



## **Agenda Item 1**

### ***Audit Evidence***

#### **Objective of Agenda Item**

To approve the proposed Statement on Auditing Standards, *Audit Evidence* (proposed SAS) as a final standard.

Mr. Brodish will refer to Agenda Items 1A and 1C.

#### **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 and Vanessa Teitelbaum, CAQ Technical Director, serve as observers of the task force.

The following areas represent the most significant edits made by the Task Force to the proposed SAS since the draft was presented at the January 2020 ASB meeting.

In leading the ASB discussion, Mr. Brodish will refer to item 1A, proposed SAS (marked from January ASB meeting, which includes proposed conforming amendments) and item 1C, proposed Relocation of Material on Management's Specialists to AU-C section 501.

#### ***1. Automated Tools and Techniques***

A Working Group of the Center for Audit Quality (CAQ Working Group) has prepared a paper that discusses audit data analytics (ADAs) in the context of public company auditing. While not

publicly available, the purpose of the paper is to describe how ADAs may be used under the current PCAOB standards, and to facilitate a dialogue between the profession and the PCAOB about areas where more clarity would be helpful.<sup>1</sup> Given the consensus that has been reached in certain areas by the CAQ Working Group (Mr. Burton and Ms. Healy are members of this working group), the Task Force considered whether it would be helpful for the proposed SAS to incorporate additional views about how auditors use ADAs to obtain sufficient appropriate audit evidence.

The CAQ paper provides an example about how an ADA may accomplish the objectives of a risk assessment and substantive audit procedure concurrently. The Task Force viewed this example as very helpful and believed it would be responsive to calls from respondents to the ASB's exposure draft for more guidance within the standard in light of the growing use of ADAs. As a result, the Task Force decided to include the CAQ example as an exhibit to the proposed SAS, with reference to it in paragraph A48 of the proposed SAS. This Exhibit replaces the example previously included in paragraph A62 of the January 2020 draft of the proposed SAS. The Task Force felt this was the most effective manner to address feedback on this example, while not being overly detailed or prescriptive in the application material. The Task Force is of the view that having a non-authoritative example in the proposed SAS is useful, while recognizing that the more fulsome *Audit Data Analytics Guide* is also relevant.

See paragraphs A4, A22, A44, A48, A60–A61 for guidance on ADAs. Edits were made based on feedback from the ASB during and subsequent to the meeting.

## **2. *Linkage to AU-C section 330***

At the January 2020 meeting, some concerns were expressed with respect to whether the purpose of the proposed SAS and its relationship to the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained, as required by paragraph 28 of AU-C section 330, is sufficiently clear. Other concerns have been expressed about whether it was appropriate for the proposed SAS to fully move away from the concept of designing and performing procedures to obtain sufficient appropriate audit evidence.

The Task Force believes it is important that the proposed SAS continue to focus on evaluating information to be used as audit evidence (and emphasize that audit evidence is the result of audit procedures), but has reflected on the comments received and proposed changes to certain paragraphs to further emphasize that the application of proposed SAS assists the auditor in concluding whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section 330. A conforming amendment to AU-C section 330 was also made as suggested by a respondent to incorporate material from ISA 540 in relation to designing procedures to obtain evidence and further highlight the application of professional skepticism.

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<sup>1</sup> The PCAOB also has its own Data and Technology Task Force, whose members provide the PCAOB staff with additional insights into the use of technology-based tools, including data analytics, by auditors and preparers as part of their project to assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions due to data and technology.

See the introduction (paragraph 3), the definition of audit evidence (paragraph 6), and paragraphs A2 and A5, as well as paragraph 6 of AU-C section 330 in Appendix B to proposed SAS.

### ***3. Reordering of Application Material and Various Edits***

While the ASB was generally supportive of the application material, various offline comments were received about its presentation and structure, in particular the interactions between the application material paragraphs dealing with sources, relevance, and reliability. These comments were provided by several ASB Board members after the January 2020 meeting. Separate meetings were held with these ASB Board members and feedback was incorporated, as appropriate.

The proposed SAS now first focuses of the forms of information to be used as audit evidence, followed by a discussion of sources, relevance, and reliability. While a number of paragraphs have been relocated, edits were made to clarify the intent of the paragraph; align more closely to language in other AU-C sections; or track more closely with the changes to acknowledge external information sources in ISA 500 made by the IAASB as part of its Estimates project. The more significant changes within the proposed SAS are as follows:

- New guidance to address the auditor’s evaluation of whether information is sufficiently precise and detailed for the auditor’s purposes (paragraph A41)
- Edits and relocation of material to address the requirement in paragraph 8b in relation to when it may be necessary to obtain audit evidence about the completeness and accuracy of data or when tests of controls may be necessary (paragraphs A27-A28, A30-A31, A42-A44)
- Clarifications to guidance addressing contradictory evidence (paragraphs A39-A40)

### ***4. Consideration of the Impact of COVID-19***

Auditors may face particular challenges as a result of COVID-19, including the potential impact on the auditor’s ability to obtain sufficient appropriate audit evidence. While some challenges may have previously existed in practice, the Task Force evaluated how the proposed SAS addressed considerations that may be increasingly relevant in the current environment. During COVID-19, electronic records have been imperative in order to gain access to the entity’s accounting records and other information.

A key change from the extant standard was the addition of application material that provides additional emphasis on information to be used as evidence that is available in electronic form (see, for example, paragraphs A12, A26, A28, A30, A31, A49–A52, and A56). Accordingly, the Task Force believes that the application material already included in the proposed SAS will be responsive to some of the concerns raised during COVID-19. Additionally, minor edits were made to the application material to highlight how auditor may perform audit procedures remotely, for example using remote observations to tools to perform certain procedures, including to conduct some physical observation procedures (see A4, A12, A52 and A54).

### ***5. Proposed Conforming Amendments to Other AU-C sections***

The ASB is asked to consider the changes proposed to the conforming amendments (see Appendix B to the proposed SAS), including:

- Changes to AU-C section 200 to bring in the concepts of conscious and unconscious bias developed by the IAASB in connection with its Quality Control project.
- Changes to AU-C section 330 to emphasize the importance of designing audit procedures to obtain sufficient appropriate audit evidence (described in Section 2 above).
- The removal of suggested changes to AU-C section 505, *External Confirmations*.

**6. *Moving Relevant Material on Management’s Specialist to AU-C section 501***

As agreed by the ASB, the relevant material on management’s specialists will be relocated to AU-C section 501 (see agenda item 1C). The relocation content of management’s is presented in a separate file in order to fully show the effect of integrating the content of management’s specialists into AU-C section 501. These conforming amendments will be consolidated with the other conforming amendments discussed above after the ASB meeting.

**7. *Effective Date***

The proposed effective date is for audits of financial statements for periods ending on or after December 15, 2022.<sup>2</sup>

**Items Presented**

Agenda Item 1 – Cover Memo

Agenda Item 1A – Proposed SAS, marked from January ASB meeting (includes proposed conforming amendments)

Agenda Item 1B – Proposed SAS, clean

Agenda Item 1C – Proposed Relocation of Material on Management’s Specialists

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<sup>2</sup> Subject to ASB concurrence, the proposed SAS, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and proposed SAS, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* would be effective for audits of financial statements for periods ending on or after December 15, 2023.