

19 April 2023

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017  
USA

Dear Sir,

**RESPONSE TO INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD'S (IAASB) EXPOSURE DRAFT (ED) ON PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 500 (REVISED) AUDIT EVIDENCE**

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above ED issued by the IAASB in October 2022.

For this ED, ISCA sought views from its members through a one-month public consultation and from the ISCA Auditing and Assurance Standards Committee which comprises technical professionals from audit firms, representatives from the public sector and other stakeholders.

Given the evolving business and audit environment, the enhancements proposed in the ED are timely and relevant. As businesses undergo digital transformation, accelerated by the pandemic, technology and data analytics become increasingly central to the audit process. This shift in audit landscape necessitates an update to the standard to allow auditors to properly leverage technology to supplement or replace more traditional audit methods where appropriate.

Also, as the environment that businesses are operating in become more complex and unpredictable, risks around fraud and going concern are amplified. The focus on the auditor's mindset and demonstration of professional skepticism has never been more critical. The ability of auditors to exercise professional skepticism is influenced and supported by firm culture and proper allocation of time and resources to audit engagements, which will be driven by the new quality management standards that came into effect at the end of last year. The enhancements proposed in the ED that highlight the risk of auditor bias will further help to strengthen the auditor's skillset and execution in these areas. With the updates to ISA 500 (Revised) and the new quality management standards working hand in hand, we are hopeful of better application of professional skepticism in audits.

In addressing the identified key public interest issues described in paragraph 9 of the ED, we believe that the proposed revisions will enhance judgements made by auditors when obtaining and evaluating audit evidence. However, in terms of modernising the standard to accommodate the use of technology in audits, we feel that the standard can specifically elaborate on data analytics to support and facilitate its adoption. We share our views in this area in our responses to Questions 7 and 8.

We share our specific comments to selected questions in the ED as follows:

Question 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?

We agree with the principles-based approach towards the use of technology in audits, considering the wide range of technological tools and techniques that can be employed.

*Changes to other standards*

The changes to ISA 500, as the foundational standard, however, may not be sufficient on their own to enable the broader use of technology in audits. We note that the IAASB Strategy and Workplan 2024–2027 includes a project to refresh the various standards under the ISA 500 series, with the focus on updates relating to the impact of technology. We are supportive of this project, which is timely and necessary to incorporate technology-related amendments to the various standards under the ISA 500 series.

We also note that various technology-related matters are being explored by the IAASB Technology Consultation Group. The findings from this consultation group can be incorporated into ISA 500 and other various standards in the ISA 500 series, with additional detailed examples provided in the form of supplementary materials to guide auditors.

*Using technology in different phases of the audit*

We note that the references and examples provided in the ED mainly relate to the usage of technology in substantive audit procedures. However, in practice, technology can be adopted in various phases of the audit, including test of controls (for example, to evaluate the operating effectiveness of identified controls). The usage of technology in risk assessment and test of controls are prevalent and critical for audits of entities that are in the IT sector or are IT-reliant, and should be emphasised in the standard. For a more comprehensive and holistic approach towards the usage of technology, it would be helpful for the standard to provide guidance on how technology can be considered at each phase of the audit. For example, the application of emerging technologies in financial reporting processes introduces new risks of material misstatement. Auditors will need to have a clear understanding of an entity's technology strategy and address the risks arising from the entity's use of emerging technologies in the financial reporting processes. It would be useful for the standard to clarify what constitutes sufficient appropriate audit evidence in the context of obtaining an understanding of the entity to address these risks.

The [IAASB's Frequently Asked Questions \(FAQs\) Regarding the Use of Automated Tools and Techniques in Performing Audit Procedures](#) provide useful practical guidance to assist auditors in understanding whether a procedure involving automated tools and techniques may be both a risk assessment procedure and a further audit procedure. The standard can incorporate the principle that the application of technology can be multi-purpose and include the relevant considerations from the FAQs.

*Whether data sets used in audit procedures constitute audit evidence*

A pertinent consideration arising from the usage of technology is whether the raw data sets received from management would constitute audit evidence. With reference to the definition in paragraph 7(b), audit evidence is information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. According to this definition, audit evidence should be the results that are drawn from applying the audit procedures, and not the raw data sets per se. It would be helpful for the standard to clarify this understanding.

On the same token, it may also be useful for the IAASB to consider corresponding clarifications to ISA 230 *Audit Documentation*, on the extent and form in which the data sets used need to be retained as audit documentation. One situation where such clarification would be helpful is whether the raw data sets received from management for the purpose of data analytics would be required to be filed as part of the audit documentation. Our view is that such raw data sets should not be filed because they are not considered audit evidence.

Some auditors are of the view that documentation on the parameters used for extraction, which would better inform on the nature, timing and extent of audit procedures performed, should be sufficient to meet the requirements of ISA 230. This would be consistent with the approach taken when audit procedures are performed using non-technological means (for e.g., manual vouching), where auditors are not required to retain copies of the entity's accounting records but can document key attributes of the documents. If the auditor chooses to retain the data sets in their raw form for ease of reference, these data sets can be maintained outside the audit working papers and not form part of audit documentation, since they do not constitute audit evidence.

To enhance consistency in market practice, it would be helpful for the standard to clarify what is expected of the auditor in terms of documentation in this regard.

Question 5

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

The emphasis on the importance of professional skepticism and inclusion of application material on auditor bias is an important step in reinforcing the exercise of professional skepticism.

In some ways, the promotion of the usage of technology in the proposed standard can potentially help auditors reduce auditor bias. For example, using technology to select testing samples or in risk assessment to identify audit focus areas can be more objective than performing these activities manually. Modernising the standard to recognise and encourage the usage of technology would contribute to the desired outcome of reducing auditor bias.

We feel that the areas below can be further emphasised or elaborated for clarity.

*Emphasis on importance of understanding the entity and its environment*

If the process of understanding the entity and its environment, including the impact of IT, is not performed in a robust manner, auditors may not appreciate the business rationale behind the entity's transactions made that can help them identify irregularities in audit evidence.

Hence, this process is crucial in reinforcing the exercise of professional skepticism in obtaining and evaluating audit evidence and should be more prominently emphasised in the standard.

#### *Dealing with inconsistencies in audit evidence*

An area that needs to be clarified is whether the “inconsistent evidence” mentioned under paragraphs 13(b) and 14 refers to evidence that the auditor obtains or comes across in the course of performing planned audit procedures. It may not be practical to expect the auditor to intentionally seek out inconsistent evidence.

The guidance on investigating exceptions in the recently issued [IAASB’s FAQs on Investigating Exceptions and Relevance of Performance Materiality when Using ATT](#) may be included here.

#### *Obtaining information from multiple sources*

It would be helpful to provide additional guidance and application examples on when the auditor would need to consider obtaining information from multiple sources in accordance with paragraph A21 and the extent of such additional procedures.

#### Question 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?

We do not agree with the revised definition. Our view is that not all types of information need to be subjected to audit procedures for them to become audit evidence. This is further explained below.

#### *Differentiating between information that need to be subjected to audit procedures and those that do not*

One possible approach would be to develop a framework to enable auditors to segregate information into two broad categories to distinguish the extent of work performed and documentation required:

#### (a) Information which requires evaluation of relevance and reliability, including documentation

This would especially apply to audit evidence addressing fraud risks, significant risks or key audit matters.

Within this category of information, it would also be useful to clarify the extent of procedures required to be performed to transform information into audit evidence to drive consistent application of the requirement. For example, paragraph A50 provides an example which says 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. It would be helpful for the ED to clarify the extent of work to be performed for such circumstances.

Other situations where it may be more difficult for the auditor to assess the reliability of information include where the information is from a counterparty (and therefore not

independent) or a lesser-known source, and information such as management accounts / financial information / net asset value statement that originates from an investee or data provider when auditing the fair value or impairment of investments. The application material of the standard can provide more guidance for such situations.

(b) Information where no further audit procedures need to be applied unless there are doubts over relevance and reliability

No other documentation would be required for this category of information.

An example of information that would fall under this category would be oral responses (oral information) to an inquiry. The auditor typically evaluates attributes such as credibility and accuracy and assess factors such as the role and tenure of the individual in the organisation, the consistency of the response with the auditor's expectations and the auditor's experience regarding the historical reliability of responses from that individual. These considerations do not involve application of audit procedures to the information, i.e. these are not procedures of inspection, observation confirmation, recalculation, reperformance, analytical procedures or inquiry, which are considered audit procedures described in other ISAs, and in the Appendix to ED-500. Other examples include general-purpose information from reputable or regulated external sources and written representations from management.

Alternatively, the IAASB can consider removing the reference to audit procedures in the definition and instead make reference to paragraph 9 which requires information to be relevant and reliable.

*Clarification on what constitute "inputs" and "outputs"*

As defined by the ED, "input" is information that has not been subjected to audit procedures and therefore is not audit evidence. As an extension to the comment under Question 4 on the retention of data sets used in audit procedures, it would be helpful for the standard to clarify if these data sets are considered "inputs" and the results of the analysis are considered "outputs" (i.e. audit evidence"). Such clarification would guide the form in which the data sets should be retained as audit documentation.

In addition, with reference to paragraph A41 which states that information intended to be used as audit evidence may come in different forms, including visual information, for example, obtained through physical or remote observation, it is not clear what are the procedures that can be performed on the visual information and what are the resulting outputs. It would be helpful for the standard to clarify the above example.

Question 7

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

Question 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?

In relation to the attributes to assess the reliability of information in paragraph A56, there should be recognition that the weightage of some factors might be more prominent than

others, depending on the circumstances. For example, publicly available general-purpose industry or market information from a reputable external source such as Bloomberg, is expected to be rated high on the credibility scale, and correspondingly the auditor might not be expected to perform additional work on the proprietary methodology and data used to derive such information, which the auditor would unlikely have a sufficiently detailed understanding.

Furthermore, in accordance with paragraph A56, the auditor is required to evaluate whether information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions. In the context of evaluating such bias, it would be helpful for the IAASB to clarify whether the extent of work is intended to address management bias or the broader sense of bias in the application of judgement. If it is the latter, it would be impracticable in most cases for an auditor to identify and respond to indicators of potential “bias” in the broader sense when considering external information sources, as the auditor would very unlikely have a sufficiently detailed understanding of the preparer, and the process to develop the information, in order to be able to make an evaluation of bias directly.

Also, it would be appropriate to link the standard to ISA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* to cover situations where it may be necessary to communicate the work performed on relevance and reliability of audit evidence. For example, these may be in situations where there is significant judgement exercised in relation to the auditor’s evaluation due to complexity of the information.

#### *Inclusion of illustrative examples to illustrate the full application of principles*

It would be helpful for the IAASB to include non-prescriptive examples to illustrate the full application of the principles in the ED.

For example, using a commonly used information such as supplier’s invoice:

- Attribute of authenticity may be applicable and an audit procedure(s) is applied to this information (e.g. inspection of invoice).
- Subsequent to the application of the audit procedure, there is no further expectation for the auditor to perform or apply additional audit procedures to the supplier’s invoice unless the auditor has reason to believe that it is not authentic.
- Further, it would be helpful to illustrate using the same example the different considerations if information is received in different forms, i.e. for hardcopy invoice / invoice converted to digital form / invoice received in digital form, how the auditor’s considerations would differ and whether additional audit procedures may be warranted.

#### *Challenges faced when applying data analytics*

Data analytics can be utilised in audits to better address risks, increase efficiency and improve audit quality. Despite its benefits, practical challenges impede the usage of data analytics in audits. Three practical issues related to audit evidence that auditors contend with when applying data analytics are:

- extent of testing of the underlying data used;
- assessment of audit evidence obtained; and
- dealing with exceptions.

In applying data analytics, it is imperative for auditors to design procedures to evaluate whether the information generated internally, which is used in the data analytics, is sufficiently reliable for the auditor’s purpose as required by ISA 500. This includes checking to the

appropriate underlying source documents. To facilitate the usage of data analytics, it will be useful for the standard to include guidance to clarify the extent of testing of such underlying information generated internally.

It is also not clear whether data analytics procedures are considered substantive procedures under ISA 520 *Analytical Procedures* and ISA 330 *The Auditor's Responses to Assessed Risks*. As a result, another question that auditors grapple with when applying data analytics is the degree of audit evidence to be obtained from such procedures. For example, when using data analytics to perform a three-way match (tracing revenue recorded to trade receivables and subsequent cash receipts), it is unclear what is the extent of test of details required to be performed in addition to the three-way match, if the auditor has tested and is satisfied with the reliability of the information generated internally. We understand that there are differing views from the audit profession on this. Some auditors are of the view that if the information is generated internally, comprising the entire data population that has been tested to be reliable, there would not be a need to perform further test of details. Yet others are of the view that additional procedures are still needed to obtain corroborative audit evidence because they are unsure of the expectations of the standard. Furthermore, the extent of such additional procedures is unclear. Hence, guidance to help auditors with this assessment would go a long way towards promoting consistency and confidence in the application of data analytics.

Finally, when exceptions are encountered in the application of data analytics, another challenge that auditors face is the extent of further procedures required to be performed to investigate these exceptions. The principles explained in the recently issued [IAASB's FAQs on Investigating Exceptions and Relevance of Performance Materiality when Using ATT](#), especially the clarification that performance materiality continues to apply to an audit procedure performed using automated tools and techniques on an entire population, are useful and we recommend that they be codified in the standard.

Addressing these practical issues in the standard may provide the impetus to drive the adoption of data analytics, especially among smaller audit firms.

#### *Evaluation of information intended to be used as audit evidence prepared by a management's expert*

It would be helpful for the IAASB to address the areas below in relation to information prepared by a management's expert.

##### (a) Expanding the definition of management's expert

Management's expert is currently defined as "An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements."

In practice, management may engage other accountants, for example to assist in interpretations or applications of financial reporting standards and use those information to support their accounting positions or treatment, or carrying out certain investigations into accounting fraud. The work of such experts may be used as audit evidence as well. Hence, we suggest to expand the definition of management's expert to also include those who may be in the field of accounting.

##### (b) Evaluating the work performed by management's expert

For management's experts in a field other than accounting or auditing, it would be helpful for the ED to clarify expectations regarding the work effort required by auditors to

understand the work performed by management's expert, and to evaluate the relevance and reliability of the information provided by the expert.

In addition, we would like to seek clarification if the involvement of an auditor's expert to evaluate the work performed by a management's expert would be considered as sufficient audit procedures performed. As stated in the guidance under paragraph A75, the auditor may decide to involve an auditor's expert to assist in understanding the work performed, for example, when the auditor may not have sufficient knowledge or expertise in the management expert's field.

Question 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 agree with the conditional requirement included. However, similar to verifying the reliability of information, including those prepared by a management's expert, clarification on the extent that the auditor would need to verify accuracy and completeness would be helpful.

Question 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 are supportive of the new "stand back" requirement, which serves as an important reminder for auditors to exercise professional skepticism in their overall assessment of whether sufficient appropriate audit evidence has been obtained. However, one concern expressed by auditors is the nature and extent of documentation required to demonstrate that the "stand back" requirement has been sufficiently addressed. While it would not be value adding to simply include a statement to indicate that the "stand back" assessment has been performed, it would also not be practical for the auditor to describe the entire thought process to arrive at such a conclusion. In view of the above, it would be helpful for the standard to clarify what would be the extent of documentation considered adequate, under normal circumstances, to show that the stand back procedure has been performed before concluding on the evaluation of audit evidence. By the same token, it would be useful to also clarify under what circumstances would more extensive documentation be needed.



Question 12(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 agree with the proposed effective date.

Should you require any further clarification, please feel free to contact Mr Terence Lam at [terence.lam@isca.org.sg](mailto:terence.lam@isca.org.sg) or Ms Wang Zhumei at [zhumei.wang@isca.org.sg](mailto:zhumei.wang@isca.org.sg).

Yours faithfully,



Mr Wai Geat, KANG  
Divisional Director  
Professional Standards