

**Audit Evidence – Question 8**

**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?**

**Q08 - Agree****2. Regulators and Audit Oversight Authorities****Botswana Accountancy Oversight Authority (BAOA)**

Yes, 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 as it gives examples of factors that may affect the auditor's evaluation such as what information exists that may be used as audit evidence and in what form, and whether such information is available, accessible and understandable.

**3. National Audit Standard Setters****Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

Yes

**Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)**

8. We believe that the requirements and the application material of the ED standard will allow an adequate evaluation of the relevance and reliability of the information that is intended to be used as audit evidence. The attributes described in paragraphs A54 – A62 of ED 500 are applied based on professional judgment as set forth in the ED.

**Public Accountants and Auditors Board Zimbabwe (PAAB)**

PAAB agrees it will since the input-output model has got good coverage on making sure the reliability, quality and relevance of audit evidence is observed before concluding it to be such.

**4. Accounting Firms****PKF International Limited (PKF)**

In our view, the requirements and application material in ED-500 should help support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

**5. Public Sector Organizations****Office of the Auditor General of Canada (OAG)**

Yes, the requirements and application material in ISA 500 (Revised) support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

**Provincial Auditor of Saskatchewan (PAS)**

Yes

## 6. Member Bodies and Other Professional Organizations

### Botswana Institute of Chartered Accountants (BICA)

We 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.

### Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili (CNDCEC)

8- Yes, in general, we think ED-500 will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence

### European Federation of Accountants and Auditors for SMEs (EFEAA)

We believe 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.

### Federation of Accounting Professions of Thailand (FAPT)

Yes.

### Institute of Chartered Accountants of Nigeria (ICAN)

Yes, 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.

### Institute of Chartered Accountants of Scotland (ICAS)

Yes, we believe that 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.

### Institute of Internal Auditors (IIA)

We agree that relevance and reliability is to be evaluated based on the intended purpose of audit procedures and information sources should be considered and challenged in this evaluation.

### Malaysian Institute of Certified Public Accountants (MICPA)

The guidance in the application material of ED-500 provides appropriate support to auditors.

### SRA

We studied the memorandum which provides background to en and an explanation of the Exposure Draft of proposed International Standard on Auditing.

We are glad to confirm that we agree with the proposals, as described in the above mentioned ED.

## Q08 - Agree with comments

### 2. Regulators and Audit Oversight Authorities

#### Financial Reporting Council (FRC)

We are supportive of the material included on evaluating the relevance and reliability of information, with the exception of the separate conditional requirement relating to accuracy and completeness as discussed below.

A27-A33 is helpful material, but A33 should be positioned before the material on selecting specific items (A30 – A32) as we have encountered firms incorrectly performing audit testing when treating non-

representative samples as though they are representative, leading to concerns around the sufficiency of audit evidence.

A29 includes material on the use of automated tools and techniques to apply an audit procedure to all items in a population but does not discuss data quality or include considerations for auditors in relation to completeness. Ensuring completeness of the population being tested is vital when selecting all items for testing, particularly where automated tools and techniques are being utilised.

A35 appears to be unnecessary application material as it stands to reason that what information is available affects how relevant it is, as evidence which does not exist could not possibly be relevant. We suggest that the IAASB deletes this paragraph.

We encourage the IAASB to review the material in A30 – A32, in relation to “Selecting specific items” to ensure it is consistent with widely understood statistical principles. A31 states that selecting specific items from a population “does not constitute audit sampling”, though the description of the process, to select specific items based on their characteristics, aligns with established definitions of non-statistical sampling as the auditor is still picking a subset of the population to examine, even if it is not a representative one.

We believe there is great value in aligning auditing standards with common mathematical language as this would be simpler to understand and lead to better outcomes when, for example, considering the extrapolation of errors. The increasing prominence of data analytics in audit, and entry into the profession by an increasing number of students from analytics background compounds the benefit of aligning the terminology used in auditing standards.

We support the material included in paragraph 11 (a) which describes the auditor’s responsibilities in relation evaluating the competence, capability and objectivity of a management expert but note that IESBA are starting a project on the independence of experts so encourage the IAASB to have early discussed with IESBA to ensure consistency.

#### **Independent Regulatory Board for Auditors and Institute of Chartered Accountants of Namibia (IRBA & ICAN)**

We do not support the proposal to remove the explicit requirement in paragraph 8(c) of extant ISA 500 – which requires auditors to evaluate the appropriateness of management’s expert’s work as audit evidence. This may lead to more auditors failing to appropriately evaluate such work. The IAASB’s rationale for removing this requirement is that it is redundant, due to the requirement in paragraph 8(b) of ED-500. However, it may not always be apparent to auditors that the requirement is now implicit in ED-500, and this could result in auditors deferring to management’s experts without a proper evaluation. We recommend that clarity be provided that the explicit requirement in paragraph 8(c) of extant ISA 500 is now in 8(b) of ED-500 or that it is restored.

In reference to the requirement outlined in paragraph 12(a) of ED-500, pertaining to the identification of doubts about the relevance or reliability of information intended for use as audit evidence, we suggest that the IAASB amends the wording in the requirement to “determine which” instead of “determine whether”. This is because we cannot envision a scenario where no modifications or additions to audit procedures would be required when doubts are identified. Therefore, the requirement should be to “determine which” modifications or additions are necessary.

We suggest that the IAASB restores the language found in the application material of the extant standard – which states that inquiry alone usually does not provide sufficient audit evidence – in the application material of ED-500, rather than relocating it to the appendix, as proposed.

Yes, but with some concern regarding certain paragraphs in the application material (such as A59 and A64). These may lead auditors to perform less testing of information attributes related to relevance and reliability when that data is used for risk assessment procedures, compared to information used for further audit procedures.

In cases where information is used in risk assessment procedures, an auditor may determine that no risk of material misstatement exists and no further audit procedures need to be performed.

As the auditing profession moves towards more data-driven audits, the reliability of the data used by auditors will become increasingly important. Using automated tools and techniques to identify and assess assertion-level risks can improve audit quality, but this is only possible with relevant and reliable data. If the data used is neither relevant nor reliable, that can have a negative impact on audit quality.

We recommend that the IAASB emphasises in the application material that the amount of testing required for information attributes related to relevance and reliability is not as simple as performing more testing for further audit procedures and less testing for risk assessment procedures. The effort required for information used in risk assessment procedures could be just as significant, as it may support the auditor's conclusion that there are no assertion-level risks of material misstatement associated with a class of transactions, which would then justify less further audit procedures.

### **3. National Audit Standard Setters**

#### **Australian Auditing and Assurance Standards Board (AUASB)**

In ED ISA 500 the application material does seem disproportionately detailed to explain the application of 14 requirements. This is evidenced by paragraphs A35-A83 focusing primarily on evaluating and the attributes of relevance and reliability.

The AUASB suggest that the IAASB may want to consider condensing and redrafting the application material in paragraph's A53-A65 into three areas: what are the attributes of relevance and reliability, what may affect the auditors use of professional judgement in relation to relevance and reliability and some relevant examples. The existing material appears too focused on 'the extent to which' attributes may be applicable in certain circumstances rather than 'whether' they are applicable so this may also need revisiting.

The AUASB agree that the requirements and application material in paragraphs A35-A83 of ED ISA 500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. The AUASB recommend that the IAASB emphasises in the application material (e.g., A63-A65), that the calling out of accuracy and completeness, does not mean to diminish the importance and significance of the other attributes in the evaluation of relevance and reliability. Refer to other comments provided in response to Question 3.

The AUASB are generally supportive of the incremental requirements on Management's Expert included in ED ISA 500 in 11 (c) (i) and (ii). The focus of the incremental requirements on these specific areas seems to be appropriate considering they may be seen as higher risk areas to the auditor when undertaking their work on the use of management's expert, as appropriate to the engagement circumstances.

#### **Canadian Auditing and Assurance Standards Board (AASB)**

We believe ED-500 supports an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

We suggest a few small revisions to the application material to assist in clarifying concepts included on relevance and reliability as follows:

As noted in our response to question 6 above, clarity is needed regarding whether the auditor's evaluation of relevance and reliability is considered to be an 'other audit procedure'. In addition to the revision proposed to paragraph A2 noted above in question 6, we suggest an edit to the first sentence in paragraph A37, to align these paragraphs. Suggested revision is shown below in the edits to A37.

ED-500 provides examples of how the auditor can assess many of the attributes of reliability. However, there is no example for credibility. We suggest adding an example to paragraph A37 of what is expected when evaluating the credibility of a source, such as the following:

A37. The evaluation of relevance and reliability may be performed concurrently with the other audit procedures applied to the information. For example, when the purpose of the audit procedure is to test the valuation of investments using pricing information from an external source, the auditor also considers the credibility of the source and whether it is free from bias, such as checking the independence and reputation of the source. In some circumstances, the audit procedures to evaluate relevance and reliability may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank). In other circumstances, audit procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity's information system).

#### **Compagnie Nationale des Commissaires aux Comptes and Conseil National de l'Ordre des Experts-Comptables (CNCC & CNOEC)**

We believe that overall, the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information.

We appreciate the IAASB's efforts to provide in the ED numerous examples of information (nature, source...) but examples of procedures to apply to evaluate the relevance and the reliability of information intended to be used as audit evidence may sometimes be missing. For example, to support the paragraph 9 (a) ("the auditor shall consider the source..."), we would expect more application guidance on "how" to perform the requirement, what type of documentation is expected.

#### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

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.

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

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.

To clarify the documentation requirements to various requirements in ED-500.

#### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

We support the requirement in paragraph 9 for an evaluation of the relevance and reliability of information intended to be used as audit evidence, in particular the fact that the evaluation includes a consideration of the sources of audit evidence and of the attributes of relevance and reliability. In particular, we support a consideration of the attributes because an evaluation of these would lead to a checklist approach that would not be appropriate in many circumstances. However, we believe that all of the attributes are always applicable – it is just that in some circumstances some attributes are significant, and some are not, and therefore the auditor would consider only those that are significant in the circumstances. We therefore suggest that the phrase “that are applicable in the circumstances” be replaced with “that are significant in the circumstances”.

Subject to minor technical and editorial comments in Appendix 2 to the comment letter and any conforming amendments resulting from our proposed change in wording to the requirement in paragraph 9, we also support the application material on the evaluation of relevance and reliability of information intended to be used as audit evidence.

#### **Japanese Institute of Certified Public Accountants (JICPA)**

We believe it is important that additional explanations of the background and the IAASB’s intention be provided as follows within and outside the ED-500, so that 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 the extant ISA 500 “Audit Evidence,” paragraph 7 requires the auditor to consider the relevance and reliability of information to be used as audit evidence, and paragraph 9 states, “when using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes” (underline added). On the other hand, paragraph 9 of the ED-500 requires “the auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence” (underline added). In other words, for information obtained from external sources, the wording has changed from “consider” to “evaluate” the relevance and reliability of the information, which can be read as enhancing the procedures that the auditor shall perform. However, we understand that this change addresses the diversification of information and aims to set principles-based approach applied to all information intended to be used as audit evidence so that the auditor makes appropriate professional judgments depending on the circumstances. We therefore understand that the IAASB’s intention is not to significantly enhance the procedures with respect to the relevance and reliability of information obtained from external sources.

Paragraph A63 of ED-500 explains that “the auditor may be more focused on other attributes of reliability, including the credibility of the source providing the information” (i.e., other than completeness and accuracy) with respect to the relevance and reliability of information obtained from a source external to the entity. We

believe that additional guidance and examples should be provided in paragraph A63 of ED-500, given the potential practical difficulties in application of paragraph A63 of ED-500. We suggest that such additional guidance and examples include how the auditor should consider the attributes of accuracy and completeness. In particular, the guidance is necessary regarding under what circumstances the attributes of accuracy and completeness is applicable to evaluate external sources in accordance with paragraphs 9 (b) and 10, and how to obtain audit evidence about accuracy and completeness of information if applicable.

Furthermore, ED-500 should explain in application materials why a principles-based approach to both internal and external sources of information is needed, and should also explain scalability, particularly in assessing the relevance and reliability of external sources of information. Such additional explanation would help auditors better understand the intention of ED-500 and avoid unnecessary burdens against principles-based approach and the scalability. This approach is similar to application materials in ISA 315 (Revised 2019) “Identifying and Assessing the Risks of Material Misstatement” that explain “why” the requirements are needed, such as paragraph A14 which explains “Why Obtaining Audit evidence in an Unbiased Manner is Important.”

In addition, we suggest that the underlined content of paragraphs 42 and 47 of Section 2-G of the Explanatory Memorandum (herein shown as below) should be included as a guidance in the application materials of ED-500. While paragraph A40 of ED-500 states, "this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information," the underlined contents in paragraphs 42 and 47 of Section 2-G are not described in detail in the requirements or application materials of ED-500. We are anxious that the way of thinking shown in paragraphs 42 and 47 of Section 2-G might not be sufficiently understood by auditors, resulting in unnecessary burdens on auditors, such as the use of the attributes in ED-500 as a checklist.

Paragraphs 42 and 47 in Section 2-G of the Explanatory Memorandum (underline added):

Para.42: (...) The IAASB’s intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to “given the intended purpose of the audit procedures” in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor’s professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.

Para.47: As described in paragraph 42 above, the IAASB cautioned against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information. In this regard, the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable

11-2: Clarification of the term “applicable” (paragraphs 9(b) and 10)

As commented above, we agree with the concept of paragraph 9. It is important for the auditor to consider the attributes of relevance and reliability of information depending on the circumstances, and the consideration of the attributes of accuracy and completeness should not be required for all information.

However, we believe that the meaning of the word "applicable" in paragraphs 9 and 10 needs to be clarified. Paragraph 9(b) states, “(...the auditor shall consider...) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures,” and paragraph 10 states, "If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information.” We believe that there is no case in which the accuracy and completeness of the information is

not applicable at all, even if the information is provided by an external source. In other words, although degrees of applicability vary depending on the circumstances, the attributes of accuracy and completeness would always be applicable. We therefore believe that the use of the term "applicable" in paragraphs 9 and 10 may give an inaccurate impression that audit evidence for the accuracy and completeness of the information shall always be obtained.

In order to avoid such misunderstanding, we suggest clarifying that the meaning of "the accuracy and completeness attributes" in paragraph 10 shown as above does not mean the nature of the information itself, but rather the attributes mean that the auditor is required to consider when evaluating the relevance and reliability of the information.

in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.

#### **New Zealand Auditing and Assurance Standards Board (NZAuASB)**

We agree that the requirements and application material in the ED will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. We do not see that paragraph 9.(b) "given the intended purpose of the audit procedures" provides any indication on scalability. We recommend a plain English explanation in the application guidance on the IAASB's expectations; to provide an indication on scalability (similar to the discussion in the significant matters section of the ED), and to avoid any confusion or disagreement, that could potentially occur on such matters of judgement, between auditors and regulators.

We also agree that consideration on the relevance and reliability should be undertaken on all information intended to be used as audit evidence.

Our stakeholders noted that there are some important biases not currently discussed in the proposed standard, which include overconfidence bias, hindsight bias, averaging bias, and representativeness bias. We note that the ED-500 does replicate some of the bias in ISA 220, but not all, including overconfidence bias. We encourage the IAASB to expand the coverage of biases in the proposed standard.

#### **4. Accounting Firms**

##### **Baker Tilly International (BTI)**

There is no guidance in the standard which addresses the engagement of an expert. Management could have framed the engagement or only provided relevant information which could influence or focus the outcome of the work performed by the expert. It could be made clearer that the conditions of the engagement performed by the expert should be reviewed for any evidence of bias or impaired objectivity.

As drafted the guidance focuses on the outcome which could be manipulated by management.

We agree with the principles based approach of paragraph 9 and the inclusion of the attributes to consider when assessing the relevance and reliability of information to be used as audit evidence. The attributes are well described and straightforward to understand.

Whilst understanding that there is a reluctance to include specific requirements in respect of audit documentation that go beyond the general principles set out in ISA 230, we nevertheless believe that this is an area which would benefit from an explicit documentation requirement. The extent of documentation required of the auditor's assessment of relevance and reliability is subject to considerable interpretation, including by different regulators, and clear guidance in this area would support global consistent application.



### **BDO International (BDO)**

The update in ED-500 does help the auditor in their evaluation of the relevance and reliability of information intended to be used as audit evidence. However, in respect of the relevance and reliability of information intended to be used as audit evidence, the required audit procedure is changed from “consider” in extant ISA 500.7 to “evaluate” in ED-500.9. We have concerns over the practical impact of this change in terminology on the extent of audit work and documentation as we have previously raised in our response to question 2 above.

Further, with respect to the appropriate documentation of the evaluation of the relevance and reliability of information intended to be used as audit evidence, we suggest that additional application material (or non-authoritative materials) and examples be provided that cover the documentation of:

the nature/extent of audit procedures to evaluate the relevance and reliability of information in an automated tools and techniques environment; and

the extent of the evaluation procedures required as this would help auditor’s documentation of their evaluation of the relevance and reliability of different types of information intended to be used as audit evidence.

We consider the requirements and application material (except for the area mentioned below) in this respect are clear, including the re-ordering and additions that have been made in this section. In particular we support:

The requirement for auditors to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory.

The need for auditors to be aware of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence.

The explanation that the auditor’s evaluation of relevance and reliability is an iterative process that involves professional judgment.

The requirement to obtain an understanding about how the information prepared by management’s expert has been used by management in the preparation of the financial statements when the auditor intends to use information prepared by a management’s expert as audit evidence.

The separation of the requirement (i) when auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, and (ii) the requirement regarding inconsistencies in the auditor evidence obtained.

The inclusion of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable rather than provision of a list of generalizations about the reliability of audit evidence.

The introduction of a new "stand back" requirement which considers all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

### **Deloitte Touche Tohmatsu Limited (DTTL)**

However, several of the key views expressed by the Board in the Significant Matters section of the Explanatory Memo are not fully embodied in the language of the requirements or application material and

DTTL believes their inclusion could further enhance the standard, including the following key views (see the Appendix for our specific recommendations for enhancements):

Within paragraph 42 of Section 2-G of Significant Matters in the Explanatory Memo, the Board expresses their intent that the requirement within paragraph 9 reflect a “principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable).” Further, within paragraphs 47 and 48 of Section 2-G, the Board emphasizes that the attributes of relevance and reliability in ED-500 are “not intended to be used as a checklist” and “not require the auditor to document the consideration of every attribute of relevance and reliability of information.” However, DTTL believes that the proposed standard should be revised to make these intensions clear and has proposed revisions in our answers to questions 6, 8, and 9 included in the Appendix.

DTTL supports the overall direction of ED-500, in particular with respect to the continued efforts to reinforce a principles-based “reference framework” for considering the relevance and reliability of information intended to be used as audit evidence, given the ever-increasing changes in the nature and number of information sources and the evolution of technology. The attributes of relevance and reliability will appropriately enhance auditor’s judgments, given the intent that the auditor should apply professional judgment in determining whether, and the degree to which, certain attributes of relevance and reliability are necessary to consider in the circumstances.

DTTL believes that the change in verb usage within the requirement regarding “relevance and reliability of information intended to be used as audit evidence” may create an undue burden by requiring auditors to document procedures for every piece of information intended to be used as audit evidence. Specifically, Paragraph 9 of the proposed standard requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence in contrast to paragraph 7 of extant ISA 500, which requires the auditor to consider relevance and reliability of information intended to be used as audit evidence.

In accordance with the Work Effort Verbs in Appendix 2 of the IAASB’s drafting principles and guidelines, use of the action verb Evaluate suggests documentation implications, including the auditor’s considerations and basis for the auditor’s conclusions, whereas the action verb Consider suggests that documentation may be necessary if the auditor’s consideration is significant.

The above implication of documentation requirements is further reenforced in A40 of the proposed standard which reminds auditors that the ISA 230 documentation requirements also apply to the documentation of the auditor’s evaluation of the relevance and reliability of information intended to be used as audit evidence. Although it is explained within the Explanatory Memorandum that that the attributes of relevance and reliability are not intended to be used as a checklist, the use of the verb Evaluate in context of the IAASB’s drafting principles suggests otherwise. Therefore, we suggest revision to paragraph 9 and A40 as follows:

9. The auditor shall evaluate consider the relevance and reliability of information intended to be used as audit evidence, by taking into account. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)

(a) The source of the information; and (Ref. Para. A48–A52)

(b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures. (Ref. Para. A53–A62)

To further clarify the Board’s position that that the attributes of relevance and reliability are not intended to be used as a checklist, we also recommend the following addition to application material:

A40. ISA 230 provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. The documentation of audit procedures performed in accordance with other ISAs may include documentation about the auditor's consideration of attributes of relevance and reliability that are applicable in the circumstances (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)). However, this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information. Documentation of the auditor's consideration of a particular attribute may be appropriate if the judgment involved in the consideration of such attribute is significant.

### **Ernst & Young Global Limited (EY)**

We believe the requirements and application material can support an appropriate evaluation of information intended to be used as audit evidence; however, we see risks of inconsistency in practice in the application of the requirements. Certain of these risks arise from our concerns about the auditor's ability to determine the applicable attributes and the nature, timing and extent of audit procedures needed to evaluate the relevance and reliability of information. Refer to our response to Q9 for further discussion of our concerns on the application of the attributes.

As noted in our response to Q1, the incorporation of the intended purpose of the audit procedure into the framework for evaluating information obtained as audit evidence is a prominent new component of ED-500. We believe the auditor faces some fundamental challenges in clearly identifying the intended purpose of an audit procedure, particularly when an audit procedure may achieve (or may appear to achieve) more than one purpose.

Enhancing distinction between risk assessment procedures and further audit procedures, specifically substantive procedures

As referenced in paragraph A18 of ED-500, ISA 315 (Revised 2019) states that the auditor may obtain audit evidence from risk assessment procedures and further audit procedures concurrently. We are supportive of this concept, and recognize it occurs in practice, more frequently when the auditor uses automated techniques.

The organization of the ISAs separates requirements related to risk assessment procedures and further audit procedures. While this was a clear distinction in the past, the pace of change, the availability of information, and the ability to analyze large volumes of information has significantly affected how the auditor designs and performs audit procedures.

As a result, the distinction between risk assessment procedures and further audit procedures is becoming increasingly blurred.

However, to achieve compliance with ISA 500 and other relevant ISAs (as required in paragraph A18 of ED-500), it is important for the auditor to determine if audit procedures that appear to be multi-purpose, particularly those involving automated techniques, are resulting in a conclusion that there is no risk of material misstatement (i.e., these are risk assessment procedures only) or if these procedures are both risk assessment procedures and substantive procedures that concurrently identify and respond to risks of material misstatement. Understanding this difference is important to the proper determination of significant classes of transactions, account balances and disclosures (which are defined as those for which the auditor has identified a related risk of material misstatement) in accordance with ISA 315 (Revised 2019), and for which the auditor has specific requirements to understand the entity's information system as well as to

design and perform further audit procedures in accordance with ISA 330. We believe ED-500 should provide further guidance to enhance the distinction between risk assessment procedures and further audit procedures.

#### Specific considerations when using automated techniques

When auditors use automated techniques, they face an additional challenge related to designing substantive procedures as it is not clear in ISA 330 or ISA 520 how data analysis audit procedures align with the existing types of substantive procedures (i.e., substantive analytical procedures and tests of details). However, the ability for the auditor to make this distinction is important to properly apply the relevant ISA that addresses each of them as required by paragraph 8(b) of ED-500.

Per our discussion in Q4, we believe that performing data analysis can sometimes constitute an inspection of an entire population. Therefore, we also believe that such a data analysis procedure is a test of detail when used as a substantive procedure. This would clarify the intended purpose of data analysis procedures of this nature (i.e., the requirements of ISA 330 would apply rather than ISA 520).

However, a data analysis procedure can be a substantive analytical procedure when the procedure involves disaggregation of data that allows us to set expectations for the purpose of an analytical procedures with high precision, particularly when using structural modeling or statistical techniques. In this case, it would be useful to clarify that ISA 520 would apply.

We support the revision to this International Standard on Auditing (ISA) as extant ISA 500 needs revision to remain fit for purpose given the evolving environment and to enhance the auditor's judgments related to the information intended to be used as audit evidence. On balance, we support a principles-based approach to evaluate information intended to be used as audit evidence and to conclude on its sufficiency and appropriateness, but believe further guidance is needed to provide clarity and consistency on its application by the auditor, as outlined in our responses to specific questions. We also have several recommendations to improve and clarify the linkage between ED-500 and other standards.

#### **KPMG International Limited (KPMG)**

In connection with this, we recommend that the application material and examples are further developed to address the interrelationships between attributes of reliability and to provide greater clarity/guidance regarding these, for example, that the credibility of an information source may in itself be considered when evaluating other attributes, even completeness and accuracy. This is likely to be particularly important in respect of the evaluation of information from certain external information sources, as it may not be possible to develop a sufficient understanding regarding the accuracy and completeness of such information directly, for example, when the process or model used by an external source to develop such information is confidential/proprietary. However, this would not necessarily constitute a scope limitation. We recommend that the application material provide guidance and examples regarding how the procedures performed over the accuracy and completeness of information may depend on the circumstances. A 48-50 describe sources of information and the implications of these, e.g. A 50 notes that the source of the information may affect the auditor's professional judgement regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of evaluation necessary, but further detail would be helpful. We note that there is helpful content regarding information from external information sources at paragraphs A39-44 of the extant standard, in particular, examples of factors that may be relevant when the auditor considers the relevance and reliability of such information, at paragraph A41, that has not been included in the application material to the ED. Such factors include the nature and authority of the information source, e.g. whether the source has a legislative mandate to provide the information; the ability

of the entity to influence the source; the competence, reputation and track record of the source in preparing the information, and evidence of general market acceptance of the information by users, and whether the source accumulates information or directly ‘sets’ market transactions, amongst others. We recommend that this guidance be added to ED-500, also with appropriate references to use of professional skepticism and professional judgement in considering these factors, to further support the auditor in evaluating relevance and reliability of information from external information sources.

Please also refer to our comments in response to Question 9, which note that although ED-500 appears to intend that the attributes of accuracy and completeness are capable of broad application, to both internal and external information sources, the examples in the application material seem to focus mainly on internal information sources. We therefore recommend the inclusion of additional examples regarding information from external sources, with an emphasis on the evaluation of other, interrelated attributes, e.g. credibility, in order to provide audit evidence relating to the attributes of accuracy and completeness, as well as further guidance regarding performing audit procedures directly to evaluate the attributes of completeness and accuracy e.g., by reconciling an external confirmation to an entity’s accounting records and investigating any reconciling items.

We also believe it is important to clarify whether the reference to the attribute of “bias”, described at paragraph A56, is intended to refer to possible bias in a broad sense by the preparer of the information (irrespective of whether the information is from an internal or an external information source) or whether it is intended to refer more narrowly to the concept of susceptibility to “management bias”, in which case we believe this is intended to be a consideration that is limited to internal information, including information prepared by a management’s expert, or other external sources over which management may be able to exert influence. We note that certain examples in the application material appear to suggest that this relates more specifically to management bias, however, other examples, e.g. at A37, which describes pricing information from an external source, may make reference to bias in the broader sense. We also note that certain references, e.g. at A50, are specifically to the concept of management bias. We therefore recommend that the IAASB provide clarification at A56. We highlight that we consider that 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 be very unlikely to 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. If the IAASB’s intention is to refer to bias in the broader sense, we suggest that the material at A56 be amended to refer to whether the information is “susceptible to” bias rather than whether it is “free from” bias. Accordingly, the auditor may consider susceptibility to bias when evaluating the relevance and reliability of information but is not expected to conclude that the information is free from bias. We believe this would be similar to the concept of the auditor remaining alert to conditions that cause the auditor to believe that a document may not be authentic, but is not required to form a conclusion regarding authenticity, as the auditor is not trained, and does not have the expertise to do this, as described in ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*.

In connection with the above, we note that in certain situations, an auditor may be able to obtain “comfort” over certain attributes by considering the attribute of credibility, in particular, when information is from an external information source, and therefore we recommend that the IAASB clarify that the attribute of “credibility” also relates to market acceptance of the source as credible and trustworthy, considering the reputation of the source and the views of the market/a broad range of users of the information.

We also believe it is important to clarify whether the reference to the attribute of “bias”, described at paragraph A56, is intended to refer to possible bias in a broad sense by the preparer of the information (irrespective of whether the information is from an internal or an external information source) or whether it is intended to refer more narrowly to the concept of susceptibility to “management bias”, in which case we believe this is intended to be a consideration that is limited to internal information, including information prepared by a management’s expert, or other external sources over which management may be able to exert influence. We note that certain examples in the application material appear to suggest that this relates more specifically to management bias, however, other examples, e.g. at A37, which describes pricing information from an external source, may make reference to bias in the broader sense. We also note that certain references, e.g. at A50, are specifically to the concept of management bias. We therefore recommend that the IAASB provide clarification at A56. We highlight that we consider that 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 be very unlikely to 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. If the IAASB’s intention is to refer to bias in the broader sense, we suggest that the material at A56 be amended to refer to whether the information is “susceptible to” bias rather than whether it is “free from” bias. Accordingly, the auditor may consider susceptibility to bias when evaluating the relevance and reliability of information but is not expected to conclude that the information is free from bias. We believe this would be similar to the concept of the auditor remaining alert to conditions that cause the auditor to believe that a document may not be authentic, but is not required to form a conclusion regarding authenticity, as the auditor is not trained, and does not have the expertise to do this, as described in ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*.

We are supportive of the requirements and application material in ED-500 regarding the evaluation of the relevance and reliability of information intended to be used as audit evidence. We consider the changes to be responsive to the significant increase in information available from external sources, as well as the evolution in technology, and, in general, will provide a more robust framework, that supports a principles-based approach, for the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. In particular, we welcome the application material addressing the attributes of relevance and reliability, and the examples provided.

Notwithstanding the above, however, we recommend, in our response to Question 6, that the IAASB amend the definition of “audit evidence” to remove the reference to the need to apply “audit procedures”, and instead, place emphasis on the fact that the auditor needs to “evaluate” the information (by appropriately considering the source of the information and applicable attributes), which would be our strongly preferred approach, or, if the IAASB decides to retain the current definition, we would request that the IAASB provide more explicit clarification in the application material to address our concerns (including an example of an audit evidence procedure that could be applied to a response to an inquiry of management to evaluate relevance and reliability) and explicitly acknowledge that the term “audit procedure” is intended to be broader than the audit procedures currently described in ED-500 and other ISAs, i.e. inspection, observation, confirmation, recalculation, reperformance, analytical procedures or inquiry.

### **Mazars (MZ)**

We believe that overall, the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information. However, we are concerned that the extent of documentation required for consideration of attributes could become onerous, especially on smaller and

less complex audits. The standard could be enhanced by more clearly stating the extent of documentation required; for example, requiring only documentation of the attributes which have been considered as applicable in the circumstances in accordance with paragraph 9(b) of ED-500, and avoiding the need for the auditor to document why a particular attribute may not be relevant or to document all information that could theoretically be available (see our response to question 3).

We appreciate that there are numerous examples of information (nature, source etc.) in the application material, this could be enhanced by providing more guidance on “how” procedures may be applied. For example, to support the para 9(a) (“the auditor shall consider the source...”) the standard would be enhanced by incorporating application guidance on “how” to perform the requirement, what type of documentation is expected etc.

### **MNP LLP (MNP)**

We appreciate that ED-500 provides a principle-based approach. In some areas there may be a wide range of interpretation and we feel additional examples or guidance would be helpful such as an expansion of A50.

We also appreciate the board’s caution against creating unnecessary burden on auditors in evaluating the relevance and reliability of information intended to be used as audit evidence. Paragraph 9 may be interpreted to mean that a minimum of one attribute must be considered for every piece of information intended to be used as audit evidence which may be unnecessarily onerous to perform and document.

For example, it would be onerous to have separate documentation around relevance and reliability for each bank reconciliation statement, the corresponding bank statement, listing of payments in transit and listing of deposits-in-transit.

Paragraph 9 should be amended to be flexible enough to accommodate instances where separate procedures and corresponding documentation would not be required based on the nature of the information.

3. The documentation requirement is referenced to CAS 230 in Paragraph A40 and we appreciate the cautionary language in the paragraph that “this ISA does not require the auditor to document the consideration of every attribute of relevance and reliability of information”. However, we believe there is a need for additional guidance to avoid different interpretations between auditors and regulators. Given that the consideration of what attributes are applicable is based on the auditor’s professional judgement, is there an expectation that the auditor needs to document the rationale as to why certain attributes are or are not applicable? Also, if the standard indicates that completeness and accuracy are ordinarily applicable attributes for information generated internally by the entity, is there a higher expectation of documentation required when we determine that completeness and accuracy are not applicable in the circumstances?

4. With regards to evaluating the competence, capabilities and objectivity of management’s expert, paragraph A73 states that “....a management’s expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity”.

In Canada, management’s experts are often members of professional bodies that have their own professional conduct and licensing standards. In many cases, management’s expert especially if they are external, should be more objective than other employees.

5. Paragraph A78 provides guidance on how the information prepared by the expert is used by management may result in a control deficiency. The guidance is not clear on how that could occur; therefore, we recommend that an example be added to demonstrate this.

## PriceWaterhouseCoopers (PwC)

Key concepts require clarification

Paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures, and paragraph 10 requires the auditor to obtain audit evidence about the accuracy and completeness of the information. We support the concept of “attributes of relevance and reliability”, but believe these two requirements lack sufficient clarity to support consistent and appropriate auditor judgements for three reasons:

The risk of inconsistent interpretation of the intent of the phrase “the intended purpose of the audit procedures”, as described in the section below;

Insufficient guidance on how to judge “applicable in the circumstances” in the context of paragraph 9(b), as explained in our response to question 8; and

Perceived mixed messaging about how auditors are expected to comply with paragraph 10 with respect to information obtained from sources external to the entity in circumstances when the auditor has no access to that source, as explained in our response to question 9.

We believe these three reasons also give rise to uncertainty about what auditors will be expected to document about their consideration of the attributes of relevance and reliability of information that are applicable in the circumstances.

We recommend that paragraph 9 be restructured and redrafted to better emphasise that the auditor’s consideration of the source of the information and attributes of relevance and reliability is driven by how the auditor intends to use that information in contributing to the audit evidence obtained and, specifically, the degree of importance of that information to the auditor’s audit procedures and overall ability to obtain sufficient appropriate audit evidence.

Relevance and reliability of information intended to be used as audit evidence

We support the intent of paragraph 9 – evaluating the relevance and reliability of information intended to be used as audit evidence is an essential aspect of an audit, underpinning the auditor’s conclusion that sufficient appropriate audit evidence has been obtained. We believe that the enhanced focus in the requirement on evaluating information, including from both internal and external sources, will drive appropriate behaviours and enhance the robustness of the auditor’s consideration of the relevance and reliability of information intended to be used as audit evidence. However, we believe that further changes are needed to the requirement to ensure that it is both operable and proportionate. It is also critical that the application material provides sufficient principles-based guidance to support auditors in making consistent professional judgements about the work effort that is appropriate in the circumstances, guarding against the risk of a “checklist approach” interpretation to complying with the requirement.

We support the intent of paragraph 9 – evaluating the relevance and reliability of information intended to be used as audit evidence is an essential aspect of an audit, underpinning the auditor’s conclusion that sufficient appropriate audit evidence has been obtained. We believe that the enhanced focus in the requirement on evaluating information, including from both internal and external sources, will drive appropriate behaviours and enhance the robustness of the auditor’s consideration of the relevance and reliability of information intended to be used as audit evidence.

We are supportive of the concept of “attributes of relevance and reliability”. However, we believe the requirement provides insufficient direction to auditors about what it is they need to “consider” with respect to



such attributes. As explained in response to question 2, the lack of clarity and risk of misunderstanding of the meaning of the phrase “intended purpose of the audit procedures” raises uncertainty about what is meant by “the attributes of relevance and reliability that are applicable in the circumstances”.

There is a very broad array of “information” that an auditor will use in an audit, and we think it is important to emphasise that there is a spectrum of work effort in evaluating the relevance and reliability of information that may be appropriate based on both the nature of the information (what it is) and the importance of the information to obtaining sufficient appropriate audit evidence.

In the vast majority of circumstances, it is less a question of whether an attribute of relevance and reliability is “applicable in the circumstances” (i.e., it is hard to argue they are ever really not applicable) but more a question of the degree to which it is important to the auditor that the information to be used exhibits certain of those attributes. The “degree” is briefly mentioned in paragraph A53, but simply states that this is a “matter of professional judgement”.

We recommend that paragraph 9 be restructured and redrafted to better emphasise that the auditor’s consideration of the source of the information and attributes of relevance and reliability is driven by how the auditor intends to use that information in contributing to the audit evidence obtained and, specifically, the degree of importance of that information to the auditor’s audit procedures and overall ability to obtain sufficient appropriate audit evidence. This would more directly support the auditor’s application of professional judgement about the extent of work effort necessary in the circumstances. We believe this would also help directly address concerns about the scalability of the requirement.

Recommendation for paragraph 9:

“The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall take into account the significance of the information to the auditor’s planned audit procedures and consider:

The source of the information; and

The attributes of relevance and reliability inherent within the information that are applicable in the circumstances, given the intended purpose of the audit procedures.”

Restructuring the requirement as we suggest would lead to consequential restructuring of the supporting application material. Addressing these key drivers first (for example by building out paragraphs A35-A36) before addressing, respectively, the related additional guidance on the source and attributes, would provide a framework and context for the application material describing how the auditor then considers the source of the information and the attributes of relevance and reliability.

Further to our comments regarding the “applicability” of attributes, we are concerned by the assertion in the application material (paragraph A63) that when information is “obtained from a source external to the entity, the auditor may be more focused on other attributes of reliability”. This can be perceived as conflicting, or overriding, the intent of paragraph 9, as presented in ED-500. We believe that the changes we propose for paragraph 9 above, in conjunction with the change we propose for paragraph 10, in response to question 9 below, resolve this perceived conflict.

For similar reasons, we disagree with the assertion in paragraph A64 that the attributes of accuracy and completeness may not always be applicable when performing risk assessment procedures. It is not the case that the auditor is unconcerned about whether information to be used for risk assessment procedures is accurate or complete and that these attributes are therefore “not applicable” and can be disregarded – inaccurate information would be a significant concern. Rather, as we describe above, the degree of

accuracy or completeness of the information may be less important for purposes of making informed risk assessments than for, by comparison, further audit procedures.

We believe the changes we describe above (in particular the removal of the concept of applicability in the circumstances) would help to address this potential misconception, providing a basis for this application material to be redrafted accordingly. The application material could also be clarified by further explaining that the more credible the source of the information is judged to be, this may (indirectly) give the auditor some level of comfort about the likelihood of the information from that source being accurate and complete (e.g., information obtained from governmental agencies).

See also our response to question 9 for our further views on the attributes of accuracy and completeness of information and proposed requirement paragraph 10.

Lastly, we note that the concept of “authenticity” is included as an attribute in paragraph A56. This concept is addressed in ISA 240. We believe the inclusion of this attribute in ED-500 may lead to the perception that evaluating the authenticity of information intended to be used as audit evidence is expected in all circumstances, which is in conflict with the requirements and guidance of ISA 240. While paragraph A57 draws attention to the requirement in paragraph 14 of ISA 240 that explains that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary, we recommend that paragraph A57 be updated to include the guidance from paragraph A10 of ISA 240. We believe this would help make clear that evaluating the authenticity of information may not be equally as common or necessary as evaluating other attributes.

While we support the proposed definition, there is an inherent circularity flaw (infinite loop) in requiring, as set out in paragraph 9, audit evidence to be obtained about information intended to be used as audit evidence. We address this matter in our response to question 9, explaining our views on paragraph 9.

### **RSM International Limited (RSM)**

Yes, we believe that 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.

However, as more fully explained in our response to question 2, more guidance on the extent of documentation would be useful.

## **5. Public Sector Organizations**

### **Swedish National Audit Office (SNAO)**

Swedish National Audit Office would like to congratulate IAASB for great work done reviewing the standard. In general, we agree with the suggestions presented. Below you will find our more detailed comments on the questions you have raised.

Paragraph 9 and 10 and application material A34 – 65

Paragraph 9 b). Our suggestion would be to delete the word attributes as it is a bit confusing and not consistently used throughout the standard.

Paragraph 10

Our suggestion would be to include this evaluation as part of 9b, and explicitly point out accuracy and completeness as mandatory evaluation when necessary.

Application material

A.36 states that Evaluating the relevance and reliability of information intended to be used as audit evidence involves performing audit procedures. We find this sentence to be a bit confusing. The auditor will perform audit procedures to address an identified risk. By performing all those procedures, the auditor will get a lot of information which the auditor needs to evaluate whether it is relevant and reliable. So what you mean here is that the evaluation per se now will be defined as an audit procedure on its own? This could be clarified.

A38 states audit evidence from performing other audit procedures in accordance with the ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence. This is then followed by a few examples. We find this paragraph to be a bit confusing and unclear. Wouldn't you as auditor need to perform these procedures to gather information considered to be audit evidence?

## **6. Member Bodies and Other Professional Organizations**

### **Accountancy Europe (AE)**

We agree with the input-output model suggesting that information can become audit evidence after being subject to auditor's evaluation of its reliability and relevance. The main concern in this regard is the risk of over-documentation due to ambiguity of the requirements related to the attributes of relevance and reliability. Proposed articles on attributes are open to different interpretation.

Yes, overall, we believe that ED-ISA 500 will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence, without prejudice to our responses to Questions 4, 9 and 10. The documentation requirements pertaining to auditor's evaluation should be clarified to avoid the risk of unnecessarily extensive audit documentation.

### **Chamber of Auditors of the Czech Republic (CA CR)**

Yes, overall, we believe that ED-ISA 500 will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. However, as stated in our response to Question 2, there is a lack of clarity in respect of documentation requirements.

Further, we are afraid that using the same names for audit assertions and attributes of reliability and relevance can be confusing. It can be demonstrated on example in A64 when talking about accuracy and completeness of information for journal entries testing. We believe that accuracy in this example refer to information in data file obtained by auditor (e.g. whether every single information included in data file equal to original information in the accounting system) and not to accuracy of the recorded transaction in respect of financial statements assertions.

Furthermore, we believe that there is a lack of clarity regarding the required extent of documentation related to assessing the reliability and relevance of information in the audit file.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (CA ANZ & ACCA)**

Yes, in our view the requirements and application material in ED-500 support an appropriate evaluation of relevance and reliability of information intended to be used as audit evidence. However, moving from 'consider' to 'evaluating' raises the bar and hence the question on how should auditors document this i.e., what would be enough for the regulators? We are also sceptical, as to how regulators are going to interpret what the auditor needs to do to an input to derive the output (i.e., how much work is enough?). Lack of clarity around the work effort may have unintended consequences and drive firms to develop lists of what

procedures they think is acceptable for each type of input. This may adversely impact audit quality if firms spend finite resources increasing work effort where it is not required.

We therefore recommend that the standard provides more guidance regarding the documentation requirements of the proposed evaluation.

#### **Chartered Accountants Ireland (CAI)**

Yes, we do believe that the requirements in ED 500 supports an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. However, we do believe that the application material could be enhanced to reflect the Board's stated intention that the attributes of relevance and reliability in the ED are not intended to be used as a checklist and that there is no requirement to document consideration of every attribute.

#### **CPA Australia (CPAA)**

We are concerned that the wording in paragraph 11(c) may have a dilutive effect on the responsibilities of the auditor when evaluating the information prepared by management's expert. The paragraph requires the auditor to 'Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements'. This requirement could be perceived as a lower-level requirement than is currently required in the extant ISA 500, that is, to 'Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion'.

Consistent with our response to Question 1, to avoid duplicated work effort we urge the IAASB to clarify when, and under which standard (ISA 330 or ISA 500), the evaluation of the relevance and reliability of information needs to be performed.

We note that ED-500 proposes that the auditor should 'Evaluate' the relevance and reliability of the information to be used as audit evidence in contrast to the current requirement to 'Consider' the information. This change in verb suggests a higher level of work effort. Although paragraph 42 in Section 2-G of the ED seeks to explain that the intention is to create a robust evaluation of the relevance and reliability of information without causing any unnecessary burden on auditors, we do not believe paragraph 9(b) of ED-500 sufficiently clarifies the work effort needed. Accordingly, to avoid unnecessary burden on auditors in making this evaluation and to avoid any confusion around the appropriate level of work effort required, we recommend the IAASB either:

include the IAASB's expectations in plain English (similar to the discussion in paragraph 42 of Section 2-G of the ED), in the AM section of ED-500; or

maintain the status quo of 'Consider' as noted in paragraph 7 of extant ISA 500.

The IAASB should also consider including a reference to Appendix 2: Work Effort Verbs of the IAASB Drafting Principles and Guidelines in ED-500 (and in all other ISAs as they are updated in future). This will help to promote a common understanding of and awareness around the spectrum of work effort implied by commonly used verbs in the ISAs. It will also avoid inconsistencies in interpretation which could in turn result in inconsistency in work effort and audit documentation. For example, the work effort spectrum differs depending on whether the verb used requires the auditor to 'Remain alert to', 'Consider', 'Evaluate', 'Determine' or 'Conclude'.

#### **IFAC SMP Advisory Group (SMPAG)**

We are concerned that the implications of what is included in para. 9 may result in an expectation by regulators that practitioners should explicitly document the relevance and reliability of all information

intended to be used as audit evidence. This could be very onerous and not significantly enhance audit quality. The change from ‘consider’ relevance and reliability to ‘evaluate’ implies a different work effort, which will result in practical challenges as auditors may be unsure about the level of work and documentation needed as the attributes may not be applicable every time. There are also concerns that one consequence could be that regulators then question how practitioners made their judgments and evaluations.

An area that could warrant further consideration is whether the wording in para. 11 (c) could have a dilutive effect on the responsibilities of the auditor when evaluating the information prepared by a management’s expert. The paragraph requires the auditor to “Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of financial statements”, which could be perceived as a lower-level requirement than what is currently required in the extant ISA 500 to “Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion”.

We support the fact that ISA 500 (Revised) should apply to all information intended to be used as audit evidence, irrespective of its source. We also agree with the clarification that not all information is itself audit evidence. It is therefore important that the auditor’s working papers make clear which information recorded by the auditor is intended to be used as audit evidence and has been subject to audit procedures, but it should not lead to additional documentation than would already be expected to be the case.

#### **Institute of Certified Public Accountants of Uganda (ICPAU)**

To a large extent, we believe that 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, we feel that some kind of weightage should be attached to the attributes in paragraph A56 to ease the process of evaluation of the relevance and reliability of information intended to be used as audit evidence.

#### **Institute of Chartered Accountants in England and Wales (ICAEW)**

Clarifying the scope of information, as referenced in the definition, will help to address concerns about potentially excessive documentation when complying with paragraph 9. These concerns have been discussed further in our response to question 8 below.

There is inherent circularity within paragraph 10 whereby, in evaluating the relevance and reliability of information, the auditor is required to obtain audit evidence, but evidence is defined as information to which auditors apply audit procedures. In order to close this loop we suggest updating paragraph 10 to state that ‘the auditor shall evaluate the accuracy and completeness of the information’, rather than ‘The auditor shall obtain audit evidence...’.

Yes, the proposals will support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

However, further to our response to question 6 above, in addition to clarifying the scope of information to be considered, we suggest adding further application material covering the documentation of the consideration of potential information including its attributes, to ensure that documentation requirements are not excessive.

Considerations outlined within paragraph A50 should be brought into the requirements. We suggest including wording from ISA 230, paragraph A2, which would allow auditors not to document consideration of the relevant attributes for clearly credible information; for example, information from a central bank.

There is inherent circularity within paragraph 10 whereby, in evaluating the relevance and reliability of information, the auditor is required to obtain audit evidence, but evidence is defined as information to which auditors apply audit procedures. In order to close this loop we suggest updating paragraph 10 to state that ‘the auditor shall evaluate the accuracy and completeness of the information’, rather than ‘The auditor shall obtain audit evidence...’.

### Institute of Singapore Chartered Accountants (ISCA)

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.

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.

#### 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.

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.

#### **Instituto de Auditoria Independente do Brasil (IBRACON)**

Yes, however there is a concern over the practical impact of the change in terminology that can lead to inconsistency in application by auditors. Thus, following the CUSP principles, we suggest changing the word 'evaluate' to 'consider' in paragraph 9 as was in the extant ISA 500. In addition, more guidance on the nature, timing and extent of procedures to evaluate the relevance and reliability of the information intended to be used as audit evidence should be included in AM.

#### **Instituto Mexicano de Contadores Publicos (IMCP)**

Even when the application material already points out the evaluation of relevance and reliability in the audit evidence, we suggest the IAASB to prepare more explanatory material regarding what is considered contradictory evidence, examples of what could be contradictory evidence and how to approach it, including examples of the use of professional judgment.

#### **Korean Institute of Certified Public Accountants (KICPA)**

- Proposed deletion of paragraph 8(C) of the extant ISA

Paragraph 8(c) of the extant ISA 500 requires evaluation of the appropriateness of the work of a management's expert. Paragraph A49 of the extant ISA 500 describes that the assumptions and methodologies used and the completeness of source data, among others, are some of the factors to be considered in evaluating the appropriateness. ED-500 deleted the paragraph 8(c) of the extant ISA 500 because its requirement was deemed redundant with paragraph 8(b) of ED-500.

However, it is not clear how the requirement in the paragraph 8(c) of the extant ISA 500 duplicates with the paragraph 8(b) of ED-500. The requirement to evaluate the appropriateness of the work of a management's expert in the paragraph 8(c) of the extant ISA 500 may be misunderstood as an unnecessary process, if no additional explanation is provided.



Therefore, the requirement and application material relevant to the paragraph 8(b) of ED-500 need to indicate specifically that the process to evaluate the appropriateness of the work of a management's expert is necessary. They also need to provide specific examples of considerations required in evaluating the appropriateness of the work of a management's expert, as described by paragraph A49 of the extant ISA 500.

If paragraph 8(c) of the extant ISA 500 needs to be deleted due to duplication, the application material needs to provide relevant reasons to support the deletion and to prevent misperception that the evaluation of the appropriateness of the work of a management's expert is an unnecessary process.

The paragraph 9 of ED-500 adopts a scalable principles-based approach, which is deemed appropriate as it enables varying levels of efforts to evaluate the relevance and reliability of information applicable in different situations.

However, the application material needs to contain additional specific description and examples of decision-making process, etc., that can help the auditor to determine if specific attributes of relevance and reliability are applicable. Paragraph 9 of ED-500 requires the auditor to consider the attributes of relevance and reliability that are 'applicable in the circumstances' when evaluating the relevance and reliability of information. And paragraphs 10, A57 and others require the auditor to determine if specific attributes such as accuracy, completeness and authenticity are applicable in the circumstances. The auditor's decision on whether specific attributes of relevance and reliability are applicable in the circumstances is critical, as such decision dictates subsequent audit procedures to be performed. However, the auditor is likely to experience difficulties in making decision, because the proposed application material (A53~A69) does not provide sufficient information. Therefore, the auditor may turn to a checklist approach, focusing on verifying the existence of all attributes outlined in the application material. Hence, there is a need to provide further details such as the circumstances where each attribute of relevance and reliability is or is not applicable and what is the basis for making such decision.

#### **Malaysian Institute of Accountants (MIA)**

We believe that 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. However, further guidance is needed on the matter highlighted in Question 7 above.

Please see our response in Question 7 above.

We believe that the application material appropriately describes the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence. However, it may be useful to further clarify whether the same rigour is to be applied on the information intended to be used as audit evidence prepared by management's experts. Such information can be information provided by the management to the expert for use in the expert's own work, as well as the estimates/assumptions/judgments made by the expert.

#### **Nordic Federation of Public Accountants (NRF)**

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.

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.

#### **Pan-African Federation of Accountants (PAFA)**

Generally, we believe that the requirements and application material in the standard support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence. However, we are concerned that paragraph 9 may lead regulators to expect auditors to explicitly document the relevance and reliability of all information intended for use as audit evidence, which could be overly burdensome and may not substantially improve the quality of the audit. The shift from "consider" to "evaluate" with regards to relevance and reliability implies a change in the required level of effort, presenting practical challenges as auditors may not always be certain about the appropriate level of work and documentation necessary for these attributes. Furthermore, there are concerns that this could result in regulators questioning practitioners' judgments and evaluations.

#### **South African Institute of Chartered Accountants (SAICA)**

Yes, the application material on the evaluation of the relevance and reliability of the information being used as audit evidence provides the auditors with detailed guidance and practical examples which may be considered when performing the audit procedures on information intended to be used as audit evidence.

The focus of the requirements and application material is to drive behaviours that support an appropriate evaluation of information intended to be used as audit evidence. A broader question is whether the focus on the relevance and reliability of “information” as opposed to the relevance and reliability of “audit evidence” will better support audit quality.

There will inevitably be questions about the nature and extent of work, and documentation thereof, related to the consideration of attributes of relevance and reliability. This is likely to include:

in what circumstances are certain attributes expected to be applicable. how much work is needed to evaluate relevance and, more particularly, reliability, based on the nature and source of the information (scalability); and

how to avoid a checklist mentality to the consideration of such attributes.

Included in the application material is an example in A59 – we are of the view that it would also be useful if the example is expanded for a no ROMM scenario, i.e., no further testing will be done on the listing as part of substantive testing – how much work should be done on the listing used as part of risk assessment procedures only.

### The Malta Institute of Accountants (TMIA)

Yes, the focus of the requirements and application material should drive behaviours that support an appropriate evaluation of information intended to be used as audit evidence.

However, there will inevitably be questions about the nature and extent of work, and documentation thereof, related to the consideration of attributes of relevance and reliability. This is likely to include: in what circumstances are certain attributes expected to be applicable; how much work is needed to evaluate relevance and, more particularly, reliability, based on the nature and source of the information (scalability); and how to avoid a checklist mentality to the consideration of such attributes. Hence more guidance is needed in this respect.

### Wirtschaftsprüferkammer (WPK)

To avoid eventual difficulties in applying paragraphs 9 and 10 in practice regarding the evaluation of information to be used as audit evidence, we suggest further clarifications in the application material to paragraph 9 and 10 including practice examples.

We welcome the increased clarity provided by paragraph 9 and 10 for the auditor's thought process when evaluating information to be used as audit evidence.

However, we would like to point out the following difficulties that will arise when applying paragraphs 9 and 10 in practice:

When assessing the relevance and reliability of information (paragraph 9), it is required to consider whether attributes of relevance and reliability are applicable. If this is the case (and we believe this will be often the case), paragraph 10 requires the auditor to obtain additional audit evidence about the accuracy and completeness of the information.

In other words, to enable the auditor to use information as audit evidence, for this purpose, further information must be obtained, which, however, would then again be considered as audit evidence and would therefore also have to be assessed again for relevance and reliability. This iteration makes obtaining audit evidence unnecessarily complicated and may result in a "vicious circle" of obtaining information, evaluating information, obtain additional information for the purpose of evaluating audit evidence etc.

To avoid such an unnecessarily complicated approach in practice we suggest to clarify in the standard that additional information obtained for purposes of evaluating the relevance and reliability of information to be used as audit evidence is not subject to the same complex evaluation process as the information obtained in the first place.

At least we would expect that this topic is described in the application material to paragraph 9 and 10 including practice examples how this could be resolved in practice.

Yes, the requirements and application material in ED-500 supports an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

However, we believe that the practical difficulties when applying paragraph 9 and 10 described in our respond to question 2 above need to be addressed.

## Q08 - Disagree

### 1. Monitoring Group

#### International Forum of Independent Audit Regulators (IFIAR)

##### Documentation

We recommend that ED-500's documentation requirements be strengthened to include the following:

Conclusions reached when performing the new “stand back” requirement of paragraph 13;

Details about inconsistencies identified further to paragraph 14 and the auditor's responses to those inconsistencies as described in paragraphs 14(a) and (b); and

Significant judgments such as when it is determined that certain attributes like completeness and accuracy of IPE utilized within risk assessment or other audit procedures were not considered applicable.

Doubts about the reliability of information intended to be used as audit evidence

We do not believe the application material that deals with the requirement in paragraph 12 (paragraphs A81 – A83) provides a broad enough range of considerations for auditors when there are doubts about the reliability of information intended to be used as audit evidence depending on the source of that information. For example, although paragraph A83 does guide auditors to consider the risk of fraud when doubts are identified about the reliability of information obtained from management, there are several other implications that auditors need to be considering including whether there are deficiencies in internal controls related to the preparation and maintenance of that information and the related implications for the audit.

Evaluating the appropriateness of work performed by management's expert

We are concerned about the proposal to remove the explicit requirement in paragraph 8(c) of extant ISA 500 which requires auditors to evaluate the appropriateness of management's expert's work as audit evidence for the relevant assertion. The IAASB is proposing to remove the requirement because the requirement is implicit in the principles-based requirement in paragraph 8(b) of ED-500.

It will not always be obvious to auditors that the requirement in paragraph 8(c) of extant ISA 500 is now implicit in paragraph 8(b) of ED-500. Removing the explicit requirement may lead to more auditors failing to appropriately evaluate the work of management's experts. Use of experts and specialists is a recurring thematic area in IFIAR's Survey of Inspection Findings. Those inspection findings often involve auditors deferring to conclusions reached by management's experts without an appropriate evaluation of the appropriateness of their work.

Regarding the requirement related to when auditors identify doubts about the relevance or reliability of information intended to be used as audit evidence in paragraph 12(a) of ED-500, we recommend that the IAASB amend the requirement to “determine which” instead of “determine whether”. We cannot contemplate a situation when no modifications or additions to audit procedures will be necessary when doubts are identified and, accordingly, the requirement should be to determine which modifications or additions are necessary.

The work effort to evaluate relevance and reliability of information used in risk assessment procedures

We are concerned that there are some paragraphs in the application material (e.g., paragraphs A59 and A64) which could reasonably be interpreted by auditors to mean that generally less testing is required of the relevance and reliability of information (i.e., information intended to be used as audit evidence) used to

perform risk assessment procedures (i.e., in contrast to more testing for information that is used to perform further audit procedures).

Although we agree that less work may be justified when evaluating the relevance and reliability of information used in a risk assessment procedure in some circumstances (i.e., particularly when the relevance and reliability of that information will be implicitly tested as part of the auditor's further audit procedures), that will not always be the case. For example, the work effort could be just as significant for information used to perform risk assessment procedures when that information is used to support the auditor's conclusion that there are no assertion-level risks of material misstatement associated with a class of transactions. Our concern in that example is that the information used by the auditor to support the risk assessment may not be relevant or reliable and that, accordingly, the assessed risks may not be appropriate. Furthermore, the relevance and reliability of that information will not likely be tested as part of the auditor's further audit procedures because the absence of assertion-level risks would justify little additional testing.

We recommend that paragraph A80 relating to circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include deficiencies in internal controls, without limiting to those identified by the auditor.

#### **International Organization of Securities Commission (IOSCO)**

Paragraph 9 - "The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence, including [text added]. In making this evaluation, the auditor shall consider [text deleted]."  
We believe the requirement within paragraph 9 should be strengthened as the performance requirement associated with a consideration is not always clear, could be perceived as inherently optional, and may result in inconsistent application.

Paragraph 9(a) - We recommend that the Board include the concept that information obtained from a knowledgeable source that is independent of the company is more reliable than information obtained only from internal company sources

Paragraph 9(b) – "The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose(s) [text added] of the audit procedures." We suggest this edit to acknowledge there may be more than one purpose to a procedure.

Paragraph 12(a) – "Determine whether what [text deleted and added] modifications or additions to audit procedures are necessary to resolve the doubts" We suggest strengthening the requirement as we believe any doubts would require further action to resolve.

#### **Information Intended to be Used as Audit Evidence Prepared by a Management's Expert**

We believe there should be a more meaningful linkage from the requirements in ED 500 paragraph 11 to the requirements in ISA 540 (Revised), Auditing accounting estimates and related disclosures, paragraph 30. As such, we believe the application material in ED 500 paragraph A68 should be elevated to the requirements.

Similarly, we believe the requirements in ISA 540 (Revised) paragraph 30 should be strengthened by stating the auditor shall comply with the relevant requirements in paragraphs 21-29 when the auditor evaluates information intended to be used as audit evidence prepared by a management expert in accordance with paragraph 11 of ISA 500 (Revised).

#### **Documentation**

While we acknowledge the Board's addition of paragraph A40 to provide a linkage to ISA 230, Audit documentation, for requirements and guidance about the form, content and extent of audit documentation, we do not believe the guidance provided will result in consistent practice. We believe specific documentation requirements and/or guidance related to ED 500 is needed such as the documentation requirements of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence, among others.

As it relates to the evaluation of the attributes of relevance and reliability, we question the ability for auditors to evaluate attributes whenever applicable in the circumstance, including accuracy and completeness. For example, completeness may be an applicable attribute, however, it may not represent a risk related to the reliability of the information intended to be used as audit evidence, such as with information obtained from external sources. The related application guidance describes the auditor's requirement related to the attributes of relevance and reliability based on the degree to which the attributes are applicable in the circumstances and the degree to which the auditor may depend on such information which we believe is more appropriate. In general, we believe the Board should reconsider what the appropriate "threshold" is when evaluating the attributes of relevance and reliability, such as the concept of the degree to which the attribute is applicable, in order to support a consistent and appropriate evaluation of the attributes of the relevance and reliability of information.

Evaluating Information Intended to Be Used as Audit Evidence

## 2. Regulators and Audit Oversight Authorities

### Committee of European Auditing Oversight Bodies (CEAOB)

Doubts About the Relevance or Reliability of Information Intended to be Used as Audit

Evidence

30. We strongly believe that, in cases where the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence further work is necessary. Therefore we suggest replacing the requirement to 'determine whether modifications or additions to audit procedures are necessary' by 'determine what additional audit procedures are necessary' in paragraph 12(a) of the ED.

31. It should also be made clear that, in addition to this "determination" as to what modifications or additions to audit procedures are necessary to resolve the auditor's doubts, performance of those procedures is also required.

Information Intended to be Used as Audit Evidence Prepared by a Management's Expert

27. The requirement of extant ISA 500 to evaluate the appropriateness of the management expert's work has been removed as it is considered redundant with the principle-based requirement of the ED paragraph 9 (b) (i.e. to perform audit procedures, the nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose of those audit procedures). However, we believe that the removed requirement should be kept and reinforced, even if the link between paragraphs 9 and 11 of the ED have been highlighted. Indeed, in addition to the numerous findings raised on instances where the appropriateness of a management expert's work has not been sufficiently evaluated by auditors, an area of potential improvement has also been flagged by CEAOB inspection teams, with a specific request for being more prescriptive on the depth of the procedures required to come to a conclusion on appropriateness.

28. Furthermore, ED paragraph 11(b) does not state explicitly as written in paragraph A54 of the explanatory memorandum that the auditor is required to understand the underlying information that has been prepared by the management's expert and whether this also includes understanding the assumptions and data the management's expert used. While paragraph A74 of the ED mentions examples of matters the auditor "may" consider, we believe the requirement in paragraph 11(b) should be strengthened and should require the auditor to understand the underlying information prepared by that management's expert including understanding the information, assumptions and methods used. The requirements should prevent overreliance by auditors, taking management experts information as sufficient in all cases.

29. The CEAOB furthermore flags that "obtaining an understanding" only, as required by paragraphs 11(b) and (c) does not provide any guarantee on the relevance and reliability of the information.

#### Information Intended to Be Used as Audit Evidence

We understand there is no longer a kind of hierarchy of audit evidence as provided for in paragraph A35 of extant ISA 500. However, we question whether removing the distinction between internal and external sources of information may lead to a less critical approach by auditors on internal sources of information, and especially on information produced by the entity. We therefore believe it is still important to draw the auditor's attention to and require vigilance on internal sources of information and on information produced by the entity in the requirements of the standard, not just in the application material.

25. Furthermore, we believe there should be a separate requirement on the importance of the relevance and reliability of audit evidence obtained from external sources of information. Indeed, this was an important consequential amendment of ISA 540 Revised drawing auditor's attention to non-reliable external sources of information. Furthermore, we believe that paragraph A42 of extant ISA 500 provides clearer guidance on the procedures to be performed. For that reason, we also believe that the term "external source of information" should be kept in the definition section of the standard, as is the case in extant ISA 500.

#### Irish Auditing and Accounting Supervisory Authority (IAASA)

Removing the distinction between internal and external sources of information in extant ISA 500 may lead to a less critical approach by auditors to internal sources of information, particularly information produced by the entity. It is important to draw the auditor's attention to and require vigilance on internal sources of information and on information produced by the entity in the requirements of the standard, not just in the application material.

We also believe that there should be a separate requirement on the importance of the relevance and reliability of audit evidence obtained from external sources of information. This was an important consequential amendment to ISA 540 (Revised), drawing auditor's attention to non-reliable external sources of information. Further, we believe that paragraph A42 of extant ISA 500 provides clearer guidance on the procedures to be performed and the term "external source of information" should be kept in the definition section of the standard.

#### Information Intended to Be Used as Audit Evidence

#### Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence

Where the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence further work is necessary. Therefore we suggest replacing the requirement to 'determine whether modifications or additions to audit procedures are necessary' by 'determine what additional audit procedures are necessary and perform those procedures' in paragraph 12(a) of the ED.

### Information Intended to be Used as Audit Evidence Prepared by a Management’s Expert

The requirement of extant ISA 500 to evaluate the appropriateness of the management expert’s work should be retained. In addition to the CEAOB inspection findings raised in instances where the appropriateness of a management expert’s work has not been sufficiently evaluated by auditors, some CEAOB inspection teams have suggested the standard should contain more prescription on the depth of the procedures required to come to a conclusion on appropriateness.

Additionally, paragraph 11(b) does not state (as noted in paragraph 54 of the explanatory memorandum) that the auditor is required to understand the underlying information that has been prepared by management’s expert, including understanding the assumptions and data the expert used. While paragraph A74 of the ED mentions examples of matters the auditor “may” consider, the requirement in paragraph 11(b) should be strengthened and require the auditor to understand the underlying information prepared by management’s expert including understanding the information, assumptions and methods used. The requirements should prevent overreliance by auditors on management experts’ information as sufficient audit evidence.

In addition, “obtaining an understanding” only, as required by paragraphs 11(b) and (c) does not provide any guarantee on the relevance and reliability of the information.

### 3. National Audit Standard Setters

#### American Institute of Certified Public Accountants (AICPA)

As noted above, we generally agree with this approach but believe there to be circularity in terms of how the phrase “audit evidence” is defined and used in certain requirements. Our approach in developing SAS No. 142 used a similar concept, but recognized that there may not always be a discrete step between the input of information and the output of audit evidence. Rather, the information itself may be evidence, the relevance and reliability of which is evaluated in accordance with the standard itself.

Audit Evidence and the concept of “information intended to be used as audit evidence” (see question 6)

As noted in the Explanatory Memorandum, the proposed standard sets out a framework whereby information (the “input”) does not become audit evidence until audit procedures are applied to it (the “output”). We generally agree with this approach but perceive there to be circularity in terms of how the phrase “audit evidence” is defined and used in certain requirements. There may be instances where the only audit procedure necessary to apply to the information are the procedures required by this exposure draft (that is, procedures performed to evaluate the information for relevance and reliability). In such circumstances, the relationship between the requirements in paragraph 9 and 10 and the requirement in paragraph 13 is not sufficiently clear.

Evaluation of Relevance and Reliability (see question 8)

We are concerned that the proposed requirement to evaluate the relevance and reliability of information intended to be used as audit evidence (paragraph 9) is unclear with regard to the extent of evaluation and documentation needed to be performed for each piece of information the auditor obtains. We agree with the views expressed in paragraphs 47 and 48 of the Explanatory Memorandum that not all of the attributes of relevance and reliability may be applicable in the circumstances; that the attributes in ED-500 are not intended to be used as a checklist; and that the auditor is not required to document the consideration of every attribute of relevance and reliability of information. However, the proposed standard is not clear on how the auditor may determine what attributes of relevance and reliability are applicable “in the circumstances” (paragraph 9b) and how the auditor may determine that completeness and accuracy are



applicable (paragraph 10). We have concerns that the requirement creates an expectation that the auditor must document the judgment of which attributes were applicable in the circumstances as well as the intended purpose of the procedures for every piece of information. We ask the Board to clarify how the evaluation of relevance and reliability is intended to be documented.

Intended purpose of the audit procedures (see question 8)

We believe clarity is needed in relation to the phrase “intended purpose of the audit procedures” such that the requirements (namely paragraphs 8 and 13) can be understood consistently without reference to the application material.

Evaluation

There is a very broad array of “information” that an auditor will use in an audit, and therefore a spectrum of work effort in evaluating the relevance and reliability of information. The nature and extent of procedures that may be required to turn information the auditor intends to use as audit evidence into audit evidence will often vary depending on the source of the information. 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), the IAASB seems to have established a very granular expectation that auditors will be able to perform a robust evaluation of the relevance and reliability of each piece of “information” that the auditor intends to be used as audit evidence.

In practice, the auditor may need to perform procedures to evaluate relevance and reliability in different ways, which are taken into account when the auditor develops the audit strategy and involve the exercise of professional judgment:

The auditor may need to test information produced by the entity for accuracy and completeness and then perform other procedures on that information (for example, to test a listing of accounts receivable for completeness and then send confirmations for a sample of selected accounts receivable balances).

The auditor may perform tests of details to test the accuracy of information.

The auditor may need to test information produced by the entity for accuracy and completeness and then may use this information in an audit data analytic, then evaluate the outcome of applying the audit data analytic as audit evidence.

The auditor may be able to obtain information from an external information source (e.g., a pricing service) and may focus on the credibility of the source and corroborating the information with the source’s website.

We are also concerned that the requirement and related application material as drafted do not provide clarity as to how auditors may make consistent judgments as to what is applicable in the circumstances. One could argue that the attributes are always applicable, but to varying degrees, and therefore the impact on the auditor’s procedures will vary.

We note that evaluate is defined in the CUSP drafting principles and guidelines as “Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter.” “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk. The guidelines further state that “Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor’s conclusion”.

We agree with the IAASB’s position set out in paragraph 48 of the Explanatory Memorandum that the proposed standard does not require the auditor to document the consideration of every attribute of

relevance and reliability of information. However, in light of the CUSP drafting principles and a lack of application material, we are concerned that the requirement as drafted could be interpreted to mean that the auditor is required to include details about every individual piece of information considered, which with regard to the attributes of relevance and reliability could become onerous while not enhancing audit quality. We do not believe this is the IAASB's intent based on paragraphs 42, 47, and 48 of the Explanatory Memorandum.

We believe the requirement should allow for auditor judgment about the nature and extent of procedures needed to evaluate information to be used as audit evidence, and to accommodate the use of technology. Therefore, we suggest the following changes, which we believe are more reflective of how auditors design and perform procedures and evaluate the outcome of those procedures:

9. The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)

(a) The relevance and reliability of the information, including its source of the information; and (Ref. Para. A48–A52)

(b) The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures; and (Ref. Para. A53–A62)

(c) Whether it is necessary to perform audit procedures to test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.

10. If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information. (Ref: Para. A63-A65)

“Intended purpose of the audit procedures”

We believe clarity is needed in relation to the phrase “intended purpose of the audit procedures” such that the requirements (namely par 8, 9 and 13) can be understood consistently without reference to the application material. The IAASB has indicated that the use of the phrase “intended purpose of the audit procedures” is meant to relate to meeting a particular audit objective (e.g., a risk assessment procedure or a further audit procedure to respond to an assessed risk of material misstatement). However, that is not clear from the requirements. Paragraph A44 of SAS No. 142 explains that an audit procedure may have characteristics of one or more of categories (risk assessment procedures, tests of controls, tests of details, substantive analytical procedures), and can be designed to accomplish more than one objective. However, because paragraph 8(b) refers to “...the intended purpose (singular) of those audit procedures”, this is not obvious that an audit procedure could have more than one purpose.

Accordingly, we suggest the following changes to paragraph 8:

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures:

(Ref. Para. A15–A18)

(a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref. Para. A19–A23)

(b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet based on the intended purpose of those audit procedures (i.e., whether those procedures support the

auditor's risk assessment or are further audit procedures designed to respond to an assessed risk of material misstatement, or a combination of both). (Ref. Para. A24–A33)

SAS No. 142 explains that the nature and extent of procedures that may be required to turn information intended to be used as audit evidence into audit evidence will often vary depending on the source of the information and may range from simple to extensive audit procedures. Furthermore, the procedures that may be required to evaluate the relevance and reliability of information intended to be used as audit evidence in accordance with proposed paragraphs 9 and 10 may be the same procedures that turn that information into actual audit evidence that is then evaluated in proposed paragraph 13. Said another way, the procedures performed over the information intended to be used as audit evidence and ultimately what may become audit evidence is intertwined and may overlap. The proposed requirements do not acknowledge this overlap and therefore may cause confusion when applied. For example, when the information is a document, such as a contract, and the audit procedure to be applied is to inspect the document, it is not clear whether additional procedures are expected to be performed on the document to make it appropriate to use the information as audit evidence. In practice, additional procedures are likely performed to evaluate how the company has accounted for the contract, and so a prescriptive focus on the relevance and reliability of a single piece of information may not be necessary.

Accordingly, we believe it is necessary to revisit certain definitions and the overarching requirement in paragraph 9 to address this circularity and ensure the final standard is appropriately principles-based. Doing so will also better enable the final standard to be able to adapt to the increasing use of technology by management and the auditor. For example, the Appendix of the proposed ISA includes a section entitled “Types of Audit Procedures,” listing inspection, observation, confirmation, recalculation, analytical procedures, and inquiry. While we agree that all information intended to be used as audit evidence should be evaluated in order for it to become audit evidence, we believe there may be procedures an auditor could perform to effectively evaluate that information that may not fit neatly into the types of audit procedures listed in the Appendix of the proposed ISA.

#### **Royal Dutch Institute of Chartered Accountants (NBA)**

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.

#### **4. Accounting Firms**

##### **Crowe Global (CROWE)**

There is a risk that the proposed standard may unintentionally encourage a checklist approach by referring in Paragraph 9(b) to “attributes that are applicable in the circumstances” and providing a tabular list of specific attributes of relevance and reliability.

### **Crowe LLP (CROWE LLP)**

A: The Proposed Standard may unintentionally drive a checklist approach by referring in Paragraph 9(b) to “attributes that are applicable in the circumstances” and providing a tabular list of specific attributes of relevance and reliability. We note that paragraph 47 in the Explanatory Memorandum states “... the IAASB emphasized in its deliberations that all of the attributes of relevance and reliability may not be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.” Paragraph 48 notes “ED-500 does not require the auditor to document the consideration of every attribute of relevance and reliability of information.” Further, paragraph 42 of the Explanatory Memorandum states “The auditor’s professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures”. We agree with these statements in the Explanatory Memorandum; however, these principles-based statements are not clear in the Proposed Standard. To avoid misinterpretation and consistent with our response to Question 6 above, we recommend language requiring the auditor to “evaluate the information intended to be used as audit evidence, taking into account the relevance and reliability, including its source, as necessary in the circumstances.” Guidance can indicate that the auditor should exercise professional judgment in determining what attributes are applicable in the circumstances, based on how the information will be used in the audit.

### **Grant Thornton International Limited (GT)**

Relevance and reliability of information to be used as audit evidence

We appreciate the efforts to develop a principles-based framework with which to evaluate the relevance and reliability of information intended to be used as audit evidence. However, as we elaborate further in our detailed response, we are of the view that specific emphasis on the auditor’s evaluation of the reliability of information produced by the entity continues to be necessary in the requirements section to address issues that have been identified in practice in this area. We are of the view that, if ED-500 is not amended to incorporate a specific requirement to evaluate the accuracy and completeness of information produced by the entity, similar to the requirement currently in extant ISA 500, audit quality will be detrimentally impacted.

The proposed amendments in ED-500 have created the expectation that all attributes of relevance and reliability are equal for all information sources, which in practice is not so. Further, by introducing a requirement for the auditor to consider the attributes in evaluating the relevance and reliability of information to be used as audit evidence, an implied documentation requirement has also been created to provide evidence about the consideration of each of the attributes. We do not agree that it is necessary or appropriate to document the auditor’s consideration of all attributes for all pieces of information intended to be used as audit evidence. Therefore, additional application guidance may be necessary to clarify the expectations of documentation in this regard.

We also are of the view that the manner in which these requirements are drafted should be reconsidered. Improving the clarity of the requirements may also have the effect of reducing the volume of the application material needed to support the requirements and consequently help to address the imbalance between the requirements and the application material in ED-500.

We note that the proposals in ED-500 include a requirement in paragraph 9(b) to consider the attributes of relevance and reliability that are applicable in the circumstances, and a requirement in paragraph 10 to obtain audit evidence about the accuracy and completeness of information where those attributes are considered applicable.

Overall, we are concerned that these requirements have:

Created the expectation that all attributes are equal, which we believe is incorrect. For example, ISA 200 paragraph A23 and ISA 240 paragraph 14 states that “the auditor may accept records and documents as genuine” unless conditions are identified during the audit that “cause the auditor to believe that a record or document may not be authentic...” The auditing standards do not similarly allow the auditor to accept information as complete, unless conditions are identified during the audit that would cause the auditor to believe the information is incomplete.

Created an expectation that all the attributes of relevance and reliability will need to be evaluated for all information intended to be used as audit evidence through the requirement to consider those attributes as part of the auditor’s evaluation.

Diluted the extant requirement to evaluate accuracy and completeness when using information produced by the entity. We note that the auditor’s evaluation of the completeness and accuracy of information produced by the entity continues to be a common issue for regulators when inspecting audit engagements due to the lack of evidence of testing in this area. Therefore, we are of the view that generalising this requirement will not address the need to improve audit procedures over information produced by the entity and, consequently, will adversely impact audit quality.

Disproportionately increased the associated documentation requirements. Whilst we acknowledge that paragraph A40 of ED-500 explains that the auditor is not required to document considerations of every attribute of relevance and reliability of information and refers to ISA 230 for guidance about the form, content, and extent of audit documentation, we are of the view that by requiring the auditor to consider the elements of relevance and reliability as part of the evaluation of the information intended to be used as audit evidence, under CUSP Principles and Guidelines a work effort of ‘consider’ leads to documentation of the auditor’s significant considerations.

We, therefore, recommend that the following actions are considered in finalising the revised standard:

Reinstating the requirement to consider the completeness and accuracy of information produced by the entity.

Revisiting the requirement to ‘consider’ attributes of relevance and reliability as part of the auditor’s ‘evaluation’ of the relevance and reliability of information intended to be used as audit evidence.

Adding clarity over the attributes of relevance and reliability that are applicable in the circumstances. For example, completeness of information becomes less applicable if the information is obtained from an external source.

Adding clarity over the documentation requirements. For example, whether, and what, documentation is expected when an attribute is considered to be applicable and also when an attribute is not considered to be applicable.

## 5. Public Sector Organizations

### Office of the Auditor General of Alberta (OAGA)

We disagree with the concept of “evaluation” of the relevance and reliability of information intended to be used as audit evidence. In our view, it should only be “consideration.”

ED-500.09 states, “the auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence...” This is problematic because this changes the requirement from “consider the relevance

and reliability” (500.07) to “evaluate the relevance and reliability of information...” The term “evaluate” is included in the glossary of terms and defined as “identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk.” Evaluation would include “performing further procedures as necessary” on the information intended to be used as audit evidence. We are concerned that this will lead to auditing the audit evidence and create inefficient audits. Therefore we encourage the IAASB to keep the existing requirement to “consider the relevance and reliability” rather than “evaluate the relevance and reliability.”

We note that ISA 315.A15 still states “auditor considers relevance and reliability” and this is not changed in the consequential amendments. In our view, ISA 500 should remain consistent with ISA 315 in this regard.

We also have concerns with the last sentence in ED-500.A40, which states, “does not require the auditor to document the consideration of every attribute of relevance and reliability of information.” The issue is the word “every” is unclear and will create inconsistency and inefficiency among auditors, or lead to checklists of all the attributes, to avoid practice inspection risk. The IAASB should clarify the guidance by stating “does not require the auditor to document the consideration of the attributes of relevance and reliability of information.”

## 6. Member Bodies and Other Professional Organizations

### Center for Audit Quality (CAQ)

Paragraph 42 of the Explanatory Memorandum states, “The IAASB is of the view that the requirement in paragraph 9 of ED-500 will provide for a robust evaluation of the relevance and reliability of information intended to be used as audit evidence. However, the IAASB cautioned against creating an unnecessary burden on auditors in making this evaluation. The IAASB’s intention was to develop a principles-based requirement that is capable of demonstrating the varying degree of work effort needed in the particular circumstances (i.e., is scalable). The reference to “given the intended purpose of the audit procedures” in paragraph 9(b) of ED-500 addresses this scalability by indicating that the auditor’s professional judgment about the attributes that are applicable in the circumstances takes into account how that information will be used in designing and performing the audit procedures.”

We support this notion and believe that this could be more clearly codified in the requirements and application material of the final ISA 500(R). This may be achieved by adding language to paragraph 4 of the final ISA 500(R) to emphasize that the level of work effort may vary in certain circumstances. Specifically, we recommend the Board consider making the following revision to paragraph 4 to clarify the Board’s intention for the auditor to exercise professional judgment when evaluating IIUAE (additions are marked as underlined):

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. This ISA further emphasizes exercising professional judgment and maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:

Designing and performing audit procedures in a manner that is not biased.

Evaluating the relevance and reliability of information intended to be used as audit evidence, including taking into account how the information will be used in designing and performing the audit procedures.

Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

Paragraphs 47 and 48 of the Explanatory Memorandum also caution against creating an unnecessary burden on auditors in evaluating the relevance and reliability of information and clarify that auditors are not required to consider every attribute of relevance and reliability of IIUAE. As expanded upon in our response to Q9 below, we agree with this view. Not all of the attributes of relevance and reliability of IIUAE are pertinent to all IIUAE. However, we believe that the requirement included in paragraph 9 of ED-500 that an auditor consider if relevance and reliability of IIUAE are applicable in the circumstances, given the intended purpose of the audit procedures is too subjective and may lead to inconsistent interpretation and application. To foster consistent interpretation and application, and avoid fostering a “checklist mentality,” paragraphs A35 or A36 in ED-500 could be revised in the final ISA 500(R) to specify the views included in paragraphs 47 and 48 of the Explanatory Memorandum that not all of the attributes of relevance and reliability may be applicable in the circumstances and that the attributes in ED-500 are not intended to be used as a checklist.

Further, the extent of documentation, if any at all, that is expected or required is not clear for information that is ultimately not used as audit evidence. For example, an auditor may obtain several items that they may intend to use as audit evidence to address a risk of material misstatement. After assessing the relevance and reliability of these pieces of information, the auditor may ascertain that only a few pieces can be used as either corroborating or contradictory audit evidence related to the risk of material misstatement (e.g., because those other pieces of information have been determined to be unreliable or less reliable). As the auditor determined the information (which may qualify as IIUAE) provided no corroborating or contradictory audit evidence pursuant to the risk of material misstatement, it would follow that it is not necessary to document the evaluation of such information. This is consistent with the view expressed in paragraph 42 of the Explanatory Memorandum which states, “the IAASB cautioned against creating an unnecessary burden on auditors in making [the evaluation of the relevance and reliability of IIUAE].” As such, we believe it is the Board’s intention that auditors do not need to document the evaluation of IIUAE that is not ultimately used as audit evidence as it would create an unnecessary burden. Paragraph A35 of the final ISA 500(R) could be revised to reflect this notion.

The IAASB’s “view that it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances ... rather than the type of audit procedure (i.e., in which “category” the audit procedure falls),” stated in Paragraph 36 of the Explanatory Memorandum should be more explicitly addressed in the text of the final ISA 500(R).

To avoid creating an unnecessary burden on auditors in evaluating and documenting the relevance and reliability of information, as well as to avoid fostering a “checklist mentality” in such evaluation, the text of the final ISA 500(R) should incorporate the views included in paragraphs 47 and 48 of the Explanatory Memorandum – specifically, the views that not all of the attributes of relevance and reliability may be applicable in the circumstances, that the attributes in ED-500 are not intended to be used as a checklist, and that the auditor is not required to document the consideration of every attribute of relevance and reliability of information.

## **Q08 - Neither agree nor disagree**

### **4. Accounting Firms**

#### **Mo Chartered Accountants (MCA)**

The only concern is with the principles-based approach to judgments. Judgments could either be wrong due to the risk assessment being incorrect or due to the human and experience factor but with the review process and the iterative nature of evaluation this may be mitigated.

### **5. Public Sector Organizations**

#### **U.S. Government Accountability Office (GAO)**

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.

### **7. Individuals and Others**

#### **Altaf Noor Ali (ANA)**

Clarity = Concepts and requirements containing in the ED500 are robust. Satisfactory.

Understanding = Poor.

Practicality = Neutral. Not tested yet. Sounds sensible.

8.2 Our understanding of this matter is as follows

## **Q08 - No specific comments**

### **6. Member Bodies and Other Professional Organizations**

#### **Accounting and Finance Association of Australia and New Zealand (AFAANZ)**

We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 1, 2, 5, 6, 9, 10 and 11.

### **7. Individuals and Others**

#### **Shuichiro Tsumagari (ST)**

#### **Thomson Reuters (TR)**