Dear Ms Hazel

Proposed Statement on Auditing Standards – Audit Evidence

We are pleased to have the opportunity to respond to the Exposure Draft of the Proposed Statement on Auditing Standards for Audit Evidence. We set out below our overall comments followed by responses to the specific questions raised in the Exposure Draft.

Baker Tilly International is an international network of independent accounting firms, with several member firms based in the US which may be submitting their own responses to the exposure draft. Our comments are in the context of our wider international network and the potential benefits and impacts of the proposed changes for the wider audit profession.

Emerging Techniques and technologies

Given the lack of progress with International Standards, we are particularly pleased that the AICPA has taken steps to incorporate the use of technology in the Exposure Draft including elements of guidance on how technology and associated techniques can be applied in an audit. We are also pleased with the proposed clarification, within AICPA standards, that such techniques can be used during the risk assessment but also provide substantive audit evidence (Paragraph A51-A52). The lack of clarity in international standards is, in our view, restricting progress in applying such techniques across the profession and we commend the AICPA for taking this step forward. Furthermore, it is pleasing to see reference to techniques other than “data analytics” such as text recognition (A58) and auditing of Blockchain (e.g. Paragraph A55).

We have concerns that traditional scanning as a substantive analytical procedure provides limited evidence. However, we are pleased that the clarity in the Exposure Draft around the use of technology, based on identified parameters, in performing scanning to identify unusual transactions considerably strengthens the audit evidence obtained from such procedures.

Response to requests for comments:

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.

The revised scope section clearly explains the relationship between the proposed SAS and other AU-C sections.

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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.

Yes, we believe that the proposals provide auditors with a better framework for evaluating the sufficiency and appropriateness of audit evidence.

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.

We believe that auditors already typically consider the nature and characteristics of audit evidence, rather than just the quantum of evidence, when assessing audit evidence. However, the proposed attributes and factors provide a good framework for the auditor’s thought process and would, in our view, be helpful as guidance to support auditors. Our concern would be whether, in complying with the requirements in Paragraphs 10-12, there are likely additional documentation requirements on auditors to demonstrate that they have taken account of each of these attributes and factors in reaching their judgment.

We suggest that the risk of bias (either by management or auditor) would be better included in the requirements of the standard rather than included only in Application Material as this is a key consideration when not only assessing audit evidence, but also in the application of appropriate professional skepticism.

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.

No.

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?

We believe that the diagram would benefit from including the relevance of audit evidence. Furthermore, the sources of evidence for Management (generated outside the entity) and Auditor (developed from other sources) would, in our view, be better split into separate sources for “Internal” and “External” to the entity, given that typically evidence from sources external to the entity is likely stronger evidence than that which is internally generated.

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.

We believe that the examples in the Exposure Draft are useful.

7. Do you agree with the approach taken by the ASB in addressing the topic of professional skepticism? If not, please explain why.
We agree that professional skepticism should be interwoven into auditing standards rather than being a separate standalone concept. We support the proposed approach. Furthermore, we agree that the attributes and factors outlined in the proposals link better to the application of professional skepticism.

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.

Yes, see comments in 7 above.

However, another significant challenge with professional skepticism will always be how the auditor documents that they have applied appropriate skepticism in practice. So, whilst the proposals may assist auditors in applying skepticism, it is important that the Board considers how this application is to be documented. (See also comments under 3 above relating to documentation requirements).

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

Yes. In particular we support the proposed changes to focus on the persuasiveness of audit evidence, as opposed to the quantity, when assessing the sufficiency of audit evidence.

10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

No.

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.

As noted above, we are particularly pleased to see the AICPA take this initiative of including guidance around the implications and role of automated tools and techniques, given the lack of progress with international standards in this area. Including reference to techniques other than data analytics (e.g., text recognition) is also helpful. While we appreciate the need for the guidance to remain generic given the speed of change in technology, we suggest that the Board may wish to consider adding additional, more detailed illustrations which would be helpful to auditors as they apply the guidance, either within the revised standards or as separate guidance to auditors.

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?

Yes. However, adding an example illustrating the application of making this determination would be helpful.

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.
Yes, due to the specialized nature of this content, we believe that relocating the content 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?

We have no comments on the relocation of the content within the AICPA wider standards suite.

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.

As noted above, although not explicit in the exposure draft, it is possible that additional documentation will be required to demonstrate compliance with Paragraphs 9 to 14, particularly to enable the auditor to demonstrate the application of professional skepticism.

If you would like further clarification of any of the points raised in our response, please do not hesitate to contact me.

Yours faithfully,

Paul Winrow
Director of Professional Standards