Agenda Item 3C

AU-C section 500

Audit Evidence

Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements

Introduction

Scope of This Section

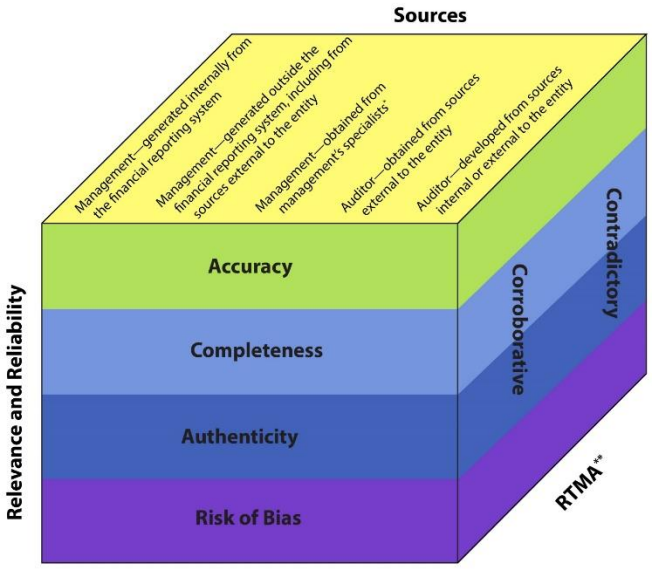
1. This section explains what constitutes audit evidence in an audit of financial statements and provides a framework to evaluate audit evidence obtained. Other sections address the auditor's responsibilities to identify and assess the risks of material misstatement,[1] design and implement responses to the risks of material misstatement identified and assessed,[2] and form an opinion on the financial statements.[3]

2. The evaluation of whether information constitutes sufficient appropriate audit evidence is a matter for the auditor's professional judgment and involves applying professional skepticism, the degree to which the auditor may draw inappropriate conclusions, considering the assessment of the risks of material misstatements, and the audit procedures performed. Such evaluation is affected by the sources, relevance and reliability and the relationship to management's assertion of the information to be used as audit evidence. The framework to evaluate audit evidence is depicted as follows:

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

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

[3] AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*



*See AU-C section 501, Audit Evidence—Specific Considerations for Selected Items

**Denotes "relationship to management assertion."

(Ref: par A1)

[Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]

Effective Date

3. This section is effective for audits of financial statements for periods ending on or after December 15, 2020.

Objective

4. The objective of the auditor is to evaluate whether information obtained is sufficient appropriate audit evidence for the auditor's purposes.

Definitions

5. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Audit evidence. Information that has been used by the auditor in arriving at the conclusions on which the auditor's opinion is based. (Ref: par A2–A3)

External Information. All of the information obtained external to the entity, including information from external sources. (Ref: par. A4)

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 suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization[4], or auditor's specialist [5] the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A5–A7)

Internal information. All of the information developed or maintained by the entity, including accounting records. (Ref: par A8–A11)

Sufficient Appropriate Audit Evidence. Appropriate audit evidence that is sufficient to persuade an experienced auditor to draw conclusions based on consideration of the audit evidence.

Requirements

Sufficient Appropriate Audit Evidence

6. The auditor should obtain appropriate audit evidence that is sufficient to reduce audit risk to an acceptably low level. In doing so, the auditor should evaluate the audit evidence by considering its relevance and reliability, sources, and the relationship to management assertions of the audit evidence as set out in paragraphs 7–9 of this standard. (Ref: par.A12–A16)

Information to Be Used as Audit Evidence

7. In evaluating audit evidence in accordance with paragraph 6, the auditor should consider the relevance and reliability of the information to be used as audit evidence. (Ref: par. A17–A35)

Sources

8. In evaluating audit evidence in accordance with paragraph 6, the auditor should consider the sources of information to be used as audit evidence. (Ref: par.A36–A44)

Relationship to Management's Assertion of the Information To Be Used for as Audit Evidence

9. In evaluating audit evidence in accordance with paragraph 6, the auditor should consider the relationship of information to management's assertions regardless of whether it appears to corroborate or contradict the assertions in the financial statements. (Ref: par.A45–A47)

Inconsistency of Audit Evidence

[4] AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.
[5] AU-C section 620, *Using the Work of an Auditor's Specialist*.

10. If

.*a* audit evidence obtained from one source is inconsistent with that obtained from another or

.*b* the auditor has doubts about the reliability of information to be used as audit evidence,

the auditor should determine what modifications or additions to audit procedures are necessary to obtain sufficient appropriate audit evidence and should consider the effect of the matter, if any, on other aspects of the audit. (Ref: par. A48–A49)

Audit Procedures for Obtaining Audit Evidence

11. When evaluating whether sufficient appropriate audit evidence has been obtained, the auditor should consider the nature, timing, and extent of the audit procedures performed in obtaining the audit evidence. (Ref: par.A50–A76)

Application Material

Scope of This Section (Ref: par. 1)

A1. The auditor's evaluation 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.

Definitions (Ref: par. 5)

A2. Audit evidence may be obtained through the performance of various audit procedures on information obtained by the auditor. The auditor may perform various procedures using different audit tools and techniques, including audit data analytics, visualization, or artificial intelligence in meeting objectives of the audit procedures.

A3. In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence.[6] For example, when considering whether contradictory information may exist regarding the entity's recorded provision for returned goods, the auditor could consider the absence of negative content on social media regarding the product in question as evidence supporting management's recorded amount.

A4. External information includes information generated by the auditor from external sources.

A5. 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:

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

- 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.

A6. An external individual or organization cannot, in respect of any particular set of information, be both:

- an external information source and a management's expert, or
- service organization or auditor's specialist.

A7. 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. In some circumstances, 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 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.

A8. 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.

A9. Examples of accounting records include the following:

- the underlying 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

- supporting records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures.

A10. An example of information obtained from other internal sources is marketing information used as an assumption in making an accounting estimate for a warranty provision.

A11. Internal information (within or outside the general ledger and subsidiary ledgers);

a. may be in electronic or paper form. An example of internal information in electronic form is a shared digital ledger such as blockchain; or

b. may be stored by the entity locally within its information systems or may be stored in a network of hosted remote servers (the "Cloud").

Sufficient Appropriate Audit Evidence (Ref: par. 6)

A12. 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. [7]

A13. The auditor is required to consider the relevance, reliability and reliability, sources, and the relationship to management assertions of information, unless such information is clearly not relevant for the auditor's purposes.

A14. Appropriate audit evidence is sufficient 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.

A15. Audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes.

A16. Audit evidence is necessary to provide a basis for auditor's opinion and report. It is cumulative in nature and is obtained from audit procedures performed on relevant information obtained during the course of the audit.

Information to Be Used as Audit Evidence

Relevance

A17. The relevance of the information relates to the logical connection with or bearing upon the assertion under consideration. For example, the data or information related to salary may be relevant in making an accounting estimate for a bonus accrual. The relevance of information to be used as audit evidence also may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of 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.

A18. Information may be relevant to certain assertions but not others. For example, information related to the collection of receivables after the period-end may provide audit evidence regarding

[7] Paragraph .06 of section 200.

existence and valuation of receivables and revenue but not necessarily cutoff.

A19. The following are factors that may affect, individually or in combination, the relevance of information to be used as audit evidence:

a. The objective of the audit procedures performed, including the direction of testing

b. The management assertion(s) to which the information relates

c. The appropriateness of the period of time to which the information relates

A20. Some information, whether in paper or electronic form, provides direct audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, bond, or a public key of a cryptocurrency in a blockchain); however, inspection may not necessarily provide audit evidence about ownership or value.

A21. 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.

A22. 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).

A23. The consideration of the reliability of audit evidence is affected by the auditor's professional judgment and application of professional skepticism, considering the degree to which the auditor may draw inappropriate conclusions, the assessment of the risks of material misstatements, and the audit procedures performed.

A24. Section 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.[8]

Reliability

A25. The reliability of the audit evidence is affected to varying degrees, individually or in combination, by the following attributes:

- Accuracy

[8] Paragraph 5 of section 520, *Analytical Procedures*.

- Completeness
- Authenticity, and
- Risk of bias

A26. The reliability of 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 audit evidence refers to whether the audit evidence is in written or electronic form, oral, contemporaneous, etc..

A27. The reliability of audit evidence, whether internal or external, is increased when the related controls, including those over its preparation and maintenance are effective.

Accuracy and Completeness

A28. 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 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.

A29. In order for the auditor to obtain reliable audit evidence, information produced from any source, whether internal or external and including any management's specialist, that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of an audit procedure, such as applying 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.

A30. 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 (that is, accurate) for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Authenticity

A31. Section 240, Consideration *of Fraud in a Financial Statement Audit*, addresses circumstances in which the auditor has reason to believe that a document or data may not be authentic or may have been modified without that modification having been disclosed to the

auditor.[9]

A32. Information in its original form is more likely to be authentic than audit evidence 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

A33. 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 information is suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.

A34. A greater risk of bias may exist in the following circumstances:

a. Management is biased in generating information from internal sources,

b. management is biased in selecting information from an external source known to be favorably biased toward corroborating management's assertions or information,

c. management unknowingly uses information from an external information source that is biased in generating information, or

d. the auditor's consideration is inhibited by tendencies in judgment that lead to bias and weaken professional skepticism, such as the following:

i. Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgment.

ii. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.

iii. Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions.

iv. 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.

A35. Information with a higher risk of bias is considered less reliable than audit evidence where the risk of bias is lower.

Sources (Ref: par. **8)**

A36. 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

[9] Paragraph .A11 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

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).

A37. Information to be used as audit evidence may be derived individually or in combination from the following sources:

.*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,10

.*d* Auditor—obtained from sources external to the entity, or

.*e* Auditor—developed from sources internal or external to the entity

A38. As explained in paragraph A37, information to be used as audit evidence by the auditor may be 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 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.

A39. 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[11] or a firm's quality control procedures for client acceptance and continuance.

A40. 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.

A41. 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 obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include:

a. audit evidence about the external information source or the preparation of the

[10] See AU-C section 501.

[11] Paragraph .10 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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.

A42. 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 of that information.

A43. The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its and 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 is likely to be an authority for certain types of information;

- The ability to influence the information obtained, through relationships between the entity and the 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 a 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;[12]

- 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.

A44. 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.

*Relationship to Management's Assertion of Information To Be Used as Audit Evid*ence *(Ref: 9)*

A45. AU-C section 330 requires that the auditor 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 in the financial statements.[13]

A46. The level of assurance obtained involves consideration of audit evidence that both corroborates management's assertions and audit evidence that contradicts management's assertions. 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.

A47. Audit evidence that contradicts management's assertions may influence the auditor's 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 management's assertions. However, the auditor does not consider contradictory audit evidence in isolation, but rather it is part of the auditor's consideration of the audit evidence obtained with respect to that management's assertion taken as a whole.

Inconsistency of Audit Evidence (Ref: par. 10)

A48. 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, *Audit Documentation*, includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant finding

[12] See paragraphs .A56–.A62 of AU-C section, *Audit Evidence—Specific Considerations for Selected Items*.
[13] paragraph 28 of AU-C section 330.

or issue.[14]

A49. Although corroboration of evidence obtained through inquiry is often of particular importance, in 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.

Audit Procedures for Obtaining Audit Evidence (Ref: par. 11)

A50. 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:[15] [16]

a. *Risk* assessment procedures

b. *Further* audit procedures, which comprise

i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and

ii. substantive procedures, which include tests of details and substantive analytical procedures.

A51. The nature, timing, and extent of the audit procedures performed by the auditor influences the persuasiveness of the audit evidence obtained by the auditor. For example, inspection or observation provides more persuasive audit evidence than inquiry about existence.

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.

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.

A54. The auditor may use automated tools and techniques such as, audit data analytics, to process, organize, structure, or present data in a given context to generate useful information that

[14] Paragraph .12 of section 230, *Audit Documentation*
[15] Paragraphs .05–.06 of section 315.
[16] Paragraphs .06–.07 of section 330.

may become audit evidence.

A55. 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.

A56. Certain electronic information may not be available after a specified period of time (for example, if files are changed and if 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.

A57. 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.

A58. 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 produce appropriate evidence of a misstatement, inquiry of management alone ordinarily does not provide sufficient appropriate audit evidence.

A59. 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 evidence of authorization which can be performed manually or through automated techniques.

A60. 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 achieve the audit objectives or for the purpose of identifying items for further audit considerations.

A61. 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).

A62. 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.

A63. 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, *Audit*

Evidence—Specific Considerations for Selected Items, addresses the observation of the counting of inventory.[17]

A64. 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, External Confirmations, for further guidance.

A65. Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or through automated techniques.

A66. 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.

A67. Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

A68. 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.

A69. Automated tools and techniques such as audit data analytics may be used to perform a risk assessment procedure, a substantive procedure, or in some circumstances, both concurrently.

A70. 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, it may not be sufficiently precise in obtaining audit evidence to respond to the assessed risks of material misstatement.

A71. As explained in paragraph A69, 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.

A72. In the example set out in paragraph A71, the auditor may also determine that the audit data analytics technique performed also meets the objective of a substantive procedure with respect to

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

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.[18] Thus, the data analytic may serve as both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).

A73. 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.

A74. *Scanning* 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.

A75. Inquiry 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.

A76. 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 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.

[18] See paragraph *5c* of *AU*-C section 520, *Analytical Procedures*.