September 18, 2019

Ms. Sherry Hazel
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105
USA

Re: Proposed Statement on Auditing Standards, Audit Evidence

Dear Ms. Hazel:

Deloitte & Touche LLP ("D&T," "our," or "we") appreciates the opportunity to respond to the request for public comment from the Auditing Standards Board (ASB or the "Board") of the American Institute of Certified Public Accountants (AICPA) on its proposed Statement on Auditing Standards, Audit Evidence (the "proposed SAS").

D&T fully supports the ASB’s efforts to address the need for "modernized" guidance regarding the evolving nature of information, how an auditor evaluates the information to be used as audit evidence, and what ultimately constitutes audit evidence in an audit of financial statements. However, to advance a project of such magnitude we believe that there needs to be a holistic approach to addressing the use of audit evidence throughout the suite of professional standards. In doing so, we believe that revisions will likely extend beyond those outlined in the proposed SAS. While we encourage challenging existing convention and practice to reflect the current and evolving audit environment, we believe furthering standard setting in this area warrants additional consideration and the involvement of additional stakeholders, both in the United States and globally. D&T believes that soliciting input from stakeholders in the form of comment letters on the proposed SAS will provide an invaluable source of information and may be useful to inform all interested parties as to a way forward. Similarly, the AICPA Expert Panels will likely be able to provide useful insights and examples in order to facilitate an understanding of the manner in which information is used and audit evidence is obtained both today and “future-state” in the respective specialized industries. Recognizing outreach to additional stakeholders may lengthen the time necessary to issue a final standard, we believe a white paper, or some means other than revision to extant AU-C section 500, Audit Evidence, would be beneficial to the profession and a preferred alternative to capture the ASB’s perspectives on the evolution of audit evidence while the ASB continues consideration of the proposed SAS. However, if this is not the direction the Board ultimately takes, we have drafted the remainder of the comment letter as if revision of AU-C section 500 will proceed.

We do, however, acknowledge positive advances made in the proposed SAS, to address challenges presented by the ever-changing nature of business and audit services. As articulated in the Explanatory Memorandum, the proposed SAS intends to respond to these challenges in part by (i) addressing matters relating to the use of automated tools and techniques (including audit data analytics (ADA)); (ii) expanding the use and evolution of external information sources; (iii) enhancing
the application of professional skepticism; and (iv) more broadly, focusing on the accuracy, completeness, and reliability of audit evidence. Specifically, we are supportive of the following concepts in the proposed SAS that will enhance the auditor’s assessment of evidence:

- The use of attributes and factors that the auditor considers in evaluating information to be used as audit evidence.

- Expansion on the concepts and examples of internal and external information used as audit evidence.

- Recognition in the proposed SAS that audit procedures may achieve more than one objective and thus serve the purpose of more than one classification or type of audit procedure at the same time.

- Expanded and modernized guidance in the application material, including examples and illustrations relating to the types of audit evidence, especially those related to automated tools and techniques, along with recognition that “written” documentation exists in a variety of mediums, often not solely in traditional hard copy form.

- Integrating professional skepticism considerations with the evaluation of information used as audit evidence.

- Relocation of management’s specialist content from AU-C section 500, in recognition that the specific requirements and application material relating to management’s specialist are unique and incremental to the sources of audit evidence addressed in this proposed SAS.

Obtaining sufficient appropriate audit evidence is a foundational concept and as noted in paragraph 19 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, the “auditor should obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.” It is therefore critical that the objectives, definitions, and requirements of the proposed SAS are framed in such a manner to clearly describe what constitutes audit evidence, including articulating an understanding of the importance of what it means to obtain sufficient appropriate audit evidence. We do not believe the proposed SAS, as currently drafted, provides necessary clarity and we have concerns, as outlined in the following paragraphs, that we believe warrant the attention of the ASB as they continue their deliberations.

While our recommendation at this time is to pursue an alternative forum to further the audit evidence dialogue, the comments that follow and the responses to the issues as outlined in the Explanatory Memorandum, are intended to draw the attention of the ASB to matters that we believe are of importance to be addressed were the proposed SAS to be finalized. Furthermore, we caution the Board that any changes made to the proposed SAS, as a result of the comment letter process, potentially impact conforming amendments made as part of the proposed SAS; therefore, careful consideration is necessary to ensure changes have been appropriately reflected in impacted standards.

**Impact of the Proposed SAS on the Suite of Professional Standards**

In order to proactively drive change in practice, keep pace with the various new automated tools and techniques used to perform the audit procedures, and the manner in which we gather and analyze the resulting audit evidence obtained for the auditor’s purpose(s), D&T believes that amendments to the requirements relating to discrete classifications of audit procedures, in the suite of professional auditing standards, are necessary. D&T also believes, as noted in paragraph A51 of the proposed SAS, that “the auditor may achieve the objective of more than one type of audit procedures (e.g., both risk
assessment and further audit procedures) simultaneously by using automated tools and techniques.” Similarly, an audit procedure may have characteristics of one or more than one category or type of “further audit procedure.” For example, when testing the existence assertion for an investment portfolio, the auditor might use an automated technique to compare all of the individual securities in an entity’s investment portfolio to a third-party custodian confirmation. This generally includes performing a 100 percent automated comparison of all entity’s investment holdings. Whether this procedure is considered a “test of detail” or a “substantive analytical procedure” is the topic of much discussion; but regardless of what the procedures is called, it provides audit evidence. Therefore, the name of the procedure is not really an important factor. So, while we concur with the guidance in the application material, we believe that this will not result in a dynamic shift in the ability of auditors to evaluate information to be used as audit evidence. This shift will only occur if the auditing standards clearly and directly acknowledge, through conforming amendments to affected AU-C sections, that audit procedures may achieve more than one audit objective and, in certain circumstances, may not be definitively classified as “risk assessment procedures” or “further audit procedures.” Conforming amendments would include AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

**Standard-Setter Involvement**

Grounded in our view that audit evidence is a foundational concept in the professional standards, D&T believes that the proposed SAS has the potential to cause confusion in the auditing profession unless there is a concerted effort to alleviate the perception that the proposal may have set a different threshold (i.e., different from other standard setters) for the evaluation of information to be used when obtaining sufficient appropriate audit evidence. Consequentially, D&T recommends that the ASB continue its outreach activities and collaborate closely with other auditing standard-setting bodies including, for example, the International Auditing and Assurance Standards Board (IAASB), and the Public Company Accounting Oversight Board (PCAOB) in order to address any real or perceived inconsistencies that may result if the proposed SAS were to be finalized in its current form. In addition, we suggest that the ASB develop supporting materials that illustrates the comparability of the relevant audit evidence standards. These comparisons would explicitly address, at a minimum, the International Standard on Auditing (ISA) 500, *Audit Evidence*, PCAOB Auditing Standard (AS) 1105, *Audit Evidence*, and the proposed SAS. This will assist in ensuring that networks with global methodologies, as well as those audit firms that operate within the Unites States, are able to continue to have a uniform and consistent basis for evaluating information to be used as audit evidence that transcends jurisdictional boundaries.

We are aware that the IAASB is currently engaged in extensive information gathering and research activities to understand issues relating to audit evidence and determine whether to pursue a standard-setting project addressing revisions to ISA 500 and possibly other related auditing standards. Similarly, the PCAOB has listed *Data and Technology* as a research project with an objective of assessing the “need for guidance, changes to PCAOB standards, or other regulatory actions in light of the increased use of data analytics and emerging technology-based tools by auditors and preparers.” We strongly urge the ASB to closely monitor developments relating to the IAASB and the PCAOB consistent with the ASB’s strategy to converge its standards with those of the IAASB, while also considering the standards of other standard-setters. With respect to the PCAOB, we would also encourage the ASB to minimize any unnecessary differences where possible to alleviate any unintended consequences from an audit execution perspective.

**Objective of the Proposed SAS**

Paragraphs 23 and A72 of AU-C section 200 highlight the importance of using the objectives stated in individual AU-C sections in planning and performing the audit and specifically note the linkage between the requirements and the objectives of each AU-C section in order to achieve the auditor’s
overall objective of obtaining sufficient appropriate audit evidence. We believe the objective as stated in extant AU-C section 500, “to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence...” is an important aspect that ties multiple AU-C sections together.

D&T concurs with the consistent approach throughout the proposed SAS that, in order to obtain audit evidence, the auditor evaluates information [to be used as audit evidence] by applying audit procedures, designed and performed in accordance with AU-C section 330 (i.e., information + audit procedures = audit evidence). However, as currently structured the objective makes no reference to audit procedures. While we recognize the proposed SAS is not a performance standard, and paragraph 6 of AU-C section 330 addresses the requirement to “design and perform further audit procedures,” we believe the objective should include a reference to audit procedures to provide a clear link between the information used and the audit evidence obtained, the underlying premise of the proposed SAS. We are also concerned that the focus in paragraphs 3 and 6 of the proposed SAS might lead to a conclusion that audit evidence is only obtained from performing procedures as required in AU-C section 330; and therefore, procedures performed as part of other auditing standards (e.g., AU-C section 315) may not be viewed as resulting in audit evidence.

In addition, D&T believes that it is critical that the concept of sufficient appropriate audit evidence be embodied within the objective of the proposed SAS. While the conclusion of whether sufficient appropriate audit evidence has been obtained is appropriately retained in AU-C section 330, in order to make such a determination the auditor should, prior to concluding, obtain sufficient appropriate audit evidence by designing and performing audit procedures to evaluate the information to be used as audit evidence. Including the concept of sufficient appropriate audit evidence is also crucial in order to provide the interconnectivity of the objective (paragraph 7 of the proposed SAS), the definitions (paragraph 8 of the proposed SAS), and the overarching requirement to obtain sufficient appropriate audit evidence (paragraph 9 of the proposed SAS). We recommend that the objective in paragraph 7 of the proposed SAS be amended to state the following (which is more closely aligned with paragraph 4 of extant AU-C section 500):

7. The objective of the auditor is to evaluate information to be used as audit evidence by applying audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

Definitions

As noted in paragraph A33 of AU-C section 200 the concepts of sufficiency and appropriateness are highly interdependent. This is evidenced by the consistent use of the phrase sufficient appropriate audit evidence throughout the suite of professional literature, as well as the importance of the quality of audit evidence in both the extant definition of appropriateness (of audit evidence) and sufficiency (of audit evidence). The proposed SAS has removed an explicit reference to the quality of audit evidence in both the defined terms, thereby eliminating a crucial link between the concepts of appropriateness and sufficiency.

In addition, the emphasis in the proposed SAS appears to consider only the appropriateness of information as required by paragraphs 10-12 of the proposed SAS. With this emphasis on appropriateness, it could be inferred that the objective of the proposed SAS is merely to evaluate the appropriateness of information to be used as audit evidence. There is no requirement in the proposed SAS when evaluating information to be used as audit evidence to consider the sufficiency of such information.

The unintended consequence of this approach is the severing of the interconnectivity of the concepts of sufficiency and appropriateness, thereby essentially creating two separate and distinct defined
terms. This is contrary to the manner in which an auditor currently approaches the evaluation of audit evidence, including when concluding on whether sufficient appropriate audit evidence has been obtained, where the concepts are assessed together.

Additional issues related to the definitions are further addressed in Appendix I, Issues 9-10.

**Sufficient Appropriate Audit Evidence**

The heading immediately preceding paragraph 9 of the proposed SAS titled “Sufficient Appropriate Audit Evidence,” is appropriate if the ASB adopts our recommendation to amend the objective to include the concept of sufficient appropriate audit evidence. If that recommended change is not made, the title as currently drafted is confusing, and should be retitled “Evaluating Information to be Used as Audit Evidence.”

In addition, D&T believes that the overarching requirement in paragraph 9 of the proposed SAS should clearly articulate the auditor’s responsibility to obtain sufficient appropriate audit evidence. Consistent with our proposed edits to the objective, we recommend the following clarifications:

> 9. As a basis for concluding whether sufficient appropriate audit evidence has been obtained as required by AU-C section 330, the auditor should evaluate the appropriateness of the information to be used as audit evidence and the sufficiency thereof in accordance with paragraphs 10–12A of this proposed SAS. (Ref: par. A9–A11)

New application material to this paragraph would discuss how the conclusion as to whether sufficient appropriate audit evidence has been obtained is required by AU-C section 330. If our recommendation is adopted as proposed, D&T believes the proposed SAS will more clearly articulate the relationship between AU-C sections 500 and 330 and with respect to the auditor's consideration of sufficient appropriate audit evidence throughout the audit. It will also alleviate the potential misinterpretation that audit evidence can only be obtained through applying procedures based on AU-C section 330.

**Appropriateness of Information to be Used as Audit Evidence**

As previously outlined, the proposed SAS requires that the auditor, in evaluating information to be used as audit evidence, consider the relevance and reliability of the information, the sources of the information, and whether such information corroborates or contradicts the assertions in the financial statements. These requirements all address attributes and factors relating to the appropriateness of the information to be used as audit evidence. D&T believes that in order to provide additional clarity as to the purpose of the requirements in paragraphs 10–12 of the proposed SAS the heading should be amended to “Appropriateness of Information to be Used as Audit Evidence.”

Furthermore, in extant AU-C section 500 (as well as in the standards of the IAASB and the PCAOB), the “source” of audit evidence is part of the considerations related to reliability (and therefore this has now resulted in a significant difference between standard setters in how “source” is treated). The proposed SAS separates source from reliability, and therefore source is no longer always considered in conjunction with reliability. D&T notes that the term “reliability” is used extensively throughout the professional standards; as the proposed SAS has eliminated the linkage between the two concepts, an unintended consequence is that source is no longer necessary to consider in those instances where reliability is referred to and used in the auditing standards; this will need to be addressed by the Board.

See also the discussion related to the definition of appropriateness (of audit evidence) in Appendix I, Issue 9-10.
**Sufficiency of Information to be Used as Audit Evidence**

Given the structure of the definitions, and the requirement in paragraph 9 of the proposed SAS “to evaluate the information to be used as audit evidence in accordance with paragraphs 10-12 of this proposed SAS” there would appear to be no consideration required by the auditor of the sufficiency of the information to be used as audit evidence. D&T therefore recommends that a new heading and paragraph be added to address this inconsistency in approach to obtaining sufficient appropriate audit evidence as follows:

**Sufficiency of the Information to be Used as Audit Evidence**

**12A. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider the sufficiency of the information.**

We recommend that accompanying application material be drafted to focus on important aspects affecting the sufficiency of information to be used as audit evidence, including the persuasiveness, quantity, quality, and the cumulative nature of such audit evidence.

**“Should Consider” Requirement in the Proposed SAS**

Paragraphs 10-12 of the proposed SAS each require that the auditor “should consider” the relevance and reliability of information, the sources of information, and whether such information corroborates or contradicts the assertions in the financial statements. Paragraph A79 of AU-C section 200 states that “[i]f a procedure or action is one that the auditor should consider, consideration of the procedure or action is presumptively required. Whether the auditor performs the procedure or action is based upon the outcome of the auditor's consideration and the auditor's professional judgment.” Therefore, based on the outcome of the auditor’s consideration, the auditor may determine not to perform the requirements in paragraphs 10–12 of the proposed SAS. D&T does not believe this is the intention of the ASB and to maintain this language it would be detrimental to audit quality. D&T instead recommends that the phrase “should consider” in each of the paragraphs 10–12 of the proposed SAS be changed to “should take into account” when evaluating the information to be used as audit evidence. This drafting convention can be found in the recently released proposed Statement on Auditing Standards, *Auditing Accounting Estimates and Related Disclosures*.

Additional context regarding the above comments, certain other matters, our responses to the specific issues posed in the Explanatory Memorandum and additional editorial recommendations we believe are warranted prior to issuing a superseded statement on auditing standard pertaining to audit evidence are included in the following appendices:

- Appendix I — Responses to Explanatory Memorandum "Issues for Consideration."
- Appendix II — Other Matters and Editorial Recommendations.
D&T would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact Dora Burzenski at +1 206 716 7881.

Sincerely,

[Signature]

Deloitte & Touche LLP
Appendix I — Responses to Explanatory Memorandum “Issues for Consideration”

Issue 1. Relationship of proposed SAS to other AU-C sections

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 700.1 If the scope section does not clearly explain the relationship, please indicate why.

While paragraph 3 of the proposed SAS indicates the interplay between this foundational proposed SAS and other AU-C sections, in particular by highlighting AU-C section 330 and referencing as footnotes AU-C sections 315, 330, and 700, merely cross-referencing to other AU-C sections is not sufficient in order for auditors to appropriately understand how the various standards interact. Careful usage of terminology and consistent drafting conventions adopted in the proposed SAS, including ensuring the objectives, definitions, and requirements act in concert and do not conflict with concepts embodied in other AU-C sections, is a key aspect to having the auditing standards interact as intended. As explained in forepart of this letter, D&T believes amendments are necessary to the objectives, definitions, and overarching requirements in order to allow for the integration of the proposed SAS within the suite of professional standards, and for its relationship to other auditing standards to be clear.

Refer to the forepart of the letter and Appendix I, Issues 9-10 for additional commentary on the relationship of the proposed SAS to other AU-C sections.

Issue 2. Auditors evaluation of sufficient appropriate audit evidence

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.

As addressed in the overall comments, we do not believe that the current overarching requirement in paragraph 9 of the proposed SAS is appropriately drafted and should be revised to address that, when obtaining sufficient appropriate audit evidence, the auditor evaluates not only the appropriateness of the information to be used as audit evidence, but also the sufficiency the information. Further, as noted in the forepart to the letter, D&T believes that the “should consider” construct for paragraphs 10–12 of the proposed SAS may result in no action being taken by the auditor based on the outcome of such consideration and the auditor’s professional judgment.

In addition to these matters, the issues identified relating to the singular focus on the appropriateness of the information to be used as audit evidence and the absence of considerations relating to the sufficiency of the information to be used as audit evidence will not, in our opinion, collectively result in a more effective evaluation of audit evidence.

As previously noted in the forepart of the letter, D&T is supportive of the concepts in the proposed SAS that will enhance the auditor’s assessment of evidence, including the use of attributes and factors (as depicted in the cube), that the auditor considers in evaluating information to be used as audit evidence and expanded and modernized application material.

1 AU-C section 700, Forming an Opinion and Reporting on Financial Statements.
Issue 3. Lessened emphasis on how audit evidence is obtained

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 (i.e., “audit procedures performed”)? If not, please explain why.

D&T is supportive of the proposed attributes and factors and we believe they provide an improved construct through which to evaluate information to be used as evidence during an audit. We agree the focus of the proposed SAS should be on how to evaluate information once it is gathered and we believe the lessened focus on how audit evidence is obtained is appropriate. However, given the importance of the application of audit procedures when evaluating information to be used as audit evidence, D&T has recommended amending the in the objective of the proposed SAS.

While we agree with this shift in focus, the application of audit procedures still plays a critical role in obtaining sufficient appropriate audit evidence, as noted in paragraph 13 of the proposed SAS. The requirement in paragraph 13 of the proposed SAS states “[w]hen designing and performing audit procedures, the auditor should consider whether the results of such audit procedures are reasonably expected to provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained.” Therefore, when designing and performing the audit procedures, the auditor is simultaneously developing an implicit expectation as to whether the outcome of the audit procedures may provide the auditor with audit evidence that is sufficient and appropriate to address the assessment of the risks of material misstatement at the relevant assertion level. However, we do not believe that this interim consideration, as it relates to the auditor’s implicit expectations, is necessary and that it overcomplicates the requirement. We recommend that paragraph 13 in the proposed SAS revert to the requirement in extant paragraph 6 of AU-C section 500, as follows:

13. When **The auditor should** designing and performing audit procedures that are **appropriate in the circumstances, for the purpose of obtaining**, the auditor should consider whether the results of such audit procedures are reasonably expected to provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained.

We concur with the use of attributes and factors in the proposed SAS as we believe that this will allow the auditor to look at the evaluation of information to be used as audit evidence through a “different lens.” However, we do not believe, as noted in the question for respondents, that this approach will “expand the types and sources of information considered by the auditor.” With the proliferation of available information and widely varying reliability of information, as influenced by the source and nature of such information, the careful evaluation of the information to be used as audit evidence is critical along with the use of professional judgment and the exercise of professional skepticism. We believe that the attributes and factors in the proposed SAS are well-suited to guide auditors in their evaluation of information to be used as audit evidence.

Because the types and sources of information to be used as audit evidence by auditors will continue to change, identifying a finite listing of sources, as depicted in the graphic and outlined in paragraphs A34 and A35 of the proposed SAS, may be limiting. D&T recognizes that in certain instances information derived from a particular source may result in the auditor having to perform incremental activities or in some circumstances additional application material may be relevant (e.g., if the source of the information is an auditor’s specialist, AU-C section 620, Using the Work of an Auditor’s Specialist, is applicable; if the information is from an external information source, paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources,” of the proposed SAS provides the requisite application material). However, given the evolving nature of the manner in which information is obtained, it is possible that information may be categorized as being from more than one source (e.g., information obtained from a distributed ledger may have characteristics that address two of the attributes and factors, as depicted in paragraph A35 of the proposed SAS; namely **Management — generated internally from the financial reporting system and Management —**
generated outside the financial reporting system, including from sources external to the entity). D&T believes the following example should be provided to illustrate circumstances where the source of the information is both internal and external.

A44A. In certain circumstances, the source of information may be from a combination of both internal and external sources. In such circumstances, the auditor uses professional judgement to evaluate the facts and circumstances relating to the sources of the information and the degree to which the sources of the information influence the relevance and reliability of the information to be used as audit evidence. For example, a real estate brokerage firm is being audited. The real estate brokerage firm develops a distributed ledger to capture transactions related to the buying and selling of land and recording the transfer of the related deeds. In this example, there may be numerous parties participating in the transactions and contributing to the information included in the distributed ledger, including the real estate brokerage firm. The distributed ledger is the information that ultimately drives the amounts recorded in the accounting records of the real estate brokerage firm, based on the agreed-upon terms and conditions programmed into the distributed ledger technology. Therefore, when considering the source of the distributed ledger, the source is not purely internal information (i.e., from the real estate brokerage firm), but it also includes information from external sources (i.e., the other parties participating in the transactions and contributing to the distributed ledger).

Additional clarifying edits related to paragraphs A34 and A35 are included in Appendix II.

Issue 4. Attributes and factors in proposed SAS

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.

D&T does not believe there are relevant attributes and factors missing from the proposed SAS that should be considered by the auditor when evaluating information to be used as audit evidence. However, D&T believes that the proposed SAS would benefit from clarifying the distinction between attributes and factors. It appears that the proposed SAS is intending to use “attributes” when addressing information to be evaluated and “factors” when addressing considerations not related to the information itself. However, paragraph 5 of the proposed SAS conveys that both are depicted in the diagram, inferring they are synonymous.

In addition, certain usages of the terms in the proposed SAS occur together as a phrase “attributes and factors” which does not provide a distinction between the two terms, whereas certain paragraphs appear to be using the term “factors” in a different manner. As drafted, this may cause confusion as to action required by the auditor given the inconsistent use of the terms. Examples of the inconsistencies in the proposed SAS are as follows:

- Paragraph 5 introduces the diagram and states “attributes and factors used to evaluate information.”
- Paragraph A4 states “attributes and factors of information” [emphasis added].
- Paragraph A13 states “factors that ... may affect relevance” then addresses considerations such as the objective of audit procedures.
- Paragraph A42 states “attributes and factors of information” [emphasis added].
• Paragraph A44 states “...among other factors” when referring to information sources.

• Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (paragraph 8), includes a list of “factors” to evaluate relative to external information sources.

If both terms are retained, we recommend guidance in the application material to either paragraph 5 or paragraph A4 of the proposed SAS to clarify the distinction between the two terms.

**Issue 5. Depiction of attributes in the diagram**

*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?*

D&T agrees that the diagram appropriately depicts the attributes and factors to consider and we believe that the diagram effectively portrays the significant interdependencies among the attributes and factors. However, see our comments in Issue 3 related to paragraph A35 of the proposed SAS.

**Issue 6. Examples in the proposed SAS**

*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.*

D&T believes that the examples in the proposed SAS are useful to auditors. Cognizant of pragmatic limitations on the length and detail of examples in the application materials, additional examples could also be provided through other sources (e.g., AICPA Audit and Accounting Guides, or nonauthoritative AICPA publications). D&T is aware of similar activities being undertaken by the IAASB as it relates to efforts of the Technology Working Group. We encourage the Board to collaborate with the IAASB to develop practical guidance in the application material that may further illustrate the use of automated tools and techniques.

We also believe additional emphasis and clarity is warranted, in the application material, regarding the ability of the auditor to achieve the objective of more than one type of audit procedure simultaneously by using automated tools and techniques (e.g., risk assessment procedures and substantive procedures). Paragraph A67 of the proposed SAS includes an example where the visualization is used solely as a risk assessment procedure. To emphasize the important concept that automated tools and techniques can be used simultaneously to meet more than one objective, we recommend adding the following example after paragraph A68 demonstrating a substantive analytical procedure that addresses both risk assessment and substantive procedures testing objectives.

**A68A. An auditor may use an audit data analytic technique, such as a visualization of transactional detail, to address the objectives of a risk assessment procedure and a substantive procedure concurrently. For example, when performing risk assessment procedures related to payroll expense, the auditor may prepare a visualization that is based on a headcount report from the entity’s human resources department, which contains a number of different attributes (or “data fields”). The auditor considers the various attributes of the report and performs audit procedures to evaluate whether the report is complete, accurate, and sufficiently precise for the audit objectives. The headcount report accumulates the number and employment classification of prior-year employees, current-year additions, terminations, and the ending number and employment classification of current year employees and represents the information used to develop the data visualization. While evaluating the headcount report, the auditor determines there is consistency in the entity’s employee base. Also, consistent with prior year, the majority of the employees are represented by a labor union with three-year labor contracts providing predictability**
of payroll amounts. Using the same headcount information used in the data visualization, the auditor is also able to perform substantive analytical procedure related to the expectation of payroll expense for the year. This substantive analytical procedure is sufficiently precise to detect a misstatement in accordance with AU-C Section 520. Accordingly, the auditor may determine that, based on the payroll information and procedures performed on such information, the resulting evidence supports both the auditor’s assessment of risk and also meets the objective of a substantive analytical procedure.

Issues 7-8. Professional Skepticism approach

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

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.

D&T agrees with the approach taken by the ASB in addressing the topic of professional skepticism by interweaving the concepts surrounding professional skepticism in the proposed SAS. This encompassed a requirement to address whether the information corroborates or contradicts the assertions in the financial statements, as well as the use of illustrative examples to demonstrate the exercise of professional skepticism. This approach is also grounded in paragraphs A22–A26 of AU-C section 200 where the concept of professional skepticism is discussed, including how it relates to the assessment of audit evidence, as well as some limited considerations on how a lack of professional skepticism might result in incorrect conclusions.

We support application material included in the proposed SAS to address the risk of bias, and it is D&T’s view that professional skepticism is necessary in order to address management’s biases, which is consistent with the manner in which the AU-C sections have been currently drafted. However, we do not believe that the consideration of the reliability of information to be used as audit evidence should include auditor bias, for the reasons outlined below.

Firstly, there are no references to auditor bias in AU-C section 200 or elsewhere in the suite of professional audit standards. Further, while there is a definition of management bias in paragraph 7 of AU-C section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, there is no definition of what constitutes auditor bias.

In addition, the AICPA Code of Professional Conduct (the “Code”) establishes the fundamental principles of professional ethics and requires that "a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others." This is also reinforced in paragraph A16 of AU-C section 200 which references the fundamental principles in the Code relating to objectivity and independence. Because the Code addresses objectivity, it is unclear how the concept of “tendencies in judgment that lead to bias” in paragraph A33 of the proposed SAS are to be considered, and its interplay with the Code.

Certain of the biases referred to in paragraph A33 of the proposed SAS (e.g., confirmation bias, overconfidence bias, etc.) appear to be based on terminology related to the science of mind and behavior, which do not appear to be typical topics that would be covered by generally accepted auditing standards. The limited guidance in the application material provided in paragraph A33 of the proposed SAS, along with application material in AU-C section 200, will not be sufficient to understand  

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2 Refer to the AICPA Code of Professional Conduct Section 1.100.001, Integrity and Objectivity Rule.
the concepts, or the appropriate auditor response, if the tendencies in judgment that lead to bias exist.

Further, the International Ethics Standards Board for Accountants has currently out for public comment an exposure draft addressing Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants. Specifically included in the exposure draft are considerations that are applicable when applying the conceptual framework outlined in the International Code of Ethics for Professional Accountants (including International Independence Standard) (the "IESBA Code"), including those relating to bias. Examples of bias included in the IESBA’s exposure draft relate to anchoring bias, automation bias, availability bias, confirmation bias, groupthink, overconfidence bias, representation bias, and selective perception. D&T is aware that the AICPA’s Professional Ethics Executive Committee (PEEC) monitors IESBA’s standard-setting activities, as the IESBA Code provides for a global benchmark for ethical and independence standards that are relevant when performing an engagement in accordance with the ISAs. While PEEC follows the IESBA activities, we acknowledge that jurisdictional and regulatory constraints may limit the ability of the PEEC to fully converge the AICPA Code with all the provisions of the IESBA Code; however, we do believe it does have bearing and should inform the ASBs views as it relates to auditor bias and where to address such concepts.

We recommend that paragraph A33 of the proposed SAS be deleted. If the Board determines that this type of information is necessary, we strongly recommend that consideration be given as to whether the auditing standards are the appropriate location for such application material to reside, given the extent of guidance in the application material that might be needed in order for the auditor to fulsomely understand these concepts. We also recommend that consideration be given as to whether this guidance should rather be incorporated into the Code, where it can be discussed in the context of the conceptual framework.

Issues 9-10. Definition Changes

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

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

With respect to paragraph 8 of the proposed SAS, and consistent with the forepart of this letter, we recommend edits to the following definitions:

Audit Evidence

The audit evidence definition in paragraph 8 of the proposed SAS states that it is “[i]nformation used by the auditor...” [emphasis added], which implies the auditor is performing something on or with such information; however, the definition could also be interpreted that information and evidence are synonymous. We recommend clarifying in paragraph 8 of the proposed SAS that audit evidence is the result of performing audit procedures on information, thereby increasing the prominence of this important concept.

Audit evidence. Information on which audit procedures are performed and used by the auditor in arriving at the conclusions on which the auditor’s opinion is based.

Appropriateness (of audit evidence)

The link between appropriate (relevant and reliable) information and appropriate (relevant and reliable) audit evidence is not clear. This becomes clear when considering the amendments to the proposed SAS in light of the revised definitions. The amendments to the proposed SAS strikethrough the descriptor “relevant” when referring to audit evidence (e.g., “relevant audit evidence”). D&T
understands the underlying rationale for these conforming amendments, noting that the intent was to eliminate redundancy because if the information to be used has been evaluated and is determined to be relevant for the auditor’s purposes, then by inference the audit evidence would also be relevant. However, the definition of appropriateness (of audit evidence) has been amended to indicate that appropriateness is “[t]he measure of the relevance and reliability of audit evidence,” yet the evaluation required by paragraph 10 of the proposed SAS is of the relevance and reliability of information to be used as audit evidence. It is therefore implied that there may be an additional and separate evaluation needed for relevant and reliable audit evidence (and therefore additional documentation to reflect such an evaluation). D&T does not believe this is the intent of the revisions to the defined terms in paragraph 8 of the proposed SAS.

D&T also noted that the application material in extant paragraph A5 of AU-C section 500 addressing that “the reliability of evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained” has not been incorporated in the proposed SAS. Paragraph A43 of the proposed SAS alludes to the fact that in some situations the “auditor’s consideration of the reliability of [such] information is influenced by the nature and credibility of the source of the external information ...” but the context is limited. D&T believes that whenever an auditor is considering the reliability of information to be used as audit evidence, the auditor is considering the source of such information. The considerations are simultaneous and inform the resulting actions. By highlighting source as a separate and distinct attribute and factor, in addition to the removal of explicit application material to address the interaction between reliability and source, this has resulted in the appropriateness (of audit evidence) focusing only on relevance and reliability as defined, with no regard to source. D&T does not believe that is the intent of the proposed SAS.

Further, as noted in the overall comments, the term “reliability” is used extensively throughout the professional standards; as a result, source will no longer be necessary to consider in those instances where reliability is referred to. D&T suggests that the Board solve this issue by making source a subset of reliability (consistent with extant AU-C section 500), while still maintaining the separate requirement in paragraph 11 of the proposed SAS.

Based on the issues identified, D&T recommends the following edits are also made to the definition:

**Appropriateness (of audit evidence).** The measure of the quality of audit evidence, (i.e., its relevance and reliability of audit evidence in providing support for the conclusions on which the auditor’s opinion is based).

**Sufficiency (of audit evidence)**

D&T understands and supports a shift in focus to “persuasiveness,” as also noted in the Explanatory Memorandum; however, we believe quantity also remains a relevant consideration as a subset of persuasiveness. While a reference to “amount” is noted in the related application material to the definition, we believe quantity should be explicitly included in the definition of sufficiency. Revisions to this paragraph would also warrant consideration to the application material in paragraphs A5 and A11 of the proposed SAS. Recommended changes are as follows:

**Sufficiency (of audit evidence).** The measure of the persuasiveness of audit evidence. The persuasiveness of audit evidence necessary, including the quantity of evidence, is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence. (Ref: par. A5)

A5. When considering the persuasiveness of audit evidence, the amount quantity of audit evidence obtained may be a factor for the auditor to consider. However, obtaining more audit evidence may not compensate for its lack of appropriateness.
A11. The amount quantity of audit evidence, in and of itself, is not determinative of its sufficiency. Obtaining more of the same type of audit evidence cannot compensate for its lack of appropriateness. In such cases, the auditor may find it necessary to obtain evidence from more than one source. On the other hand, depending on the auditor's consideration of relevance and reliability, a single source of information may provide persuasive evidence (e.g., corroborating evidence obtained from an external information source).

Consistent with the recommendations above, we recommend certain changes to the conforming amendments made to various AU-C sections of the proposed SAS, based on the above recommendation as follows:

- The term "quantity" should be added back to paragraph A65 in AU-C section 330 of the proposed SAS.

- The reference to AU-C section 500 in paragraph A76 in AU-C section 330 of the proposed SAS should also include reference to the sufficiency of audit evidence. In addition, the deletion of the two bullets that discuss source and reliability, and persuasiveness, should be added back.

- The reference to AU-C section 500 in paragraph 2 of AU-C section 505, External Confirmations, of the proposed SAS should also include reference to the sufficiency of audit evidence.

- The removal of the bullet (i.e., the second bullet in the list) referencing quantity in paragraph 3 of AU-C section 505 of the proposed SAS is not necessary and should be added back.

**External Information Sources**

Refer to Appendix II of this letter for further comments on external information sources.

**Issue 11. Automated Tools and Techniques**

Please provide your views on whether (a) the guidance in 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.

D&T believes that the guidance in the application material to explain the implications and role of automated tools and techniques in the current audit environment is beneficial and that the proposed SAS is enhanced by using illustrations of automated tools and techniques. Consistent with our comment in Issue 6 above, considering the current and expected future pace of innovation in the auditing profession, we believe that an additional example of automated tools and techniques in the application materials, particularly using such tools and techniques to achieve multiple objectives, would be helpful to the profession.

Paragraph A56 of the proposed SAS indicates that audit procedures applied to information may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures, in addition to inquiry (each of which are further described in paragraphs A57-A72 of the proposed SAS). While paragraph A56 of the proposed SAS states audit procedures performed on information “may include...,” D&T recommends the application material explicitly state that this is not a comprehensive list of audit procedures, rather examples of common audit procedures. This clarification will allow for
the advancement of future technologies that may not necessarily align with one of the types of audit procedures already listed in the proposed SAS.

Further, preceding paragraphs A66-A69, we encourage the Board to retitle the heading “Analytical Procedures and Use of Audit Data Analytics” to “Analytical Procedures,” as ADAs are also applicable to multiple other procedures (as noted in the application material of the proposed SAS). Including “audit data analytics” in this heading may inadvertently lead an auditor to an incorrect conclusion that ADAs are only intended to be used to perform analytical procedures and not other types of audit procedures.

D&T agrees with the critical concept communicated in paragraph A68 of the proposed SAS that an ADA technique can be used to simultaneously perform both a risk assessment procedure and a further audit procedure. The example provided in paragraph A68 of using an ADA to identify items in a population that exhibit a higher risk of material misstatement is also a realistic example to include; however, the example provides limited background information about the design of the ADA. We believe it is important to be more explicit that a determination of whether the ADA meets the objective of a substantive procedure depends on the auditor’s evaluation of the level of precision of the analytical procedure and more specifically, whether such procedure is sufficiently precise to identify a misstatement.

Based on the above comments, we recommend the following changes:

A68. An auditor may use automated tools and techniques, such as audit data analytics, to perform as both a risk assessment procedure and a substantive procedure concurrently. For example, audit data analytic techniques may be used to analyze an entire population of transactions in order to identify, at the same time, those transactions with relevant characteristics of audit interest an entire population of transactions and transactions that warrant further investigation have a higher risk of material misstatement. In this circumstance, the identification of relevant characteristics of an entire population of transactions audit interest and almost simultaneous identification of items that exhibit a higher risk of material misstatement on which to perform further audit procedures may be considered constitute a risk assessment procedure. However, if the analysis performed using the audit data analytic is further, the auditor may deem the audit data analytic sufficiently precise for the auditor to conclude that the population without any characteristics of audit interest does not have a risk of material misstatement, then the audit data analytic may also to respond to the assessed risks of material misstatement. If so, the auditor may also determine that the audit data analytics technique performed meets the objective of a substantive procedure with respect to those transactions without any characteristic of audit interest, information obtained about those transactions in the population falling within the predefined range of expectations. Therefore, the audit data analytic may be used to perform both a risk assessment procedure and a further audit procedure (that is, a substantive analytical procedure).

Lastly, in considering paragraph A69 of the proposed SAS, we believe the example has the potential to be misinterpreted or misapplied. D&T agrees that the auditor may use ADAs to obtain corroborating information; however, we believe that in this example, the auditor would not obtain audit evidence regarding the effectiveness of the entity’s internal control unless management themselves is using a data analytic in the performance of the control. We recommend the following edits:

A69. The auditor may use automated tools and techniques, such as audit data analytics, to obtain evidence about the effectiveness of the entity’s internal control. For example, if management is using a data analytic to monitor sequential numbering of invoices, the auditor may be able to obtain corroborating information about the effectiveness of sequential numbering of sales invoices for the year by using audit data analytics to determine whether any gaps in numbering or duplicates exist, which provides information about
completeness of invoices issued during the period and evidence regarding the effectiveness of management’s monitoring of the control.

**Issue 12. Oral Confirmation**

*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?*

D&T agrees that the concepts in the proposed SAS related to confirmations need to be modernized. Similar to other evolutions in audit procedures and written documentation, which we have discussed herein, confirmations are now commonly received through a third-party confirmation service or other electronic mediums rather than in traditional hardcopy form. While we understand the revisions proposed to AU-C 505 to eliminate the application paragraph A27, which states that an oral response does not meet the definition of a confirmation, D&T believes that simply changing the need for an external confirmation to be written does not accomplish the objective of recognizing that modern advancements in digital and other technological means has resulted in confirmations that potentially provide the same persuasiveness of audit evidence that a written external confirmation provides. We are concerned with the unintended consequences of such a change, including the confusion that may be caused with redefining external confirmation as well as differences between standard setters as it relates to the definition of external confirmations. For example, AU-C 330.20 requires that the auditor use external confirmation procedures for accounts receivable under certain circumstances. The intent of this requirement is that a written confirmation be obtained by the auditor; however, with the change proposed to the definition of external confirmation, a written confirmation would not be necessary. D&T cautions the Board against making this change without performing an analysis of the use of external confirmations in the AU-Cs, with regard given to the original intent of any requirements or application material related to the need for an external confirmation that is written.

D&T encourages the Board to reconsider whether redefining external confirmation is necessary to effect the desired change to modernize the standard. We recommend providing additional application material or other forms of guidance, as to the considerations relevant to determining the persuasiveness of audit evidence provided by a confirmation. This could include items such as when oral verification is accepted as an alternative procedure to a written confirmation, situations where previous confirmations warrant updating, and the application of professional skepticism, including verification the confirming party is knowledgeable regarding the account or subject matter and authorized to respond, are important steps in obtaining appropriate audit evidence.

**Issues 13-14. Management’s Specialist**

*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.*

*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?*

D&T believes relocation of the management’s specialist from extant AU-C section 500 to a new separate AU-C section in the AU-C 500 series is acceptable given this series relates to audit evidence. We also believe inclusion in AU-C section 501, *Audit Evidence — Specific Consideration for Selected Items* would also be appropriate, as there is a clear connection between the requirements and application material in the two AU-C sections. However, prior to moving the content dealing with management’s specialist to AU-C section 501, we recommend the ASB develop a holistic plan to clearly identify the scope and purpose of this AU-C section and in doing so consider whether a project should be undertaken by the Board to address the requirements and application material in AU-C section 501 to verify the special considerations remain unique and specific to our jurisdiction.
**Issue 15. Audit Documentation Requirements**

*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.*

While D&T understands that the intent of this proposed SAS is to result in audit documentation requirements consistent with extant AU-C section 500 and other AU-C sections, we believe that the use of the presumptively mandatory “should consider” requirement in paragraphs 10-12 of the proposed SAS, may result in an expectation that the auditor document the results of the considerations, including when no action results based upon the outcome of the auditor’s consideration and professional judgment (see discussion in the forepart to this letter).

Further, paragraph 13 of AU-C section 230, *Audit Documentation*, states that “...[if], in rare circumstances, the auditor judges it necessary to depart from a relevant presumptively mandatory requirement, the auditor must document the justification for the departure and how the alternative audit procedures performed in the circumstances were sufficient to achieve the intent of that requirement.” D&T believes that an unintended consequence of the use of the presumptively mandatory requirement will be to document all instances when the auditor does not consider both the relevance and reliability of the information and the sources of the information, as well as whether such information corroborates or contradicts the assertions in the financial statements.

D&T also believes that paragraph 13 of the proposed SAS, as written, implies that when designing and performing audit procedures, the auditor is simultaneously developing an implicit expectation as to the outcome of the audit procedures and “whether the results of such audit procedures are reasonably expected to provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained.” As this consideration is a requirement, there is likely an expectation that documentation be maintained to support this conclusion.
Appendix II — Other Matters and Editorial Recommendations

The editorial recommendations are highlighted as follows: Additions are noted in bold underline and deletions are noted in strikethrough text. The markup of the paragraphs follows the same numerical sequence or ordering of sections as structured in the proposed SAS. All proposed edits noted below assume the amendments in the proposed SAS (including conforming amendments) are accepted by the ASB as final.

Scope of this Proposed SAS (paragraphs 1-5, and related application material paragraphs A1-A4)

Paragraph 4c

It is unclear what procedures “those procedures” is intending to reference. We recommend specifying which procedures are being referenced to, as follows:

4. The overall conclusion about whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment and involves exercising professional skepticism in obtaining and evaluating audit evidence. The auditor’s evaluation of whether sufficient appropriate audit evidence has been obtained includes evaluating the following:

a. Whether the assessment of the risks of material misstatement at the relevant assertion level remains appropriate.

b. The nature, timing, and extent of the audit procedures performed.

c. The audit evidence obtained from those procedures in paragraph 4(b) in accordance with this proposed SAS.

Paragraph A3

In addition to the reference to AU-C section 200 in paragraph A3 of the proposed SAS, we recommend that paragraph A3 also reference AU-C section 330, given that paragraphs A73 and A75 of AU-C section 330 also address professional judgment when evaluating the sufficiency and appropriateness of audit evidence, as follows:

A3. AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, and AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, provides application material about exercising professional skepticism and professional judgment.

Definitions (paragraph 8 and related application material paragraphs A5-A8)

Paragraph A7

Paragraph A7 implies that the auditor is required to search for contradictory evidence or the absence of information. We suggest the following edits which conveys the point about the absence of information as evidence but without inferring an obligation to search for the absence of information:

A7. In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence. For example, when considering whether contradictory information may exist regarding assertions related to the entity’s recorded warranty provision, the
absence of sales returns of the product in question may be evidence supporting management’s recorded amount.

Information to Be Used as Audit Evidence (paragraphs 10-12 and related application material paragraphs A12-A48)

Paragraph 11

We recommend the following edits to paragraph 11, in order to closer align to the requirements in paragraphs 10 and 12 of the proposed SAS and to eliminate redundancies:

11. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider the sources of the information to be used as audit evidence.

Paragraph 12

We recommend the following changes to paragraph 12, given that this requirement is relevant to evaluating information, but is not yet at the stage where audit evidence at the assertion level is being evaluated (i.e., the evaluation required by AU-C section 330):

12. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider whether such information corroboration or contradiction the assertions in the financial statements.

Paragraph A5

We recommend deleting the last sentence of paragraph A5 as follows, given that similar wording exists in paragraph A11, and to reduce redundancies:

A5. When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be a factor for the auditor to consider. However, obtaining more audit evidence may not compensate for its lack of appropriateness.

Paragraphs A13 and A14

Paragraphs A13 and A14 address the relevance of information to be used as audit evidence, however there the proposed SAS is missing the critical concept that information can be relevant to more than one assertion or account balance. We recommend adding paragraph A13A as follows:

A13A. Information to be used as audit evidence may be relevant to multiple account balances or assertions.

Paragraph A17

We recommend revising paragraph A17 of the proposed SAS to encompass the important concept of disclosures and also verify consistency with AU-C section 315, as follows:

A17. External confirmation procedures may provide relevant information when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only classes of transactions, account balances, or disclosures. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, the relevant details. External confirmation procedures are also used to obtain audit
evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).

**Paragraph A25**

We recommend revising paragraph A25 of the proposed SAS to acknowledge that reliability of information outside the financial reporting system may relate to more than the precision of the information, including whether the entity has controls over such information, as follows:

A25. In some cases, the auditor may use information developed by management outside of the financial reporting system for audit purposes. For example, the auditor may use the entity’s performance measures for the purpose of analytical procedures. In such cases, the reliability of the information obtained is affected by multiple factors, including whether such information is subject to controls, how the information is used by management, and by whether the information is sufficiently precise or detailed for the auditor’s purposes (for example, performance measures used by management may not be precise enough to detect material misstatements).

**Paragraph A28**

The statement “unless audit procedures have been performed” in paragraph A28 of the proposed SAS implies additional work always needs to be performed by the auditor which may not necessarily be the case. We believe this creates potential confusion and ambiguity as information with less bias may not as applicable or persuasive as information seemingly with a higher risk of bias. We recommend the following edits:

A28. Information with a higher risk of bias is **may initially be** considered less reliable than information for which the risk of bias is lower unless audit procedures have been performed to address a higher risk of bias. The risk of bias within information may be addressed by performing audit procedures.

**Paragraph A29**

Paragraph A29 of the proposed SAS refers to “the entity or the auditor,” based on our concerns relating to the risk of bias pertaining to the auditor as noted in Appendix I, we believe the paragraph should be amended to focus on the information as follows:

A29. A risk of bias may exist in the development of information itself or may exist due to interpretation of the information by the entity or the auditor.

**Paragraph A31**

We believe it is important to maintain clarity regarding bias and therefore suggest the following clarification:

A31. Judgment may be required in determining the impact of management bias in evaluating the reliability of information to be used as audit evidence by taking into account the following...

**Paragraph A34 and A35**

As noted in Appendix I, Issue 3, because the types and sources of information used as evidence by auditors will continue to evolve, identifying a finite listing of sources in the cube graphic and in paragraph A35 of the proposed SAS may prove constricting to auditors currently, and in the future.
For example, the auditor’s independent physical observation of an asset (e.g., a building) does not neatly fit the two sources related to auditor information (i.e., information obtained from sources external to the entity or information developed from sources internal or external to the entity). Therefore, it should be clear that the sources in paragraph A35 of the proposed SAS are examples. In addition, the word “generated” at the beginning of each item in paragraph A35 of the proposed SAS is definitive and potentially constricting, and is not necessary; therefore, we recommend edits to eliminate this word. Recommendations are as follows:

A35. Information to be used as audit evidence may be obtained or derived individually or in combination from different the following sources, including the following:

a. Management — Generated internally from the financial reporting system
b. Management — Generated from outside the financial reporting system, including from sources external to the entity
c. Management — Obtained from management’s specialists
d. Auditor — Obtained from sources external to the entity
e. Auditor — Developed from sources internal or external to the entity

As the list of sources in paragraph A35 are just examples, the graphic in A35 needs to take this into account. Therefore, we recommend the following wording be added to paragraph A34:

A34. The sources of information are not intended to indicate all sources possible but are included to assist with providing a framework by which to evaluate information to be used as audit evidence.

Paragraph A37

We recommend edits to paragraph A37 of the proposed SAS to be consistent with the recommendations in paragraph A35 of the proposed SAS. In addition, the example in paragraph A37 of the proposed SAS cites the Consumer Price Index as an external information source; however, the external information source in this example is the “U.S. Bureau of Labor and Statistics,” which provides the Consumer Price Index. With respect to this example, we also recommend the Board consider replacing the example and not use the name of a specific report or index term or the name of a specific current governmental agency, as this may date the example if the agency name were to change, cease to exist, or were to no longer provide the specific information. Recommendations are as follows:

A37. As indicated in paragraph A35, information to be used as audit evidence by the auditor may be obtained directly or derived individually or in combination from different the sources of information described therein. For example, in making an accounting estimate for an accumulated pension obligation, management may use information that is generated internally by the financial reporting systems; information generated externally of the financial reporting system (including information and assumptions from external information sources); and information obtained from a management’s specialist. Similarly, an auditor may obtain information to be used as audit evidence originating from multiple sources. For example, in performing a regression analysis to test revenue recorded, the auditor may obtain information about square footage of retail space and sales prices (both management generated) and changes in an index published by a government agency the Consumer Price Index (an external information source).
Paragraph A38

We recommend that paragraph A38 of the proposed SAS also consider disaggregation, as follows:

A38. The auditor’s evaluation of information to be used as audit evidence may be enhanced by the use of automated tools and techniques such as audit data analytics that may enable the auditor to aggregate or disaggregate, and consider information obtained from multiple sources.

Paragraph A41

Paragraph A41 of the proposed SAS introduces a new concept of “internal information” that is not consistent with how information is described in paragraph A35 of the proposed SAS. We recommend the following changes to enhance consistency and avoid introducing a new term:

A41. Internal information generated from within or outside the general ledger and subsidiary ledgers by management internally from the financial reporting system or information generated by management outside the financial reporting system,

   a. may be in electronic or paper form. Examples of internal information in electronic form are electronic records of sales made through an entity’s website.

   b. may be stored by the entity locally within its information systems or in a network of remote servers (which may be referred to as the “cloud”).

Paragraph A42

Use of the phrase “certain attributes and factors” is confusing, as paragraph A42 of the proposed SAS does not elaborate on which attributes or factors are ordinarily beyond the auditor’s control to evaluate. We suggest either deleting the term or providing additional application material on the attributes and factors that the auditor is unable to evaluate. If the phrase is retained and additional application material is provided, we recommend reconsidering the use of “ordinarily,” which is not a commonly used term in the AU-C sections and is a very high threshold to overcome. In addition, it’s important to acknowledge that the auditor evaluates information from an external information source differently than information that is internal. Presenting this as a “limit” may give the incorrect view that there is a scope limitation in the auditor’s ability to evaluate. Suggested edits are as follows:

A42. Evaluating certain attributes and factors related to relevance and reliability of information obtained by the auditor from external information sources may be ordinarily beyond the auditor’s control. Practical considerations may limit the auditor’s ability to evaluate the reliability of such information, in particular the ability to For example, the auditor may not be able to evaluate the completeness and accuracy of the information obtained from an external source to the same degree as they would evaluate the completeness and accuracy of internal information.

Paragraph A44

We recommend the following removal of parentheses for clarification and clarity that the second sentence is building on the first sentence:

A44. Some sources of electronic information (for example, a record maintained in a blockchain) may provide a central location from which the auditor may obtain audit evidence. A blockchain may exist in different forms and may include information that is internal or
external to the entity, which, among other factors, may affect the auditor’s consideration of the reliability of the information in a blockchain.

**Paragraph A47**

We recommend removing the word “audit evidence” in the first sentence and changing to “information,” to be consistent with the requirement in paragraph 12 of the proposed SAS. In addition, we recommend changing “increase the assurance” to “may be more persuasive,” to be consistent with the rest of the proposed SAS and its considerations around information to be used as audit evidence.

A47. Evaluating the appropriateness of information to be used as audit evidence involves consideration of both information that corroborates assertions in the financial statements and information that contradicts assertions in the financial statements. For example, corroborating information obtained from a source independent of the entity may be more persuasive than may increase the assurance that the auditor obtains from information that is generated internally.

Paragraph 28 of AU-C section 330 requires that when forming a conclusion, the auditor “should consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict the assertions in the financial statements.” Paragraph A48 of AU-C section 330 appears to contradict the requirement in paragraph 28 of AU-C section 330, as it appears to allow for optionality in considering contradictory information; therefore, we recommend the following change:

A48. The auditor may consider information that contradicts assertions in the financial statements even when the source of that contradictory information is less reliable than the source of corroborative information. The auditor does not consider contradictory information in isolation but rather as part of the auditor’s consideration of the information obtained with respect to that management assertion taken as a whole.

**Audit Procedures for Obtaining Audit Evidence (paragraph 13 and related application material in paragraphs A49-A74)**

**New Application Material Paragraph**

Paragraph A1 of the proposed SAS conveys the important concept that audit procedures performed on information to obtain audit evidence may vary widely. The same concept is important to the procedures described in paragraphs A49–A56. We recommend that the Board consider including a similar paragraph prior to A49 to emphasize this concept, such as the following suggestion:

A48A. The nature, timing, and extent of audit procedures performed on information to obtain audit evidence is based on auditor judgment and may range from simple to more extensive procedures, may be combined with other procedures, and may be performed manually, using automated tools and techniques or a combination of both.

**Paragraph A56**

We recommend that paragraph A56 of the proposed SAS be moved to before paragraph A49 of the proposed SAS, as it is a useful paragraph to introduce the topic of audit procedures and describe the types of procedures that will be discussed.

**Paragraph A59**

The description in paragraph A59 of the proposed SAS of an “observation” does not capture other examples of observation that are performed by auditors; for example, an observation of a physical
building for existence as an audit procedure. The phrase “process or procedures performed by others” in this paragraph limits the procedures to the auditor “observing” others who are involved in the process (with the interpretation that “others” likely referring to entity personnel) and does not capture, as evidenced above, all scenarios of observation. There are various examples of observation procedures included in the AU-C sections that do not fit the description in paragraph A59 of the proposed SAS, such as:

- AU-C section 220, Audit Documentation, paragraph A14.
- AU-C section 260, The Auditor’s Communication With Those Charged With Governance, paragraph A44.

We therefore recommend the following edits, to expand the description of observation:

A59. Observation consists of includes looking at a process or procedure being performed by others (for example, the auditor’s observation of inventory counting by the entity’s personnel or the performance of control activities). Observation also includes the auditor observing a matter, such as a physical observation, an observation of certain matters, or observing communications or actions.

Paragraph A62

We recommend that the description of an external confirmation in paragraph A62 of the proposed SAS, explicitly state that a confirmation can be written or oral, to reflect the proposed edits to AU-C section 505, as follows:

A62. An external confirmation is a direct response knowingly provided to the auditor by a third party (the confirming party), which may be written or oral. See AU-C section 505, External Confirmations, for further guidance.

Paragraph A65

As reperformance is a procedure performed by the auditor, we propose the following clarifying edits:

A65. Reperformance involves the independent execution of procedures or controls by the auditor that were originally performed as part of the entity’s internal control.

Paragraph A66

D&T observes that paragraph A21 of extant AU-C section 500, which describes what an analytical procedure is, has not been included in the proposed SAS. It appears to have been replaced with paragraph A66 of the proposed SAS; however, this paragraph is incomplete and does not appropriately characterize the nature of AU-C section 520. We recommend the following changes to address these concerns (as well as to address concerns with the heading, as mentioned in Issue 11 above):

Analytical Procedures and Use of Audit Data Analytics

A66. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation as is necessary of
identified fluctuations and relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. AU-C section 520, Analytical Procedures, addresses the auditor’s use of analytical procedures as substantive procedures (substantive analytical procedures) and performing analytical procedures near the end of the audit as a means for obtaining audit evidence. Audit data analytics are a technique that the auditor may use to perform analytical procedures. AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, addresses the use of analytical procedures as risk assessment procedures and AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, addresses the nature, timing, and extent of audit procedures in response to assessed risks (which may include substantive analytical procedures).

Paragraph A70

While extant AU-C section 500 states that scanning is an analytical procedure which may involve electronic audit procedures, scanning is more commonly understood as a predominately human or manual audit procedure. In addition, the persuasiveness of scanning can vary significantly, with likely greater variability when the procedure is performed manually. While we agree with the extant and the proposed SAS that automated procedures can assist in this action, we also believe that scanning is an unnecessary subset of “analytical procedures” and propose removing the specific term. In our view, the title or category of “scanning” is becoming less relevant than the evidence produced by such procedures, whether manual in nature or with an automated tool, either of which must include thoughtful evaluation of information to be used as evidence. We recommend removing the title or category "scanning" and more broadly addressing the guidance in the application material in paragraph A70 as analytical procedures as suggested below.

A70. Scanning is a type of Analytical procedures involving involve the auditor’s exercise of professional judgment and may be varied in nature. The auditor may manually review data to identify significant or unusual items to test. This which may include the identification of unusual individual items within account balances or other data through the reading or analysis of, for example, entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports for indications of misstatements that have occurred. The auditor may also use automated tools and techniques to assist in performing analytical procedures. For example, the auditor might use automated tools and techniques such as artificial intelligence to review an entire population of transactions and identify those transactions meeting the auditor’s criteria for a transaction being unusual. Automated audit procedures may assist the auditor in identifying unusual items. Selecting The identification of items that exhibit characteristics of risk of material misstatement through analytical procedures provides the auditor with audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has determined, using professional judgment, that the items not selected are less likely to be misstated. The auditor may use automated tools and techniques to perform a scanning procedure. For example, the auditor might use automated tools and techniques to access an entire population of transactions and extract those transactions meeting the auditor’s criteria for a transaction being unusual.

Paragraph A72

We recommend the following edits, to indicate that responses to an inquiry may not provide a basis to modify audit procedures and to streamline the sentence:
A72. In some cases, responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.

Appendix A — Considerations Regarding the Use of External Information Sources (paragraph A32, A43, and A75)

In finalizing ISA 540 (Revised), the IAASB issued a series of conforming amendments to other ISAs, including conforming amendments to ISA 500. The ASB determined that rather than proposing amendments to AU-C 500 as part of the proposed SAS, Auditing Accounting Estimates and Related Disclosures, the conforming amendments would be made as part of this proposed SAS. While this proposed SAS includes substantially all of the IAASB’s conforming amendments to ISA 500, there are differences, as well as certain changes, that have been made to the ISA 500 conforming amendments. The comments and recommendations in this section are related to changes that were made to the ISA 500 conforming amendments and are necessary so as not to alter the meaning of the ISA 500 conforming amendments, but also to eliminate unnecessary differences between the proposed SAS and the ISAs.

Definition of External Information Source (Proposed SAS, Paragraph 8)

The definition of external information source (EIS) in the proposed SAS has been changed from the definition that was a result of the conforming amendments to ISA 540. The proposed SAS currently defines EIS as “[a]n individual or organization external to the entity that develops information used by the entity in preparing the financial statements or used by the auditor as audit evidence, when such information is available for use by a broad range of users.” We believe that changes to this definition are warranted, for the following reasons:

- To increase convergence with ISA 500.
- With respect to use of the word “develops,” we understand the proposed SAS sought less generic words that would not incorporate “accumulators of information” (e.g., internet service providers or search engines); however, we believe that accumulators of information are sources of information. Using “develops” alters the definition and intent of the ISA 500 wording.
- With respect to the use of the word “available” in the proposed SAS, we believe the intent of the definition of EIS should center on whether the information is suitable (e.g., right or appropriate for a particular person, purpose, or situation) for a broad range of users, not whether the information is merely available. The fact that information is or is not available to certain users does not necessarily mean the information is appropriate (i.e., suitable) for use as audit evidence.

We therefore recommend conforming the definition to the definition in ISA 500, as follows:

External information source. An individual or organization external to the entity that provides develops information used by the entity in preparing the financial statements or used by the auditor as audit evidence, when such information is suitable available for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of management’s specialist, service organization, or auditor’s specialist, the individual or organization is not considered an external information source with respect to that particular information.

Paragraph A32
We believe paragraph A32 of the proposed SAS should closer align to the intent and meaning of the conforming and consequential amendments made to other international standards arising from the issuance of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures. We therefore recommend the following changes, which will also align with our recommendations for the definition of external information source (see comments on paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources,” of the proposed SAS).

A32. External information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free or makes it available to a wide range of users in return for payment of a fee. The auditor may need to exercise judgment in determining whether the reliability of information is suitable for use by a broad range of users, and therefore the reliability of the information to be used as audit evidence, by taking into account the ability of the entity to influence the external source.

Paragraph A43

We believe paragraph A43 of the proposed SAS should closer align to the intent and meaning of the conforming and consequential amendments made to other international standards arising from the issuance of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, while also maintaining the distinction between information and evidence, and therefore recommend the following edits:

A43. In some situations, there may be only one provider of certain information external to the entity, for example, information from a central bank or government, such as an inflation rate, or a single recognized industry body. In such cases, the auditor’s consideration of the reliability of such information, and determination of the nature and extent of audit procedures that may be appropriate in the circumstances, is influenced by the nature and credibility of the source of the external information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that external information is relevant to the reasons for the assessed risk of material misstatement. For example, when information from an external information source is from a credible and authoritative source, the extent of the auditor’s audit procedures on such information may be less extensive more persuasive than audit procedures performed on information obtained from another source that is less credible. In other cases, if an external information source is not considered credible, the auditor may determine that more persuasive audit evidence is necessary to obtain (see paragraph 9 in appendix A).

Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (Paragraph 7)

We recommend conforming the language to ISA 500, as follows, in order to maintain the original intent and improve clarity:

7. Obtaining an understanding of why management or, when applicable, a management’s specialist uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor’s consideration of the relevance and reliability those same attributes of that information.
Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources (Paragraph 8)

Paragraph 10 of the proposed SAS requires that, when evaluating information to be used as audit evidence, the auditor should consider the relevance and reliability of the information. Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (paragraph 8), of the proposed SAS should reflect consistency with this requirement, and therefore the term “considering” should be used instead of “evaluating” in the first sentence. Paragraph 10 of the proposed SAS requires the auditor to consider whether information is sufficiently reliable, including (as necessary) obtaining audit evidence about the accuracy and completeness of the information. As the proposed SAS does not provide application material on whether information is “sufficiently accurate and complete,” we believe the wording in Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (paragraph 8), should more closely align to paragraph 10 of the proposed SAS. Additional edits are provided for clarity and consistency.

8. The following factors may be important when considering evaluating the relevance and reliability of information obtained from an external information source, including whether it is sufficiently accurate and complete, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:

- The nature and authority of the external information source (For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public may likely be considered a reliable external information source for certain types of information.)

- The ability of management to influence the information obtained, through relationships between the entity and the external information source

- The competence and reputation of the external information source with respect to the information, including whether, in the auditor’s professional judgment, the information is routinely provided by an external information source with a track record of providing reliable information

- Past experience of the auditor with the reliability of the information provided by the external information source

- Evidence of general market acceptance by users of the relevance or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor

- Whether the entity has controls in place to address the relevance and reliability of the information obtained and used

- Whether the external information source accumulates overall market information or engages directly in “setting” market transactions

- Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework

- Alternative information that may contradict the information used
• The nature and extent of disclaimers or other restrictive language relating to the information obtained

• Information about the methods used in preparing the information; how the methods are being applied including, where applicable, how models have been used in such application; and the controls over the methods

• When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained.

Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (Paragraph 9)

We recommend the following:

• Delete “for assertions” in the first sentence, as it is redundant.

• Insert “the reasons for” in the first sentence, as this provides further clarity as to the relationship with assessed risk and is consistent with paragraph 6 of AU-C section 330, as well as the proposed SAS, Auditing Accounting Estimates and Related Disclosures.

• Delete “the likelihood that the information from the external information source is reliable” and replace with “the possibility that the information from the external information source may not be reliable,” as there does not appear to be a compelling reason for differences from the wording in ISA 500.

• Add “at the assertion level” to the second sentence, as this is consistent with how the AU-C sections refer to risks of material misstatement, as well as being consistent with paragraph A43 of the proposed SAS.

• Add a period to the end of the last bullet.

Therefore, we recommend the following edits to Paragraph A75, “Appendix A — Considerations Regarding the Use of External Information Sources” (paragraph 9):

9. The nature and extent of the auditor’s consideration takes into account the assessed risks of material misstatement at the assertion level for assertions to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement, and the likelihood that the information from the external information source is reliable the possibility that the information from the external information source may not be reliable the auditor’s assessment of the reliability of such information (for example, whether it is from a credible source). Based on the auditor’s consideration of the matters described in paragraph 6, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, or that further audit procedures, in accordance with AU-C section 330 and AU-C section 540, when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement at the assertion level related to the use of information from an external information source. Such procedures may include the following:

• Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
• When relevant to considering management’s use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.

• Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding, and when relevant, testing the operating effectiveness of its controls.

Appendix B — Amendments to Various Sections in Statement on Auditing Standards No. 122, Statements on Auditing Standards: Clarification and Recodification, as Amended (paragraph A76)

AU-C Section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

Paragraph A52

The conforming amendments to paragraph A52 of AU-C section 330 have changed the intent of the extant paragraph, and do not fully depict the changes that have been made from extant. The following recommendations reinsert certain wording from extant to maintain the intent, while incorporating changes as a result of the proposed SAS:

.A52 Although external confirmations may provide audit evidence relating to certain assertions, some assertions exist for which external confirmations may not provide less audit evidence, for example, external confirmations provide less audit evidence relating to the recoverability of accounts receivable balances than they do of their existence.

AU-C Section 505, External Confirmations

Paragraph 3

We recommend the following edits to the last bullet of the conforming amendments to paragraph 3 of AU-C section 505, in order to be consistent with the changes recommended in paragraph A47 of the proposed SAS: (all changes as proposed in the SAS have been accepted for purposes of this recommendation):

• AU-C section 500 indicates that corroborating information obtained from a source independent of the entity (such as external confirmations) may be more reliable than increase the assurance the auditor obtains from information existing within the accounting records or representations made by management.

Paragraph 6

The proposed change to the definition of external confirmation is not consistent with paragraph A62 of the proposed SAS, in that it excludes the words and concept of the response being “knowingly provided.”

.06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
**Exception.** A response that indicates a difference between information requested to be confirmed, or contained in the entity’s records, and information provided by the confirming party.

**External confirmation.** Audit evidence obtained as a direct response knowing provided to the auditor from a third party (the confirming party).

**Paragraph 8**

The conforming amendment to the heading above paragraph 8 of AU-C section 505 in Appendix B of the proposed SAS is incorrect and does not align with the current heading in extant AU-C section 505. We recommend you revert back to the heading in extant AU-C section 505, so that the heading is representative of the topic in extant paragraphs 8-9 of AU-C section 505.

**Paragraph 13**

The word “written” should be reinserted in the heading immediately preceding the conforming amendments to paragraphs 13 and A27 of AU-C section 505, given that this requirement and related application material pertain to when the auditor has concluded a written response is necessary, as follows:

*When a Written Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence*

**Paragraph A27**

Extant paragraph A27 of AU-C section 505 is being proposed to be deleted. We recommend that the Board consider retaining this paragraph and including it as application material to when a written confirmation is necessary but hasn’t been received, adjusted as necessary, as it includes useful information on alternate procedures.

**AU-C Section 530, Audit Sampling**

**Paragraph A70**

In considering the appropriateness of audit evidence, we believe the auditor should also consider the source of the information. Therefore, we recommend inclusion as an additional conforming amendment to paragraph A70 of AU-C section 530, the consideration pertaining to source, as follows:

A70 In accordance with **AU-C section 500, Audit Evidence**, the auditor is required to consider the relevance and reliability of the information, as well as the source, to be used as audit evidence, which includes data on which the estimate is based. Section 500 explains that the reliability of the audit evidence is affected to varying degrees, by the following attributes, individually or in combination:

- Accuracy
- Completeness
- Authenticity
- Risk of bias