

IAASB
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Date	Re	Our	Your	Attachmer
19 April 2023	Response to consultation	reference 23/JZ/16495 7	reference	t

Dear Mr. Seidenstein,

The NBA welcomes the opportunity to respond to the Exposure Draft of the Proposed International Standard on Auditing 500 (Revised) *Audit Evidence* and Conforming and Consequential Amendments to Other ISAs (hereafter 'ED-500').

Royal Netherlands
Institute of Chartered
Accountants



Executive summary

We would like to bring the following key items to your attention, and ask your careful consideration of these items:

- The NBA wonders whether ED-500 as currently drafted will sufficiently guide auditors in making determinations about audit evidence. The concern is that the principles set in ED-500 are too high-level, and that auditors will have significant difficulty understanding what is expected of them, both in terms of work effort and in terms of documentation.
- The NBA is worried about the revised definition of audit evidence, as it seems very theoretical and it may create practical problems and questions. We explain our concern in more detail in our response to question 6.
- The NBA is worried about the lack of alignment of ED-500 with ISA240, as elaborated in our responses to questions 1(b) and 11.
- The NBA is of the view that further clarifications are needed on the use of audit tools and techniques, especially where these are not directly related to the defined types of audit procedures. Please refer to our response to Question 4 for more details.
- The NBA would suggest to clarify that any information indicative of potential inconsistencies, will be subjected to audit procedures so that it is used in the step back requirements. Please refer to our response to Question 5 for more details.

Request for 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?

The NBA supports the principles-based character of the ISAs, and notes that ED-500 is built on that basis. However, the NBA is concerned that the principles as set out in ED-500 are too high-level for auditors to implement in their audits, and that this standard therefore does not sufficiently and appropriately support auditors in making judgements about audit evidence.

The NBA would urge IAASB to better clarify the expectations that auditors are supposed to meet, by expanding on how auditors could fulfill the requirements whilst cutting down on application material of text-book nature.

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

Whilst the relationships and linkages of ED-500 with other ISAs generally are clear and appropriate, the NBA would offer two suggestions for further clarification:

- The NBA emphasizes the importance of explaining how the requirement in paragraph 9 of ED-500 to evaluate the relevance and reliability of information intended to be used as audit evidence, relates to the requirement in paragraph 14 of ISA240 stating that records and documents may be accepted as genuine, unless the auditor has reason to believe the contrary. The NBA is of the opinion that these two notions are inherently conflicting.
- The NBA suggests to further clarify the linkage between ED-500 and ISA315 (Revised) and to clarify how risk analysis procedures can lead to audit evidence. Currently ED-500 notes this possibility, but neither ED-500 nor ISA315 clarifies how.
- While ISA330 provides (to a certain extent) guidance on testing of controls, neither that standard nor ED-500 is sufficiently clear about the manner in which, and the circumstances and prerequisites for the auditor to obtain meaningful audit evidence from the testing of the effectiveness of controls.
- ED-500 is a foundational standard for other ISAs in the 500-series. The NBA urges IAASB to consider how these other standards can be best updated and aligned with future ISA 500 (Revised), in particular with respect to technology.



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?*

As noted in our response to question 1(a), we have a concern that the principles as laid down in this ED are too high-level, and that auditors will struggle to understand how to implement the requirements in their audits. We are therefore not sure whether auditor judgements will actually be enhanced.

Furthermore, a key concern emerges with respect to the expected level of documentation, which is not set out in the standard. The NBA urges IAASB to set out in the standard how the various requirements can be documented.

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

The NBA has concerns that ED-500's application material will not be effective in helping auditors to understand the expectations on them in terms of audit evidence. In the view of the NBA, the application material only describes various aspects of audit evidence, but it does not provide sufficient guidance to the auditor on how to deal with those aspects when performing an audit. For example, paragraphs A6-A9 intend to set out the interrelationship of the Sufficiency, Appropriateness and Persuasiveness of audit evidence. Nevertheless, these paragraphs do not meaningfully describe how this interrelationship impacts on the auditor gathering and assessing audit evidence. The NBA expects that further guidance, in the form of non-authoritative staff guidance or implementation guidance, will be needed to explain what is expected from auditors. This indicates, in the view of the NBA, that clarity of the standard, including the balance between requirements and application material, is open for improvement. The NBA would offer the suggestion to also provide more guidance on how technology can be used in obtaining audit evidence.

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?

The NBA agrees that the ISAs should not prescribe the use of technology in the entity as well as in the audit. Yet, ED-500 could do more to facilitate and encourage auditors to use technology in their audits, such as data analytics, visualization and process mining. The NBA is of the view that IAASB should offer more clarity on the use of audit tools and techniques, especially in case these, as alluded to in paragraph 36 of the explanatory memorandum, do not directly relate to one of the defined types of audit procedures. A clear example could provide meaningful guidance.

The NBA further notes that the first example of paragraph A23 on how to deal with the risks relating to automation bias, is unclear. We suggest to elaborate more on this example. Automation bias is also mentioned in paragraph A61, and we also seek further clarification there on how the auditor can overcome the risks resulting from these biases.

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

The NBA agrees that the approach taken in ED-500 appropriately reinforces professional skepticism. With respect to the evaluation of audit evidence (paragraph 13 and 14), the NBA would suggest that the auditor not only considers whether audit evidence obtained is indicative of inconsistencies with other evidence. NBA suggests to clarify that other information that would be indicative of inconsistencies should be subjected to audit procedures including to assess its relevance and reliability. This results in this other information being elevated to audit evidence, which then is covered by the evaluations required by paragraphs 13 and 14.

Further, the NBA notes that neither paragraph 12 nor paragraph 14 refer to skepticism, which is striking since these two paragraphs do have a very clear relationship with 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?

The NBA is concerned about the revised definition of audit evidence, including the "input-output model" and the notion that information can only become audit evidence after audit procedures have been applied to it. The NBA emphasizes that this



distinction is very theoretical, and may create challenges for auditors in its practical implementation. The NBA observes that the entry point of 'information' has not been defined, and that the standard lacks a requirement setting out the necessary procedure to elevate information to audit evidence. As an example, the NBA would suggest that a bank statement is relevant audit evidence to support the bank balance, but that bank statement as such is not subject to audit procedures. This would imply, following the definition of audit evidence, that such bank statement can only be considered as information. We strongly urge IAASB to reconsider the approach, and if it is retained, to explain it more clearly.

As noted in our response to question 5, the NBA would suggest to clarify that any information that would be indicative of inconsistencies, should be subjected to audit procedures, thus elevating it to audit evidence, and forming input for the assessments of paragraphs 12, 13, and 14.

Finally, the NBA is highly concerned that the expected level of documentation is not addressed at all in this standard. In certain cases, the evaluation of relevance and reliability is not questionable, and we suggest to explain that in such cases documenting the obvious would not be needed.

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

While the NBA agrees with the application material and how it describes the interrelationship between sufficiency, appropriateness and persuasiveness of audit evidence, the NBA also suggests that ED-500 should better explain what is expected from the auditor in terms of persuasiveness of audit evidence. This is especially relevant since sufficiency and appropriateness are defined and form part of the Objective of ED-500, while persuasiveness is solely explained in the application material. More specifically, the explanation material states that sufficiency and appropriateness together affect the persuasiveness, without explaining how these three factors are interrelated, nor explaining how persuasiveness affect the auditors procedures on evidence.

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?

The NBA is concerned that ED-500 is too 'open' in its approach, and that it does not set clear expectations. This is because the requirements and related application material provide examples and possibilities, but no directional guidance on how the auditor is expected to address the various circumstances and options during their audit. Auditors will thus have difficulty understanding the appropriate threshold for when information intended to be used as audit evidence can indeed be elevated to audit evidence. More specifically, we are of the opinion that the ED does not provide sufficient guidance on how to evaluate relevance and reliability in case audit tools and techniques are used, and asks IAASB to provide additional clarity.

The NBA observes that the extant requirement to consider the relevance and reliability of information to be used as audit evidence, has been elevated to a requirement to evaluate this. For the NBA it is unclear what the intended impact of this change is, and NBA asks IAASB to provide clarity.

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?

The NBA wonders why this conditional requirement only addresses accuracy and completeness. It appears that it may also be relevant to obtain audit evidence about credibility and/or authenticity. Further, the NBA is concerned that there is no clarity about how to determine which attributes are relevant, and what audit evidence to



obtain and document regarding the relevant attributes. The NBA suggests to include further guidance on how to determine, assess and document the relevance of these attributes, including as to whether these attributes apply to the assertion in the financial statements or at the level of information intended to be used as audit evidence.

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?

We observe that the ISAs include a number of other stand back requirements as well. This may reduce the effectiveness of each individual stand back requirement, and it may lead to additional burden and confusion. While we agree with the notion conveyed in the ED-500 as regards stepping back to assess all evidence, we urge IAASB to integrate the various ‘stand backs’.

As noted in our response to Question 6, we would suggest to clarify that any relevant information should be subjected to audit evidence and this included in the stand back assessment.

Finally, ED-500 is unclear on the extent of documentation of this evaluation, and hence we urge IAASB to clarify the expectations regarding documentation.

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.

The NBA is somewhat worried that the clarity that extant ISA 500 provides regarding the management expert, has been downplayed to application material. We are of the opinion that the extant ISA’s requirements are worth to be retained in ED-500.

We suggest IAASB reviews the flow of wording between the first part of requirement 8 and part 8(b). We had difficulty to link the two parts of the requirement.

We observed that neither paragraph 14 on inconsistencies with other audit evidence, nor the related application material refers to ISA240. We suggest to clarify the link of this requirement to related requirements in ISA240, including those in paragraph 15 of ISA240.

We suggest that IAASB reconsiders the example in paragraph A58. As now written, the example might be misunderstood in that it only refers to risk assessment procedures to provide a basis for the determination that the integrity of the entity’s financial information has been maintained. In our view, solely performing risk assessment procedures will likely not provide sufficient basis for that conclusion, and additional audit procedures, such as testing of the operating effectiveness of controls, would generally be needed.

Further, we suggest to also include in paragraph A59 the example of reviewing contracts and Terms & Conditions as part of the risk assessment procedures, since this appears an important activity to obtain an understanding of the risks.



Request for General Comments

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 the ED-500.*

We suggest that IAASB reviews the flow of words from the first part of requirement 8 to part 8(b). We had difficulty to link the two parts of the requirement.

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 consider this a sufficient period for translating and implementing the ISA.

Closing Remarks

For further information, please contact Martijn Duffels (m.duffels@nba.nl).

Yours sincerely,

NBA, the Royal Netherlands Institute of Chartered Accountants,



Anton Dieleman,
Chair of the Dutch Assurance and Ethics Standards Board
NBA

