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GAO's Response to the International Auditing and Assurance Standards Board's Proposed International Standard on Auditing 500 (Revised), *Audit Evidence*, and Proposed Conforming and Consequential Amendments to Other ISAs

This letter provides GAO's comments on the International Auditing and Assurance Standards Board's (IAASB) proposed International Standard on Auditing (ISA) 500 (revised) *Audit Evidence* and proposed conforming and consequential amendments to other ISAs. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IAASB's efforts to update ISA 500, *Audit Evidence*, to improve and clarify the standard for auditors. We identified several areas in our responses where some improvements and clarifications would be helpful. Specifically, we believe application material should be added to clarify the definition of audit evidence and to enhance guidance on professional skepticism. Finally, the additional discussion on technology in the exposure draft is helpful, but it is important to ensure that the requirements and application materials are not too specific to limit the use of technologies as they develop in the future.

Our responses to the IAASB's 12 specific questions follow in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov.

A handwritten signature in black ink, appearing to read 'James R. Dalkin'.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Responses to Questions to the International Auditing and Assurance Standards Board's Proposed International Standard on Auditing 500 (Revised) Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs

- 1. Are 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?**

We believe that the exposure draft of International Statements of Audit 500, *Audit Evidence* (ED-500), has a clear purpose and scope. The exposure draft can be improved with some clarification in a few areas as noted in our responses to the following questions.

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

The connection to other ISAs are clear and the linkages used throughout the application materials will help users of the ISA.

- 2. What are your views about whether the proposed revisions in ED-500, when considered collectively, will lead to enhanced auditor judgements when obtaining and evaluating audit evidence?**

We believe that the revisions proposed in ED-500 will improve auditor judgment when obtaining and evaluating audit evidence. The revisions individually may need to be clearer to ensure that auditors will understand and be able to document the procedures they perform on evidence appropriately. We provide recommendations for clarification in our responses to other questions.

- 3. What are your views about whether ED-500 has an appropriate balance of requirements and application material?**

We believe that ED-500 has a reasonable balance of requirements and application materials. We suggest improving the clarity of the requirements, so auditors do not have to rely on the application materials to understand and fulfill the requirements.

- 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?**

Including automated tools and techniques in the application materials will help auditors identify considerations for the ISA's use. It will also help them identify concerns to consider when evaluating information obtained using the tools and techniques. Specifically, the application materials covering information bias based on using automated tools is helpful.

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

The requirements reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence. We believe the addition of a paragraph in the application material referencing or expanding on paragraph A22 from ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, would clarify the definition of professional skepticism in the application materials. In addition, we believe that paragraph 8a and related application materials are unclear. We believe that the language can be improved regarding how to document auditor's consideration of contradictory evidence and the basis for the auditor's determination that audit procedures are unbiased.

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 support the revised definition of audit evidence. We believe the level of work required to transform information into audit evidence is unclear as to what level of procedures will have to be performed to transform information obtained from a client into audit evidence. We also believe clarifying the definition of audit evidence as noted below will help improve auditors' determination of what constitutes audit evidence.

7. (b) Audit evidence – 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.

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

We believe that the application material appropriately describes the interrelationship of the sufficiency, appropriateness, and persuasiveness of 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?

We believe that there are opportunities to improve the clarity of the requirements. In particular, clarifying the intended purpose in paragraphs 9 and 13 will improve the clarity. For example, by separating the concept of designing procedures (paragraph 8) from the auditor's expectation about the inputs to those procedures and the results of those procedures (paragraph 9) will improve the clarity of the requirements and maintain principles-based standards.

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 believe that the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information is useful. Additional application guidance for this conditional requirement would be helpful to ensure that documentation is sufficient but not excessive for this 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?

We believe that the concept of a “stand back” requirement for an engagement is useful and beneficial to the overall quality of the engagement. To specifically include a stand back requirement as part of the evidence standard may duplicate guidance in other stand back requirements. We believe that paragraph 13(a) should focus on whether the overall results of the audit procedures performed have enabled the auditor to conclude on whether sufficient appropriate audit evidence has been obtained.

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.

We did not identify any other matters not raised in our other responses related to ED-500.

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 do not plan to translate the ISA, so we do not have any comments regarding translation issues. In regard to the effective date, the significance of the change in standard needs sufficient time to allow for national standard setters to update their standards and for firms to update related policies and procedures. We believe 18 months will be insufficient time to ensure that everything can be updated.