



International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017
USA

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Comments to IAASB's Exposure Draft on Proposed International Standard on Auditing 500 (Revised)

The Nordic Federation of Public Accountants (NRF) is pleased to provide comments to IAASB's Exposure Draft on ISA 500 *Audit Evidence* and proposed conforming and consequential amendments to other ISAs.

We support the principles-based approach and the limited number of requirements.

However, ED-500 is much longer than extant ISA 500. In our view a sharper and more distinct structure with fewer cross-references would enhance the clarity of the standard and make it more manageable.

We do have some recurring concerns regarding clarity matters. Therefore, in particular, we believe that the stand back requirement should be deleted and that further clarifications are needed in terms of how the revisions will impact documentation requirements.

In finalizing this project, we encourage the IAASB to give the expected behavioral changes an extra thought, including how to best highlight and present those for the stakeholders.

Yours sincerely,

A handwritten signature in black ink that reads 'Helene Agélii'. The signature is written in a cursive style with a distinct flourish at the end.

Helene Agélii

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NRF

About NRF

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of the recognized audit and accounting institutes in the Nordic region (DnR in Norway, FAR in Sweden, FLE in Iceland, FSR – danske revisorer in Denmark and Suomen Tilintarkastajat ry – in Finland).

DETAILED COMMENTS

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

We do support that ED-500 has a limited number of requirements and the principles-based approach.

In terms of clarifying the purpose and scope of the standard, we notice that ED-500 is referred to as being a “reference framework”. We would encourage the IAASB to clarify the meaning of that term, especially what it means regarding structure and content compared to for example ISA 230 *Audit Documentation* since both standards focus on matters that are pervasive through the entire audit process.

ED-500 includes lots of cross-references to other standards. In our opinion they are too many. We are not convinced about how helpful this is and whether this approach clarifies the relationship with other ISAs.

- 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?**

ED-500 includes lots of revisions of different characters. The application material has become quite voluminous, and we believe a sharper structure with fewer cross-references would make the standard more manageable. When finalizing this project, we think it would be helpful if the IAASB could summarize and explain what revisions are expected to lead to a changed audit behavior.

We believe ED-500 could be further clarified in terms of how the evaluation of audit evidence should be documented since there is a concern that lack of clarity will lead to over-documentation.

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

As stated above, we are very supportive of the limited number of requirements and the principles-based approach.

ED-500 includes much more application material than current ISA 500. In our view the application material could be more distinct, i.e., many paragraphs are quite lengthy due to long introductions with references to either other paragraphs in the same standard or to other standards.

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Another challenge results from the volume of cross-references to other standards. We are not convinced that this way of drafting clarifies the relationship between ED-500 and other ISAs. Further, cross-references to other standards makes it challenging to understand how this will impact what the auditor is expected to document.

Many application material paragraphs include duplications of what is in other standards (e.g. A26) or of what is in the adjacent requirements or in other application material (e.g. A36 compared to 9 a-b, A46 refers to and duplicates what is in A12, A65 refers back to A37 and A67 refers back to A48).

To some extent the drafting of the application material seems to have similarities to a textbook approach. Although such information is useful, we suggest presenting it in another document, for example, in the Basis for Conclusion. That way, the length of the standard could be reduced, while the information would still be published.

Finally, we believe the IAASB could consider further enhancing the examples since some of them are quite basic and obvious and will not add valuable directions to the auditors.

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 accommodate the use of technology by the entity and the auditor, including the use of automated tools and techniques?

We believe ED-500 has succeeded in clarifying that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence.

We also find the explanation of how the use of automated tools and techniques may affect auditor bias, including automation bias, and the emphasis on using professional skepticism to be helpful guidance.

In our view ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach. We understand the challenges of addressing technology developments and at the same time drafting the standard in a technology-neutral way to keep it sustainable over time.

In terms of examples, we especially welcome the acknowledgement of using technology for remote observation as audit procedures to inspect the physical condition of the entity's inventories. In this regard we would also like to refer to our comment letter to the IAASB's Strategy and Work Plan, where we suggest prioritizing a narrow-scope project regarding ISA 501.

In addition, we believe there is a strong need for concrete examples around *how* both the entity and the auditor can use technology. Such examples should however mainly be dealt with outside of the standard.

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

Yes, we are supportive of these proposals, and we think the IAASB has succeeded in drawing attention to these important considerations and perspectives, including by providing helpful guidance.

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?

Yes, we support the revised definition of audit evidence and the “input-output model”.

However, we notice that with the new definition there will be even more emphasis on applying audit procedures. Paragraph A2 deals with audit procedures but that paragraph also includes references to “further” audit procedures and “other” audit procedures. Given the importance of the term, we recommend the IAASB to consider how to clarify - or even define - the term.

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

The process of obtaining and evaluating audit evidence is described using several attributes and terms. To some extent this risks getting circular. The description of the interrelationship between on one hand the sufficiency and appropriateness of audit evidence and on the other hand its persuasiveness, is still a bit unclear. In paragraph A5 the persuasiveness of the audit evidence is *included* in what constitutes sufficient appropriate audit evidence. However, this interrelationship seems to be described differently in paragraph A9, which implies that the persuasiveness of audit evidence is the sum of sufficient and appropriate audit evidence.

We wonder what A7 and A8 add to what is already included in ISA 330, and especially how this application material addresses the interrelationship between sufficiency, appropriateness and persuasiveness of audit evidence.

It is also a bit unclear how “persuasiveness of audit evidence” differs from “quality of audit evidence”.

Given these concerns and if the concept of persuasiveness ought to remain in the standard, the understanding of the concept would in our view benefit from being explained in a separate definition.

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?

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We support the way in which ED-500 addresses the nature and number of information sources, including the external ones.

Overall, we believe the requirements and application material in ED-500 will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. However, a different work effort is expected as a result of moving from “*consider*” in extant ISA 500 to “*evaluate*” the relevance and reliability of the information to be used as audit evidence. In our view, ED-500 is not sufficiently clear what consequences this change will and should have on the documentation of relevant and reliable information intended to be used as audit evidence. We strongly encourage the IAASB to further elaborate on and clarify this issue.

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?

Given that the situation paragraph 10 aims to address is already covered by article 9(b) and hence could be viewed as being redundant, we are not convinced paragraph 10 is necessary and at least not in the way it is currently drafted.

If paragraph 10 were to remain as a stand-alone requirement, we believe more guidance is necessary, even within the requirement itself. Especially in the area of testing accuracy and completeness, there are concerns about how much work an auditor needs to do.

Also, although paragraph 10 is based upon paragraph 9 (b), which in turn addresses scalability by including “given the intended purpose of the audit procedures”, we would recommend the IAASB to add some examples regarding scalability related to the testing of accuracy and completeness.

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 base for concluding in accordance the ISA 330 that sufficient appropriate audit evidence has been obtained?

No. Although we appreciate the concept and benefits of stand-back assessments in audit procedures, we do not support the proposal of adding a stand back requirement in ED-500.

We believe that the stand back requirement in paragraph 26 of ISA 330 combined with the one in paragraph 12 in ISA 700 are sufficient.

Also, as drafted, we have concerns about the expected work effort and documentation in this regard, especially since the related application material includes several references to many other standards.

In general, we believe that paragraphs A84-A86 are good examples of the drafting approach with many cross-references both to other ISAs and to other application material within ED-500. We are not convinced whether this approach is helpful and if it increases clarity and understandability. To some extent we believe the cross-references are a

consequence of the volume of the application material, which is another reason for why the IAASB should reconsider what content in the application material could be moved to other documents such as the Basis for Conclusion.

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, to the theme or topic, to which your comment(s) relate.

It is always more challenging to assess the pros and cons of proposed revisions when the entire standard is revised. ED-500 includes several changes per se, but it has been a bit challenging to understand what specific changes will lead to changed audit behavior. A list that pinpoints the expected changes in behavior would be much appreciated, not only within this project but as part of the standard setting process moving forward when dealing with broader scope projects.

ED-500 includes a definition of management's expert. It is not new and can also be found in other ISAs. The definition excludes individuals or organizations possessing expertise in accounting and auditing. We wonder if these exemptions continue to be relevant. Our concerns refer specially to excluding "accounting" and the consequences thereof. It is not uncommon for public interest entities to engage other audit firms than their auditor as management's experts, for example regarding changes from local GAAP to IFRS, fair value calculations affecting the financial reporting or in connection with implementation of new IFRS standards. The auditor's use of such information should necessitate the same considerations related to relevance and reliability of audit evidence as for those types of management's experts already included in the current definition. Also, paragraph A70 in ED-500 includes actuaries as examples. Often actuaries are engaged to provide expertise on matters that the entity is expected to report on based on accounting requirements. In our view there is a grey area on what could be considered as "accounting" which is unfortunate given the different requirements on how the auditor should address these matters.

Paragraph 8 regarding Reperformance in the Appendix focuses on independent execution. We wonder though how this relates to auditors using the same information, including relevant assumed knowledge, when performing the procedures. We would encourage the IAASB to clarify if this situation also is part of the "independent execution" concept. Further, we question whether the example on auditor's point estimate should be considered as being a part of reperformance and hence is a relevant example.

Regarding suggested conforming changes, the word "information" in ISA 240 paragraph 41 has been replaced with "audit evidence". The suggested change could be perceived as raising the bar as to situations where the auditor must communicate information the auditor becomes aware of that may indicate the existence of fraud. We wonder whether that was the intent and if, in a fraud context, this is a conforming change.

As a conforming amendment in ISA 402 the word "relevant" in A32 has been added to "audit evidence". Since the objective of the new suggested definition of audit evidence is to clarify that audit evidence obtained that has been evaluated in accordance with paragraph 13 of ED-500 *is* relevant, the word "relevant" to audit evidence has been deleted

in ISA 330. Therefore, we wonder about the appropriateness of using that particular word in this paragraph.

A minor change is also suggested in the bullet in paragraph 3 in ISA 505 that refers to ISA 500. That bullet deals with how to “increase the assurance” and has an accompanying footnote that refers to ED-500 paragraph A24. However, A24 does not discuss “assurance” but rather the concept of “persuasiveness”. We find this a bit confusing, and in our view this is another example of the need for clarifications regarding the concept of persuasiveness and how it relates to other terms.

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

- (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.**
- (b) Effective Date—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

We have no issues with these suggestions and support the IAASB’s proposals.