September 14, 2019

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 Statement on Auditing Standards - Audit Evidence

Dear Ms. Hazel,

We appreciate the opportunity to comment on the Auditing Standards Board’s proposed Statement on Auditing Standards - Audit Evidence. We are Masters of Science in Accounting students at the University of Central Florida and have submitted this comment letter as a graded assignment in our fraud audit course instructed by Dr. Lynda Dennis.

We support the American Institute of Certified Public Accountants’ (AICPA) objective to create a framework that better enhances the auditor’s ability to collect the most sufficient and appropriate audit evidence. We believe that the application material will be beneficial in giving auditors guidance on the standards in this exposure draft. In this comment letter we have provided detailed comments on the issues for consideration in the Proposed Statement on Auditing Standards (SAS).

We also believe that the AICPA is successful in its discussion of automated tools and technologies; that being said, we would include some changes to the application material included in this section. Similarly, we support the AICPA’s integration of professional skepticism into all parts of the audit. However, we would recommend a more in-depth discussion of the application of professional skepticism to enhance the reader’s understanding of the concept.

We would also like to point out that new automated tools and technologies will greatly benefit the current auditing environment. We believe that the content associated with management’s specialists should be relocated from AU-C section 500, Audit Evidence, to AU-C section 501, Audit Evidence - Specific Considerations for Selected Items. Finally, we conclude that the new requirements included in this exposure draft would not require further documentation requirements in the course of an audit.

We have responded to each of the specific questions posed in the exposure draft below.

Sincerely,

Robert Duell
Kayla Balling
Anass Anouch
Christiana Champnella
Scope of the Proposed SAS

Issue #1

In our view, the scope does explain the relationship between proposed SAS and some AU-C sections. However, it fails to do so for other AU-C sections. For instance, we value how in paragraph 3, it is clearly stated that this SAS has to be read in combination with other AU-Cs, specifically AU-C 330 Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained. While a relationship is indicated, the scope doesn’t necessarily explicitly explain it. Similarly, paragraphs 4a. and 4b. of the scope do link this SAS with AU-C section 315 “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement”. However, it is not explicit and clear enough. We noted that on the other hand the relationship was well explained for AU-C section 330.

As a whole, paragraph 4 relates to AU-C 700 Forming an Opinion and Reporting on Financial Statements, as the “auditor’s evaluation of whether sufficient appropriate audit evidence has been obtained” will allow the auditor to reach the opinion. However, the AU-C 700 is not explicitly mentioned, and no specific relationship is explained.

As for paragraph 5, the scope puts in place the “attributes and factors of information to be used as audit evidence,” which includes the two main features of a quality evidence, that is relevance and reliability. The source of evidence is also addressed. Those elements directly correlate to AU-C 330 as it addresses the evidence gathering and evaluation processes.

For all the reasons stated above, we conclude that the scope is successful in explaining the relationship with AU-C 330 but lacks clarification when it comes to sections AU-C 315 and AU-C 700.

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

Issue #2

It is our belief that the new requirements and application material would help the auditor more effectively evaluate the sufficiency of appropriate audit evidence. The proposed SAS is effective because it ties audit evidence with two fundamental accounting concepts: relevance and reliability. It also lists a hierarchy of sources that auditors use in practice and discusses each in-depth in the application section. Lastly, the exposure draft discusses the auditor’s duty to evaluate evidence that both corroborates or contradicts the assertions the auditor is testing.

The discussion of relevance and reliability in this exposure draft is especially useful to auditors. Paragraph A13 in the exposure draft specifically lists factors that affect the relevance of audit evidence. This paragraph, in addition to the applications that follow it, give auditors a reference point to determine if the evidence they’ve collected is relevant. For example, in A14 there is a discussion about how certain evidence collected for the existence assertion may not be relevant for the completeness assertion.

The reliability of information is also discussed in depth in this exposure draft. Paragraph A18 gives four subcategories: accuracy, completeness, authenticity, and risk of bias. Each of these categories
is further discussed in subsequent application paragraphs. These subcategories will assist auditors in determining if audit evidence is reliable enough to be used on its own or if further tests will need to be performed.

This exposure draft also lists five different sources of audit evidence. An in-depth discussion of each source starts in application paragraph A35. It would be no surprise to a seasoned auditor to see any of these sources listed as places where they get their audit evidence. That being said, this list is useful because it clearly defines each of these sources for the auditor and discusses the need for auditors to determine the reliability of the sources. Also, the sources seem to be listed in a hierarchy of reliability. The list starts with the least reliable source, evidence received from management that was generated internally from the financial reporting system. It finishes with the most reliable source, evidence collected by the auditor from both internal and external sources.

Lastly, a discussion of contradictory and corroborative evidence will be useful to auditors in determining how appropriate individual pieces of audit evidence are. Specifically, the exposure draft asks auditors to consider all relevant audit evidence regardless of whether it corroborates or contradicts the assertions being tested. In assessing if audit evidence is contradictory or corroborative, auditors will be more mindful as to whether or not further audit procedures are necessary.

**Issue #3**

This proposed SAS shifts the focus of auditing away from the sufficiency and appropriateness of auditing procedures. Auditors should now collect audit evidence based upon underlying reliability and relevance of the audit evidence being collected. In essence, it shifts the auditor away from a rule-based system to a principles-based system. Auditors will now focus their energy on determining the most relevant and reliable audit evidence rather than the procedures needed to find that evidence. In doing this, we believe that it is likely that the sources auditors use to determine the most appropriate audit evidence will likely expand.

It is discussed under the Definitions subsection in the proposed SAS that the ASB seeks to shift the definition of sufficiency of audit evidence. The SAS asks auditors to focus on the persuasiveness of audit evidence rather than one that is focused on the quantity of audit evidence. (Page 10, Definitions) Persuasiveness in conjunction with reliability and relevance will change how auditors collect evidence. Specifically, auditors will focus on finding the best possible audit evidence rather than accumulating audit evidence until they’ve decided there is “enough”. This fact in theory will lead to auditors seeking out the best possible audit evidence regardless of the source.

**Issue #4**

It is our belief that there are no relevant attributes and factors missing from the proposed SAS. We believe that a system that is grounded in the ideas of relevance and reliability is at the core of determining the best possible audit evidence to satisfy management's assertions. Likewise, we believe the information included discussing the sources of audit evidence and corroborative or contradictory information is integral to the auditing process.

**Issue #5**
The diagram in the proposed SAS does depict the attributes and factors that are essential to the auditor in determining whether sufficient audit evidence has been obtained. However, we believe that this is likely not the best way to visualize the underlying attributes and factors that are described in this proposed SAS. We believe that there are two main improvements that could be made to improve the diagram so that auditors would have a better understanding of what is depicted.

First, we would like to point out that it may be difficult to read some of the information that is included in this diagram. The text in the diagram is facing in different directions with different font sizes and can be difficult to read. Second, and more importantly, the diagram does not effectively illustrate the relationships between the attributes and factors. All of the information in the diagram is relevant to an auditor when collecting audit evidence; that being said, it is not abundantly clear from the diagram how the attributes and factors tie together.

It is our recommendation that the diagram be redesigned to be both more visually appealing and representative of the interrelations between the factors and attributes. One good way to visualize this information may be a ladder. Relevance and reliability could be the bottom rung as the base by which audit evidence should be obtained. The railings could be the accompanying factors of relevance and reliability (accuracy, completeness, authenticity, and risk of bias). The next rung could be the word “sources”. Each railing could incorporate the different sources management can obtain audit evidence from (management, auditor, etc.) Lastly, contradictory and corroborative evidence could be the final rung on the top. This would show that relevant and reliable information obtained from the sources will either corroborate or contradict management’s assertions. This diagram would more effectively assist an auditor in the proper way to evaluate audit evidence.

Automated Tools and Technologies

**Issue #6**

We believe that the examples regarding automated tools and technologies are appropriate both qualitatively and quantitatively in the proposed SAS. The proposal accomplishes its goal of integrating examples of automated technologies and how to complete audit tasks and goals. In particular, paragraph A44 highlights the utilization of blockchain technology to obtain audit evidence and its ability to determine the reliability of information. The example of blockchain is appropriate as it is relevant in actual audit practices, both currently and in the future. The exposure draft also briefly highlights using automated techniques to perform scanning procedures to access entire populations of transactions as a means for detecting unusual transactions (ref: par. A70). Not only is this applicable to many current audit practices, but it highlights a crucial procedure in the audit process. Moreover, specific examples of automated tools such as remote cameras as a means of performing observation procedures like physical inventory counts (ref: par. A60) are useful and appropriate for larger entities.

Although most of the examples of automated technology are appropriate for audit practices, some of the examples could elaborate more in their applicability. For instance, in paragraph A55, it explains that artificial intelligence may be useful “to obtain information about transactions on a real-time basis.” We recommend expanding on this idea and the applications of artificial intelligence and how it can achieve audit tasks and goals, such as risk detection. Artificial intelligence is an ever-changing technology
that significantly changes audit procedures, and it should be elaborated on to provide a complete picture of its encompassing nature.

**Professional Skepticism**

*Issue #7*

As a whole, we agree with the ASB’s approach in addressing the topic of professional skepticism in that it should be integrated in all aspects of the audit procedures. Mainly, the approach of intertwining the topic into different concepts should be effective in that it allows auditors to understand how the attitude of professional skepticism is related to each procedure rather than simply stating the words “professional skepticism” in the SAS. We believe that in order to properly apply a concept such as professional skepticism into daily practices, the proposed SAS should provide practical advice about the balance between taking evidence at face value and thinking critically about discrepancies. The ASB’s goal was accomplished in the discussion of risk of bias.

*Issue #8*

Should the guidance in the proposed SAS be implemented, we believe that the application of professional skepticism would be neither enhanced nor worsened due to its limited application within the proposal. Unfortunately, the extant AU-C section 500 barely mentions professional skepticism and its application; similarly, the proposed SAS does not provide much applicability in other areas of audit evidence other than risk of bias. Indeed, paragraph 4 mentions that sufficient appropriate audit evidence “involves exercising professional skepticism,” and paragraph A3 provides information regarding AU-C section 200, but guidance past risk of bias is not provided. The ASB achieved its goal in paragraphs A29-33, but the application of professional skepticism is lacking in sections concerning corroborating or contradicting information.

We suggest explicitly stating how to apply professional skepticism in the more pertinent concepts, particularly in corroborating or contradicting information. Specifically, paragraph A46-48 requires further elaboration.

**Definitions**

*Issue #9*

We support the majority of the changes to the definitions in extant AU-C section 500 and find them appropriate. In particular, the edit to the definition of persuasiveness is appropriate in that it redacted “persuasiveness quantity” and is now simply “persuasiveness.” We find this edit is aligned well with the ASB’s objective of shifting the profession away from a rules-based concept to a principles-based system.
In paragraph A5, the SAS mentions the fact that gathering more audit evidence (sometimes more than necessary) doesn’t compensate for its lack of appropriateness.

However, we find it unnecessary to redact the rest of the persuasiveness definition, specifically “…and also by the quality of such audit evidence” (ref. Appendix B - par.14). The quality of audit evidence in persuasiveness should not be ignored despite the new direction the audit profession is taking.

The ASB’s expansion of the definition of external information sources is relevant and applicable in that it provides specific examples that aid in its application for audit evidence (ref: Appendix A). Whereas the extant AU-C section 500 lacks in its definition of external information sources, the additional information will aid auditors, especially in determining whether the information is external or internal.

**Issue #10**

In our opinion, the existing definitions in the SAS are sufficient in the aid of determining audit evidence attributes and are consistent with the focus of the statement. Keeping the SAS concise with four definitions is necessary, especially when considering the extensive information that follows the definitions and throughout the statement.

**Audit Procedures**

**Issue #11**

In our view, the additional 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. Moreover, the use of illustrations throughout the applications enhanced that the proposed SAS is more relevant to audits conducted in today’s environment.

Our opinion is based on our understanding of several SAS applications. For instance, A51 clearly states that one of the roles of automated tools and techniques is to achieve audit procedures’ objectives. A beneficial application is one can infer that those are tools and techniques rather than Audit Procedures, which is an important distinction for an auditor. A52 is certainly beneficial as the application clearly states that automated tools and techniques can be utilized by the auditor “to process, organize, structure, or present data” in a useful way. That information could be used as audit evidence.

As graduate students, our understanding of auditing is primarily theoretical, so our view on whether the proposed SAS is more relevant to audits conducted in today’s environment might be limited. However, it is important to note that few of us, as part of their internship, have been part of audits conducted by reputable firms. In our view, we did find some applications to be potentially relevant to audits conducted in today’s environment. For instance, we can read in A58 that the “evaluation of information to be used as audit evidence may be enhanced by the use of automated tools and techniques.” The data analytics example that follows illustrates an important implication of the use of those tools.

Indeed, ADA (Audit Data Analytics) can allow the auditor to have a better idea on what information
might constitute relevant evidence. Additionally, the added guidance provided in A58 was explicit and we believe that the use of the ADA example will most certainly benefit the understanding of auditors regarding the implications and role of automated tools and techniques in the current audit environment.

A54 addresses an issue that is relevant in today’s environment. The information’s format affects its availability. Indeed, in an electronic format, the information can be deleted after a certain time. In this application, the guidance is useful for auditors as it provides a couple course of actions to take in order to mitigate that issue. In a similar way, A55 expands on the electronic format of the information. Specifically, it offers guidance regarding continuous streams of information such as blockchain. The auditor can use “procedures using automated tools and techniques…to obtain information about transactions on a real-time basis.” This guidance achieves both objectives of being relevant to audits conducted in today’s environment and explain the implications and role of automated tools. As for A56, we think it provides valuable guidance relating to audit procedures and the use of automated tools and techniques. This application material clarifies that such procedures can be used in the performance of audit procedures. By giving examples of those procedures, A56 enhances this SAS relevance to today’s audits. Moreover, the applications A57-72 expands on each method used in the audit procedures, which clearly provides implications and role of automated tools and techniques in the current audit environment.

**Issue #12**

We believe that the PCAOB (in AS 2310: The Confirmation Process) and this proposed SAS, although using a different rationale, accomplish the same goal to assist the auditor in deciding when a written confirmation should supplement an oral confirmation. We agree that AU-C section 330 combined with this proposed SAS would assist the auditor to make such a decision. Specifically, Paragraph .07b of AU-C section 330 “requires more persuasive audit evidence the higher the auditor’s assessment of risk,” which we believe provides a strong foundational rationale when deciding if a supplemented written confirmation is needed. Additionally, when applying this proposed SAS, the auditor would still need to evaluate if the evidence collected sufficiently addresses risk of misstatements. If it does not, then the auditor has to modify that procedure, which could mean requiring a written confirmation.

**Management’s Specialists**

**Issue #13**

We agree that the information regarding management’s specialists should be relocated to a different section. It is important to briefly discuss the distinction between management’s specialists and external information sources in AU-C section 500, but the requirements and related application material should be included elsewhere.

The purpose of AU-C section 500 is to explain what establishes audit evidence as sufficient and appropriate. We feel that this section should have a more general focus on the typical types of audit
evidence that auditors will encounter and the characteristics and processes that go along with them. Unusual items require a more in-depth description due to their complexity and the different components that make them up, therefore they should be detailed in a different section. Due to the specificity and uniqueness of the process to obtain sufficient, appropriate audit evidence from management’s specialists, we believe this topic should be elaborated on in a separate location.

In the ASB’s proposal, it is specified that there will be no significant changes to the associated requirements or application material. This relocation would move the management’s specialist content to a more appropriate location without disrupting the rules and procedures that accounting professionals are already familiar with.

**Issue #14**

We believe that addressing the management’s specialist content in AU-C section 501 is appropriate. This content has characteristics that are very similar to the topics that are discussed in AU-C section 501. The items in this section are complex, require a greater amount of professional judgment, and have very specific guidelines and procedures to follow in order to obtain sufficient appropriate audit evidence.

There is also a higher level of risk associated with these items due to factors such as valuation considerations, the use of more accounting estimates, and the effects of bias. Auditors need an in depth understanding of the assumptions and methods that management uses in these processes. They will usually perform various types of tests in order to obtain sufficient appropriate evidence and to have reasonable assurance that audit risk has been reduced to an acceptably low level.

In our opinion, the management’s specialist content fits these characteristics. It makes sense to relocate this content and include it with the selected items in AU-C section 501, rather than creating a separate new standard. This is especially true since the associated requirements and application material are not being changed, just relocated.

**Audit Documentation**

**Issue #15**

We agree with the ASB in that this proposed SAS would not establish additional audit documentation requirements beyond those that already exist in other AU-C sections. One of the overarching objectives of the proposed SAS is to expand guidance on the evaluation of audit evidence. It is meant to help develop the auditor’s understanding of the factors and attributes of audit evidence that should be taken into consideration when evaluating whether sufficient appropriate audit evidence has been obtained. A deeper understanding of the audit evidence being collected may actually lead to higher quality audit documentation, while still following the existing requirements.

Audit documentation is considered sufficient when it would enable an experienced auditor to understand the nature, timing, and extent of the audit procedures performed, as described in paragraphs .08 and .09 of AU-C section 230. To properly document these things, the auditor should record the identifying characteristics of the specific items or matters tested. The proposed SAS expands on the characteristics of audit evidence which could assist auditors in providing more detailed and higher quality audit documentation.
The guidance provided in the proposed SAS can help to improve the auditor’s assessment of the risks of material misstatement. Paragraph .07 of section 330 states that when designing further audit procedures to be performed, the auditor should obtain more persuasive audit evidence the higher the auditor’s assessment of risk. The ASB’s proposal includes an amendment to the definition of sufficiency to focus on the measure of persuasiveness, rather than focusing only on the quantity of audit evidence. The proposal also offers increased guidance on obtaining evidence that is more relevant and reliable. This guidance can help auditors to obtain reasonable assurance about whether the financial statements are free from material misstatement.

These expanded guidelines will aid auditors in concluding whether sufficient appropriate audit evidence has been obtained in order to form an audit opinion. We agree that the application of the proposed SAS assists the auditor in fulfilling the auditor’s responsibilities in various AU-C sections, as discussed above. We believe that the proposed SAS supports the continued use of current audit documentation requirements and would not require additional documentation requirements.