Proposed Statement on Auditing Standards: Audit Evidence

Employee Benefit Plans Expert Panel Comments

Question 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.

AU-C section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, should be incorporated in paragraph 3 and A2, as ERISA plan auditors must refer to this AU-C section rather than AU-C 700.

Question 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.

While the proposed SAS includes guidance on sufficient, relevant and reliable audit evidence, it does not address the more common types of audit evidence that are used in today’s electronic environment. Auditors continue to struggle with what may constitute audit evidence when no paper trail exists. As such, we believe GAAS should include guidance that addresses the changing nature of evidence in today’s audit environment, especially when all records are electronic, either in AU-C 500, 330, or a separate section.

Historically, the auditor was able to observe paper source documents, which they could agree to system reports and those reports could be agreed or reconciled to the general ledger. In many entities today, all transactions are initiated and processed on-line. As such, no paper source documents exist, which results in confusion about how to test the completeness and reliability of the information used as audit evidence. For example, employee benefit plan participants typically log in to an external third-party’s system to make changes to their investment elections and deferral percentages. Auditors can view screen shots of changes in investment or deferral elections, and trace payroll contributions into the participant’s account. As another example, companies often use electronic human resource and payroll systems whereby a hard copy “personnel file” is no longer available to be used to as evidence to support the existence of an employee or the accuracy of attributes such as date of hire, date of birth, or pay information. Similarly, for distributions and claim payments which are often processed by third parties, there may not be any canceled checks or the wire transfer may be a screenshot or the check copy may be a picture reproduction. Currently, there is no guidance on whether this audit evidence is acceptable for the audit.

In an employee benefit plan environment, the auditor frequently obtains information such as confirmations, certifications, or participant account access through either a client or service organization portal. However, the auditor may be unable to verify who actually sent the information or on what system it was generated. In those circumstances, how might the auditor determine that the information is reliable audit evidence? As more and more information is available only through such data systems, auditors find it increasingly difficult to determine the reliability of audit evidence.

A proposed amendment to AU-C 330, paragraph .A74 states that “by performing audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial
statements. However, accounting records alone do not provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements.” This revision clarifies that an auditor cannot rely solely on verifying transactions to other accounting systems, but does not provide information about how the auditor may obtain sufficient evidence in these situations.

Another area that may fall outside the scope of this proposed ED but may impact related standards and should be addressed is the acceptability of “remote” auditing. Because more and more plans operate in an exclusively electronic environment, many auditors now perform employee benefit plan audits from their offices, never visiting the client site. We request that the ASB consider what challenges the auditor may face when performing such remote audits, and provide authoritative guidance to be considered in these situations.