Re: Proposed Statement on Auditing Standards – Audit Evidence

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

**Overall comments** - We agree with the ASB's efforts to modernize auditing standards related to audit evidence. Standards do need to keep pace with technology, and we believe the current lack of specific guidance in the areas of technology related audit tools have, and will continue to, lead to diversity in practice. We had comments on the following specific questions.

**Question 5** – We did not think the diagram at paragraphs A4, A12, A34 and A45 added value to the discussion of audit evidence. While the words attached to the diagram are relevant to auditing, we felt the presentation could be construed to illustrate those attributes were equally important or relevant in all circumstances, which is not the case. The lack of scale and the multidimensional presentation detracts from the usefulness.

**Question 6** – We believe the examples given do little more than state the obvious or rehash the definition of the technology itself. Acknowledging the existence of technology in the standards is necessary, but we believe the technology has already outpaced the proposed standards and the industry needs more specific guidance around the use of these tools and techniques. For example, what standards, if any, would be acceptable to measure the reliability of a tool? Are software applications from Vendor A acceptable while Vendor B is not? How would this be determined? Are we looking at an ISO9000 (or similar) approval process to be adopted by the industry? Which industry? Auditing or software? Or, does each auditor have to assess the accuracy, completeness, authenticity, and risk of bias for each tool for themselves. If so, what would the assessment criterion and
documentation look like? How could that documentation be shared across multiple audit engagement circumstances or industries?

The variances in levels of sophistication of auditees makes it impractical to provide examples that would cover all audit circumstances, but we would like to see the standards acknowledge the existence and specific circumstances of a cost-benefit relationship. Perhaps an example of some “prequalification circumstances” in which automated audit techniques may or may not be appropriate. In other words, automated audit tools may be an effective tool in certain client circumstances, but ineffective in others. Given that this is an emerging area, the potential for error is elevated. Accordingly, the ASB may wish to provide additional guidance related to the conditions and circumstances where such tools and techniques would be effective and ineffective.

**Question 15** – We believe the application of this proposed SAS may be interpreted to require additional documentation. Our concern is the introduction of the concept of *authenticity* to the attributes of audit evidence. We’re concerned this could raise the bar on detecting fraud by escalating the objective from “obtaining reasonable assurance about whether the financial statements are free of material misstatement whether caused by error or fraud” to documenting the auditor’s consideration of the existence of fraud on each piece of audit evidence. We did not gather from our reading of the proposed standard that this is the board’s intention, but we’re concerned it could be interpreted as such.

Thank you for your consideration.

Sincerely,

Glenn Bradley, CPA, Chair
Kevin Gibbs, CPA, Member
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs