



Our Ref.: C/AASC

Sent electronically through the IAASB Website (www.iaasb.org)

19 April 2023

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Dear Sirs,

IAASB Exposure Draft, Proposed International Standard on Auditing 500 (Revised), *Audit Evidence* and Proposed Conforming and Consequential Amendments to Other ISAs

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards and financial reporting standards. We welcome the opportunity to provide our comments on the captioned IAASB Exposure Draft (ED or ED-500).

We support the IAASB's commitment in revising the standard such that it stays relevant when auditors deal with the variety of nature and sources of information. It also fosters professional skepticism when making judgment about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained, in turn, attributes to higher audit quality.

Overall, we are supportive of the proposals of the ED, including:

- The principles-based reference framework for auditors when making judgments about audit evidence throughout the audit.
- The separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances.
- The new “stand back” requirement.

As elaborated further in our detailed response, there are several areas where we seek clarification from the IAASB or recommend inclusion of illustrative examples:

- The possible practical difficult to apply the principles-based reference framework.
- To provide illustrative scenarios of possible actions to mitigate the risk of automation bias when using automated tools and techniques. We also urge the IAASB to develop a non-authoritative guide relating to the use of automated tools and techniques under ED-500.



- To emphasize the linkage between the relevance and reliability of the information intended to be used as audit evidence and the appropriateness of audit evidence, hence the persuasiveness of audit evidence. This would assist auditors to obtain a holistic view that the timing, nature and extent of the evaluation in paragraph 9 is directly attributable to the achievement of obtaining appropriate and persuasive audit evidence.
- To develop application materials on the attributes of authenticity, bias and credibility to the reliability of information intended to be used as audit evidence.
- To clarify the documentation requirements to various requirements in ED-500.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hki CPA.org.hk).

Yours faithfully,

Cecilia Kwei
Director, Standard Setting Department



Work undertaken by HKICPA in forming its views

The HKICPA:

- a) issued an Invitation to Comment on the ED on 25 October 2022 to members of HKICPA and all other interested parties;
- b) invited HKICPA members working in the auditing sector to participate in a Hong Kong specific online survey with yes/no questions on the attributes of the ED;
- c) developed an introductory video in Cantonese to provide an overview of the proposed changes so as to promote the ED and encourage responses to the online survey;
- d) sought input from and developed its views through its Auditing and Assurance Standards Committee, having reflected on feedback obtained from stakeholders. The Committee comprises of academics, regulators and practitioners from small, medium and large accounting firms.

This comment letter outlines the HKICPA's views and summarizes our stakeholders' primary comments on the ED.

Detailed comments on ED-500

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?

Overall, we agree with the principles-based reference framework of ED-500, i.e., information (the "input") needs to be subject to audit procedures to become audit evidence (the "output"). This framework applies to all audits without exception. It effectively strengthens the extant ISA 500, which requires the auditor to "consider" the relevance and reliability of information, while ED-500 makes it a requirement to evaluate the relevance and reliability of information intended to be used as audit evidence. We believe the framework has the potential to drive auditors to undertake a thorough thought process in identifying and assessing information intended to be used as audit evidence, thereby enhancing their judgments about audit evidence throughout the audit and enhance quality in audit engagements.

However, some of our stakeholders are conscious about the practical difficulty in applying the framework. For instance, one of the examples in paragraph A50 explains that if the information comes from a highly reputable external information source, such as a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be extensive.

In practice, for an external information published by the government or a government agency (e.g., the GDP growth rate of a certain country) without alternative source, it might be difficult for auditors to apply any concrete audit procedures to assess its attributes of reliability under paragraph A56; it is likely that the auditor could only evaluate its reliability using professional judgment. Accordingly, we seek clarification from the IAASB that



whether information in circumstances as such could be qualified as audit evidence, i.e., no concrete audit procedures but professional judgment is applied.

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

We find the relationships to or linkages between ED-500 and other ISAs are clear and appropriate.

Following the finalization of ED-500, we consider the modernization of ISA 330 on responding to assessed risks would be of prime importance to align the conceptual elements, terminologies, etc. between ED-500 and ISA 330 (e.g., guidance relating to sufficiency and appropriateness of audit evidence) and ensure the coherence of the suite of ISAs as a whole. We therefore echo [IAASB's Proposed Strategy and Work Plan for 2024 – 2027](#) that the next major project is anticipated to be the revision of ISA 330, and support the IAASB to assume a focus on identified standards in the ISA 500 series.

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?

We agree that the proposed revisions in ED-500 collectively will lead to enhanced auditor judgments 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 above)?

We agree that ED-500 has an appropriate balance of requirements and application material.

Meanwhile, please refer to our responses to Questions (4), (7), (8), (9) and (10) on areas where we suggest an enhancement or strengthening of application materials with additional examples or illustrations.

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?

Paragraphs A3 and A4 clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence. Paragraph A23 continues with possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques, such as understanding the data inputs and processing steps.

To facilitate understanding and consistent application, we recommend that paragraph A23 be expanded with illustrative scenarios of possible actions in a manner similar to those in paragraphs A17, A24 and A42. We would suggest the IAASB to develop a non-authoritative



guide relating to the use of automated tools and techniques under ED-500, in a way similar to the [IAASB's technology FAQ](#) on the use of automated tools and techniques in a risk assessment under ISA 315 (Revised 2019).

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

We agree that ED-500 has appropriately reinforced the application of professional skepticism in obtaining and evaluating audit evidence.

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?

For our comments to the “input-output model”, please refer to our responses in Question 1.

Among the stakeholders comments we received, some suggest to clarify the definition of audit evidence stating that audit evidence is used by auditors to make decisions throughout the audit process and draw conclusion. Others suggest the definition to reflect the requirement of ED-500 that audit evidence is information to which the auditor has evaluated their relevance and reliability and uses them for drawing conclusions that forms the basis for the auditor's opinion and report.

We understand that it might be the IAASB's intention to keep the definition compact to avoid it being overly complex and having other unintended consequences. Therefore, we would leave our stakeholders' comment for the IAASB to consider.

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

Paragraph A13 of ED-500 describes that the appropriateness (i.e., the quality) of audit evidence is affected by the relevance and reliability of information intended to be used as audit evidence, as well as the effectiveness of the design of audit procedures applied to the information and the auditor's application of those audit procedures.

Paragraph 9 sets out the requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, supplemented by paragraphs A35 to A47 and A53 to A62.

We note that ED-500 does not establish an explicit linkage between the relevance and reliability of the information intended to be used as audit evidence and the appropriateness of audit evidence, hence the persuasiveness of audit evidence. While paragraph A13 implies that relevance and reliability of information would attribute to the persuasiveness of audit evidence, paragraphs A35 to A47 and A53 to A62 do not demonstrate any linkage on how the considerations of relevance and reliability would enhance the appropriateness hence the persuasiveness of audit evidence. As currently drafted, information that is more relevant and



reliable points to high quality information hence indicates more persuasiveness. The linkage to appropriateness and sufficiency seems to be missing. We therefore suggest the IAASB to consider strengthening their linkage and/or restructuring the flow of application materials to clarify the interrelationship between relevance and reliability of information intended to be used as audit evidence, appropriateness of audit evidence and hence the persuasiveness. This would assist auditors to obtain a holistic view that the timing, nature and extent of the evaluation in paragraph 9 is directly attributable to the achievement of obtaining appropriate and persuasive audit 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?

Taking into account our response to Question 7, we generally agree that the requirements and application material would support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. Developing a visual aid to help illustrate the thought process and principles would facilitate implementation of the standard.

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?

We note that the separate conditional requirement on the accuracy and completeness of information is retained from the extant ISA 500 and is a response to inspection findings from regulators.

Although we do not object to the separate conditional requirement, we are cautious that this may undermine auditors' consideration of the other attributes in paragraph A56 which might be equally important to assess the reliability of the information in various circumstances. While paragraphs A63 to A65 provide guidance on the applicability of the attributes of accuracy and completeness with illustrative circumstances, we encourage the IAASB to develop equivalent application materials in a structured manner on the other three attributes (i.e., authenticity, bias and credibility) to promote a thorough understanding on all attributes underpinning reliability and drive consistent evaluation among engagements.

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 agree with the new “stand back” requirement which is consistent with the approach of ISA 315 (Revised 2019) and ISA 540 (Revised), ensuring the coherence among ISAs. However, the application materials do not provide guidance on how to demonstrate auditor's thought process in reaching the conclusion in the audit documentation. We recommend that the application material be expanded to address the nature and extent of documentation required in relation to the stand back provision.



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.

Another key consideration is the level of documentation needed for auditors to illustrate the audit procedures performed to evaluate the information intended to be used as audit evidence.

- Paragraph A40 clarifies that the auditor is not required to document the consideration of every attribute of relevance and reliability of information. However, it is unclear whether the auditor should document their assessment or thought process of which attribute(s) is/are applicable in the circumstance, which forms the basis of the evaluation under paragraph 9. We seek the IAASB's clarification in this regard.
- To avoid confusion and drive consistency, we suggest adding a paragraph on areas that specific documentations are required, in a manner similar to paragraph 38 of ISA 315 (Revised 2019), paragraph 39 of ISA 540 (Revised), etc.
- It is important to avoid the perception that ED-500 would result in excessive documentation. Accordingly, in addition to referencing the documentation principles and requirements in ISA 230, it would be helpful if further guidance and examples be developed on documentation to address requirements in ED-500 to drive consistency and align expectation between auditors and regulators.

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