September 18, 2019

Ms. Sherry Hazel  
AICPA Auditing Standards Board

Via e-mail to: Sherry.Hazel@aicpa-cima.com

Re: Proposed Statement on Auditing Standards Audit Evidence

Dear Ms. Hazel:

We are pleased to comment on the AICPA Auditing Standards Board’s (ASB or the Board) Proposed Statement on Auditing Standards (SAS), Audit Evidence (proposed standard or proposed SAS).

Scope and Evaluating Whether Sufficient Appropriate Audit Evidence Has Been Obtained

We appreciate the Board’s recognition of the increase in information coming from sources external to companies and the prevalence of electronic information, as well as the impacts of emerging technologies on conducting an audit. We agree with the proposed change in the scope and objective for this standard, whereby the focus is on identifying attributes and factors to be assessed by the auditor when evaluating information to be used as audit evidence. This provides a refreshed principles-based framework for how to assess the accuracy, completeness, and reliability of information obtained in an audit. The visual provided in paragraph 5 of the proposed standard helps a user to understand the concepts and the layers of assessment needed to determine if information can be used as audit evidence, which the auditor then considers together to determine if sufficient appropriate audit evidence has been obtained. Related to sufficient appropriate audit evidence, we agree with the proposed change in the definition of “sufficiency”, which requires the auditor to focus on the persuasiveness of evidence, not just the quantity of evidence. This is consistent with the reference to “persuasive audit evidence” in AU-C 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained. In addition, we find Appendix A regarding the use of external information sources helpful, especially paragraph 8 on evaluating the relevance and reliability of such information.

Professional Skepticism

The importance of exercising professional skepticism in an audit cannot be overstated. We appreciate the approach to weave this concept throughout the proposed standard and identify activities that demonstrate professional skepticism. We note that assessing the attributes and factors of information results in the auditor performing a critical evaluation of information to be used as audit evidence. We appreciate the additional guidance on dealing with contradictory information and how it affects the assessment of reliability of information. Further, the application guidance around management bias helps to keep the auditor in this mindset. We note from AU-C 230 that the form, content, and extent of audit documentation depend on factors such as the audit methodology and tools used. We would appreciate more guidance on how to modify audit documentation to clearly demonstrate professional skepticism was applied, related to either the auditor’s or management’s use of emerging technology.

Automated Tools and Techniques

We believe the proposed SAS reflects a recognition of emerging techniques and technologies in the digital era, including as a method or technique to perform audit procedures. The proposed standard was drafted in contemplation of newer tools and technologies. It also brings new guidance into evaluating information, specifically for relevance and reliability. The proposed SAS is helpful with guidance regarding artificial
intelligence and the use of drones, specifically related to the use of text-recognition programs for inspection (A57 and A58) and drones for observation (A60). Regarding “analytical procedures and use of ADA”, we find that paragraph A67 is helpful guidance, and paragraph A70 is a good example of the use of anomaly detection. We agree that ADA is a technique and not a new type of audit procedure. We also note that as the use of emerging technologies increases and advances, auditors will continue to need more guidance as well as practical examples on how to utilize such emerging audit techniques while complying with auditing standards.

External Confirmations
The Issues for Consideration section indicates that the proposed SAS is intended to eliminate the requirement that a confirmation be written, thereby indicating that oral confirmation is permissible, and that oral confirmation may be as reliable as written confirmation in particular circumstances. We note the removal of paragraph A27 from extant AU-C 500, which currently states that an oral response does not meet the definition of an external confirmation. We only note one other specific reference to oral confirmations in the proposed SAS, whereby paragraph A12 indicates that “Written, electronic, or oral confirmation responses also carry some risk of fraud.” We recommend that when issued, the standard explicitly states that oral confirmation may be used as audit evidence, and that the board provides enhanced guidance on how to evaluate an oral confirmation as audit evidence, using the attributes and factors provided, based on the related audit risk and considering other audit evidence obtained. This would involve the application of professional skepticism and consideration of matters such as reliability and authenticity and may include examples of when oral confirmations should be supplemented by a written confirmation of the information. Further, related to oral confirmations, we believe it would be helpful for the standard to provide application guidance on how to assess authenticity when using oral confirmations.

Related to the proposed amendments to AU-C Section 505, External Confirmations, we noted some potential inconsistencies regarding discussions about written confirmations. The introductory section to paragraph .13 strikes the word “written”, so it refers to “When a Response... Is Necessary”. However, in paragraph 13, the word “written” is not struck before “response”. This appears to be inconsistent. Further, as noted above, we believe the proposed standard requires the auditor to use their judgment in evaluating the sufficiency and appropriateness of an oral confirmation. However, while we note that the introductory section to the related application guidance in A27 strikes the word “written”, the content of A27 focuses on when a “written” response is necessary. This appears to be inconsistent and could create confusion about the ability of an auditor to use their judgment related to an oral confirmation. Proposed paragraph A27 indicates situations where a written response may be necessary, which includes when “A higher risk of material misstatement exists at the assertion level.” We believe in such a situation, the auditor should be able to apply the principles of the proposed standard to evaluate an oral confirmation and conclude if it provides sufficient appropriate audit evidence, without needing to be supplemented by a written confirmation. This would include consideration of the risk of material misstatement, but a “higher” risk of material misstatement would not necessarily mean that the oral confirmation needs to be supplemented by a written confirmation. The guidance in A27 appears to somewhat contradict the removal of the requirement for confirmations to be written.

Authenticity
We believe clarification is needed in regard to the auditor’s responsibilities related to assessing the authenticity of information. Specifically, paragraph A26 of the proposed standard reiterates that the auditor is not expected to be an expert in the authentication of documents. Paragraph A11 of AU-C 240, Consideration of Fraud in a Financial Statement Audit, indicates that in some circumstances, the auditor may need to use the work of a specialist to assess a document’s authenticity. Paragraph A27 of the proposed standard discusses the need to test the authenticity of information that has been transformed from its original medium. The procedures described appear to be more focused on addressing the completeness and accuracy of the electronic information, rather than its authenticity. For example, if a client provided a scanned version of an executed debt agreement, the auditor might test completeness by verifying the page sequence and test accuracy by confirming key terms of the debt agreement with the
bank. We would not, however, expect the auditor to attempt to ascertain the authenticity of signatures on the scanned debt agreement. Please consider providing additional guidance related to evaluating the authenticity of information, specifically which differentiates the auditor’s responsibilities for authenticity from other elements of reliability.

Other Observations
Paragraph A14 of the proposed SAS indicates that information about the collection of receivables may provide relevant audit evidence regarding occurrence and accuracy of revenue. We recommend that the ASB clarifies that this type of evidence alone would not be enough to support occurrence of revenue, as cash collection alone seldom satisfies revenue recognition in accordance with accounting standards. In paragraph A33d, we appreciate the inclusion of “anchoring bias”, which is defined in the proposed standard as: “making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in making a final judgment”. However, we believe the wording: “and then adjusting insufficiently away from” to be confusing. We suggest alternate wording, such as: “depending too heavily on” or “relying too heavily on”. The cover page of the proposed standard lists various other sections which are amended by the proposed SAS, including AU-C section 520. However, we did not identify any proposed modifications to that section.

We reiterate our support of the Board’s efforts to update auditing standards to reflect the changing environment and to embrace those updates as another opportunity to reinforce important concepts in auditing, such as professional skepticism and auditing in response to assessed risks. We believe the proposed standard is more relevant to audits conducted in today’s environment.

Please contact Mike Yates at (574) 236-7644 or mike.yates@crowe.com or Linda Poeschel at (630) 586-5268 or linda.poeschel@crowe.com should you have any questions.

Cordially,

Crowe LLP

cc: James Dolinar