



Agenda Item 4

Audit Evidence

Objective of Agenda Item

To discuss feedback arising from the comment letters received in connection with the Exposure Draft related to the proposed Statement on Auditing Standards, *Audit Evidence* (proposed SAS) and initial proposed direction by the Task Force based on such feedback.

Task Force

Task Force members are:

- Jay Brodish, PwC, Chair (supported by Kathy Healy)
- Jim Burton, GT
- David Finkelstein, SingerLewak (TIC)
- Audrey Gramling, Oklahoma State University
- Kristen Kociolek, GAO
- Susan Jones, KPMG and IAASB Technical Advisor
- Jeff Schaberg, Deloitte (supported by Sally Ann Bailey)
- Eric Turner, CPA Canada and IAASB Member
- Alan Young, EY and IAASB AEWG Correspondent Member

Bob Dohrer, Chief Auditor, AICPA, serves as an observer of the task force.

Background

The overall objective of the revisions to the proposed SAS is to address the evolving nature of business and audit services, specifically 1) use of emerging technologies by both preparers and auditors, 2) audit data analytics (ADA), 3) the application of professional skepticism, 4) the expanding use of external information sources as audit evidence, and 5) more broadly, the accuracy, completeness, and reliability of audit evidence.

On June 20, 2019, the Auditing Standards Board (ASB) issued the Exposure Draft related to the proposed SAS. The Exposure Draft period ended September 18, 2019. The Task Force met in-person on October 1-2, 2019 to begin analyzing the feedback from the comment letters and discuss the recommendations outlined in this paper, including the preliminary proposed next steps.

Forty comment letters were submitted by responders (see Appendix for the full list of responders).¹

Matters for the ASB's Consideration

I. General

Substantially all of the comment letters expressed support of the overall objectives of the Exposure Draft ("ED") and the general direction the ED was going. There were three responders (Deloitte, Rechtman, AAA) who, in the Task Force's view, were not supportive of the proposed ED.

Despite the broad support, there were, however, numerous recommendations and suggestions to make further refinements to the proposed SAS and a number of comment letters included drafting recommendations which will need to be further evaluated by the Task Force. Some of the more significant recommendations are summarized throughout the remainder of this Issues Paper.

In addition to feedback in relation to specific questions posed in the exposure draft, some concerns were expressed in relation to: 1) whether the proposed ED went far enough (for example, in relation to using automated tools and techniques), 2) whether a more broad and holistic approach to updating the applicable standards should occur (e.g., addressing "historical" categories of procedures which would result in conforming amendments (beyond AU-C section 500)), and 3) creating differing definitions of evidence for audits under AICPA, PCAOB and IAASB standards. There were also responders (Tennessee, NYS, Virginia, Texas, Montana, PwC, EY, Baker Tilly (US), CohnReznick, Janover, Moss Adams) who expressed the view that the proposed revisions will not result in significant changes in practice and made suggestions of what would be needed to make the proposed SAS more relevant and impactful.

This Issues Paper summarizes some of the key issues identified by the Task Force and the Task Force's proposed direction to obtain feedback from the ASB. Although indicative drafting suggestions are included in some cases to illustrate the proposed direction, the Task Force recognizes that further drafting changes may be needed based on the Task Force's detailed evaluation of comments and the ASB's feedback.

II. Attributes/Factors/Diagram

As explained in the Explanatory Memorandum to the Exposure Draft, the objective of extant AU-C section 500 is focused on the design and performance of audit procedures to obtain sufficient and appropriate audit evidence. The ASB's deliberations in developing the proposed SAS challenged whether the auditor's judgment about the sufficiency and appropriateness of audit evidence that is significantly based on the nature of audit procedures performed by the auditor is still the most appropriate due to the expanding sources of information that might be used as audit evidence and the expanding use of automated tools and techniques by both auditors and preparers. Rather than continuing the current model, the focus of the proposed SAS was primarily on understanding the attributes and factors to consider in evaluating information to be used as audit

¹ Comment letters can be accessed at:
<https://www.aicpa.org/research/exposedrafts/accountingandauditing/proposed-statement-on-auditing-standards-audit-evidence-comment-.html>.

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evidence as the basis for the auditor’s evaluation in AU-C section 500 as to whether sufficient appropriate audit evidence has been obtained. This change in focus of the proposed SAS is intended to be accomplished by establishing attributes and factors to consider in evaluating such audit evidence.

The attributes and factors of information to be used as audit evidence were depicted throughout the proposed SAS by a diagram (see paragraphs 5, A12, A34, and A45 of the proposed SAS). The ASB believed that this diagram may be useful in illustrating the attributes and factors considered, with the goal of enhancing the readability and application of the requirements in the proposed SAS.

Questions to Responders on this Issue

Q3. Would the proposed attributes and factors expand the types and sources of information considered by the auditor as audit evidence by lessening the emphasis on how audit evidence is obtained (that is, “audit procedures performed”)? If not, please explain why.

Results:

Agree	19	
Agree with Comments	5	<ol style="list-style-type: none"> 1. NYS 2. GT 3. Illinois 4. BDO 5. UCF(4)
Disagree	9	<ol style="list-style-type: none"> 1. Rechtman 2. AAA 3. Virginia 4. PwC 5. EY 6. Deloitte 7. Baker Tilly (US) 8. CohnReznick 9. Janover
Did not answer	7	

Q4. Are there relevant attributes and factors of audit evidence missing from the proposed SAS that should be considered by the auditor when evaluating the appropriateness of audit evidence? If so, please describe them.

Results:

Complete	21	
Complete with Comments	5	<ol style="list-style-type: none"> 1. MACPA 2. AAA 3. Texas

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		4. Deloitte 5. Janover
Missing Attributes	6	1. Rechtman 2. RSM 3. UCF 4. Hunter 5. Janover 6. AICPA EBP
Did not answer	8	

Q5. Does the diagram in the proposed SAS appropriately depict the attributes and factors that the auditor considers in evaluating whether sufficient appropriate audit evidence has been obtained?

Results:

Agree	9	
Agree with Comments	9	1. Tennessee 2. RSM 3. UCF 4. Illinois 5. PwC 6. UCF Masters (3) 7. UCF Masters (2) 8. EY 9. CohnReznick
Disagree	17	1. Rechtman 2. NYS 3. Graham 4. AAA 5. Virginia 6. TIC 7. GT 8. GAO 9. KPMG 10. Texas 11. NSAA 12. BDO, 13. Baker Tilly (Global) 14. Kentucky 15. Baker Tilly (US) 16. Hunter 17. Janover
Did not answer	5	

Comment Letters

Substantially all of the comment letters expressed support of the proposed change in focus of the objectives of the proposed SAS from being driven by the performance of audit procedures to an objective that also focuses on the evaluation of the information to be used as audit evidence (which is the outcome of the application of the auditor's procedures) by considering the attributes and factors set out in the proposed SAS.

With respect to the diagram, 9 responders were supportive of including the diagram in the proposed SAS and believed it was helpful; 9 responders who agreed with the use of the diagram had various additional comments on how the diagram could be improved. On the other hand, 17 responders found the diagram confusing and not helpful. In general, the responders had very mixed views on the diagram.

The following is a summary of the responders' more detailed comments and suggestions for improvements.

- A few responders (KPMG, PwC, Janover) expressed concern that the interaction between attributes and factors and how the auditor designs and performs audit procedures is not clear (for example, whether the auditor considers potential sources of audit evidence in planning the audit).
- While many responders expressed support for the use of the attributes and factors, others (Baker Tilly (US), PwC, Deloitte, EY, CohnReznick, TIC) expressed a view that the proposed SAS would not by itself result in the auditors expanding the types and sources of evidence or have a significant impact on current practice.
- Some responders (Rechtman, Virginia, TIC, GT, Kentucky) expressed concern that all sources and all attributes as presented in the diagram seem to suggest that all of the sources and attributes of audit evidence are always weighted or considered equally. Others (AAA, Virginia, Baker Tilly (US)) noted it as incomplete as it did not include relevance.
- Several responders (AICPA EBP, KPMG, RSM, UCF (4)) requested more guidance on obtaining evidence in an increasingly electronic environment, including the significance of controls testing to consider reliability when data is maintained or transferred to the auditor electronically. Three responders (AAA, KPMG, CohnReznick) suggested clarification of the intent of paragraphs A26 and A27 related to authenticity is necessary, in particular to explain how the audit might consider the integrity of information to be used as audit evidence that is in electronic form.
- Two responders (AAA, MACPA) suggested inclusion of the concept of timeliness in describing relevance, with MACPA suggesting a closer linkage to the enhancing qualitative characteristics noted in SFAC 8 to expand upon the concept of reliability. Another respondent (Rechtman) suggested the timeliness and complexity of management's response in providing information are also relevant considerations.
- In evaluating the sufficiency and appropriateness of audit evidence, the auditor is required to consider relevance and reliability, of which the risk of bias is presented as a

factor. A few responders (AAA, RSM, GT, CohnReznick) suggested that the term “risk of bias” is confusing and suggested using the term “susceptibility to bias” instead as this phrase is used elsewhere in the AU-Cs.

- Three responders (GT, PwC, Deloitte) raised issues with respect to including the concept of auditor bias, questioning whether it was appropriately placed in AU-C section 500.
- Two responders (Graham, UCF) noted that the consideration of the nature of the evidence needs to be highlighted, including whether it is directly or indirectly related to the assertion in the financial statements. For example, audit evidence directly relates to or supports the numbers and disclosures in the financial statements under examination (for example, source documents supporting the numbers and disclosures) or only indirectly relates to the financials (for example, tests of controls, external information, peer information, etc.).
- Four responders (AAA, Virginia, KPMG, NSAA) expressed concerns over the potential misinterpretation of the diagram and lack of alignment of the factors and attributes with the requirements and application material.
- A responder (KPMG) noted that the terms “attributes” or “attributes and factors” are not used consistently throughout the standard.

Task Force Views

In light of responders’ views, the Task Force is proposing to revise the application material to include many of the refinements as suggested by the responders, including responding as appropriate to how the attributes of audit evidence are described; for example addressing the recommendation to change “risk of bias” to “susceptibility to bias” and clarifying the guidance about authenticity. Also, with respect to the comments on the relative weight of the attributes of audit evidence, the Task Force proposes to address this comment by enhancing paragraph A4 of the proposed SAS to explain that the evaluation of the attributes of evidence is not a formulaic exercise, but is dependent on the auditor’s professional judgment. The Task Force also intends to explore whether and how best to incorporate additional factors suggested by the responders, such as the notion of direct and indirect audit evidence as well as the consideration of the precision and timeliness of the information to be used as audit evidence. The Task Force acknowledges that editorial changes are necessary to address comments raised by responders with respect to inconsistent use of terminology, such as “attributes and factors” or “factors,” regarding which, the Task Force plans to consider using one word or provide clarification of the different definitions and usage. Any changes to the application material (including the ordering of material presented), will need to be considered in light of the proposed changes described in Sections III and IV of this paper.

With respect to the diagram or the “cube,” the Task Force recognizes that, while the diagram was intended to be a graphical depiction of concepts in the proposed SAS and was intended to help the auditor better visualize the proposed SAS, it has its limitations. For example, the diagram as drafted does not depict important considerations such as 1) specific attributes related to relevance of the information to be used as audit evidence, 2) professional skepticism, and 3) the consideration of the results of the audit procedures. As a result of the varied feedback on the diagram, in particular

the concern over how it aligned with the requirements and guidance in the proposed SAS, the Task Force recommends that it be removed from the requirements and application paragraphs of the proposed SAS. The Task Force will consider whether the diagram (with revisions suggested by commenters) would be a useful tool as an Exhibit (non-authoritative) to the proposed SAS or in developing implementation material such as a “white paper” or other form of implementation material in which more information can be provided to more fully explain the intended objective of the diagram.

III. Definitions

In the proposed SAS, the ASB retained separate definitions of *sufficiency* and *appropriateness*. The definition of *appropriateness* remained largely the same as the extant definition. However, the ASB proposed to amend the definition of *sufficiency* to focus on the measure of the *persuasiveness* of audit evidence rather than emphasizing the *quantity* of audit evidence. The ASB believed that this was an important change because, with the array of automated tools and techniques available to the auditor in today’s environment and the different nature and sources of information available, the *quantity* of audit evidence, in itself, may not be determinative of its sufficiency.

Questions to Responders on this Issue

Q9. Are the changes to the definitions in extant AU-C section 500 appropriate? If not, please explain why.

Results:

Appropriate	17	
Appropriate with Comments	7	<ol style="list-style-type: none"> 1. Virginia 2. KPMG 3. UCF Masters 4. BDO 5. UCF Masters (3) 6. CohnReznick 7. Hunter
Not Appropriate	11	<ol style="list-style-type: none"> 1. Rechtman 2. MACPA 3. Graham 4. RSM 5. AAA 6. NYS 7. GAO 8. GT 9. PwC 10. Deloitte 11. Janover
Did not answer	5	

Q10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

Results:

Complete	20	
Not Complete	11	<ol style="list-style-type: none"> 1. Rechtman 2. Graham 3. AAA 4. RSM 5. UCF 6. Illinois 7. UCF Graduate 8. NSAA 9. UCF Masters (2) 10. Hunter 11. Janover
Did not answer	9	

Comment Letters

- While there was support for a conceptual shift to persuasiveness, several responders (Graham, GT, GAO, UCF Masters (3), CohnReznick, Janover, PwC, Deloitte) expressed significant concerns over changing the definition of “sufficiency” to solely refer to persuasiveness and suggested restoring the definition of sufficiency to be described in terms of “quantity.” Several responders (Graham, GT, GAO, KPMG, PwC, Deloitte) believed that the definition of “sufficiency” should be retained because they believed that: 1) quantity is an integral factor, (2) the change would result in differences with other standards (IAASB and PCAOB) (GAO, PwC), and (3) the change would be confusing because sufficiency is subsumed as part of the notion of persuasiveness and thus it raises the issues of circularity (PwC, Graham, RSM).
- Some responders (MACPA, RSM, Rechtman, PwC, GT) expressed concern about using the terms sufficiency and persuasiveness interchangeably.
- There was concern from 3 responders (Virginia, PwC, Deloitte) regarding the removal of the term “quality” from the definition of appropriateness, thereby severing the important “linkage” between the two concepts of sufficiency and appropriateness.
- Four responders (KPMG, BDO, PwC, Deloitte) expressed concern about the proposed definition of “audit evidence” because it is not consistent with the definitions by other standard setters. Also, the definition is not consistent with how the term is used elsewhere in the proposed SAS.
- Four respondents (GT, PwC, Deloitte, Virginia) questioned why the definition of external information sources was not consistent with the IAASB’s definition.

- Twenty responders expressed their belief that no additional definitions were necessary in the proposed SAS. The 11 respondents who did not believe the definitions were complete variously suggested that terms such as persuasiveness, relevance, reliability, completeness, accuracy, bias, professional skepticism and professional judgment could be defined within the SAS.

Task Force Views

The Task Force considered the responders’ comments with respect to changing the definition of sufficiency to focus on persuasiveness and that “quality” should be in the definition of appropriateness. Therefore, the Task Force recommends substantially restoring the definitions of sufficiency and appropriateness to the definitions in extant AU-C section 500 and repositioning other application material into the definition. The Task Force also considered additional language from PCAOB AS 1105.

However, the Task Force believes that the notion of the persuasiveness remains relevant because other standards (for example, AU-C section 330) require that the higher the assessment of the risks of material misstatement, the more persuasive the audit evidence the auditor is required to obtain. To that point, the Task Force believes that additional application material is needed to explain (1) that the product of appropriateness and sufficient audit evidence results in persuasive audit evidence, a point acknowledged by some responders, and (2) that “quantity” as a measure of sufficiency does not necessarily mean physical quantity but rather refers to the “amount” of audit evidence.

Indicative Drafting Suggestions

<i>Definition</i>	<i>Application Material</i>
<p>Audit evidence. <i>All the information used by the auditor, whether obtained from the performance of audit procedures or other sources, in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence consists of both information that corroborates the assertions in the financial statements and information that contradicts such assertions.</i></p>	<p>AXa. Audit evidence is cumulative in nature and is obtained primarily through the performance of one or more audit procedures on information obtained during the course of the audit <i>on information to be used as audit evidence. Audit evidence may be obtained from other sources, including external information sources. The auditor may also use automated tools and techniques as a means to obtain audit evidence. The audit evidence that is needed at the relevant assertion level depends on the auditor’s assessment of the risk of material misstatement.</i></p>
<p></p>	<p>AXbA2The nature of audit procedures the auditor performs on information to obtain audit evidence may range from simple to</p>

	<p>more extensive procedures, and the time required to perform such procedures varies accordingly. <i>AXb</i> <i>The nature of audit procedures the auditor performs in order to use information as audit evidence may depend on its source, and may range from simple to more extensive procedures. For example, when using information from an external information source, it may be relatively easy to obtain the information and the auditor’s considerations are largely focused on considering the source of that information. On the other hand, more extensive procedures, including procedures to test controls, may be necessary when the auditor intends to use information generated internally from the financial reporting system as audit evidence.</i> The nature, timing and extent of audit procedures performed on information <i>also</i> influences the persuasiveness of the audit evidence obtained. For example, inspection or observation may provide more persuasive audit evidence than inquiry about existence.</p>
	<p><i>AXcA6.</i> Audit evidence is information to which audit procedures have been applied. Audit evidence may be obtained by the auditor</p> <ul style="list-style-type: none"> a. during the course of the current year audit. b. 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.² c. based on the results of applying the firm’s quality control

² Paragraph .10 of AU-C section 315.

	<p>procedures for client acceptance and continuance to the engagement.</p>
	<p>AXdA7. In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence.³ For example, when considering whether contradictory information may exist regarding the entity’s recorded warranty provision, the absence of sales returns of the product in question may be evidence supporting management’s recorded amount.</p>
<p>Appropriateness (of audit evidence). The measure of the <i>quality</i> relevance and reliability of audit evidence, <i>that is, its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based.</i></p> <p>[Source: Extant AU-C section 500 with elevated application material that appears in PCAOB AS 1105.06]</p>	<p>AXe. <i>As explained in AU-C section 200, the sufficiency and appropriateness of audit evidence are interrelated. Together they affect the persuasiveness of audit evidence. The auditor’s conclusion of whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section 330 is both at the relevant assertion level as well as the financial statement level. The evidence that is needed is affected by the risk of material misstatement. As the risk increases, the need for more persuasive evidence needed also increases. For example, ordinarily more persuasive evidence is needed to respond to significant risks.</i></p>
<p>Sufficiency (of audit evidence). The measure of the <i>quantity</i> persuasiveness of audit evidence. The persuasiveness <i>quantity</i> of audit evidence necessary is affected by the auditor’s assessment of the risks of material misstatement <i>and the quality of the audit evidence obtained (that is, its appropriateness).</i></p>	<p>AXf. When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be a factor for the auditor to consider. <i>As the quality of evidence increases, the need for additional evidence decreases.</i> However, obtaining more of the same type of audit evidence may not <i>cannot</i> compensate for its lack of appropriateness.</p> <p>[more work needed to determine how this should be positioned (i.e., as guidance to the definitions or to integrate with the application</p>

³ Paragraph .A32 of AU-C section 200.

<i>[Source: Extant AU-C section 500 (with minor edits) with elevated application material that appears in PCAOB AS 1105.05]</i>	<i>material in paragraphs A9-A11 that are tagged to the requirement in paragraph 9.]</i>
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IV. Flow of Requirements

As explained above, the focus of the proposed SAS was primarily on understanding the attributes and factors of the information to be used as audit evidence. The attributes and factors were reflected in the proposed SAS by the addition of new requirements and application material. More specifically, the proposed SAS contained an overarching requirement (paragraph 9 of the proposed SAS) that would require the auditor to evaluate the information to be used as audit evidence as a basis for concluding whether sufficient appropriate audit evidence has been obtained as required by AU-C section 330. This overarching requirement was followed by separate requirements (paragraphs 10–12 of the proposed SAS) for the auditor to consider the individual attributes and factors of audit evidence — that is, its relevance and reliability, its sources, and whether the information corroborates or contradicts the assertions in the financial statements.

Questions to Responders on this Issue

Q2. If implemented, would the new requirements and application material assist the auditor in more effectively evaluating whether sufficient appropriate audit evidence has been obtained? If not, please explain why.

Results:

Agree	25	
Agree with Comments	5	<ol style="list-style-type: none"> 1. NYS 2. AAA 3. GT 4. PwC 5. Moss Adams
Disagree	7	<ol style="list-style-type: none"> 1. Rechtman 2. Graham 3. Virginia 4. KPMG 5. Montana 6. Deloitte 7. ABA
Did not answer	3	

Comment Letters

Thirty responders expressed support for establishing requirements and application material to address the attributes and factors of information to be used as audit evidence, including responders who made suggestions. However, as noted in Section I above, a number of those responders did not believe the proposed SAS would markedly change current practice. Seven responders questioned whether the proposed SAS provided enough guidance to assist auditors in concluding that sufficient appropriate audit evidence has been obtained. Other matters that were raised by responders included:

- The ABA expressed a view that more guidance would be needed for community banks in relation to CECL.
- GT, KPMG and the AICPA’s EBP Expert Panel suggested more guidance was needed to address how auditors consider environments that are virtually paperless. GT and Moss Adams were also of the view that more guidance is needed to allow auditors to think differently about audit evidence obtained from emerging tools and technologies (see also Section V).

There were also concerns expressed by a few responders about the flow of the requirements. More specifically:

- A responder (Deloitte) expressed concern that the construct of the separate requirements which the auditor would be required to “consider” in making the evaluation whether sufficient appropriate audit evidence has been obtained was not clear. In particular, Deloitte expressed the view that the term “consider” seems to convey a work effort that might be too weak, and instead suggested using a more actionable term such as “take into account.”
- Three responders (PwC, Moss Adams, Graham) noted that the interaction between the requirement to consider whether the results of the audit procedures are reasonably expected to provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained and the other attributes and factors of audit evidence was not clear.
- KPMG questioned the relationship between paragraph 12 of the proposed SAS in which the auditor would be required to consider whether the information to be used as audit evidence corroborates or contradicts the assertions in the financial statements and paragraph 14 in which the auditor would be required to resolve any inconsistencies in, or doubts over the reliability of, audit evidence.

Task Force Views

With respect to the comment that the proposed SAS does not provide enough guidance to assist auditors in *concluding* that sufficient appropriate audit evidence has been obtained, the Task Force notes that the intent of the project was not to do that. Rather, the intent was to provide a framework that would assist auditors in evaluating whether sufficient appropriate audit evidence has been obtained, whereas *concluding* that sufficient appropriate audit evidence has been obtained is addressed by AU-C Section 330.

The Task Force recommends that the requirements with respect to the attributes and factors be reformulated to more effectively convey the interaction among the attributes of audit evidence, including the results of audit procedures. As a result, the Task Force has drafted proposed language which both helps address these concerns and also is likely necessary due to the proposed removal of the “cube” from the requirements and application paragraphs in the final standard.

Indicative Drafting Suggestions:

Sufficient Appropriate Audit Evidence

~~9. As a basis for concluding whether sufficient appropriate audit evidence has been obtained as required by AU-C section 330, the auditor should evaluate the information to be used as audit evidence in accordance with paragraphs 10–12 of this proposed SAS. (Ref: par. A9–[Error! Reference source not found.A11.](#))~~

Evaluating Information to Be Used as Audit Evidence

Relevance and Reliability

10. ~~The auditor ~~is~~ should evaluating~~ ***evaluate*** information to be used as audit evidence ~~in accordance with paragraph 9, the auditor should consider~~ ***by taking into account the source of the information, the relevance and reliability of the information, and whether such information is corroborative or contradictory to the assertions in the financial statements.***

This evaluation also includes consideration of whether:

- ~~The auditor should consider whether~~ ***the information is sufficiently precise and detailed*** for the ~~information is sufficiently reliable~~ auditor's purposes, and
- ~~Including as it is necessary to obtaining audit evidence about~~ ***evaluate*** the accuracy and completeness of the information ~~and~~.

Sources

~~11. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider the sources of the information to be used as audit evidence. (Ref: par. A34–A44)~~

Corroborative or Contradictory Information

~~12. In evaluating information to be used as audit evidence in accordance with paragraph 9 the auditor should consider whether such information corroborates or contradicts the assertions in the financial statements. (Ref: par. A45–A48)~~

13. ~~When designing and performing audit procedures~~ ***In evaluating information to be used as audit evidence, the*** ~~such~~ auditor should consider whether the results of the audit procedures ~~are reasonably expect to provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained. (Ref: par. A49–A72)~~

Inconsistency in, or Doubts Over the Reliability of Information to be Used as Audit Evidence and Inconsistencies in Audit Evidence

14. The auditor should determine ~~what~~ **whether** modifications or additions to audit procedures are necessary to resolve ***doubts about the reliability of information to be used as audit evidence and any inconsistencies, including circumstances in which the matter and should consider the effect of the matter, if any, on other aspects of the audit if***
- a. ***Information to be used*** as audit evidence obtained from one source is inconsistent with that obtained from another or ***contradicts an assertion in the financial statements***
 - b. ***The results of an audit procedure are inconsistent with the results of another audit procedure***
- and consider the effect of these circumstances, if any, on other aspects of the audit.***

V. Automated Tools and Techniques

A key objective of this project was to assess whether revisions to extant AU-C section 500 are appropriate to address considerations related to automated tools and emerging technologies. In view of the pace of change surrounding use of technology in today’s business world and the impact on both preparers and auditors, the ASB determined that such revisions were appropriate and included several examples of the use of automated tools and techniques in the application material of the proposed SAS. The intent of these additional examples was to illustrate how automated tools and techniques may be used by the auditor and, thereby, recognize more prominently in the proposed SAS the increased use of automated tools and techniques.

Questions to Responders on this Issue

Q6. Please provide your views on whether the examples in the proposed SAS are useful to auditors. If the examples are not useful, please explain why?

Results:

Useful	12	
Useful with Comments	17	<ol style="list-style-type: none"> 1. Florida 2. AAA 3. RSM 4. Virginia 5. GT 6. GAO 7. Texas 8. UCF Masters 9. BDO 10. UCF Masters (3) 11. UCF Masters (2) 12. Deloitte

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		13. Baker Tilly (US) 14. CohnReznick 15. Janover 16. UCF (4) 17. Hunter
Not Useful	8	1. Rechtman 2. Graham 3. KPMG 4. NYS 5. PwC 6. EY 7. Kentucky 8. Moss Adams
Did not answer	3	

Q11. Please provide your views on whether (a) the guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques in the current audit environment is beneficial and (b) the proposed SAS is enhanced by using illustrations of automated tools and techniques; that is, whether the proposed SAS is more relevant to audits conducted in today's environment.

Results:

Agree	14	
Agree with Comments	14	1. Tennessee 2. MACPA 3. Florida 4. AAA 5. RSM 6. Virginia 7. Crowe 8. GAO 9. Texas 10. Baker Tilly (Global) 11. EY 12. Baker Tilly (US) 13. UCF (4) 14. Janover
Disagree	7	1. Rechtman 2. NYS 3. Graham 4. KPMG 5. PwC 6. Deloitte 7. Moss Adams

Did not answer	5
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Comment Letters

- Responders expressed broad support for examples to promote awareness of and potential use of automated tools and techniques.
- Three responders (NYS, GAO, UCF (4)) expressed caution that the proposed SAS should not be perceived as requiring the use of automated tools and techniques (since smaller firms may not need to adopt these technologies or have the capacity to do so). One respondent (Graham) noted an overemphasis on indirect audit procedures as evidence (including the use of audit data analytics) and suggested the material would be better placed in AU-C section 520.
- All (14) of the commenters that responded as “agree with comments” suggested more guidance is needed on how to use these tools appropriately (for example, by considering the tool itself, controls, data, professional judgment) to safeguard against potential overreliance.
- Several responders (EY, Moss Adams, UCF, BDO, KPMG, PwC, Deloitte, Baker Tilly (US)) suggested more guidance to help auditors in evaluating the evidence that is obtained from using these tools, together with a more holistic consideration of how the standards prescribe types of procedures and whether this is still relevant in light of the use of automated tools and techniques.

Task Force Views

The Task Force acknowledges that additional examples and guidance might be helpful to better explain the use of automated tools and techniques in an audit. Also, the Task Force agrees that further edits and refinements to the examples will improve the proposed SAS. Finally, the Task Force agrees the application material could acknowledge that the use of automated tools and techniques is not required, but also believes that the proposed SAS should highlight the potential benefits of using automated tools and techniques, consistent with the ASB’s previous discussions.

The Task Force recognizes that including examples to illustrate all situations whereby automated tools and techniques would be helpful to the auditor is not feasible within the proposed SAS. Consequently, the Task Force acknowledges that developing additional implementation material that would be issued concurrently, or subsequent to, with the final SAS will also be helpful to auditors. With respect to the comment that more guidance is needed in relation to how to use automated tools and techniques appropriately, the Task Force will give further consideration to guidance that assists auditors in thinking about how the attributes and factors are to be considered when automated tools and techniques are used, but acknowledges that detailed guidance on using the tools themselves is likely outside of the scope of this project.

A suggestion was proposed by the Task Force that the AICPA develop a dedicated webpage (portal) within the AICPA’s website where related implementation guidance or materials developed could be published and accessible to users develop in support of the proposed SAS. The

Task Force believes the combination of this timely guidance, a reminder that the Audit Data Analytics Guide provides additional guidance, and targeted editing of existing examples in the current ED would be responsive to feedback provided by the responders.

VI. External Confirmations

In the conforming amendments to the proposed SAS, the ASB included an amendment that would eliminate the requirement that a confirmation be written; that is, an oral confirmation would be permissible under AU-C section 505, *External Confirmations*. The ASB decided that an oral confirmation may be as reliable as a written confirmation in particular circumstances, provided that the oral request is made to an appropriate individual, a response is knowingly provided by an appropriate individual, and the response is documented by the auditor.

Questions to Responders on this Issue

Q12. Do you agree that AU-C section 330 combined with the attributes and factors in the proposed SAS would assist the auditor in concluding whether an oral confirmation should be supplemented by a written confirmation of the information?

Results:

Agree	8	
Agree with Comments	15	<ol style="list-style-type: none"> 1. NYS 2. Michigan 3. RSM 4. Virginia 5. Crowe 6. GT 7. GAO 8. Texas 9. NSAA 10. BDO 11. UCF Masters (4) 12. Baker Tilly (Global) 13. EY 14. Baker Tilly (US) 15. UCF Masters (2)
Disagree	10	<ol style="list-style-type: none"> 1. Tennessee 2. Rechtman 3. MACPA 4. AAA, 5. KPMG 6. Illinois 7. PwC 8. UCF Masters (3) 9. Deloitte

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		10. CohnReznick
Did not answer	7	

Comment Letters

Twenty-three responders were supportive of making an oral confirmation permissible provided that it met the conditions explained in the proposed SAS, although some of these responders believed more guidance would be needed to help auditors determine when it was appropriate to rely on an oral confirmation. Ten responders disagreed with the proposal to make oral external confirmations permissible. In disagreeing, responders cited that there might be unintended consequences of making the change, including an impact on audit quality if oral confirmations were obtained when more persuasive evidence was needed, and also noted there were inconsistencies between making an oral confirmation permissible and other guidance within the proposed SAS (for example, paragraph A27).

Many responders (RSM, AAA, Virginia, Crowe, GT, Baker Tilly (Global), EY, Baker Tilly (US)) suggested guidance that might assist auditors in determining when it might be appropriate to use an oral confirmation rather than a written confirmation, with views that written confirmation would continue to be needed for higher risk or more significant accounts.

Task Force Views

The Task Force recommends not making the conforming amendments to AU-C section 505 as proposed. However, the Task Force will consider whether further guidance might be helpful and responsive to feedback to explain when an oral confirmation may be used and to address the auditor's consideration of responses when inquiries are made of external parties.

VII. Documentation

Paragraph 3 of the proposed SAS explains that the application of this proposed SAS assists the auditor in fulfilling the auditor's responsibilities in other AU-C sections and that this proposed SAS is to be read in conjunction with other AU-C sections that address various auditor responsibilities. AU-C section 230, *Audit Documentation*, provides requirements and guidance with respect to circumstances in which it is appropriate to prepare audit documentation. The ASB believed that this proposed SAS does not establish audit documentation requirements beyond those audit documentation requirements that already exist in AU-C section 230 and other AU-C sections.

Questions to Responders on this Issue

Q15. Do you believe that the application of this proposed SAS would result in audit documentation requirements beyond those in AU-C section 230 and other AU-C sections? If so, describe how the proposed SAS is perceived to expand the audit documentation requirements existing in AU-C section 230 and other AU-C sections.

Results:

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No effect	16	<ol style="list-style-type: none"> 1. NYS 2. Michigan 3. Virginia 4. UCF 5. GT 6. GAO 7. Texas, 8. UCF Masters 9. NSAA 10. Montana 11. CliftonLarsen 12. UCF Masters (2) 13. Baker Tilly (US) 14. CohnReznick 15. UCF Masters (3) 16. Hunter
More Documentation (Including Potential Perceptions)	10	<ol style="list-style-type: none"> 1. Rechtman 2. MACPA 3. Florida 4. TIC 5. Illinois 6. BDO 7. Baker Tilly (Global) 8. EY 9. Deloitte 10. Kentucky
Suggestions that clarity is needed	7	<ol style="list-style-type: none"> 1. Tennessee 2. Graham 3. RSM 4. Crowe 5. KPMG 6. PwC 7. Janover
Did not answer or neutral	7	

Comment Letters

- Responders expressed mixed views about whether the proposed SAS would create new documentation requirements. Some responders (10) expressed concern that, as drafted, the proposed SAS could be perceived as requiring additional documentation, for example auditors might be expected to document how they considered the individual attributes when evaluating information to be used as audit evidence.
- Some responders (Tennessee, Graham, Crowe, GT, KPMG, RSM, PwC, Janover) also suggested that more clarity was needed within the proposed SAS as to the ASB's expectations and interaction with AU-C section 230. For example, a focus could be on

examples of what might be significant judgments in relation to evaluating information to be used as audit evidence, including the resolution of contradictory evidence.

Task Force Views

Given the mixed views expressed by responders and the request to add additional application material to better explain the interaction between the proposed SAS and other standards, specifically, AU-C section 230, the Task Force proposes to include additional application material to address the audit documentation issue.

Indicative Drafting Suggestions:

Documentation [*placement to be considered (e.g., in Scope section or application material)*]

AX. Other AU-C sections address audit documentation. For example:

- AU-C section 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other matters, the results of the audit procedures performed, and the audit evidence obtained.
- AU-C section 330 requires the auditor to document, among other matters, the results of the audit procedures, including the conclusions when such conclusions are not otherwise clear.

While the nature and extent of documentation in relation the auditor's basis for concluding whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment, the auditor is not required to document an evaluation of the attributes of information to be used as audit evidence.

VIII. Linkage to other Standards

In paragraphs 1–5 of the proposed SAS, the ASB included additional content to articulate the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, and 700, *Forming an Opinion and Reporting on Financial Statements*. Other AU-C sections require auditors to draw conclusions about the work performed by the auditor in accordance with each of those AU-C sections. The ASB believed that the proposed SAS would assist the auditor in forming those conclusions by providing the attributes and factors that the auditor would consider in concluding whether the auditor has obtained sufficient appropriate audit evidence for the auditor's intended purpose.

Questions to Responders on this Issue

Q1. Please provide your views on whether the revised scope section of the proposed SAS clearly explains the relationship between the proposed SAS and other AU-C sections, including

AU-C sections 315, 330, and 700. If the scope section does not clearly explain the relationship, please indicate why.

Results:

Agree	20	
Agree with Comments	8	<ol style="list-style-type: none"> 1. MACPA 2. NYS 3. RSM 4. GT 5. GAO 6. PwC 7. BDO 8. AICPA EBP
Disagree	3	<ol style="list-style-type: none"> 1. Illinois 2. UCF Masters 3. Deloitte
Did not answer	9	

Comment Letters

- Twenty responders were supportive about how the scope explains the relationship with other standards.
- Three responders (UCF Masters, Deloitte, Illinois) who disagreed expressed the view that the objective of the standard and linkage to AU-C sections 315 and 700 warrants clarification. In particular, Deloitte suggested merely cross referencing to other standards was not sufficient in order for auditors to appropriately understand how the various standards interact and suggested further changes to enhance the interaction.
- One responder (NYS) noted that conforming changes to other AU-Cs may be necessary to illustrate their relationship with AU-C section 500 and another responder (GT) suggested certain material would be better presented in AU-C section 330.
- Other responders (MACPA, RSM, Illinois, UCF Masters, BDO, AICPA EBP) suggested reference to other AU-Cs would be appropriate (for example, AU-C sections 200, 520, 530, 540, 570, 703), with another (GAO) suggesting a broader reference to other AU-Cs would be helpful.

Task Force Views

The Task Force notes the comments were largely supportive of the material, but will revisit whether changes to the introductory material as well as the objective are needed to align with other changes proposed to the ED.

IX. Professional Skepticism

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As explained in the Exposure Draft, the proposed SAS addresses the topic of professional skepticism as follows:

- a. It incorporates the definition of professional skepticism as set out in AU-C section 200.
- b. It addresses these issues by interweaving the concepts surrounding professional skepticism throughout the proposed SAS.
- c. It explains auditor performance that would demonstrate the application of professional skepticism when obtaining and evaluating sufficient appropriate audit evidence.

Questions to Responders on this Issue

Q7. Do you agree with the approach taken by the ASB in addressing the topic of professional skepticism? If not, please explain why.

Results:

Agree	19	
Agree with Comments	12	<ol style="list-style-type: none"> 1. Tennessee 2. MACPA 3. AAA 4. RSM 5. Virginia 6. GT 7. Illinois 8. UCF Graduate 9. UCF Masters (2) 10. NSAA 11. BDO 12. USF Masters (3)
Disagree	3	<ol style="list-style-type: none"> 1. NYS 2. ABA 3. Graham
Did not answer	6	

Q8. If the guidance in the proposed SAS 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, please explain why?

Results:

Enhanced	17	
Enhanced with Comments	14	<ol style="list-style-type: none"> 1. Tennessee 2. Rechtman 3. MACPA 4. NYS

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		5. Graham 6. Virginia 7. GT 8. GAO 9. PwC, 10. UCF Masters 11. NSAA 12. Baker Tilly (Global) 13. Deloitte 14. Hunter
Not Enhanced	2	1. ABA 2. AAA
Did not answer	7	

Comment Letters

- Most of the responders expressed support for the overall approach, and some responders (Tennessee, AAA, RSM, Crowe, UCF Masters, BDO, NSAA, NYS) requested more guidance, such as providing more examples to apply the concept of professional skepticism.
- Two responders (NYS, MACPA) provided suggestions to make the concept of professional skepticism more prominent within the proposed SAS.
- Three responders (GT, PwC, Deloitte) expressed concerns over how auditor bias was positioned, the unintended consequences of “defining” such terms in the application material, and whether it is appropriate to address in AU-C section 500 or elsewhere, including consideration of other current standard-setting projects addressing bias.

Task Force Views

The Task Force will consider whether additional application material might be necessary. However, the Task Force suggests that further guidance regarding professional skepticism beyond what was included in the proposed SAS might be better addressed in other performance standards such as AU-C section 315, AU-C section 540, etc. The Task Force seeks input from the ASB as it relates to the concept of auditor bias, including where this material may be best placed if retained.

X. Relocation of Management Specialists

The proposed SAS included 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 proposed SAS, the ASB concluded that the content dealing with management’s specialists contains specific requirements and application material that are unique and incremental to this specific topic.

As a result, the ASB proposed relocating the content dealing with management’s specialists from AU-C section 500 to AU-C section 501, *Audit Evidence — Specific Considerations for Selected*

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Items, or to a separate new standard, with no significant changes to the associated requirements or application material. The ASB will also subsequently consider the PCAOB’s standard *Auditor’s Use of the Work of Specialists* as a separate project of the ASB.

Questions to Responders on this Issue

Q13. Is relocation of the content dealing with management’s specialist from AU-C section 500 to AU-C section 501 or to a separate new standard appropriate? If not, please explain why. Q13

Results:

Agree	23	
Agree with Comments	2	1. Graham 2. Deloitte
Disagree	4	1. EY 2. PwC 3. UCF Masters (3) 4. Hunter
Indifferent or did not answer	11	

Q14. 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 or in a separate new standard? Q14

Results:

Move to 501	11	1. Tennessee 2. MACPA 3. Florida 4. Virginia 5. Texas 6. PwC 7. UCF Masters (2) 8. NSAA, 9. BDO 10. Montana 11. Baker Tilly (US)
Separate Standard	11	1. Rechtman 2. Graham 3. Michigan, 4. RSM 5. TIC 6. UCF 7. GT 8. Illinois

		9. CliftonLarsen 10. UCF Masters (4) 11. UCF Masters (5)
Indifferent, remain in AU-C section 500, or did not answer	18	

Comment Letters

Responders expressed broad support for the relocation of the material from AU-C section 500 to either AU-C section 501 or a separate standard.

Task Force Views

The Task Force will work with the AITF in terms of what would be the best option of relocating the content dealing with management specialists.

Items Presented

Agenda Item 4 – Issues Paper

Agenda Item 4A—Exposure Draft

Mr. Brodish will refer to the Agenda Item 4 in leading the discussion.

Current Plan - Next Steps

- December 6, 2019 ASB conference call – Discussion of draft revisions to the revised proposed SAS
- January 9-13, 2020 ASB meeting – Potential final draft and request the ASB to vote the proposed SAS as a final standard.

Appendix

The following is the list of the comment letters received.

1. Tennessee Department of Audit, Division of State Audit (“Tennessee”)
2. Rechtman CPA (“Rechtman”)
3. Maryland Association of Certified Public Accountants (“MACPA”)
4. New York State Society of Certified Public Accountants (“NYS”)
5. American Bankers Association (“ABA”)
6. Lynford Graham (“Graham”)
7. Florida Institute of Certified Public Accountants (“Florida”)
8. Auditing Section of the American Accounting Association (“AAA”)
9. Michigan Office of the Auditor General (“Michigan”)
10. The Virginia Society of CPAs (“Virginia”)
11. RSM US LLP (“RSM”)
12. Virginia Auditor of Public Accounts (“Virginia Auditor”)
13. AICPA Technical Issues Committee (“TIC”)
14. Crowe LLP (“Crowe”)
15. University of Central Florida (“UCF”)
16. Grant Thornton LLP (“GT”)
17. U.S. Government Accountability Office (“GAO”)
18. KPMG LLP (“KPMG”)
19. Illinois CPA Society (“Illinois”)
20. Texas Society of CPAs (“Texas”)
21. **Intentionally Omitted**
22. UCF Graduate Accounting Program (“UCF Graduate”)
23. PricewaterhouseCoopers LLP (“PwC”)
24. UCF Masters (“UCF Masters”)
25. National State Auditors Association (“NSAA”)
26. BDO USA, LLP (“BDO”)
27. Montana Legislative Audit Division (“Montana”)
28. CliftonLarsonAllen LLP (“CliftonLarsen”)
29. University of Central Florida (3) (“UCF (3)”)
30. University of Central Florida (2) (“UCF (2)”)
31. Baker Tilly International (“Baker Tilly (Global)”)
32. Ernst & Young LLP (“EY”)
33. Deloitte & Touche LLP (“Deloitte”)
34. Kentucky Society of Certified Public Accountants (“Kentucky”)
35. Baker Tilly Virchow Krause, LLP (“Baker Tilly (US)”)
36. CohnReznick
37. University of Central Florida (4) (“UCF (4)”)
38. Hunter College (“Hunter”)
39. Janover LLC (“Janover”)
40. Moss Adams LLP (“Moss Adams”)
41. AICPA Employee Benefit Plans Expert Panel (“AICPA EBP”)