit evidence. Indeed, while paragraphs A1 and A2 of the ED state that audit evidence is “primarily obtained from audit procedures” or “obtained through designing and performing audit procedures”, the definition of audit evidence clearly talks about information to which audit procedures have been applied.

### *Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence*

19. We strongly believe that the requirement to design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence (Paragraph 8 of the ED) should be clearly linked to the requirements to design and perform audit procedures responsive to the assessed risks in ISA 330, *The Auditor’s Responses to Assessed Risks*.
20. Further, we believe that this section should be specific about the audit procedures to be performed in order to elevate information to audit evidence.

### *Information Intended to Be Used as Audit Evidence*

21. We consider the concept of “persuasiveness” as extremely important. Explaining the concept and its interrelationship with the sufficiency and appropriateness of audit evidence only in the application materials is insufficient. Assessment of the persuasiveness of audit evidence should be required as it is the case for relevance and reliability.
22. We believe the attributes of reliability to be examined by the auditor for each type of information (i.e. accuracy, completeness, authenticity, bias, credibility as stated in paragraph A56 of the ED) should be added to the requirements of the standard and not only presented in the application material.
23. Paragraph 10 of the ED is an additional separate requirement which focuses on the importance of the attributes of completeness and accuracy compared to the three other attributes (authenticity, bias and credibility). However, the difference in the terms used in paragraph 9 of the ED (i.e. “evaluate the relevance and reliability of information intended to be used as audit evidence considering the attributes applicable in the circumstances”) and paragraph 10 of the ED (i.e. “obtain audit evidence about the accuracy and completeness”) is confusing and could lead to the risk that the auditor pays less attention on the three other attributes although there were also determined as applicable. We



believe that if an attribute has been determined as applicable, the same level of requirements should apply.

24. We understand there is no longer a kind of hierarchy of audit evidence as provided for in paragraph A35 of extant ISA 500. However, we question whether removing the distinction between internal and external sources of information may lead to a less critical approach by auditors on internal sources of information, and especially on information produced by the entity. We therefore believe it is still important to draw the auditor's attention to and require vigilance on internal sources of information and on information produced by the entity in the requirements of the standard, not just in the application material.
25. Furthermore, we believe there should be a separate requirement on the importance of the relevance and reliability of audit evidence obtained from external sources of information. Indeed, this was an important consequential amendment of ISA 540 Revised drawing auditor's attention to non-reliable external sources of information. Furthermore, we believe that paragraph A42 of extant ISA 500 provides clearer guidance on the procedures to be performed. For that reason, we also believe that the term "external source of information" should be kept in the definition section of the standard, as is the case in extant ISA 500.
26. Paragraph A57 of the ED references ISA 200 on accepting documents and records as genuine, unless there is 'reason to believe' the contrary. We question whether 'reason to believe' is a too high threshold and whether a consequential amendment could be necessary. Furthermore, we believe that the work effort required here is unclear and could be better explained.

#### *Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

27. The requirement of extant ISA 500 to evaluate the appropriateness of the management expert's work has been removed as it is considered redundant with the principle-based requirement of the ED paragraph 9 (b) (i.e. to perform audit procedures, the nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures). However, we believe that the removed requirement should be kept and reinforced, even if the link between paragraphs 9 and 11 of the ED have been highlighted. Indeed, in addition to the numerous findings raised on instances where the appropriateness of a management expert's work has not been sufficiently evaluated by auditors, an area of potential improvement has also been flagged by CEAOB inspection teams, with a specific request for being more prescriptive on the depth of the procedures required to come to a conclusion on appropriateness.
28. Furthermore, ED paragraph 11(b) does not state explicitly as written in paragraph A54 of the explanatory memorandum that the auditor is required to understand the underlying information that has been prepared by the management's expert and whether this also includes understanding the assumptions and data the management's expert used. While paragraph A74 of the ED mentions examples of matters the auditor "may" consider, we believe the requirement in paragraph 11(b) should be strengthened and should require the auditor to understand the underlying information prepared by that management's expert including understanding the information, assumptions and methods used. The requirements should prevent overreliance by auditors, taking management experts information as sufficient in all cases.





29. The CEAOB furthermore flags that “obtaining an understanding” only, as required by paragraphs 11(b) and (c) does not provide any guarantee on the relevance and reliability of the information.

*Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence*

30. We strongly believe that, in cases where the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence further work is necessary. Therefore we suggest replacing the requirement to ‘determine whether modifications or additions to audit procedures are necessary’ by ‘determine what additional audit procedures are necessary’ in paragraph 12(a) of the ED.
31. It should also be made clear that, in addition to this “determination” as to what modifications or additions to audit procedures are necessary to resolve the auditor’s doubts, performance of those procedures is also required.

*Evaluating the Audit Evidence Obtained*

32. In light of the distinction between ‘information’ and ‘audit evidence’, we suggest clarifying that all information that the auditor has obtained should be assessed in light of the requirements in paragraph 13(b) and 14 of the ED. We strongly feel that even information on which no audit procedures are performed, should be assessed for consistency, and follow up should be done on any inconsistencies between audit procedures and any other information in the hands of the auditor.

*Conforming and consequential amendments arising from proposed ISA 500 (Revised)*

33. As part of the conforming amendments, ISA 501 should be updated:
- a. to reflect the example provided in paragraph 5 of the Appendix to the ED regarding the use of automated techniques to perform inventory counts; and
  - b. to provide additional requirements and guidance when the auditor is using such remote observation techniques to perform inventory counts.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent  
Chairman



## **Appendix 1 – Illustrative areas of some potential improvements related to audit evidence identified in other standards**

### **ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS**

The standard should provide an additional requirement requiring the auditor to maintain, in any case, control over the lawyer's letter of inquiries process. ISA 501 paragraph 10 currently requires it only in the 2 situations specified in the standard.

The standard should also clarify that the lawyer's response to the auditor's inquiries by itself does not represent sufficient audit evidence to validate the accuracy of a provision or a disclosure for complex and significant litigation.

### **ISA 505 - EXTERNAL CONFIRMATIONS**

The standard should require that, in specific cases, even if external confirmations have been received directly by the auditor, additional procedures should be performed by the auditor to be able to consider information included in the confirmation responses as reliable (i.e. confirmation alone can't be considered as sufficient audit evidence).

In addition to the requirement above, the standard should explain that for confirmations from custodian banks or inter-company confirmations, evidence of reliability is obtained if the effectiveness of the process to prepare the confirmation responses is known and tested.

When performing alternative audit procedures in case of non-response to a confirmation request, the standard should require the auditor to obtain external audit evidence. If only internal audit evidence is available, the standard should require the auditor to reduce the reliance put on these procedures.

### **ISA 520 - ANALYTICAL PROCEDURES**

The standard should provide additional guidance to better explain how to determine the amount of difference from the expectations that can be accepted without further investigation (i.e. "threshold").

The standard should also clarify if and when such an amount can be above the overall materiality.

### **ISA 530 - AUDIT SAMPLING**

The standard should give practical examples of sample calculations and sampling methods.

The standard should provide guidance to help the auditor in the determination of the tolerable misstatement, especially when a financial statement line item consists of multiple accounts that are all subject to individual non-statistical sampling.



## ISA 330 - THE AUDITOR'S RESPONSES TO ASSESSED RISKS

When the tests of controls are performed during the interim period, the standard should clarify that audit evidence shall be obtained for the remaining period if there have been significant changes in the design and implementation of controls subsequent to the interim period.

The standard should clarify whether the threshold for selecting material class of transactions, account balance, and disclosure under ISA 330 paragraph 18 is the materiality for the financial statements as a whole or the performance materiality.

The links with ISA 315 need to be strengthened by:

- (i) Proposing additional guidance and additional illustrative examples of situations where substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level;
- (ii) Providing additional guidance on how the sliding scale of risks impacts the level of audit evidence necessary; and
- (iii) Defining and explaining the different categories of controls (i.e. manual controls, automated controls and semi-automated controls) and by providing additional guidance on the nature and extent of audit procedures that the auditor can put in place to test the IT general controls and IT application controls.

When using audit tools and techniques, the standard should provide additional requirements on audit documentation that should be retained in audit files, including but not limited to the memo outlining the findings and conclusions and the way the tests using audit tools and techniques have been performed.