

Agenda Item D.3 For Reference

Please note: This is an IAASB Audit Evidence (ISA 500) paper that was considered by the Board at the July 2021 IAASB mid-quarter meeting (Agenda Item 1-A). This paper should be read in conjunction with the relevant IAASB Issues Paper (Agenda Item D.2 of the IAASB CAG Agenda). This IAASB paper is provided to the IAASB CAG Representatives in September 2021 for reference purposes.

Illustrative Drafting Reflecting the Requirement to Evaluate the Relevance and Reliability of Information Intended to be Used as Audit Evidence, and Related Application Material

Note to the IAASB Regarding Examples in the Application Material of ISA 500:

Please also refer to paragraphs 105 and 106 in **Agenda Item 1**.

Requirements	Application Material
Information Intended to Be Used as Audit Evidence 7. The auditor shall evaluate whether information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes.	Information Intended to Be Used as Audit Evidence <i>Relevance and Reliability</i> Relevance and Reliability of Information Intended to be Used as Audit Evidence A30. The appropriateness of audit evidence is affected by the relevance and reliability of the information that has been used in performing the audit procedure. Audit evidence obtained from information that is more relevant and reliable may be of a higher quality and, therefore, more appropriate. Whether information is relevant and reliable is dependent on whether the information exhibits the attributes that are applicable in the circumstances. For example, in some circumstances, in order for the information intended to be used as audit evidence to be sufficiently reliable, the auditor may need to evaluate whether the information is sufficiently complete and accurate for the auditor's purposes. Relevance A31. The relevance of information intended to be used as audit evidence deals with the degree to which the information relates to fulfilling the purpose of the audit procedure. <div style="border: 1px solid black; padding: 5px;"> <i>Examples of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is relevant:</i> </div>

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	<table> <tr> <td><i>Relation</i></td><td>The information logically relates to, or bears upon, the purpose of an audit procedure, including, when appropriate, the assertion under consideration.</td></tr> <tr> <td><i>Precision</i></td><td>The exactness or level of detail of the information for the purpose of the audit procedure.</td></tr> </table> <p>Reliability</p> <p>A35. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.</p> <table> <tr> <td colspan="2"><i>Examples 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</i></td></tr> <tr> <td>Accuracy</td><td>The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.</td></tr> <tr> <td>Completeness</td><td>The information reflects all of the underlying conditions, events, circumstances, actions or inactions.</td></tr> <tr> <td>Authenticity</td><td>The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.</td></tr> <tr> <td>Bias</td><td>The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions</td></tr> <tr> <td>Credibility</td><td>The source has the competence to generate the information to a required standard, and the source can be trusted.</td></tr> </table> <p>A35a. The auditor exercises professional judgment in determining:</p> <ul style="list-style-type: none"> (a) The applicable attributes that need to be considered in evaluating whether information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes; (b) The degree to which the information intended to be used as audit evidence needs to exhibit the applicable attributes; and 	<i>Relation</i>	The information logically relates to, or bears upon, the purpose of an audit procedure, including, when appropriate, the assertion under consideration.	<i>Precision</i>	The exactness or level of detail of the information for the purpose of the audit procedure.	<i>Examples 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</i>		Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.	Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.	Authenticity	The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.	Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions	Credibility	The source has the competence to generate the information to a required standard, and the source can be trusted.
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	<p>(c) The nature and extent of the audit procedures to evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes.</p> <p>A35b. In exercising professional judgment regarding the applicable attributes that need to be considered, and the nature and extent of the audit procedures, the auditor may consider:</p> <ul style="list-style-type: none"> (a) The purpose for which the information will be used, such as whether the information will be used in performing a risk assessment procedure or a further audit procedure; (b) The importance of the information to the auditor's purpose, such as whether this is the only information available or other information is also available; or (c) The source of the information intended to be used as audit evidence. <p>Ordinarily, information intended to be used as audit evidence when performing risk assessment procedures may not need to be as precise or reliable as information intended to be used in performing further audit procedures.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>Example:</p> <ul style="list-style-type: none"> • When the auditor performs risk assessment procedures to understand the nature of the entity's provision for warranties, the existence of a listing of returned goods within the guarantee period may be sufficient for risk assessment purposes (i.e., the completeness of the listing may not be important for the auditor's purpose to establish whether there is a risk of material misstatement). • When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the valuation of the provision for warranties, the accuracy and the completeness of the listing of returned goods within the guarantee period may be more important. </div> <p>A35c. Other factors that may influence the auditor's professional judgment regarding the applicable attributes that need to be considered, and the nature and extent of the audit procedures, include:</p> <ul style="list-style-type: none"> • The nature of the information intended to be used as audit evidence. • The controls over the preparation and maintenance of the information intended to be used as audit evidence.

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	<ul style="list-style-type: none"> • How the information intended to be used as audit evidence has been obtained by the auditor, for example, whether the information was obtained directly by the auditor, or indirectly by inference. • The form of the information, such as whether the information is in a digital format. • In relation to information intended to be used by the auditor in performing further audit procedures, the assessed risks of material misstatement, including the nature of the risk of material misstatement and the relevant assertions, and the reasons for the assessment. • Whether the information appears to corroborate or contradict management's assertions. For example, responses to inquiries with those charged with governance about events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, may corroborate or contradict assertions made by management about future strategies and business plans. Nonetheless, in considering whether the information may be used as audit evidence, the auditor considers the relevance and reliability in each scenario: <ul style="list-style-type: none"> ○ When the information intended to be used as audit evidence is corroborating the assertions in the financial statements, the auditor may focus on bias. ○ When the information intended to be used as audit evidence is contradictory to the assertions in the financial statements, the auditor may focus on accuracy and completeness of the information. • The extent of change from prior audits, if applicable, in relation to the information intended to be used as audit evidence, such as changes in how the information has been prepared and changes in underlying controls. <p>A35d. In some circumstances, it may be evident that the information is sufficiently relevant and reliable for the auditor's purposes, without performing additional audit procedures (e.g., verifying a prime-based interest rate on a loan, whereby the prime rate is established by a central bank of the jurisdiction).</p> <p>A35e. In some circumstances, it may not be practicable for the auditor to consider certain attributes in considering the reliability of information intended to be used as audit evidence. For example, in some cases it may not be possible for the auditor to consider the accuracy and completeness of information obtained from a source</p>

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	<p>external to the entity, and the auditor may instead focus on the credibility of the source providing the information.</p> <p>A35f. ISA 220 (Revised) provides examples of unconscious auditor biases, including automation bias. Remaining alert to the fact that information generated by automated systems cannot be assumed to be relevant and reliable, and as such, evaluating whether the information is sufficiently relevant and reliable for the auditor's purposes may assist the auditor in mitigating the risk of automation bias.</p> <p>A35g. The auditor may evaluate the relevance and reliability of information intended to be used as audit evidence concurrently with performing other audit procedures to obtain audit evidence, such as risk assessment procedures and further audit procedures. For example, the auditor may use information obtained from:</p> <ul style="list-style-type: none"> • Testing controls over the preparation and maintenance of the information to evaluate whether the information is sufficiently relevant and reliable. • The auditor's procedures when using of the work of an auditor's expert in accordance with ISA 620,¹ audit procedures in relation to a service organization in accordance with ISA 402,² and when using the work of a management's expert in accordance with paragraph 8 of this ISA. <p>In some situations, however, the auditor may determine that additional audit procedures are needed to evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes.</p>

¹ ISA 620, *Using the Work of an Auditor's Expert*

² ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*