By e-mail: Sherry.Hazel@aicpa-cima.com
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Re: Statement on Auditing Standards (SAS) Audit Evidence

To Whom It May Concern:

The Advanced Auditing class (Eco 775) at Hunter College Graduate program in New York City appreciates the opportunity to comment on this exposure draft.

The class discussed the above proposed exposure draft and have attached our comments. If you would like additional discussion with us, contact Professor Joseph A. Maffia, at 212-792-6300 ext 404.

Sincerely,

[Signature]

Professor Joseph A. Maffia, CPA
Comments to AICPA Auditing Standards Board on the proposed Statement on Auditing Standards Audit Evidence Exposure Draft

September 18, 2019

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GENERAL COMMENTS

The Advanced Auditing Class has reviewed the above exposure draft and offers the following comments for consideration to AICPA Auditing Standards Board.

We believe that overall, the standard is structured well and is effective in introducing new automated tools and technologies and its impact on the definition of sufficiency. However, we suggest that the board research and elaborate on the definition of persuasiveness for a successful application of the standard. We also take issue with the graphic introduced in paragraph 5 of the standard due to its complexity. The graphic is not helpful to learning the factors and attributes of audit evidence, and we suggest either redesigning it or getting rid of it completely.

We have also included our suggestions for grammar and wording changes, as well as our responses to questions.

EDITORIAL CHANGES

The words “design and” are unnecessary as the word “perform” explains clearly enough what must be done.

A2. “Design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to the assessed risks of material misstatement at the relevant assertion level.”

The use of professional is repetitive in the last sentence. The term “professional skepticism and judgement” is sufficient to get the point across.

A3. “AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, provides application material about exercising professional skepticism and professional judgment.”
The stated example scenario is redundant in a way as the statement following the second comma gives enough clarification to the reader.

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 the entity’s recorded warranty provision, the absence of sales returns of the product in question may be evidence supporting management’s recorded amount.

A12. The provided visual aid is ambiguous and should either be redesigned so text can be read easily or removed to avoid confusion.

Remove parenthesis use "an asset; for example, a record viewed.."

A15. Certain information to be used, whether in paper or electronic form, provides evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, bond, or a digital copy maintained by a financial institution of a mortgage and the related deeded property). Other information may provide only some evidence of the existence of an asset (for example, a record viewed on a blockchain may be subject to consideration of the reliability of the blockchain itself).

Remove parenthesis use commas "items, such as.... full or empty, to obtain".

A16. Inspection of individual inventory items may accompany the observation of inventory counting. For example, when observing an inventory count, the auditor may inspect individual inventory items (such as opening containers included in the inventory count to determine whether they are full or empty).

A20. Information, whether internal or external, may be considered more reliable when controls over such information are effectively designed and have been implemented. The reliability of such information may be enhanced when the related controls (whether manual or automated) including those over its preparation and maintenance, have been tested and determined to be operating effectively.

A21. Information obtained directly by the auditor (for example, observation of the application of a control) may
be more reliable than information obtained indirectly or by inference (for example, inquiry about the application of a control) for instance, inquiry about the application of a control.

A22. Information in documentary form whether paper, electronic, or other medium, may be more reliable in certain circumstances than evidence obtained orally (for example, orally; for example a contemporaneously written record of a meeting may be more reliable than a subsequent oral representation of the matters discussed).

A23. In other situations, the auditor may consider it necessary to obtain audit evidence about the accuracy and completeness of information by testing controls over the preparation and maintenance of the information (for example, in light of the nature, frequency, and volume of transaction). For example, in light of the nature, frequency, and volume of transaction.

A25. In such cases, the reliability of the information obtained is affected by whether the information obtained is affected 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. Purposes, for example, performance measures used by management may not be precise enough to be detected material misstatements.

A27. When information has been transformed from its original medium (for example, documents that have been scanned or otherwise transferred to electronic form), the reliability of that information may depend on the controls over the information’s transformation and maintenance. In some situations, the auditor may obtain audit evidence about the authenticity of electronic information by testing controls over the transformation and maintenance of the information. In other situations, the auditor may determine that additional substantive procedures to address the authenticity are needed (for example, documents that have been scanned or otherwise transformed into electronic form), needed; inspecting underlying original documents to validate the authenticity of information.

We suggest to add the word “professional” before word judgement. As the sentence does not explain whose judgment the exposure draft relate to.

A31. Professional judgement may be required in determining the impact of bias in evaluating the reliability of the information to be used as audit evidence by taking into account the following.
For paragraph A31. We also propose to add additional information, such as below:

d) Review judgements and decisions by management to identify whether there are indicators of possible management bias – e.g. if bad debts continuously exceed provision - under providing

In paragraph A35, repeating word ‘generated’ twice. We suggest to substitute it with for instance with: Created, Retrieved, Run.

a. Management - Generated internally from the financial reporting system
b. Management- Created outside the financial reporting system, including from sources external to the entity

A45. We think this chart with three dimensions that are not related to one another. The exposure draft repeats three times. We suggest to remove the picture for data consistency.

Changing wording of the sentence to avoid confusion
A50. As explained further in AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, and AU-C section 330, audit evidence to draw reasonable conclusions on which to base the auditor’s opinion, audit evidence is obtained by performing the following:

a. Risk assessment procedures
b. Further audit procedures, which comprise
   i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and
   ii. substantive procedures, which include tests of details and substantive analytical procedures

Eliminate the for-example scenario and after audit procedure finish by rephrasing through the use of both automated tools and techniques.

A51. In some instances, the auditor may achieve the objective of more than one type of audit procedure (for example, both a risk assessment and further audit procedure) simultaneously by using automated tools and techniques.

Combining paragraphs A52 and A53 would be efficient, as they are both short and pertain to the same matter.

A52. The auditor may use automated tools and techniques, such as audit data analytics, to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence. Some information may be available only
in electronic form or only at certain points or periods in time, which may affect the nature and timing of the audit procedures to be performed.

There is an excessive use of the phrase “automated tools and techniques, such as audit data analytics” in paragraphs A52, A55, A56, A68, and A69.

A55. Some electronic information (for example, records maintained on a blockchain) is available on a continuous basis during the audit. In such cases, auditors may develop procedures using automated tools and techniques, such as audit data analytics or artificial intelligence, to obtain information about transactions on a real-time basis.

A56. Audit procedures performed on information may include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. These procedures may be performed either manually or using automated tools and techniques, such as audit data analytics. Although inquiry may provide important information and may even lead to the identification of a potential misstatement, inquiry of management alone ordinarily does not provide sufficient appropriate audit evidence.

A68. An auditor may use automated tools and techniques, such as audit data analytics, as both a risk assessment procedure and a substantive procedure concurrently….

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, 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.

RESPONSES TO QUESTIONS

1. Please provide your views on whether the revised scope section of the proposed SAS clearly explains the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330, and 700. If the scope section does not clearly explain the relationship, please indicate why.

The proposed SAS explains clearly the interlude relationship amongst AU-C sections 315, 330, and 700. The procedure describes the role of AU-C 330 Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained as having the functions like designing and executing audit procedures up to the level of perceived risk, obtaining
persuasive audit evidence the higher the auditor’s assessment of risk, and concluding whether appropriate evidence was found. AU-C 330 goes along with AU-C 700, *Forming an Opinion and Reporting on Financial Statements* because 700 refers to finding out whether or not the document is free from material misstatement based on audit evidence obtained in AU-C 300. The reliance of AU-C 330 depends on AU-C 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* because 315 gathers information on what could be misstated in which 330 digs deeper to find the audit evidence.

2. **If implemented, would the new requirements and application material assist the auditor in more effectively evaluating whether sufficient appropriate audit evidence has been obtained? If not, please explain why.**

We believe that with the implementation of the new requirements and application material will assist the auditor in more effectively evaluate whether sufficient appropriate audit evidence has been obtained. We came to this conclusion based on the careful consideration that was put into gathering the evidence through the use of careful inspections, observations, and data analytical processing tools. With these techniques and tools an audit should be more reliable. We believe given this system implementation there will be a substantial reduction in incorrect audit evidence.

3. **Would the proposed attributes and factors expand the types and sources of information considered by the auditor as audit evidence by lessening the emphasis on how audit evidence is obtained (that is, "audit procedures performed")? If not, please explain why.**

Under the new change in focus of the proposed SAS, the intent is to shift attention towards sufficient and appropriate audit evidence in order to perform efficient audits. The proposed SAS forces auditors to re-consider different sources, relevance, and reliability of the information provided to create better assertions of the financial statements. We believe the proposed attributes would be useful to the auditor in assisting them to enhance the structure of the requirements in the proposed SAS. This can be done through the use of external information sources, which contains different concepts and modifications in order to achieve consistency.

4. **Are there relevant attributes and factors of audit evidence missing from the proposed SAS that should be considered by the auditor when evaluating the appropriateness of audit evidence? If so, please describe them.**

One level of relevant attributes that needs to be considered is re-evaluation of audit evidence at the time of conclusion. Audit work is cumulative and a long process. New information may come in from different sources as the audit work proceeds. This information can potentially
differ from the evidence used initially in the audit process. This may cause the auditor to re-evaluate the planned audit procedures and the level of evidence gathered. The initial and revised risk assessment and audit evidence all need to be carefully examined during the time of conclusion.

5. Does the diagram in the proposed SAS appropriately depict the attributes and factors that the auditor considers in evaluating whether sufficient appropriate audit evidence has been obtained?

In order to achieve reasonable assurance, the auditor needs to obtain sufficient audit evidence to reduce audit risk. The diagram in the proposed SAS consists of various different factors such as accuracy, completeness, authenticity, and risk of bias that the auditor needs to reference when determining whether or not their evidence is persuasive and holds appropriateness. The diagram also reveals the sources auditors and management needs to focus on to aid in the reliability of audit evidence. Ensuring to test the completeness of specific accounts by focusing on relevant information and not including information that may contradict the auditor’s audit evidence is also included. Considering these factors, we believe the diagram does in fact depict the attributes and factors that the auditor considers in evaluating sufficient appropriate audit evidence.

6. Please provide your views on whether the examples in the proposed SAS are useful to auditors. If the examples are not useful, please explain why.

With regards to the examples referenced in the proposed SAS, the recent implementation of automated tools and techniques are definitely sufficient enough to provide evidence to the auditor so long as they are also wary of the other risks that arise with electronic use.

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

Professional skepticism requires integrity to be exercised honestly and fairly, and so compliance with this fundamental principle will help the professional account to respond appropriately occasions on which evidence provided by a client should be questioned or challenged. Exposure draft breaks the definition for professional skepticism into several paragraphs in a text. The definition might be difficult to navigate. However, we agree with the approach taken by the ASB in addressing the topic of professional skepticism, and it supports the inclusion of the paragraph A3 and A19 together with the highlighting of the most relevant fundamentals principles. It must be clear, within this part of sections A28-A33.

8. If the guidance in the proposed SAS is implemented, would the application of professional skepticism can be enhanced and more clearly understood in evaluating
Whether sufficient appropriate audit evidence has been obtained? If not, please explain why.

SAS definition on audit evidence could be developed more clearly. The exposure draft does not mention a link to how you evaluate audit evidence. We suggest to include in exposure draft aspects of audit evidence such as the quality and quantity of audit evidence. As an auditor, based on the audit procedures performed and the audit evidence whether assessment of the risk of material misstatement at the assertion level remain appropriate. This evaluation may primarily a qualitative matter based on the auditor’s judgement.

9. Are the changes to the definitions in extant AU-C section 500 appropriate? If not, please explain why.
10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

With the automated tools and techniques becoming available to the auditor, amending the definition of sufficiency to focus on the measure of persuasiveness rather than quantity of audit evidence is appropriate. However, measure of persuasiveness is ambiguous and isn't defined the draft. Providing a clear definition and incorporating it in definitions section under paragraph 8 would be useful to auditors.

11. Please provide your views on whether (a) the guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques in the current audit environment is beneficial and (b) the proposed SAS is enhanced by using illustrations of automated tools and techniques; that is, whether the proposed SAS is more relevant to audits conducted in today’s environment.

The guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques in the current audit environment is beneficial because audit data analytics is a technique and is not classified by ASB as an audit procedure. Paragraph describing audit data analytics proposed in Issues for Consideration section of the draft should be added to the application material but as paragraph A53 rather than A58 since ADA is discussed and used as examples in paragraph that precede A57

Proposal:

A58 A53. 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 and consider information obtained from multiple sources. Audit data analytics are described as the analysis of patterns, identification of anomalies, or
12. **Do you agree that AU-C section 330 combined with the attributes and factors in the proposed SAS would assist the auditor in concluding whether an oral confirmation should be supplemented by a written confirmation of the information?**

We agree that the requirements stated by AU-C section 330 combined with the attributes/factors in the proposed SAS would greatly assist the auditor in concluding whether a written confirmation is needed for an oral confirmation.

13. **Is relocation of the content dealing with management’s specialist from AU-C section 500 to AU-C section 501 or to a separate new standard appropriate? If not, please explain why.**

We do not agree that relocation of the content dealing with management’s specialist from AU-C section 500 to AU-C section 501 is appropriate. Even if the management’s specialist evidence is related to a field rather than accounting or auditing, management’s specialist helps auditor understand the uniqueness and industry-specific nature of the entity. Management’s specialist should remain as part of Audit Evidence AU-C Section 500.

15. **Do you believe that the application of this proposed SAS would result in audit documentation requirements beyond those in AU-C section 230 and other AU-C sections? If so, describe how the proposed SAS is perceived to expand the audit documentation requirements existing in AU-C section 230 and other AU-C sections.**

We do not 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 any significance. The proposed change for audit documentation is minor.