



Agenda Item 1A

EXPOSURE DRAFT

**PROPOSED STATEMENT ON AUDITING
STANDARDS**

AUDIT EVIDENCE

(Supersedes Statement on Auditing Standards [SAS] No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 500, Audit Evidence [AICPA, Professional Standards, AU-C sec. 500]; Amends various other sections in SAS No. 122, as amended [AICPA, Professional Standards, AU-C secs. 200, 230, 315, 330, 505, 520, 530, and 540])

February __, 2019

Comments are requested by May __, 2019

**Prepared by the AICPA Auditing Standards Board for comment from persons interested
in auditing and reporting issues.**

Comments should be addressed to Sherry Hazel at shazel@aicpa.org.



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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Audit Evidence*. If released as final, this SAS will supersede SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, *section 500, Audit Evidence [AICPA, Professional Standards, AU-C sec. 500]*.

Convergence

As set forth in the ASB's operating procedures, convergence with the International Standards on Auditing (ISAs) is a key strategic objective. Accordingly, the ASB is keenly interested in the development of standards by the International Auditing and Assurance Standards Board (IAASB) that are fit for purpose for the U.S. audit profession and various stakeholders.

Background

SAS No. 122 was issued by the Auditing Standards Board (ASB) in October 2011 to apply the clarity drafting conventions to all outstanding statements on auditing standards through No. 121. issued by the ASB, including AU-C section 500, *Audit Evidence* (AU-C section 500).

In August 2017, the ASB began a project to address the evolving nature of audit services and issues that have arisen during the standard setting activities by the ASB and the IAASB. The overall objective of the project initially was to assess whether revisions of AU-C section 500 are appropriate and necessary to address the evolving nature of business. These issues include use of Emerging Technologies by both preparers and auditors, Audit Data Analytics (ADA), the application of Professional Skepticism, the expanding use of external information sources as audit evidence, and more broadly the accuracy, completeness, and reliability of audit evidence.

Emerging Techniques and Technologies

Emerging audit techniques, such as ADA, and emerging technologies such as, Artificial Intelligence (AI) and Blockchain, offer both challenges and opportunities that will affect audits of financial and nonfinancial information into the foreseeable future. For the purposes of this proposed SAS, the phrase "emerging techniques and technologies" will be used to refer to both emerging audit techniques and emerging technologies. Activity is ongoing in the U.S. and internationally regarding how the profession should respond to such emerging techniques and technologies, including consideration of whether changes would enhance audit quality and make professional standards more relevant in today's environment.

In September 2016, the IAASB issued a Request for Input, *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*. The Request for Input sought feedback from stakeholders about various aspects of the use of emerging techniques and technologies. In response to the Request for Input, the IAASB received over 55 comment letters. In January 2018, the DAWG published a Feedback Statement which summarizes the input received from Responders. The key messages were as follows:

- Responders expressed support for the direction of the project.
- The ISAs aren't "broken" and should remain principles-based *but need to reflect the digital era in application guidance*. Responders overwhelmingly described a strong desire for practical guidance on the use of data analytics technology. Most responders believe that the principles in the extant ISAs are still appropriate and accommodate the use of data analytics and cautioned against prematurely rushing to change requirements in the standards.
- In connection with standard-setting activity, the IAASB should first consider a project to amend ISA 500, *Audit Evidence*.¹
- Applying Professional Skepticism when using data analytics is important.

In the U.S., the AICPA has undertaken many activities and projects related to the use of ADA and emerging techniques and technologies. In late 2017, in response to work performed by a working group comprised of members from the ASB and the Assurance Services Executive Committee, the AICPA released a nonauthoritative guide, *Guide to Audit Data Analytics* (ADA Guide), which discusses the use of ADA in audit engagements.

In March 2018, the AICPA coordinated with CPA Canada to co-publish a [white paper on the implications of Blockchain to the audit and assurance profession](#).

Professional Skepticism

In recent years, the IAASB has had a working group considering the topic of Professional Skepticism. The projects on Quality Control and Group Audits, and Professional Skepticism represented the three areas for which the IAASB sought input from responders in its Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest*, issued in January 2016.

As explained in the ITC, the ISAs explicitly recognize the fundamental importance of Professional Skepticism.² Professional skepticism includes being alert to, for example, audit evidence that contradicts other audit evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as audit evidence. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.

The key issues identified with respect to professional skepticism are as follows:

- Questions have been raised about how auditors can more clearly demonstrate the application of professional skepticism, how to better describe the basis for the auditor's

¹ AU-C section 500 is substantially the same as ISA 500 because AU-C 500 was developed using ISA 500 as the base.

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing*, defines Professional Skepticism as An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.

professional judgments and how the auditor’s mindset has affected the nature, timing and extent of audit procedures performed *as well as the critical evaluation of audit evidence*.

- Concern about instances in which auditors did not appropriately apply professional skepticism in their audits is a recurring theme in audit inspection findings globally and has been a key issue in discussions about audit quality. Regulatory bodies have suggested that enhanced professional skepticism by auditors will contribute significantly to improving the quality of audits and that firms should prioritize efforts in this area.
- The existence of many ways to describe the application of professional skepticism indicates that the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, *may need to be more clearly articulated in our standards*.

Given this background and the issues related to professional skepticism identified above, the Task Force has taken an approach to 1) accept the definition of professional skepticism as set out in AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, 2) address these issues by proposing to interweave the concepts surrounding professional skepticism throughout AU-C section 500 and 3) attempting to explain auditor performance that would demonstrate the application of professional skepticism when obtaining and assessing the sufficiency and appropriateness of audit evidence. Simply having a separate section of a standard labeled “professional skepticism” or simply sprinkling the words “professional skepticism” throughout the standard is not sufficient to achieve the objectives outlined above.

External Information Sources

In September 2018, the IAASB issued ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ISA 540). In finalizing ISA 540, the IAASB also issued a series of conforming amendments to other ISAs, including conforming amendments to ISA 500, *Audit Evidence*. In general, the conforming amendments include a new definition of *external information sources*, related application material to the definition, and other application material that further explains the concept of external information sources. The proposed SAS includes substantially all of the IAASB’s conforming amendments to ISA 500.

Effective Date

If adopted, the SAS will be effective for audits of financial statements for periods ending on or after December 15, 2020.

Issues for Consideration

In drafting the proposed SAS, the ASB identified the following issues for which feedback is specifically requested:

Expanded Guidance on Evaluating Whether Sufficient Appropriate Audit Evidence Has Been Obtained

As currently articulated, the extant standard is focused on assessing whether audit evidence obtained is sufficient and appropriate based significantly on the nature of the audit procedures performed by the auditor to obtain the audit evidence. The ASB challenged whether the auditor's judgment about the sufficiency and appropriateness of audit evidence significantly based on the nature of the audit procedures performed by the auditor is still a viable construction due to the use of emerging techniques and technologies by both auditors and preparers today. Rather than continuing the current model, the ASB is proposing expanding the focus of the standard, including its objective, to be primarily focused on whether sufficient appropriate audit evidence has been obtained given the circumstances of the engagement notwithstanding the audit procedures performed to obtain the audit evidence. This change in focus of the standard is proposed to be accomplished by establishing a framework for evaluating such audit evidence based on certain attributes.

The proposed framework recognizes that the evaluation of what is meant by "sufficient appropriate" is a matter for the auditor's professional judgment, the application of professional skepticism, the degree to which the auditor may draw inappropriate conclusions, the assessment of the risks of material misstatements, and the audit procedures performed. Such evaluation is affected by the sources, relevance and reliability of the information to be used as audit evidence as well as its relationship to management's assertions. The articulation of this framework is reflected in the proposed SAS by the addition of new requirements and application material to address each of these attributes that affect audit evidence.

Respondents are asked to provide their views on

- whether the new requirements and application material, if implemented, would assist the auditor in more effectively evaluating whether sufficient appropriate audit evidence has been obtained, if not, why;
- whether the proposed framework will expand the types and sources of information considered by the auditor as audit evidence by lessening the emphasis on the specific audit procedures performed in making the evaluation of whether sufficient appropriate audit evidence has been obtained (that is, "audit procedures performed" is but one of many attributes to be taken into account in making such evaluations); and
- whether there are relevant factors or attributes of audit evidence missing that should be part of the proposed framework to evaluate whether sufficient appropriate audit evidence has been obtained, if yes, please describe?

Professional Skepticism

In response to the issues related to professional skepticism discussed in the background section, the proposed SAS addresses the topic of professional skepticism as follows:

- a. incorporates the definition of professional skepticism as set out in AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,

- b. addresses these issues by proposing to interweave the concepts surrounding professional skepticism throughout the proposed standard and
- c. explains auditor performance that would demonstrate the application of professional skepticism when obtaining and evaluating sufficient appropriate audit evidence.

Respondents are asked to provide their views on

- whether you agree with the approach taken by the ASB in addressing the topic of professional skepticism, if not, why; and
- if the guidance in the proposed standard 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, why?

Definitions

Sufficiency and Appropriateness

Extant AU-C section 500 contains separate definitions of “sufficiency” (a measure of quantity) and “appropriateness” (a measure of quality). The ASB has proposed that these separate independent definitions be removed from the proposed standard and be replaced by one combined term “sufficient appropriate” audit evidence. The reason for this proposed change is that the terms “sufficiency” and “appropriateness” should not be viewed in isolation or considered independently of each other. The ASB believes that audit evidence always has to be appropriate for the auditor’s intended purposes and the key question then is when the auditor has obtained enough of such audit evidence. In the proposed standard, the ASB has included a new definition of “sufficient appropriate audit evidence” which is audit evidence that is sufficient to persuade an experienced auditor to draw conclusions based on consideration of the audit evidence. Additionally, the concepts underlying “sufficiency” and “appropriateness” are fully discussed in the application material of the proposed SAS.

External Information Sources

The proposed SAS includes the IAASB’s conforming amendments to ISA 500 that were finalized in connection with ISA 540 (revised), *Auditing Accounting Estimates and Related Disclosures*. The conforming amendments to ISA 500 include a new definition of *External Information Sources*, related application material to the definition, and other application material that further explains the concepts of External Information Sources as they relate to evaluating audit evidence. The ASB made certain modifications to this content in order to achieve consistency with the new proposed framework.

Internal Information

Extant AU-C 500 section includes a definition of *accounting records*. This definition was developed at a time when paper format was the predominant medium. Since then, electronic information generated using various technologies have increased and become the most common format of documentation. In addition, the extant definition seems solely focused on the information

obtained in the preparation of the general ledger. This definition does not recognize other sources of information that management may use in the preparation of the financial statements. Therefore, the ASB is proposing including a new definition, *internal information*, that would reflect all internal information that management obtains, including accounting records, to prepare the financial statements.

Respondents are asked to provide their views on

- whether the changes to the definitions in extant AU-C 500 are appropriate and if not, why; and
- whether there are any other definitions that should be included in the proposed SAS, and if so, describe them.

Audit Procedures

Extant AU-C section 500 contains discrete classifications of audit procedures, that is, audit procedures include risk assessment and further audit procedures (test of controls and substantive audit procedures). With the use of ADA becoming common today and the evolving use of other techniques and technologies, the ASB discussed the matter of the classification ADA as an audit procedure. The ASB does not believe that ADA is an “audit procedure” under current discrete classifications, but rather it is a technique (usually automated) that an auditor may use in meeting the objective of an audit procedure and sometimes can be used by an auditor to meet multiple objectives and thus serve the purpose of more than one classification of audit procedure at the same time. The ASB proposes adding application material to make this point clear in the proposed SAS as follows:

A52. In some instances, the auditor may achieve the objective of more than one type of audit procedure (for example, as both a risk assessment and further audit procedure) and may accomplish the objectives of both types of procedures simultaneously, including achieving such objectives through the use of automated tools and techniques.

The auditor performs audit procedures when evaluating information, and in doing so obtains audit evidence. Those audit procedures may be carried out by the use of automated tools and techniques to accomplish the auditor’s objectives. The ASB is of the view that it is more appropriate to use the broad term *automated tools and techniques* as this likely better describes and encompasses all emerging technologies, including audit data analytics, artificial intelligence, etc. As an illustration, the ASB proposes adding the following paragraph to the application material:

A53. An example of automated tools and techniques are audit data analytics which are described as the analysis of patterns, identification of anomalies, or extraction of other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, or visualization for performing the audit.

Respondents are asked to provide their views on

- whether 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 whether the proposed SAS is enhanced by using illustrations of automated tools and techniques, that is, is the proposed SAS more relevant to audits conducted in today's environment.

Management's Specialists

The subject of management's specialists is currently addressed in extant AU-C section 500, if relevant to the audit, as part of the information to be used as audit evidence (paragraph 8 and related application material). As noted above, the ASB is proposing to add requirements and application material that would assist the auditor in evaluating whether sufficient appropriate audit evidence has been obtained. This framework includes the sources of audit evidence as one of the factors that the auditor would be required to consider in making such evaluations. In considering how the subject of management's specialists would be included in the framework, the ASB concluded that the management's specialist content contains specific requirements and application material that are unique and incremental to this specific topic.

As a result, the ASB proposes relocating the content dealing with management's specialists from AU-C section 500 to AU-C section 501, *Audit Evidence – Specific Considerations for Selected Items*, AU-C section 620, *Using the Work of an Auditor's Specialist* or to a separate standard, with no significant changes to the associated requirements or application material. In doing so, the ASB will also consider the PCAOB's proposed standard on the *Auditor's Use of the Work of Specialists* as a separate project of the ASB when the PCAOB's proposed standard is finalized.

Respondents are asked to provide their views on whether

- the relocation of the management's specialist from AU-C section 500 to AU-C section 501 or AU-C section 620 or to a separate standard is appropriate, and if not, why; and
- 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, AU-C section 620 or in a separate standard altogether?

Guide for Respondents

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on this exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after September 5, 2016, for one year. Responses should be sent to Sherry Hazel at shazel@aicpa.org and received no later than May __, 2019.

Format of the Exposure Draft

This exposure draft is presented in columnar format in which requirements and related application

material are presented side-by-side instead of in the traditional format of the requirements followed by the application and other material. This approach has been efficient for the ASB in developing and reviewing the proposed standard, and it is used here to help respondents better understand the nature of the changes in the context of the requirements and the related application material. The final standard will be issued in the traditional format.

Supplements to the Exposure Draft

To assist respondents in identifying changes and in responding to this request to comment on the proposed standard, the Audit and Attest Standards staff has prepared a document that identifies in detail the changes made to extant AU-C section 500. In addition, a traditional format of the proposed standard is presented as a supplemental document.

Comment Period

The comment period for this exposure draft ends on May __, 2019.

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(2017–2018)**

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PROPOSED STATEMENT ON AUDITING STANDARDS
AUDIT EVIDENCE

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AU-C section 500

Audit Evidence

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
Introduction	
Scope of This Proposed SAS	Scope of This Proposed SAS (Ref: par.1—6)
<p>1. This section explains what constitutes audit evidence in an audit of financial statements and addresses how an auditor evaluates the information obtained as a basis to determine whether <u>it is considered</u> sufficient appropriate audit evidence has been obtained.</p>	
<p>2. Audit evidence is necessary to provide a basis for the auditor’s opinion. It is cumulative in nature and may be it is obtained from through the <u>performance of one or more audit procedures performed</u> during the course of the audit or from other sources.</p>	<p><u>A1. Audit evidence may also include information obtained from other sources, such as previous audits, provided that the auditor has determined whether changes have occurred since the previous audits that may affect its relevance to the current audit or a firm’s quality control procedures for client acceptance and continuance.</u></p>
<p>3. Audit evidence is obtained through the performance of one or more audit procedures on information obtained by the auditor.</p>	
<p>4.3.The application of this proposed SAS assists the auditor in fulfilling the auditor’s responsibilities in other sections in GAAS in designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion, by setting out <u>factors and</u> attributes and factors of audit evidence to assist the auditor in evaluating the results of those audit procedures.</p>	
<p>5.4.<u>This</u> Accordingly, this proposed SAS is to be read in conjunction with other sections in GAAS that address the auditor’s responsibilities to</p>	<p><u>A2. For Paragraph 4 states that this proposed SAS should read in conjunction with sections in GAAS, for example, in accordance with AU-C section 330,</u></p>

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<p>identify and assess the risks of material misstatement,³ design and implement responses to the risks of material misstatement identified and assessed,⁴ and form an opinion on the financial statements.⁵</p>	<p>the auditor is required to:</p> <ul style="list-style-type: none"> • Obtain more persuasive audit evidence the higher the auditor’s assessment of risk.⁶ • Conclude whether sufficient appropriate audit evidence has been obtained.⁷ • Attempt to obtain further audit evidence if the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion.⁸ <p>The conclusion required by AU-C section 330 informs the auditor’s conclusion <u>is an element that the auditor is required to take into account in concluding</u> whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, as required by AU-C section 700.⁹</p>
<p>6.5. The overall evaluation about whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment and also involves exercising professional skepticism in gathering and evaluating such evidence. Evaluating whether sufficient appropriate audit evidence has been obtained includes consideration of, among other things, audit risk, the assessment of the risks of material misstatements; and the nature and extent of the audit procedures performed.</p>	<p>A3. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in light of the circumstances; for example, in the case when fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount. <u>AU-C section 200 provides application material in relation to exercising professional skepticism and</u></p>

³ AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

⁴ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

⁵ AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*

⁶ Par. 7b of AU-C section 330

⁷ Par. 28 of AU-C section 330

⁸ Par. 29 of AU-C section 330

⁹ Par. 14 of AU-C section 700

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<p>7.6. The source, relevance, and reliability of the information that may be used as audit evidence affects its persuasiveness. Audit evidence is also considered <u>assessed</u> in <u>relation to</u> whether it corroborates or contradicts the assertions in the financial statements. The attributes and factors <u>used</u> to evaluate whether information obtained is sufficient <u>represents</u> appropriate audit evidence is depicted as follows:</p> <div data-bbox="212 680 797 1192" data-label="Diagram"> </div> <p>*See AU-C section 501, Audit Evidence—Specific Considerations for Selected Items (Ref: par A4)</p>	<p><u>professional judgment.</u>¹⁰</p> <p>A4. The auditor’s evaluation of whether information constitutes appropriate audit evidence is not a formulaic exercise, but rather is a multi-dimensional assessment dependent on the degree to which attributes of audit evidence influences the auditor’s evaluation.</p>
<p>8.7. In fulfilling the requirements of this proposed SAS to evaluate information obtained as a basis to conclude whether sufficient appropriate audit evidence has been obtained, it is not intended to This proposed SAS does not establish audit documentation requirements beyond those audit documentation requirements that already exist in other sections such as AU-C section 315 or AU C section 330.</p>	
<p>Effective Date</p>	

¹⁰ Paragraph A22-A31 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.*

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<p>9.8. This proposed SAS is effective for audits of financial statements for periods ending on or after December 15, 2020_____.</p>	
<p>Objective</p>	
<p>10.9. The objective of the auditor is to evaluate information to which audit procedures hashave been applied in the performance of the audit as a basis for concluding whether sufficient appropriate audit evidence has been obtained.</p>	
<p>Definitions</p>	<p>Definitions (Ref: par. 10)</p>
<p>11.10. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:</p>	
<p><u>Appropriateness (of audit evidence). The measure of the relevance and reliability of audit evidence. The appropriateness of audit evidence is affected by the source from which it is obtained, and whether the information corroborates or contradicts the assertions in the financial statements.</u></p>	
<p><u>Sufficiency (of audit evidence). The measure of the persuasiveness of audit evidence. The persuasiveness of audit evidence is affected by the auditor’s assessment of the risks of material misstatement and by the appropriateness of such audit evidence.</u></p>	
<p>Audit evidence. Information to which audit procedures have been applied. (Ref: par A5–A6)</p>	<p>A5. The auditor may perform one or more procedures using different audit tools and/or techniques, including audit data analytics, visualization, or artificial intelligence in meeting objectives of the audit procedures. The outcome of the application of <u>audit procedures</u> those tools and techniques may take different forms and may pose</p>

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
	<p>unique considerations for the auditor in considering the relevance and reliability of such information. For example, it may be necessary to consider how the <u>tools or techniques were used to determine the accuracy and completeness of</u> data provided by the entity.</p>
	<p>A6. In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence.¹¹ For example, when considering whether contradictory information may exist regarding the entity’s recorded warranty provision, the auditor could consider the absence of sales returns <u>regarding of</u> the product in question as evidence supporting management’s recorded amount.</p>
<p>External Information. The information obtained external to the entity, including information from external information sources. (Ref: par. A7)</p>	<p>A7. External information includes information that may be considered by the auditor from external sources, such as media (including social media) and academic journals. Such information may or may not be used by the entity in preparing the financial statements and accordingly may not originate from an external information source as defined by this proposed SAS.</p>
<p>External Information Source. An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been used by the auditor as audit evidence, when such information is 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 organization¹², or auditor’s specialist¹³ the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A8)</p>	<p>A8. See Appendix A for the auditor’s considerations when using on external information sources.</p>

¹¹ Paragraph .A32 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

¹² AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

¹³ AU-C section 620, *Using the Work of an Auditor’s Specialist*.

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
	•
Internal information. The information developed or maintained by the entity, including accounting records. (Ref: par A9–A12)	A9. Audit evidence may be obtained from information that is contained in the accounting records underlying the financial statements and information obtained from other internal sources.
	<p>A10. Examples of accounting records include the following:</p> <ul style="list-style-type: none"> • the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries; and • records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures.
	A11. An example of information obtained from other internal sources is internal marketing information used as an assumption in making an accounting estimate for a warranty provision.
	<p>A12. Internal information (within or outside the general ledger and subsidiary ledgers)</p> <ol style="list-style-type: none"> 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 or a shared digital ledger such as blockchain; or. b. may be stored by the entity locally in paper form, within its information systems or may be stored in a network of hosted remote servers (the “Cloud”).
<u>Requirements</u>	

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<u>Sufficient Appropriate Audit Evidence</u>	<u>Sufficient Appropriate Audit Evidence (Ref: par. 11)</u>
<p>11. The auditor should evaluate information obtained as a basis for concluding whether sufficient appropriate audit evidence has been obtained by <u>considering-evaluating</u> its relevance and reliability, <u>in the context of the sources from which it was obtained</u>, and whether the information obtained corroborates or contradicts the assertions in the financial statements as set out in paragraphs <u>12-14</u> of this standard. (Ref: par. <u>A13-A18</u>)</p>	<p>A13.The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency and appropriateness are integral factors in evaluating the persuasiveness of the audit evidence. <u>As explained in section 200, reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.</u>¹⁴</p>
	<p>A14.Sufficiency is <u>AU-C section 330 requires the measure of the persuasiveness of auditor to conclude whether sufficient appropriate audit evidence has been obtained.</u>¹⁵</p>
	<p>A15.Appropriateness <u>The sufficiency and appropriateness of audit evidence is its relevance and reliability are interrelated. Sufficiency and appropriateness are integral factors in providing support for evaluating the conclusions on which persuasiveness of the auditor's opinion is based.</u> audit evidence.</p>
	<p>A16. The quantity of evidence, in and of itself, is not determinative of its sufficiency <u>persuasiveness</u>. Obtaining more of the same type of audit evidence cannot compensate for its poor quality <u>lack of appropriateness</u>. 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 very persuasive evidence (for example, corroborating</p>

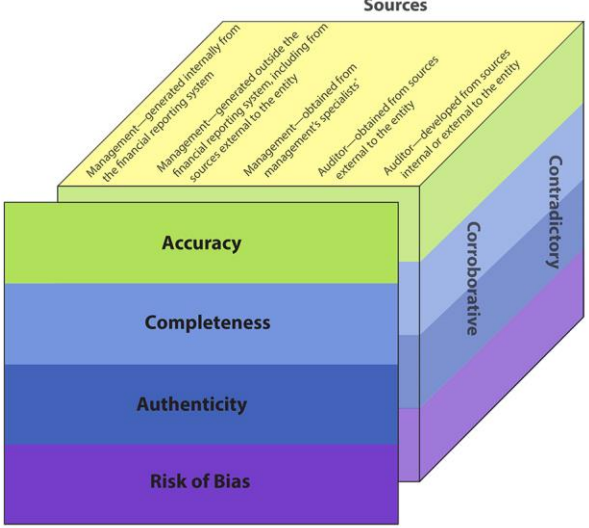
¹⁴ Paragraph .06 of section 200.

¹⁵ Paragraph 28 of AU-C section 330.

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	evidence obtained from an external information source).
Requirements	
Sufficient Appropriate Audit Evidence	Sufficient Appropriate Audit Evidence (Ref: par. 1112)
12. The auditor should evaluate information obtained as a basis for concluding whether sufficient appropriate audit evidence has been obtained by considering its relevance and reliability, sources, and whether the information obtained corroborates or contradicts the assertions in the financial statements as set out in paragraphs 13-15 of this standard. (Ref: par.A16-A22)	A17. As explained in section 200, reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.¹⁶
	A18. Additionally, AU-C section 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.¹⁷
	A19. The auditor is required to consider the relevance, reliability, sources, and whether the information corroborates or contradicts management's assertion.
	A20. A17 . Appropriate audit evidence is sufficient (i.e. that is, persuasive) when an experienced auditor would be persuaded to draw conclusions based on consideration of the audit evidence. However, obtaining more audit evidence may not compensate for lack of appropriate audit evidence.
	A21. A18 . <u>Consideration—Assessment</u> of the <u>relevance—appropriateness</u> of audit evidence obtained is also affected by whether the information is sufficiently precise or detailed for the auditor's

¹⁶ ~~Paragraph .06 of section 200.~~

¹⁷ ~~Paragraph 28 of AU-C section 330.~~

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	purposes.
	Audit evidence is necessary to provide a basis for the auditor's opinion. It is cumulative in nature and is obtained from audit procedures performed on information obtained during the course of the audit.
	A22. Audit evidence may also include information obtained from other sources, such as previous audits, provided that the auditor has determined whether changes have occurred since the previous audits that may affect its relevance to the current audit or a firm's quality control procedures for client acceptance and continuance.
Information to Be Used as Audit Evidence	Information to Be Used as Audit Evidence
	<i>Relevance</i>
<p><u>12.</u> In evaluating information obtained in accordance with paragraph <u>11</u>, the auditor should consider <u>assess</u> the relevance and reliability of the information to be used as audit evidence. (Ref: <u>par. A19–A41</u>)</p>	<p><u>A19.</u></p> 
<p>In evaluating information obtained in accordance with paragraph 12, the auditor should consider the relevance and reliability of the information to be used as audit evidence. (Ref: <u>par. A23–A44</u>)</p>	<p>A23. <u>A20.</u> The relevance of the information relates to the logical connection with, or bearing upon, the assertion under consideration. For example, the information or data related to salary may be relevant in auditing an accounting estimate for a bonus accrual. The relevance of information to be used as audit evidence also may be affected by the assertions being tested. For example, if the objective of an audit procedure is to test for overstatement in the existence or valuation of</p>

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	<p>accounts payable, testing the recorded accounts payable may provide relevant audit evidence. On the other hand, when testing for the completeness of accounts payable, testing the recorded accounts payable would not provide relevant audit evidence, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may provide relevant audit evidence.</p>
	<p>A24.<u>A21.</u> Information obtained may be relevant to certain assertions but not others. For example, information obtained related to the collection of receivables after the period-end may provide audit evidence regarding existence and valuation of receivables and occurrence and accuracy of revenue but not necessarily cutoff.</p>
	<p>A25.<u>A22.</u> The following are factors that may affect, individually or in combination, the relevance of information to be used as audit evidence:</p> <ul style="list-style-type: none"> • The objective of the audit procedures performed, including the assertions being tested • The account balances, classes of transactions, disclosures to which the information relates • The appropriateness of the period of time to which the information relates
	<p>A26.<u>A23.</u> Certain information, whether in paper or electronic form, provides audit 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 existence of an asset (for example, a record viewed on a blockchain will likely need to <u>may</u> be evaluated in the context of the reliability of the blockchain itself). However, inspection may not necessarily provide audit</p>

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	evidence about ownership or value. <u>Similarly, inspection of tangible assets may provide relevant audit evidence with respect to their existence but not necessarily about the entity's rights and obligations or the valuation of the assets.</u>
	<u>A27-A24.</u> Inspection of tangible assets may provide relevant audit evidence with respect to their existence but not necessarily about the entity's rights and obligations or the valuation of the assets. 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) to obtain information relevant to their existence.
	<u>A28-A25.</u> 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. 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, their relevant details. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).
	Reliability
	<u>A29-A26.</u> The consideration of the reliability of audit evidence is affected by the auditor's professional judgment and application of professional skepticism, audit risk, the assessment of the risks of material misstatements, and the audit procedures performed.
	<u>A30-A27.</u> <u>Section 520</u> provides further guidance regarding the reliability of data used for purposes of

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	designing analytical procedures as substantive procedures. ¹⁸
	A31.A28 . The reliability of the information to be used as audit evidence and, therefore, of the audit evidence itself is influenced by its source and nature. The nature of the information refers to whether the information is in written or electronic form, oral, or other contemporaneous formats.
	A32.A29 . The reliability of the information is affected to varying degrees, individually or in combination, by the following attributes: <ul style="list-style-type: none"> • Accuracy • Completeness • Authenticity • Risk of bias
	A33.A30 . The reliability of audit evidence, whether internal or external, is increased when the related controls (whether manual or automated), including those over its preparation and maintenance are effective. ¹⁹
	A34.A31 . Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
	Accuracy and Completeness
	A35.A32 . Obtaining audit evidence about the accuracy or completeness of information may be accomplished concurrently with the audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit

¹⁸ [Paragraph 5](#) of section 520, *Analytical Procedures*.

¹⁹ ~~See paragraph .08 of AU-C section 330.~~

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	<p>procedure itself. In some situations, the auditor may have obtained audit evidence about the accuracy and completeness of information by testing controls over the preparation and maintenance of the information. In other situations, however, the auditor may determine that additional audit procedures to address accuracy or completeness of the information are needed.</p>
	<p>A36.A33. In order to obtain information that is reliable, information produced from any source, whether internal or external and including any management's specialist, that is <u>Information to be used for performing</u> as <u>audit procedures—evidence, regardless of its source,</u> needs to be sufficiently complete and accurate. For example, reliability of the information, such as standard prices to records of sales volume to develop an expectation of sales revenue, is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.</p>
	<p>A37.A34. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to use the entity's performance measures for the purpose of analytical procedures or use the entity's information produced for monitoring activities such as reports of the internal audit function. In such cases, the appropriateness of the audit evidence 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.</p>
	Authenticity
	<p>A38.A35. Section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, addresses circumstances in which the auditor has reason to believe that a</p>

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	document or data (<u>that is, information</u>) may not be authentic or may have been modified without that modification having been disclosed to the auditor. ²⁰
	<u>A39.A36.</u> Information in its original form is more likely to be authentic than audit evidence <u>information</u> that has been transformed into another medium (for example, documents that have been scanned, or otherwise transformed to electronic form, the reliability of which may depend on the controls over their preparation and maintenance).
	Risk of Bias
	<u>A37.</u> <u>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.</u>
	<u>A40.A38.</u> A particular set of 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. Judgment may be required in determining whether the <u>reliability of information to be used as audit evidence by is suitable for use by a broad range of users,</u> taking into account the <u>risk of bias associated with the</u> ability of the entity to influence the external information source.
	<u>A41.A39.</u> A greater risk of management bias in the preparation and fair presentation of information may exist in the following circumstances: <ul style="list-style-type: none"> a. in generating information from internal sources, b. in selecting information from an external source known to be favorably biased toward corroborating management’s assertions or information, e. Management unknowingly uses information from an external information

²⁰ Paragraph .A11 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

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	<p style="text-align: center;">source that is biased in generating information or</p> <p style="text-align: center;"><i>d.c.</i></p>
	<p>A42-A40. Also, a greater risk of bias may exist in situations wherein the auditor’s consideration is inhibited by tendencies in judgment that lead to bias and weaken professional skepticism, such as the following:</p> <ul style="list-style-type: none"> a. Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgment. b. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences. c. Overconfidence bias, which involves overestimating one’s own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions. d. Anchoring bias, which involves making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.
	<p>A43-A41. Information with a higher risk of bias is considered less reliable than information where the risk of bias is lower.</p>
<i>Sources</i>	<i>Sources</i> (Ref: par. 13)
<p>13. In evaluating information obtained in accordance with paragraph 11, the auditor should consider <u>assess</u> the sources of information to be used as audit evidence. (Ref: <u>par.A42-A47</u>)</p>	<p>A42.</p>

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<p>In evaluating information obtained in accordance with paragraph 12, the auditor should consider the sources of information to be used as audit evidence. (Ref: par.A45–A49)</p>	<p>A44.A43. The nature and extent of the auditor’s consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the 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 possibility that the information from the information source may not be reliable (for example, whether it is from a credible source).</p>
	<p>A45.A44. Information to be used as audit evidence may be <u>obtained or</u> derived individually or in combination from the following sources:</p> <ol style="list-style-type: none"> a. Management—generated internally from the financial reporting system, b. Management—generated outside the financial reporting system, including from sources external to the entity, c. Management—obtained from management’s specialists,²¹ from d. Auditor—obtained from sources external to the entity, or e. Auditor—developed from sources internal

²¹ See AU-C section 501.

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	or external to the entity
	<p>A46.<u>A45.</u>As explained in paragraph <u>A44</u>, information to be used as audit evidence by the auditor may be <u>obtained directly or</u> derived individually or in combination from the sources of information described therein. For example, in making an accounting estimate for an accumulated pension obligation, management may use information or data that is generated internally by the financial reporting systems; information or data generated externally of the financial reporting system (including information or data and assumptions from external sources); and information or data obtained from a management’s specialist. Similarly, an auditor may obtain information or data 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 or data that takes into account operating data, changes in operations, and changes in economic conditions.</p>
	<p>A47.<u>A46.</u>The auditor’s consideration of the information to be used as audit evidence can 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.</p>
	<p>A48.<u>A47.</u>Some sources of electronic information (for example, a record maintained in the blockchain) may provide a central location from which the auditor may obtain audit evidence.</p>

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<i>Corroborative or Contradictory Information</i>	<i>Corroborative or Contradictory Information</i> <i>(Ref:-14)</i>
<p>14. In evaluating information obtained in accordance with paragraph 11, the auditor should consider <u>assess</u> whether the information obtained corroborates or contradicts the assertions in the financial statements. (Ref: <u>par.A48–A51</u>)</p>	<p>A48.</p>
<p>In evaluating information obtained in accordance with paragraph 12, the auditor should consider whether the information obtained corroborates or contradicts the assertions in the financial statements. (Ref: par.A50–A52)</p>	<p>A49. AU-C section 330 requires <u>states</u> that in forming a conclusion about whether sufficient appropriate audit evidence has been obtained, the auditor should consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict the assertions being tested by the auditor or the amounts recorded in the financial statements.²²</p>
	<p>A50. The level of assurance obtained involves consideration of audit evidence that both corroborates assertions in the financial statements and audit evidence that contradicts assertions in the financial statements. For example, corroborating information obtained from a source independent of the entity may increase the assurance that the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation.</p>
	<p>A51. Audit evidence that contradicts assertions in the financial statements may influence the auditor's</p>

²² paragraph 28 of AU-C section 330.

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	<p>evaluation of whether sufficient appropriate audit evidence has been obtained even in situations when the source of that contradictory audit evidence is less reliable than the source of audit evidence supporting assertions in the financial statements. However, the auditor does not consider contradictory audit evidence in isolation, but rather as part of the auditor’s consideration of the audit evidence obtained with respect to that management assertion taken as a whole.</p>
<p>Inconsistency of Audit Evidence</p>	<p>Inconsistency of Audit Evidence (Ref: par. <u>15</u>)</p>
<p>13.15. <u>15.</u> If</p> <ul style="list-style-type: none"> i. audit evidence obtained from one source is inconsistent with that obtained from another or ii. the auditor has doubts about the reliability of information to be used as audit evidence, <p>the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of the matter, if any, on other aspects of the audit. (Ref: par. <u>A52–A53</u>)</p>	<p>A52.Audit evidence obtained from different sources or that is of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, an external confirmation is inconsistent with the terms of a debt obligation. Section 230, <i>Audit Documentation</i>, includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor’s final conclusion regarding a significant finding or issue.²³</p>
	<p>A53.Although corroboration through inquiry of audit evidence obtained is often of particular importance, in<u>In</u> the case of inquiries about management intent, the information available to support management’s intent may be limited. The exercise of professional skepticism is particularly important when corroborative audit evidence is limited to inquiry. In these cases, understanding management’s past history of carrying out its stated intentions, management’s stated reasons for choosing a particular course of action, and management’s ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry if it is not inconsistent.</p>

²³ Paragraph .12 of section 230, *Audit Documentation*

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Audit Procedures for Obtaining Audit Evidence	Audit Procedures for Obtaining Audit Evidence (Ref: par. <u>16</u>)
<p>14.16. When evaluating information obtained as a basis for concluding whether sufficient audit evidence has been obtained, the auditor should consider <u>assess</u> the nature, timing, and extent of the audit procedures performed in obtaining the audit evidence. (Ref: par. <u>A54–A80</u>)</p>	<p>A54.As required by, and explained further in section 315 and section 330, audit evidence to draw reasonable conclusions on which to base the auditor’s opinion is obtained by performing the following:^{24 25}</p> <ul style="list-style-type: none"> a. Risk assessment procedures b. Further audit procedures, which comprise <ul style="list-style-type: none"> 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.
	<p>A55.The nature, timing, and extent of the audit procedures performed influences the persuasiveness of the audit evidence obtained. For example, inspection or observation provides more persuasive audit evidence than inquiry about existence.</p>
	<p>A56.In some instances, the auditor may achieve the objective of more than one type of audit procedure (for example, as both a risk assessment and further audit procedure) and may accomplish the objectives of both types of procedures simultaneously, including achieving such objectives through the use of automated tools and/or techniques.</p>
	<p>A57.An example of automated tools and/or techniques are audit data analytics, which are described as the analysis of patterns, identification of anomalies, or extraction of other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, or visualization.</p>

²⁴ Paragraphs .05–.06 of section 315.

²⁵ Paragraphs .06–.07 of section 330.

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	<p>A58.The auditor may use automated tools and/or techniques such as audit data analytics, to process, organize, structure, or present data in a given context to generate useful information that may become audit evidence.</p>
	<p>A59.The nature and timing of the audit procedures to be used may be affected by the fact that some of the information may be available only in electronic form or only at certain points or periods in time.</p>
	<p>A60.Certain electronic information may not be available after a specified period of time (for example, if files are changed and backup files do not exist). Accordingly, the auditor may find it necessary, as a result of data retention policies, to request retention of some information for the performance of audit procedures at a later point in time or to perform audit procedures at a time when the information is available.</p> <p>A61.Some electronic information (for example, records maintained on the blockchain) is available on a continuous basis during the audit. In such cases, auditors may develop procedures utilizing automated tools and techniques, such as audit data analytics, or artificial intelligence to obtain audit evidence about transactions, including more routine transactions, on a more real-time basis.</p>
	<p>A62.Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Audit data analytics may be used as a technique by which these procedures are performed. Although inquiry may provide important audit evidence and may even lead to the identification of a potential misstatement, inquiry of management alone ordinarily does not provide sufficient appropriate audit evidence.</p>
	<p>A63.Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media or a physical examination of an asset. An example of inspection used as a test of controls is inspection of records for</p>

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	evidence of authorization which can be performed manually or through automated techniques.
	A64. Inspection of information may provide audit evidence of varying degrees of relevance and reliability. Inspection procedures may involve the use of automated techniques, for example, text recognition programs used to examine large populations of documents such as contracts that may may aid the auditor in identifying items for further audit considerations.
	A65. Observation consists of 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).
	A66. Automated tools or techniques such as a camera accessed remotely (for example, a camera mounted on a drone) may aid the auditor in performing an observation procedure, such as management’s physical inventory count. Similar tools may also aid the auditor in performing inspection procedures, such as the auditor’s independent physical inventory count.
	A67. Observation provides audit evidence about the performance of a process or procedure but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed. Section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i> , addresses the observation of the counting of inventory. ²⁶
	A68. An external confirmation represents audit evidence obtained by the auditor as a direct response knowingly provided to the auditor by a third party (the confirming party) in paper form, orally, or by electronic or other medium. See section 505 , <i>External Confirmations</i> , for further guidance.

²⁶ [Paragraphs 11–15](#) of section 501, *Audit Evidence—Specific Considerations for Selected Items*.

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	<p>A69.Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or through automated techniques.</p> <p>A70.Through the use of automated techniques auditors may be able to perform recalculation procedures on 100 percent of a population, for example, recalculating the gross margin for each product sold for an entity’s product line.</p>
	<p>A71.Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity’s internal control.</p>
	<p style="text-align: center;"><u>Audit Data Analytics</u></p>
	<p>A72.Section 520 addresses the auditor’s use of analytical procedures as a means for obtaining audit evidence. Audit data analytics are a technique by which the auditor may perform analytical procedures. For example, the auditor’s performance of a regression analysis may provide appropriate audit evidence with respect to the occurrence, completeness, accuracy, or cut off of a company’s revenue transactions.</p>
	<p>A73.Automated tools and<u>or</u> techniques such as audit data analytics may be used to perform a risk assessment procedure, a substantive procedure, or in some circumstances, both concurrently.</p>
	<p>A74.As a risk assessment procedure, an audit data analytics technique may be used to visualize transactional detail. For example, a visualization may be prepared to depict the composition of a population to understand the volume and dollar value of items in the population. While this may be a useful technique in obtaining audit evidence about the identification and assessment of the risks of material misstatement, it may not be sufficiently precise in obtaining audit evidence to respond to the assessed risks of material misstatement <u>at the assertion level</u>.</p>

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	<p>A75.As explained in paragraph A73, an auditor may perform an audit data analytic technique as both a risk assessment procedure and a substantive procedure concurrently. For example, audit data analytic techniques may be used to identify relevant characteristics of an entire population of transactions and at the same time, to identify any transactions that have a higher risk of material misstatement. In this circumstance, the identification of relevant characteristics of an entire population of transactions and almost simultaneous identification of items that exhibit a higher risk of material misstatement on which to perform further audit procedures may constitute a risk assessment procedure.</p>
	<p>A76.In the example set out in paragraph A75, the auditor may also determine that the audit data analytics technique performed also meets the objective of a substantive procedure with respect to information obtained about those transactions in the population falling within the predefined expectations if the auditor deems the audit data analytic sufficiently precise to respond to the assessed risks of material misstatement.²⁷ Thus, the data analytic may serve as both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).</p>
	<p>A77.The auditor may obtain evidence about the effectiveness of the entity’s internal control through the use of automated techniques, such as audit data analytics. For example, through the use of audit data analytics, the auditor may be able to obtain evidence about the effectiveness of a control such as, the use of sequential numbering of sales invoices for the year and determine whether any gaps in numbering or duplicates occurred to determine whether the test of control was effective in assuring completeness of the invoices issued during the period covered.</p>

²⁷ See paragraph 5c of AU-C section 520, *Analytical Procedures*.

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	<p>A78.<i>Scanning</i> is a type of analytical procedure involving the auditor’s exercise of professional judgment to review data to identify significant or unusual items to test. This 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. Scanning may include searching for large or unusual items in the accounting records (for example, nonstandard journal entries), as well as in transaction data (for example, suspense accounts and adjusting journal entries) for indications of misstatements that have occurred. Electronic audit procedures may assist the auditor in identifying unusual items. When the auditor selects items that exhibit characteristics of risk of material misstatement by scanning, the auditor obtains audit evidence about those items. The auditor’s scanning also provides audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has exercised professional judgment to determine that the items not selected are less likely to be misstated. The auditor may use automated tools or techniques to perform a scanning procedure. For example, the auditor might access an entire population of transactions within a software program and then use formulas embedded in the software to extract only those transactions meeting the auditor’s criteria for a transaction being unusual.</p>
	<p>A79.<i>Inquiry</i> consists of seeking information of knowledgeable persons, both financial and nonfinancial, within the entity or outside the entity. Inquiry is used extensively throughout the audit, in addition to other audit procedures. Evaluating responses to inquiries is an integral part of the inquiry process.</p>
	<p>A80.Responses to inquiries may provide the auditor with audit evidence not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs</p>

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	significantly from other audit evidence that the auditor has obtained (for example, audit evidence regarding the possibility of management override of controls). In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

A81.

Appendix A – Considerations Regarding the Use of External Information Sources

As defined in paragraph .05, an external information source is an external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been used by the auditor as audit evidence, when such information is available for use by a broad range of users.

External information sources may include pricing services, governmental organizations, central banks, recognized stock exchanges, media, or academic journals. Examples of information that may be obtained from external information sources include:

- Prices and pricing related data;
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
- Credit history data;
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and
- Mortality tables used to determine liabilities in the life insurance and pension sectors.
- Documents or records in websites, databases, or distributed ledgers.

When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization²⁸, or auditor's specialist²⁹ the particular information individual or organization is not considered an external information source with respect to that particular information.

However, an external individual or organization may, for example, be acting as a management's specialist when providing a particular set of information but may be acting as an external information source when providing a different set of information. Professional judgment may be needed to determine whether an external individual or organization is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:

- An external individual or organization may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organization may also be acting as a management's or auditor's specialist in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use which, when used by

²⁸ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

²⁹ AU-C section 620, *Using the Work of an Auditor's Specialist*.

an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's specialist with respect to different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

- An external individual or organization may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the external individual or organization applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial statements, the external individual or organization is likely to be a management's specialist with respect to that information. If, on the other hand, that external individual or organization merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own estimation methods, the external individual or organization is likely to be an external information source with respect to such information.
- An external individual or organization may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with FASB Accounting Standards Codification 275, *Risk and Uncertainties*), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organization is likely to be acting as a management's specialist.
- An external individual or organization may apply its expertise in providing information about current and future market trends, which it makes available to, and is suitable for use by, a broad range of users. If used by the entity to help make decisions about assumptions to be used in making accounting estimates, such information is likely to be considered to be information from an external information source. If the same type of information has been commissioned by the entity to address current and future trends relevant to the entity's specific facts and circumstances, the external individual or organization is likely to be acting as a management's specialist.

The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial statements or was obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence:

- a. about the external information source or the preparation of the information by the external information source, or
- b. obtained through designing and performing further audit procedures in accordance with AU-C section 330 or, where applicable, AU-C section 540.

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

The following factors may be important when 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 can 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 and/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 in place controls 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;³⁰
- 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; and

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

³⁰ See paragraphs .A56–.A62 of AU-C section, *Audit Evidence—Specific Considerations for Selected Items*.

A82.

Appendix B—Amendments to Sections in Statement on Auditing Standards No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

[No amendment to paragraphs .01–.A32.]

.A33 The sufficiency and appropriateness of audit evidence are interrelated. ***Appropriate audit evidence is sufficient when an experienced auditor would be persuaded to draw conclusions based on consideration of the audit evidence.*** ~~The quantity of audit evidence needed is affected by the auditor’s assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required).~~ Obtaining more audit evidence, however, may not compensate for its poor quality. Obtaining more audit evidence, however, may not compensate for its poor quality.

[No amendment to paragraphs .A34–.A75.]

.A76The auditor is required by paragraph .23b to use the objectives stated in the relevant AU-C sections to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If, as a result, the auditor concludes that ***sufficient appropriate*** the audit evidence ***has not been obtained*** ~~is not sufficient and appropriate~~, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph .23b:

- Evaluate whether further ~~relevant~~ audit evidence has been, or will be, obtained as a result of complying with other AU-C sections
- Extend the work performed in applying one or more requirements
- Perform other procedures judged by the auditor to be necessary in the circumstances

When none of the preceding is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by GAAS to determine the effect on the auditor’s report or on the auditor’s ability to complete the engagement.

AU-C Section 230, *Audit Documentation*

[No amendment to paragraphs .01–.05.]

.06 For purposes of GAAS, the following terms have the meanings attributed as follows:

Audit documentation. The record of audit procedures performed, ~~relevant~~ audit evidence obtained, and conclusions the auditor reached (terms such as *working papers* or *workpapers* are also sometimes used)...

AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

[No amendment to paragraphs .01–.A79.]

.A80 *Audit evidence for elements of the control environment.* ~~Relevant a~~ **Audit evidence related to elements of the control environment** may be obtained through a combination of inquiries and other risk assessment procedures, such as corroborating inquiries through observation or inspection of documents. For example, through inquiries of management and employees, the auditor may obtain an understanding of how management communicates to employees management’s views on business practices and ethical behavior. The auditor may then determine whether relevant controls have been implemented by considering, for example, whether management has a written code of conduct and whether it acts in a manner that supports the code.

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

[No amendment to paragraphs .01–.27.]

.28 The auditor should conclude whether sufficient appropriate audit evidence has been obtained. In 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.

[No amendment to paragraphs .29–.A16.]

A17. *In some situations, there may be only one provider of certain information, 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 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 information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible*

authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information to the source's website or published information. In other cases, if a source is not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.

[Paragraphs .A18–.A47 are renumbered as .A18–.A48. The content is unchanged.]

.A49 The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~relevant~~ *sufficient appropriate* audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included. For example, the auditor might inspect subsequent cash disbursements and compare them with the recorded accounts payable to determine whether any purchases had been omitted from accounts payable.

[Paragraphs .A49–.A50 are renumbered as .A50–.A51. The content is unchanged.]

.A52 External confirmation procedures frequently may be relevant when addressing assertions associated with account balances and their elements but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no "side agreement" exists that may be relevant to an entity's revenue cut-off assertion. Other situations in which external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include the following:

- Bank balances and other information relevant to banking relationships
- Inventories held by third parties at bonded warehouses for processing or on consignment
- Property title deeds held by lawyers or financiers for safe custody or as security
- Investments held for safekeeping by third parties or purchased from stockbrokers but not delivered at the balance sheet date
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants

- Accounts payable balances and terms

~~.A53~~ Although external confirmations may provide ~~relevant~~ *sufficient appropriate* audit evidence relating to certain assertions, some assertions exist for which external confirmations *would not* provide ~~less relevant~~ *sufficient appropriate* audit evidence. For example, external confirmations *may not* provide ~~less relevant~~ *sufficient appropriate* audit evidence relating to the recoverability of accounts receivable balances ~~than they do of their existence.~~

[Paragraphs ~~.A53–.A72~~ are renumbered as ~~.A51–.A73~~. The content is unchanged.]

.A74 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.

AU-C Section 505, *External Confirmations*

[No amendment to paragraph .01]

~~.02~~ ~~Section 500 indicates that the reliability of audit evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained.~~^{fn}

~~Section 500 also includes the following generalizations applicable to audit evidence.~~^{fn-2}

- ~~• Audit evidence is more reliable when it is obtained from independent sources outside the entity.~~
- ~~• Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.~~
- ~~• Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium.~~

~~Accordingly,~~ ~~d~~ Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This section is intended to assist the auditor in designing and performing external confirmation procedures to obtain ~~relevant and reliable~~ audit evidence. *Section 500 provides requirements and application material to assist the auditor in evaluating whether the audit evidence obtained in performing external confirmation procedures.*

^{fn-1} ~~Paragraph .A5 of section 500, *Audit Evidence*.~~

^{fn-2} ~~Paragraph .A32 of section 500.~~

[Subsequent footnotes are renumbered.]

.03 Other AU-C sections recognize the importance of external confirmations as audit evidence; for example

- section 330 discusses the auditor's responsibility (a) to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and (b) to 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.^{fn 3} In addition, section 330 requires that, irrespective of the assessed risks of material misstatement, the auditor design and perform substantive procedures for all relevant assertions related to each material class of transactions, account balance, and disclosure.^{fn 4} The auditor is required to consider whether external confirmation procedures are to be performed as substantive audit procedures and is required to use external confirmation procedures for accounts receivable unless
 - the overall account balance is immaterial,
 - external confirmation procedures would be ineffective, or
 - the auditor's assessed level of risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.^{fn 5}
- section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk.^{fn 6} ~~To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both.~~ For example, the auditor may place more emphasis on obtaining evidence directly from *appropriate* third parties or obtaining corroborating evidence from a number of independent sources. Section 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence ~~with the high level of reliability~~ that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.^{fn 7}
- section 240, *Consideration of Fraud in a Financial Statement Audit*, indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.^{fn 8}
- Section 500 indicates that corroborating information obtained from a source independent of the entity (such as external confirmations) may increase the assurance the auditor obtains from evidence existing within the accounting records or representations made by management.^{fn 9}

^{fn 3} Paragraphs .05–.06 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

^{fn 4} Paragraph .18 of section 330.

^{fn 5} Paragraphs .19–.20 of section 330.

^{fn 6} Paragraph .07b of section 330.

^{fn 7} Paragraph .A58 of section 330.

^{fn 8} Paragraph .A43 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

^{fn 9} Paragraph ~~A8~~ .A50 of *proposed* section 500.

[No amendment to paragraphs .03–.04.]

.05 The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence.

.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 ~~written~~ response to the auditor from a third party (the confirming party), either in paper form, **orally**, or by electronic or other medium (for example, through the auditor’s direct access to information held by a third party). (Ref: [par. .A1](#))

...

[No amendment to paragraph .07.]

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

.08 If management refuses to allow the auditor to perform external confirmation procedures, the auditor should

- a. inquire about management’s reasons for the refusal and seek audit evidence about their validity and reasonableness; (Ref: par. A.9)
- b. evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures; and (Ref: par. A10)
- c. perform alternative audit procedures designed to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence. (Ref: par. A11)

.09 If the auditor concludes that management's refusal to allow the auditor to perform external confirmation procedures is unreasonable or the auditor is unable to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence from alternative audit procedures, the auditor should communicate with those charged with governance, in accordance with section 260, *Those Charged with Governance*.^{fn 10} The auditor also should determine the implications for the audit and the auditor's opinion, in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

^{fn 10} [Footnote omitted for purposes of this proposed SAS.]

.12 In the case of each nonresponse, the auditor should perform alternative audit procedures to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence. (Ref: par. A24–A27)

.13 If the auditor has determined that a ~~written~~ response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor should determine the implications for the audit and the auditor's opinion, in accordance with section 705.

[No amendment to paragraphs .14–.A2.]

.A3 Responses to confirmation requests provide more ~~relevant and reliable~~ **appropriate** audit evidence when confirmation requests are sent to a confirming party who the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

[No amendment to paragraphs .A4–.A11.]

.A12 ~~Section 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.~~^{fn 13} All responses carry some risk of interception, alteration, or fraud. Such risk exists regardless of whether a response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include whether it

- was received by the auditor indirectly or
- appeared not to come from the originally intended confirming party.

^{fn 13} ~~Paragraph .A32 of section 500~~

[No amendment to paragraphs .A13–.A15.]

.A16 The auditor is required by section 500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence.^{fn 14} The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party (for example, as described in paragraph .A14). When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

^{fn 14} Paragraph ~~10~~ **II** of section 500.

[No amendment to paragraphs .A17–.A25.]

.A26 The auditor may determine that it is not necessary to perform additional alternative audit procedures beyond the evaluation of the confirmation results if such evaluation indicates that ~~relevant and reliable~~ **sufficient appropriate** audit evidence has already been obtained. This may be the case when testing for overstatement of amounts and (a) the nonresponses in the aggregate, projected as 100 percent misstatements to the population and added to the sum of all other unadjusted differences, would not affect the auditor's decision about whether the financial statements are materially misstated and (b) the auditor has not identified unusual qualitative factors or systematic characteristics related to the nonresponses, such as that all nonresponses pertain to year-end transactions.

~~.A27—An oral response to a confirmation request does not meet the definition of an external confirmation because it is not a direct written response to the auditor. Provided that the auditor has not concluded that a direct written response to a positive confirmation is necessary to obtain sufficient appropriate audit evidence, the auditor may take the receipt of an oral response to a confirmation request into consideration when determining the nature and extent of alternative audit procedures required to be performed for nonresponses, in accordance with [paragraph 12](#). The auditor may perform additional procedures to address the reliability of the evidence provided by the oral response, such as initiating a call to the respondent using a telephone number that the auditor has independently verified as being associated with the entity. For example, the auditor might call the main telephone number obtained from a reliable source and ask to be directed to the named respondent instead of calling a direct extension provided by the client or included in the statement or other correspondence received by the entity. The auditor may determine that the additional evidence provided by contacting the respondent directly, together with the evidence upon which the original confirmation request is based (for example, a statement or other correspondence received by the entity), is sufficient appropriate audit evidence. In appropriately documenting the oral response, the auditor may include specific details, such as the identity of the person from whom the response was received, his or her position, and the date and time of the conversation.~~

When a ~~Written~~ Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence (Ref: par. .13)

.A28 In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include the following:

- The information available to corroborate management’s assertion(s) is only available outside the entity.
- Specific fraud risk factors, such as the risk of management override of controls or the risk of collusion, which can involve employee(s) or management, or both, prevent the auditor from relying on evidence from the entity.

AU-C Section 520, *Analytical Procedures*

Objectives

[No amendment to paragraphs .01–.02.]

.03 The objectives of the auditor are to

- a. obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence when using substantive analytical procedures and
- b. design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion about whether the financial statements are consistent with the auditor’s understanding of the entity. (Ref: par. .A1)

[No amendment to paragraphs .04–.A16.]

.A17 The reliability of data is influenced by its source and ~~nature~~ **the relationship to management’s assertion.** ~~and is dependent on the circumstances under which it is obtained.~~ Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- a. The source of the information available. ~~For example, information may be more reliable when it is obtained from independent sources outside the entity.~~
fn-6
- b. The comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products.

- c. The nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved.
- d. Controls over the preparation of the information that are designed to ensure its completeness, accuracy, and validity. For example, controls over the preparation, review, and maintenance of budgets.

AU-C Section 530, *Audit Sampling*

[No amendment to paragraph .01. footnote intentionally omitted]

.02 This section complements section 500 *Audit Evidence*, which ~~addresses the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence~~ **explains what constitutes sufficient appropriate audit evidence and provides a framework to evaluate audit evidence obtained.** ~~to be able to draw reasonable conclusions as a basis for forming the auditor's opinion.~~ Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, provides guidance on the means available to the auditor for selecting items for testing, one of which is audit sampling.

AU-C Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

[No amendment to paragraphs .01–.A27. Paragraph .A28 shown for contextual purposes]

Management's Use of Specialists^{fn-11} ~~(Ref: [par. .08c\(iii\)](#))~~

.A28 Management may have, or the entity may employ individuals with, the experience and competence necessary to make estimates. In some cases, however, management may need to engage a specialist to make estimates or assist in making them. This need may arise because of, for example

- the specialized nature of the matter requiring estimation (for example, the measurement of mineral or hydrocarbon reserves in extractive industries).
- the technical nature of the models required to meet the relevant requirements of the applicable financial reporting framework, as may be the case in certain measurements at fair value.
- the unusual or infrequent nature of the condition, transaction, or event requiring an accounting estimate.

^{fn-11} ~~See Paragraph .08 of section 500, *Audit Evidence*, which addresses management's~~

specialists.

[No amendment to paragraphs .A29–.A69]

.A70 In accordance with section 500, *Audit Evidence*, the auditor is required to ***consider the relevance and reliability of the information to be used as audit evidence. Section 500 explains that the reliability of the audit evidence is affected to varying degrees, individually or in combination, by the following attributes:***

- Accuracy
- ***Completeness***
- ***Authenticity, and***
- ***Risk of bias***

~~evaluate whether the data on which the estimate is based is sufficiently reliable for the auditor's purposes, including, as necessary.~~^{fn 18}

~~a. obtaining audit evidence about the accuracy and completeness of the data.~~

~~b. evaluating whether the data is sufficiently precise and detailed for the auditor's purposes.~~

^{fn 18} Paragraph ~~.09~~ .07 of section 500