September 18, 2019

Sherry Hazel at sherry.hazel@aicpa-cima.com

Re: Proposed Statement on Auditing Standards: Audit Evidence

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the questions included in the above-referenced exposure draft.

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 AUC sections 315, 330, and 700. If the scope section does not clearly explain the relationship, please indicate why.

The committee agrees that the issue of auditing technology should be addressed in the standards. However, auditors have always been required to test for quality of evidence. Was consideration given to the testing of outputs of technology for bias and completeness? Integrated technology, such as ERP systems, must be evaluated and tested before data extracted can be relied upon. Another concern of the committee is whether this standard is being driven by conformance with IASB standards. If so, the committee thinks that conformance should not be the main goal of this and future ASB proposals.

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.

The committee agrees the proposed standard should assist the auditor in evaluating if sufficient appropriate audit evidence has been obtained. However, we cannot differentiate the new standard from already existing standards. There appears to be a shift from basing testing conclusions on a sample basis towards concluding based on a 100% review of data. The committee recommends increased testing of internal controls when reviewing big data.

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.

The proposed attributes and factors generally would not lessen emphasis on how data was extracted and may reduce the amount of documentation maintained in the audit files due to increased quality of the evidence obtained. Emphasizing effectiveness and efficiency compared to robustness of the documentation may result in reduced reliance on the “weight” test. We would like to emphasize that systems are only as good as the people who program them; therefore, any program must still be tested.

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.

As currently known, there do not appear to be any relevant attributes or factors missing from the proposed SAS. However, it should be made clear to the reader of the SAS that each accounting program used by
the auditee must be evaluated independently to determine accuracy and completeness. We also recommend that specific practical application examples be provided with the SAS. The current draft is too theoretical to provide specific guidance to the practitioner.

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?

The diagram appropriately depicts attributes and factors used in evaluating sufficiency of evidence. However, the diagram is somewhat vague and ambiguous. More specificity is needed. For example: What is a contradictor? This type of information would be more helpful than the diagram presented in the draft.

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.

The examples do cover many of the technologies that may be encountered by an auditor. While the proposed standard provides for greater depth of attribute testing, it has not addressed the impact of artificial intelligence on auditing. Auditors are required to consider the reliability of databases, but the proposed standard does not give guidance on how to test databases. Historically, auditors have relied on “off the shelf” products used by small or private companies. What is the expectation of reliance on these products?

It would be helpful if the ASB would provide additional guidance on how to appropriately handle technologies such as blockchain by either providing a separate implementation guide or appendix. For example: How do auditors verify a blockchain? How do auditors test external SOC reports? The committee also requests relevant examples for smaller and/or private companies. Our consensus is that if the ASB does not provide specific guidance, the application of this standard will be determined by a jury.

7. Do you agree with the approach taken by the ASB in addressing the topic of professional skepticism? If not, please explain why.

The topic of professional skepticism is adequately addressed in the proposal and should be continually emphasized by the profession.

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.

The proposed standard is clear with regards to professional skepticism. For example, it is helpful to emphasize that contradictory evidence should be taken more seriously than corroborative evidence. Bias by auditee and auditor must also be considered when evaluating the quality of the evidence. An example of a bias would be the assumed accuracy by an auditor of the evidence extracted from a program.

Additionally, the proposed standard highlights management and auditor biases that potentially provide a deterrent to professional skepticism. Specifically, paragraphs A28 - A33 point out biases that should be addressed in the accumulation of audit evidence. There appears to be a shift from sufficient evidence towards pervasive evidence. If so, the description of pervasive evidence should be provided in detail in order to clearly define the term.

9. Are the changes to the definitions in extant AU-C section 500 appropriate? If not, please explain why.

The committee thinks that the changes in definitions in AU-C section 500 are appropriate.
10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

Current definitions are sufficient. However, there remains the challenge of maintaining auditing relevance with regards to technology. It is difficult to determine what we do not yet know.

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.

a) The guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques is beneficial in the current audit environment. By using automated tools and techniques, the auditor can simultaneously perform both a risk assessment procedure and a substantive procedure. The tools and techniques can also be used to obtain evidence about the effectiveness of the entity’s internal control.

b) The proposed SAS is enhanced by using illustrations of automated tools and techniques as shown in paragraphs A66 – A70. However, the illustrations need more depth and detail. The guidance provided is at a high level and more specific examples are needed to be relevant to current audits.

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?

Overall, the committee agrees with the proposed standard, but thinks that the attributes and factors are too general and need more specificity. For example, the committee suggests that the proposed standard include the direct language found in paragraph 29 of PCAOB audit standard 2310 that states confirmations that are significant should be in writing.

Also, attributes and factors introduced in the proposed SAS represent general language. Selected attributes and factors should be highlighted in examples to assist auditors in concluding on whether an oral confirmation should be supplemented by a written confirmation.

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.

The proposed relocation of content dealing with management’s specialist is appropriate.

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?

If the auditor is going to rely on specialist content that is significant, then it should be considered audit evidence and in AU-C 501. There are issues to consider when evaluating content obtained from a specialist. REIT and business valuations are examples of complex evaluations performed on a specialist’s information. If the information obtained is not considered evidence, then it should probably be addressed in a separate standard. Also, definitions of “specialist” would be helpful. For example, if the auditor will be relying on auditee or canned programs, are we relying on a specialist? The committee is concerned that companies are going to be reluctant to provide access to proprietary programs for auditing of evidence. In consideration of these and other issues, where the standard is located is irrelevant at this point. The real question is how to determine if appropriate reliance can be placed on data obtained from management’s specialist in order for the auditor to use the data as evidence.
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.

The committee does not think that the proposed standard would result in increased audit documentation requirements that already exist under Section 230 guidance. However, some auditors might feel the need for additional documentation. The type of evidence collected by auditors may change, but not necessarily the quantity of the evidence. Documentation requirements were not specifically addressed in the standard.

Other comments:
The committee would also like the ASB to reconsider the proposed effective date. As stated, it may unfavorably impact a significant number of non-profit entities, since most audit firms and clients typically use larger engagements at year end (Dec. 31) to implement new standards. An implementation date of Dec. 31 would allow audit firms to be more efficient in implementing these new standards for clients that may not be able to withstand the fee impact of a new implementation.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

Ken Sibley, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants