September 14, 2018

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statements on Auditing Standards, Audit Evidence

Dear Ms. Hazel,

As students in the Master of Science in Accounting (MSA) program at the University of Central Florida, our professor has asked us to respond to an exposure draft for a graded assignment. Although we may not have many years of experience practicing in the profession, we greatly appreciate the opportunity to have a voice in due process to comment on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) Proposed Statement on Auditing Standards, Audit Evidence.

1. Please provide your views on whether the revised scope section of the proposed SAS clearly explains the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330, and 700. If the scope section does not clearly explain the relationship, please indicate why.

Scope of the Proposed SAS

We believe that the changes featured in the proposed Statement on Auditing Standard (SAS) clearly explain the relationship between the proposed SAS and the AU-C sections that are explicitly pointed out in the scope. AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, includes many elements that are affected by the emergence of new techniques and technologies. The proposed SAS highlights the importance of understanding how to enhance audit quality when there is increasing use of automated tools and techniques. AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, also includes elements that are affected by the emergence of new techniques and technologies. New audit techniques, such as audit data analytics (ADA), are the main drivers for the new clarification on what does and does not constitute sufficient appropriate audit evidence. AU-C section 700, Forming an Opinion and Reporting on Financial Statements, is directly related to the key issues identified in the proposed SAS pertaining to professional skepticism.

Please provide your views on the following:

2. If implemented, would the new requirements and application material assist the auditor in more effectively evaluating whether sufficient appropriate audit evidence has been obtained? If not, please explain why.
3. Would the proposed attributes and factors expand the types and sources of information considered by the auditor as audit evidence by lessening the emphasis on how audit evidence is obtained (that is, “audit procedures performed”)? If not, please explain why.

4. Are there relevant attributes and factors of audit evidence missing from the proposed SAS that should be considered by the auditor when evaluating the appropriateness of audit evidence? If so, please describe them.

5. Does the diagram in the proposed SAS appropriately depict the attributes and factors that the auditor considers in evaluating whether sufficient appropriate audit evidence has been obtained?

Expanded Guidance on Evaluating Whether Sufficient Appropriate Audit Evidence Has Been Obtained

2 - We found the new requirements and application material included in this proposed SAS would assist the auditor in evaluating sufficient appropriate audit evidence. This proposal will help supplement the requirements in AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, and the implementation would assist auditors in coming to reliable conclusions from gathered audit evidence.

3 - It seems more likely that the proposed attributes and factors would expand only the sources of information considered by the auditor as audit evidence. This SAS opens the door and provides guidance for addressing automated systems that management is beginning to utilize more frequently and the ADA. These new mediums for generating data and information would not necessarily lessen the emphasis on how audit evidence is obtained, but more so, it will help maximize productivity for audit firms and their clients.

4 - An additional attribute to consider would be the “nature” of evidence. AU-C 500.A5 had previously defined the reliability of evidence as being “influenced by its source and nature.” The type or form of evidence can be important in the evaluation of evidence. A22 of the proposal describes how a written confirmation can be viewed as stronger evidence than an oral confirmation. When determining whether a piece of evidence is reliable, it is worth considering the “nature” of the evidence alongside the other attributes of accuracy, completeness, authenticity, and risk of basis.

5 - We agree that the factors and attributes are appropriately depicted in the diagram. Reliability, relevance, and sources are the most important factors when evaluating the sufficiency and appropriateness of evidence. Placing these factors on the outside of the cube provides further clarity by showing how they relate to the other attributes in the diagram.

6. Please provide your views on whether the examples in the proposed SAS are useful to auditors. If the examples are not useful, please explain why.
Automated Tools and Technologies

The examples are useful in helping auditors determine what new technology is appropriate and how they may be used. However, the use of new technology will eventually lead to new issues that will have to be clarified.

For instance, the use of drones in paragraph A60 may require additional details. There is a possibility that evidence captured by drones may be manipulated. Further explanation may be needed to determine how drones should be used.

- In order to ensure that the drone has not been tampered with, does the auditor have to provide the drone?
- Does the auditor have to view a live recording, or can they view a recording that has been previously taped?
- If the auditor cannot see the drone in flight, does the auditor need the drone to have a global positioning system (GPS) to guarantee the correct location is being viewed?

In the current proposed SAS, it seems many of these questions will come down to the auditor’s professional judgement in determining the appropriate use of new technology.

Please provide your views on the following:

7. Do you agree with the approach taken by the ASB in addressing the topic of professional skepticism? If not, please explain why.
8. If the guidance in the proposed SAS is implemented, would the application of professional skepticism be enhanced and more clearly understood in evaluating whether sufficient appropriate audit evidence has been obtained? If not, please explain why.

Professional Skepticism

7 - For professional skepticism to be useful for obtaining audit evidence and performing audit procedures, the application must be understood by auditors. The ASB has done an excellent job of explaining the importance of professional skepticism in each concept included in this proposed SAS. In addition, the ASB provided examples of activities that would demonstrate the application of professional skepticism in obtaining and assessing the audit evidence. With technological advances in businesses, the definition and implementation of professional skepticism need to be clear and understandable.

8 - From the proposed SAS, we could identify that the ASB is placing more emphasis on the appropriateness of audit evidence and the shift to incorporate persuasiveness into the definition of sufficiency of the audit evidence. To determine if the audit evidence is appropriate and sufficient, the auditor needs to exercise professional skepticism and professional judgment based on the nature, timing, and extent of the audit procedures performed. The proposed SAS describes the ways to obtain audit evidence while using professional skepticism and professional judgment. Thus, we believe that if the guidance is implemented, then the application of professional skepticism would be enhanced and clear.
Please provide your views on the following:

9. Are the changes to the definitions in extant AU-C section 500 appropriate? If not, please explain why.
10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

Definitions

9 - We believe that the changes to the definitions in extant AU-C section 500 are appropriate due to the changing times of businesses and the use of technology in processing copious amounts of data into information. We believe in the change that the appropriateness of the audit evidence is based on the accuracy, completeness, authenticity, and risk of biases, instead of just accuracy. In the revision, we could better understand the definitions and their importance for collecting and assessing audit evidence.

10 - We agree with the definitions proposed in this exposure draft. However, for completeness, we believe that it would be more cohesive to include the definition of professional skepticism and professional judgement as well. As it has been stated on page 6 under the professional skepticism paragraph, these concepts may need to be more clearly articulated in the standards. Including the additional definitions of professional skepticism and professional judgement would be a simple yet effective way of showcasing how imperative these two factors are in evaluating audit evidence. We note that these two definitions are included in AU-C section 200.14 but so is Audit Evidence which is defined again here in this SAS proposal.

11. Please provide your views on whether (a) the guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques in the current audit environment is beneficial and (b) the proposed SAS is enhanced by using illustrations of automated tools and techniques; that is, whether the proposed SAS is more relevant to audits conducted in today’s environment.

Audit Procedures

(a) We agree that ADA should be considered a technique to meet the objective of the procedures and that it should not necessarily be classified as an audit procedure. Having said that, the guidance added in A51 stating that ADA can be used as an acceptable technique is beneficial since it clarifies where these new techniques fit in today with meeting the objectives of current auditing procedures.

Now that 5G technology will soon be available, we are confident that businesses will be more interconnected than before, possibly also transforming the way we conduct our audits in the future. Although the complete shift to 5G inclusion may not happen immediately upon its release, we believe that advances in technology are pervasive. Companies of all sizes will need to seriously consider upgrading their hardware to stay up to pace with the ever-changing environment in which businesses operate. Incorporating statements in which automated tools and
techniques can be used to perform audit procedures will be, in our opinion, beneficial especially
to those who are not yet aware of such techniques, as well as beneficial to the standard setters, by
keeping their applications up to date with the current pace of new and accepted techniques.

(b) We believe that the proposed SAS is relevant in today’s world since many auditors are
already using automated tools and techniques. The SAS is enhanced by addressing this technique
head on and addressing how it can be applied in audits as well as identifying its possible
weakness, as seen in paragraphs A66-A70.

12. Do you agree that AU-C section 330 combined with the attributes and factors in the
proposed SAS would assist the auditor in concluding whether an oral confirmation should
be supplemented by a written confirmation of the information?

External Confirmations

Yes, provided that the information obtained is immaterial, it would make sense to simply
document the response in the workpapers thereby increasing the audit’s efficiency. AU-C section
330 combined with the attributes and factors in the SAS proposal are clear about using
professional judgement to determine the level of risk which would require the auditor to
supplement the oral confirmation with written confirmation, among obtaining other audit
evidence about relevant assertions.

Please provide your views on the following:

13. Is relocation of the content dealing with management’s specialist from AU-C section 500
to AU-C section 501 or to a separate new standard appropriate? If not, please explain
why.
14. If you agree that relocation is appropriate, what are your views about whether the
management’s specialist content should be addressed in AU-C section 501 or in a
separate new standard?

Management’s Specialists

13 - Yes, we agree that relocating the content dealing with management’s specialist from AU-C
section 500 to AU-C section 501, Audit Evidence – Specific Considerations for Selected Items, is
appropriate. The decision-making process surrounding audit evidence received from
management’s specialist should require specific considerations related to the objectivity and
competence of the source.

14 - We believe that the amount of consideration that is necessary for evaluating the reliability
and persuasiveness of management’s specialists warrants the relocation to a separate section that
can appropriately highlight the necessary steps. AU-C section 501 already contains topics related
to securities and derivative investments as well as inventory which both have an element of
valuation to them which is consistent with the estimation factor that specialists are commonly
hired to weigh in on for management. Since the audit report includes a reference to the
reasonableness of management’s estimates, it is essential that auditors are appropriately equipped to gather sufficient appropriate evidence as a basis for their conclusion.

15. Do you believe that the application of this proposed SAS would result in audit documentation requirements beyond those in AU-C section 230 and other AU-C sections? If so, describe how the proposed SAS is perceived to expand the audit documentation requirements existing in AU-C section 230 and other AU-C sections.

Audit Documentation

For the most part, we agree that the proposed SAS would not result in audit documentation requirements beyond those in AU-C section 230. One area that might be an opportunity for further consideration is the possibility of expanding audit documentation beyond working papers. In the spirit of updating standards to be more current, we believe that there might be acceptable areas to document audit findings via video recording.

We sincerely thank you for reading our comment letter and would be happy to further expound on our comments should that be necessary.

Sincerely,

Jacoby Washington
Justin Buch
Samir Fikry
Sasha Freytes
Caitlin Mingonet