

Audit Evidence Sub 7

31 March 2023

The Chairman
Australian Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne, VIC 8009

Dear Chairman,

Consultation paper – Exposure of the IAASB’s Proposed ISA 500 (Revised), Audit Evidence

Deloitte Touche Tohmatsu (Deloitte) is pleased to have the opportunity to provide comments on the Australian Auditing and Assurance Standards Board’s (AUASB) Consultation Paper on the exposure draft of the proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence* (“ED-500” or the “proposed standard”) issued by the International Auditing and Assurance Standards Board (“IAASB” or the “Board”) in October 2022.

We appreciate the approach the IAASB has undertaken to identify and propose changes to the Extant ISA 500, *Audit Evidence*, to modernise the standard in recognition of the evolution of technology and changes in information that is being used by the auditor, while continuing to foster appropriate professional judgement and skepticism in evaluating the sufficiency and appropriateness of the audit evidence.

Deloitte supports the overall direction of ED-500, in particular with respect to the following concepts outlined in the proposed standard:

1. The uses of a principles-based “reference framework” for evaluating the relevance and reliability of information intended to be used as audit evidence.
2. Consideration of the source of the information and the attributes of relevance and reliability that are necessary to evaluate in the circumstances. Whether, and the degree to which, certain attributes are necessary to evaluate in the circumstances is a matter of professional judgment.

We are of the opinion that these principles-based concepts could be further enhanced by incorporating into the requirements or application guidance several of the key views expressed by the Board in the *Significant Matters* preceding the requirements of ED-500, including the following:

1. The Board’s acknowledgement that “the use of new audit tools and techniques may involve a blend of types of audit procedures, or the types of procedures described in the ISAs may not fully

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describe the procedure being performed.” Also, the Board’s view that “it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which “category” the audit procedure falls).” [para 36]

2. The Board’s emphasis that the attributes of relevance and reliability in ED-500 are “not intended to be used as a checklist.” [para 47]
3. The Board’s clarification that “ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.” [para 48]

We have outlined our responses, in addition to those made in this letter in [Appendix I](#), “Response to Requests for Specific Comments”.

Yours sincerely,

Jacques Strydom
National Practice Partner Director (NPPD)
Deloitte Touche Tohmatsu

APPENDIX I

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

Deloitte's responses to the detailed questions included in the AUASB's Consultation Paper accompanying the proposed standard are set forth in this appendix. In these comments, recommended additional text is shown using **bold underline**; recommended deletions to the text are shown using double ~~strike through~~.

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 judgments about audit evidence throughout the audit?**

Deloitte agrees that the proposed standard has improved upon extant ISA 500 to make it more principles-based.

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

Deloitte is of the view that the linkages to the other ISAs and the proposed ISQMs are clear and appropriate.

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

Deloitte agrees that the proposed standard will lead to enhanced auditor judgements when obtaining and evaluating audit evidence.

3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 of Section 2, Significant Matters)?

Deloitte agrees that the overall balance is appropriate, given the objective of developing a principles-based reference framework.

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?**

Deloitte believes the application material should be enhanced to reflect the Board’s position stated in paragraph 36 of the Explanatory Memorandum that the use of new audit tools and techniques may involve a blend of types of audit procedures, as well as the Board’s stated view that it is more important for auditors to focus on the appropriateness of audit procedures in the circumstances rather than the type of audit procedure specifically.

With respect to the use of technology by the entity and the auditor, Deloitte supports the inclusion of these concepts in the standard. However, it is not clear what types of tools and techniques may be considered as ‘automated’ and the concepts would apply equally to digital tools and techniques that may not be considered by the auditor to be ‘automated’. The clarity of these concepts could be improved by either:

- Providing a definition of automated tools and techniques in the definitions section of the standard; or
- Referring instead to “digital tools and techniques”

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

Deloitte believes that the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism.

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?**

Deloitte agrees with the “input-output model” concept. However, it is noted that in certain circumstances, information may not need procedures beyond consideration of relevance and reliability in order to use as audit evidence. We recommend the inclusion of additional application guidance that acknowledges that the audit procedures that an auditor may apply depends upon the circumstances, including the nature and source of the information.

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

Deloitte does not believe that the application material is clear in describing the interrelationship and that application paragraphs appear to be contradictory. For example, within paragraph A5, the relative persuasiveness of the evidence is considered in concluding if sufficient appropriate evidence has been obtained: a factor of sufficiency:

“As explained in ISA 330, the auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.”

However, paragraph A6, states that sufficiency and appropriateness are factors that equate to a resulting degree of persuasiveness:

“Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.”

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?

Deloitte believes the application material should be enhanced to reflect the Board’s position stated in paragraphs 47 and 48 of the Explanatory Memorandum that the attributes of relevance and reliability are not intended to be used as a checklist, and that there is no requirement for the auditor to document consideration of every such attribute.

In addition, Deloitte considers that the definitions of the attributes of ‘authenticity’ and ‘credibility’ appear similar and may be confusing without further context. We do not propose that changes to the definitions are necessary, however the inclusion of further examples in the application materials of circumstances in which these attributes may be considered by the auditor would be helpful to provide clarity.

9. Do you agree with the separate conditional requirement (paragraph 10) to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?

Deloitte agrees with the separate conditional requirement.

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?

Deloitte appreciates the intent of the stand back requirement as a means to enhance professional skepticism in line with the project objective. However, the stand back requirements are included in ISA 315 paragraph 35, related to audit evidence obtained in risk assessment as well as ISA 330 paragraph 26, which addresses the auditor’s responsibility to conclude whether sufficient appropriate audit evidence has been obtained. As this requirement already exists in other standards, Deloitte does not feel that duplication here is necessary.

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?

Deloitte recommends the following change to the conforming paragraph in ISA 580 – Written Representations, to be consistent with the definition of audit evidence included in the proposed ISA 500:

3. Audit evidence is the information, ~~to which audit procedures have been applied, that the auditor uses to draw~~ ~~used by the auditor in arriving at the~~ ~~conclusions that form the basis for on which~~ the auditor's opinion ~~and report is based~~. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

Deloitte agrees with the statement in A58 that “the reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.” However, the example included in this application paragraph focuses on how the auditor may establish whether integrity has been maintained and does not illustrate how this may then impact the assessment of these attributes. Deloitte recommends expanding the example to include these considerations.

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

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

Deloitte supports the proposed effective date.

Australian Specific Questions

1. Further to question 7 above and with reference to paragraph 9 of the IAASB ED, do Australian stakeholders think that anything further could be considered to address the issue of sufficiency of audit evidence and its interrelationship with the appropriateness and pervasiveness of audit evidence?

Deloitte has no additional comments other than those included in response to question 7 above.

2. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws and regulations that have been omitted?

Deloitte believes that applicable laws and regulations have been appropriately addressed.

3. Whether there are any laws and regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

Deloitte does not believe that there are any laws and regulations that may prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

4. **Whether there are principles or practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

Deloitte does not believe that there are any principles or practices considered appropriate in maintaining or improving audit quality in Australia that may prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

5. **What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standards?**

Deloitte does not believe that there are any additional significant costs to auditors and the business community. Deloitte believes that the proposed standard will lead to enhanced auditor judgements when obtaining and evaluating audit evidence, which will benefit audit quality.

6. **What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 500?**

Deloitte does not anticipate any additional implementation guidance being required.

7. **Are there any other significant public interest matters that stakeholders wish to raise?**

Deloitte does not wish to raise any other matters.