



Agenda Item 2B

EXPOSURE DRAFT

**PROPOSED STATEMENT ON AUDITING
STANDARDS**

AUDIT EVIDENCE

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

June __, 2019

Comments are requested by September __, 2019

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

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



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Explanatory Memorandum

Introduction

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

Background

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

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

Emerging Techniques and Technologies

Emerging audit techniques, such as ADA, and emerging technologies such as, artificial intelligence (AI), robotic process automation (RPA) and blockchain, offer both challenges and opportunities that will affect audits of financial and nonfinancial information into the foreseeable future. For the purposes of this proposed SAS, the phrase “automated tools and techniques” will be used to refer to both emerging audit techniques and emerging technologies. Activity is ongoing in the U.S. and internationally regarding how the profession should respond to such emerging techniques and technologies, including consideration of whether changes would enhance audit quality and make professional standards more relevant in today’s environment.

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

- Responders expressed support for the direction of the project.
- The International Standards on Auditing (ISAs) aren’t “broken” and should remain principles-based *but need to reflect the digital era in application guidance*. Responders overwhelmingly described a strong desire for practical guidance on the use of data analytics

technology. Most responders believe that the principles in the extant ISAs are still appropriate and accommodate the use of data analytics and cautioned against prematurely rushing to change requirements in the standards.

- In connection with standard-setting activity, the IAASB should first consider a project to amend ISA 500, *Audit Evidence*.¹
- Applying Professional Skepticism when using data analytics is important.

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

The AICPA has coordinated with CPA Canada to co-publish the following whitepapers:

- a. [Blockchain Technology and the Future of Audit](#) (March 2018), and
- b. [A CPA's Introduction to AI: Algorithms to Deep Learning, What You Need to Know](#) (February 2019).

Professional Skepticism

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

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

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

- Questions have been raised about how auditors can more clearly demonstrate the application of professional skepticism, how to better describe the basis for the auditor's professional judgments and how the auditor's mindset has affected the nature, timing and extent of audit procedures performed *as well as the critical evaluation of audit evidence*.

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

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

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

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

External Information Sources

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

Effective Date

If adopted, the SAS will be effective for audits of financial statements for periods ending on or after June 15, 2021.

Issues for Consideration

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

Scope of the Proposed SAS

In the scope section of the proposed SAS, the ASB has included additional content to articulate the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330, and 700. These 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 believes that

in forming those conclusions, this proposed SAS would assist the auditor in drawing 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.

The scope section of the proposed SAS also includes an explicit statement that the proposed SAS does not establish audit documentation requirements beyond those audit documentation requirements that exist in other AU-C sections.

1. Respondents are asked to provide their 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 sections 315, 330, and 700, and if not, why.

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

As currently articulated in its objective, extant AU-C section 500 is focused on the design and performance of audit procedures to obtain sufficient and appropriate audit evidence. The ASB challenged whether the auditor's judgment about the sufficiency and appropriateness of audit evidence significantly based on the nature of the audit procedures performed by the auditor is still a viable construction due to the use of emerging techniques and technologies by both auditors and preparers today. Rather than continuing the current model, the ASB is proposing expanding the focus of the standard, including its objective, to be primarily focused on understanding the attributes and factors to consider in assessing whether sufficient appropriate audit evidence has been obtained notwithstanding the audit procedures performed to obtain the audit evidence. This change in focus of the standard is proposed to be accomplished by establishing attributes and factors to consider in evaluating such audit evidence.

The proposed attributes and factors recognize that the evaluation of what is meant by "sufficient appropriate" is a matter for the auditor's professional judgment, which necessarily includes the application of professional skepticism, the assessment of the risks of material misstatements, and the nature, timing, and extent of audit procedures performed. In making such evaluation is required to consider the sources, relevance and reliability of the information to be used as audit evidence, and whether the information corroborates or contradicts the assertions in the financial statements.

The attributes and factors is reflected in the proposed SAS by the addition of new requirements and application material that address each of the attributes and factors that affect audit evidence. More specifically, the proposed SAS contains an overarching requirement (paragraph 10) that would require the auditor to evaluate the appropriateness of audit evidence obtained.

This overarching requirement is followed by separate requirements (paragraphs 11–13) for the auditor to consider the individual attributes or factors of audit evidence; that is, its relevance and reliability, its sources, and whether the information corroborates or contradict the assertions in the financial statements.

The auditor's objective in paragraph 10 of the proposed SAS is different in nature than other AU-C sections. This proposed SAS establishes attributes and other factors related to audit evidence

that should be considered when the auditor is forming conclusions required in other AU-C sections. For example, in accordance with this proposed SAS the auditor would be required to consider the relevance and reliability of information obtained. This is to be distinguished from the auditor's obligations in AU-C section 330 in which the auditor is required to design and perform audit procedures at the assertion level that is responsive to the assessed risks. Embedded in AU-C section 330 (paragraphs 06 and A33) is the auditor's obligation to test the completeness and accuracy of information being used as audit evidence by the auditor because completeness and accuracy are assertions as described in paragraphs 26*b* and A127–A128 of AU-C section 315.

The attributes and factors of audit evidence that the auditor would be required to consider in evaluating whether sufficient appropriate audit evidence has been obtained for the auditor's purposes is depicted throughout the proposed SAS by a diagram (see paragraphs 5, A15, A36, and A44 of the proposed SAS). The ASB believes that this diagram would be useful to the auditor in illustrating the attributes and factors that the auditor would be required to consider, with the goal of enhancing the readability and application of the requirements in the proposed SAS.

Respondents are asked to provide their views on

2. whether the new requirements and application material, if implemented, would assist the auditor in more effectively evaluating whether sufficient appropriate audit evidence has been obtained, and if not, why;
3. whether the proposed attributes and factors will 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"), and if not, why;
4. whether there are relevant attributes or factors of audit evidence missing that should be considered when evaluating the appropriateness of audit evidence, and if yes, describe; and
5. whether the diagram in the proposed SAS appropriately depicts the attributes and factors that the auditor considers in evaluating whether sufficient and appropriate audit evidence has been obtained.

Automated Tools and Technologies

As explained in the Background section, a key objective of this project is to assess whether revisions are necessary to extant AU-C section 500 to address considerations related to automated tools and 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 decided that such revisions were necessary. To that end, the ASB has included several examples of the use of technology in the application material of the proposed SAS. The intent of these additional examples is 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.

6. Respondents are asked to provide their views on whether the examples in the proposed SAS are useful to auditors, and if not, why.

Professional Skepticism

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

- a. incorporates the definition of professional skepticism as set out in AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,
- b. addresses these issues by interweaving the concepts surrounding professional skepticism throughout the proposed SAS. As explained above, the proposed SAS includes additional guidance about the characteristics of information that would assist the auditor in evaluating whether sufficient appropriate audit evidence has been obtained. The auditor's considerations of risk of bias (whether by management or the auditor) and whether the information corroborates or contradicts the assertions in the financial statements are specifically intended to bring the issue of professional skepticism into more focus.
- c. explains auditor performance that would demonstrate the application of professional skepticism when obtaining and evaluating sufficient appropriate audit evidence.

Respondents are asked to provide their views on

7. whether you agree with the approach taken by the ASB in addressing the topic of professional skepticism, if not, why; and
8. 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, and if not, why?

Definitions

Sufficiency and Appropriateness

Extant AU-C section 500 contains separate definitions of *sufficiency* (a measure of quantity) and “appropriateness” (a measure of quality). The ASB believes that audit evidence always has to first be appropriate for the auditor's intended purposes and the key question then is when the auditor has obtained enough of such audit evidence for the auditor's intended purpose. In the proposed SAS, the ASB retained separate definitions of sufficiency and appropriateness. The definition of *appropriateness* remains largely the same as the extant definition. However, the ASB proposes to amend the definition of “sufficiency” to focus on the measure of the *persuasiveness* of audit evidence rather than emphasizing of *quantity* of audit evidence over other aspects of persuasiveness. The ASB believes that this change is important because with the array of automated tools and techniques available to the auditor in today's environment and the different sources of audit evidence available, the *quantity* of audit evidence, in itself, is not determinative of its sufficiency.

Audit Evidence

The ASB decided to amend the definition of *audit evidence* by making explicit in its definition that audit evidence is information to which audit procedures have been applied. This definition underpins the concept that in an audit, the auditor obtains vast amounts of information from

multiple sources; however, such information does not constitute audit evidence unless the auditor applies audit procedures to that information.

External Information Sources

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

Internal Information

Extant AU-C 500 section includes a definition of *accounting records*. This definition was developed at a time when paper format was the predominant medium. Since then, electronic information generated using various technologies have increased and become a common format of documentation. In addition, the extant definition seems solely focused on the information obtained in the preparation of the general ledger. This definition does not recognize other sources of information that management may use in the preparation of the financial statements. Therefore, the ASB is proposing including a new definition, *internal information*, that would reflect all internal information that management develops, including accounting records, to prepare the financial statements.

Respondents are asked to provide their views on

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

Audit Procedures

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

A50. 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 through the use of automated tools and techniques.

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

A51. 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.

11. Respondents are asked to provide their views on whether the guidance added to the application material of the proposed SAS to explain the implications and role of automated tools and techniques in the current audit environment is beneficial and whether the proposed SAS is enhanced by using illustrations of automated tools and techniques, that is, is the proposed SAS more relevant to audits conducted in today's environment.

Management's Specialists

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

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

Respondents are asked to provide their views on whether

12. the relocation of the management's specialist from AU-C section 500 to AU-C section 501, AU-C section 620, or to a separate standard is appropriate, and if not, why; and
13. If you agree that relocation is appropriate, what are your views about whether the management's specialist content should be addressed in AU-C section 501, AU-C section 620 or in a separate standard altogether?

Guide for Respondents

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

Written comments on this exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after September __, 2020, for one year. Responses should be sent to Sherry Hazel at shazel@aicpa.org and received no later than September __, 2019.

Format of the Exposure Draft

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

Supplements to the Exposure Draft

To assist respondents in identifying changes and in responding to this request to comment on the proposed SAS, the Audit and Attest Standards staff has prepared an analysis that shows the disposition of the requirements in Extant AU-C section 500. In addition, a traditional format of the proposed SAS is presented as a supplemental document.

Comment Period

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

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PROPOSED STATEMENT ON AUDITING STANDARDS
AUDIT EVIDENCE

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Proposed Statement on Auditing, *Audit Evidence*

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
Introduction	
Scope of This Proposed SAS	Scope of This Proposed SAS (Ref: par. 1–6)
<p>1. This proposed Statement of Auditing Standard (SAS) explains what constitutes audit evidence in an audit of financial statements and addresses how an auditor evaluates information to be used as audit evidence.</p>	
<p>2. 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. (Ref: par. A1)</p>	<p>A1. Audit evidence may also include information obtained from other sources, such as: previous audits, provided that the auditor has determined whether changes have occurred since the previous audits that may affect its relevance to the current audit; and the results of applying the firm’s quality control procedures for client acceptance and continuance to the engagement.³</p>
<p>3. The application of this proposed SAS assists the auditor in fulfilling the auditor’s responsibilities in other AU-C sections. This proposed SAS is to be read in conjunction with other AU-C sections that address the auditor’s responsibilities to identify and assess the risks of material misstatement,⁴ design and implement responses to the risks of material misstatement identified and assessed by the auditor,⁵ and form an</p>	<p>A2. Paragraph 3 states that this proposed SAS should be read in conjunction with other AU-C sections, for example, AU-C section 330, which states that the auditor is required to:</p> <ul style="list-style-type: none"> • Design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level⁷

³ Paragraph 10 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

⁴ AU-C section 315.

⁵ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

⁷ Paragraph 6 of AU-C section 330.

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<p>opinion on the financial statements.⁶ Specifically, AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained and thereby provides a basis for the auditor’s opinion. (Ref: par. A2)</p>	<ul style="list-style-type: none"> • Obtain more persuasive audit evidence the higher the auditor’s assessment of risk.⁸ • Conclude whether sufficient appropriate audit evidence has been obtained.⁹ • Attempt to obtain further audit evidence if the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion.¹⁰ <p>In addition, AU-C section 700 requires the auditor to conclude whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.¹¹</p>
<p>4. The overall conclusion about whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment and involves exercising professional skepticism in obtaining and evaluating such audit evidence. Concluding whether sufficient appropriate audit evidence has been obtained includes consideration of, among other things, the assessment of the risks of material misstatements, the nature, timing, and extent of the audit procedures performed and evaluating the audit evidence obtained from those procedures in accordance with this proposed SAS. (Ref: par. A3)</p>	<p>A3.AU-C section 200 provides application material in relation to exercising professional skepticism and professional judgment.¹²</p>
<p>5. This proposed SAS sets out characteristics of information to be used as audit evidence including its source, relevance, reliability, and whether the information corroborates or contradicts the assertions in the financial statements. The attributes and factors used to evaluate</p>	<p>A4.The auditor’s evaluation of information to be used as audit evidence is not a formulaic exercise, but rather is multi-dimensional and is dependent on the degree to which the relevance and reliability, sources, and whether the information corroborates or contradicts the assertions in the financial statements influences the auditor’s evaluation.</p>

⁶ AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.

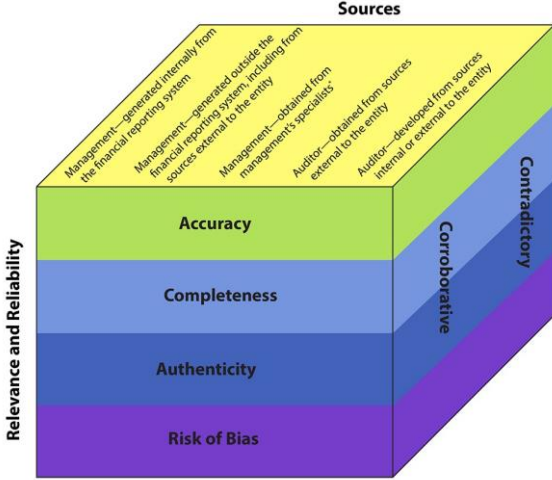
⁸ Par. 7b of AU-C section 330

⁹ Par. 28 of AU-C section 330

¹⁰ Par. 29 of AU-C section 330

¹¹ Par. 14 of AU-C section 700

¹² Paragraphs A22-A31 of AU-C section 200. *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
<p>information to be used as audit evidence are depicted as follows:</p>  <p>*See AU-C section 501, Audit Evidence—Specific Considerations for Selected Items (Ref: par A4)</p>	
<p>6. This proposed SAS does not establish audit documentation requirements beyond those audit documentation requirements that already exist in other AU-C sections. (Ref: par. A5)</p>	<p>A5.AU-C section 230 provides requirements and guidance with respect to circumstances in which it is appropriate to prepare audit documentation¹³</p>
<p>Effective Date</p>	
<p>7. This proposed SAS is effective for audits of financial statements for periods ending on or after _____.</p>	
<p>Objective</p>	
<p>8. As a basis for concluding whether sufficient appropriate audit evidence has been obtained, the objective of the auditor is to evaluate information to which audit procedures have been applied to determine whether such information is appropriate audit evidence.</p>	

¹³ Paragraph 8 of AU-C section 230, *Audit Documentation*.

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
Definitions	Definitions (Ref: par. 9)
9. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:	
Appropriateness (of audit evidence). The measure of the relevance and reliability of audit evidence.	
Sufficiency (of audit evidence). The measure of the persuasiveness of audit evidence. The persuasiveness of audit evidence necessary is affected by the auditor’s assessment of the risks of material misstatement. (Ref: par A6)	A6. When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be of relevance to the auditor. However, obtaining more audit evidence may not compensate for its lack of appropriateness.
Audit evidence. Information to which audit procedures have been applied or which has been obtained from other sources. (Ref: par A7)	A7. In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence. ¹⁴ For example, when considering whether contradictory information may exist regarding the entity’s recorded warranty provision, the auditor could consider the absence of sales returns of the product in question as evidence supporting management’s recorded amount.
External Information. Information developed external to the entity, including information from external information sources.	
External Information Source. An individual or organization that is external to the entity that develops information that has been used by the entity in preparing the financial statements or that has been used by the auditor as audit evidence, when such information is available for use by a broad range of users. When information has been provided by an individual or organization	A8. See Appendix A for the auditor’s considerations when using external information sources.

¹⁴ Paragraph .A32 of AU-C section 200.

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<p>acting in the capacity of management’s specialist, service organization,¹⁵ or auditor’s specialist ¹⁶ the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A8)</p>	
<p>Internal information. Information developed by the entity, including accounting records and other internal sources. (Ref: par A9–A11)</p>	<p>A9.Examples of <i>internal information</i> include the following accounting records:</p> <ul style="list-style-type: none"> • the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries. • records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures.
	<p>A10.An example of information developed by other internal sources is internal marketing information used as an assumption in making an accounting estimate for a warranty provision.</p>
	<p>A11.Internal information (within or outside the general ledger and subsidiary ledgers)</p> <ol style="list-style-type: none"> a. may be in electronic or paper form. Examples of internal information in electronic form are electronic records of sales made through an entity’s website or a shared digital ledger such as a blockchain; or b. may be stored by the entity locally in paper form, within its information systems or may be stored in a network of hosted remote servers (often referred to as the “Cloud”).
<p>Requirements</p>	

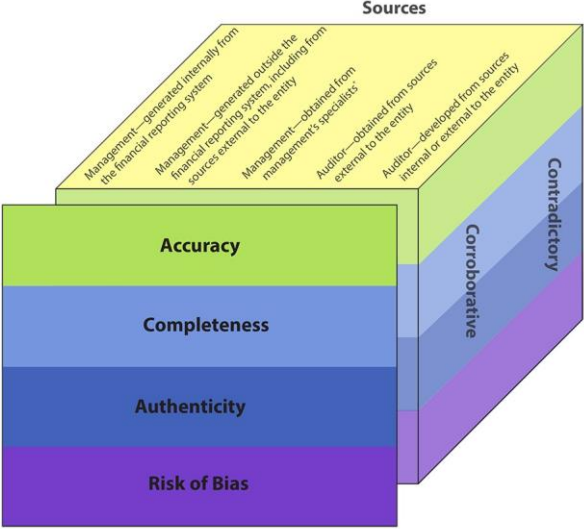
¹⁵ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

¹⁶ AU-C section 620, *Using the Work of an Auditor’s Specialist*.

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Sufficient Appropriate Audit Evidence	Sufficient Appropriate Audit Evidence (Ref: par. 10)
<p>10. As a basis for concluding whether sufficient appropriate audit evidence has been obtained, the auditor should evaluate as set out in paragraphs 11–13 of this proposed SAS, the appropriateness of the audit evidence in the context of the following:</p> <ul style="list-style-type: none"> a. the source from which it was obtained and b. whether such audit evidence corroborates or contradicts the assertions in the financial statements, <p>(Ref: par. A12–A14)</p>	<p>A12.As explained in AU-C 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. ¹⁷</p>
	<p>A13.Audit evidence is sufficient (that is, persuasive) when an experienced auditor¹⁸ would be persuaded to draw conclusions for the auditor’s purposes based on consideration of the audit evidence. During the course of an audit, an auditor may draw many conclusions, and the more significant the conclusion being drawn, the more persuasive the audit evidence required to support the conclusion may be.</p>
	<p>A14.The amount of audit evidence, in and of itself, is not determinative of its sufficiency. Obtaining more of the same type of audit evidence cannot compensate for its lack of appropriateness. In such cases, the auditor may find it necessary to obtain evidence from more than one source. On the other hand, depending on the auditor’s consideration of relevance and reliability, a single source of information may provide persuasive evidence (for example, corroborating evidence obtained from an external information source).</p>

¹⁷ Paragraph .06 of AU-C section 200.

¹⁸ Paragraph .06 of AU-C section 230.

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Information to Be Used as Audit Evidence	Information to Be Used as Audit Evidence
<i>Relevance and Reliability</i>	<i>Relevance and Reliability (Ref: par. 11)</i>
<p>11. In evaluating the appropriateness of audit evidence in accordance with paragraph 10, the auditor should consider the relevance and reliability of the information to be used as audit evidence. When necessary in the circumstances, this includes:</p> <ol style="list-style-type: none"> a. Obtaining audit evidence about the accuracy and completeness of the information and b. Evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes. <p>(Ref: par. .A15–A36)</p>	<p>A15.</p> 
	Relevance
	<p>A16. The relevance of the information to be used as audit evidence relates to the logical connection with, or bearing upon, the assertion under consideration. The following are factors that may affect, individually or in combination, the relevance of information to be used as audit evidence:</p> <ul style="list-style-type: none"> • The objective of the audit procedures performed, including the assertions being tested • The account balances, classes of transactions, disclosures to which the information relates • The period of time to which the information relates
	<p>A17. The following examples illustrate the relevance of information to be used as audit</p>

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	<p>evidence:</p> <ul style="list-style-type: none"> • If the objective of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing information related to the recorded accounts payable may provide relevant audit evidence. On the other hand, when testing for the completeness of accounts payable, testing information related to the recorded accounts payable would not provide relevant audit evidence; however, information such as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may provide relevant audit evidence. • Information related to salary may provide relevant audit evidence regarding an accounting estimate for a bonus accrual. • Information related to the collection of receivables after the period-end may provide relevant audit evidence regarding existence and valuation of receivables and occurrence and accuracy of revenue, but not necessarily cutoff.
	<p>A18. Certain information to be used as audit evidence, whether in paper or electronic form, provides audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, bond, or a digital copy maintained by a financial institution of a mortgage and the related deeded property). Other information to be used as audit evidence may also provide evidence of existence of an asset (for example, a record viewed on a blockchain may be evaluated in the context of the reliability of the blockchain itself). However, inspection of such information may not necessarily provide audit evidence about ownership or value. Similarly, inspection of tangible assets may provide relevant audit evidence with respect to their existence but not necessarily about the entity's rights and</p>

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	obligations or the valuation of the assets.
	A19. Inspection of individual inventory items may accompany the observation of inventory counting. ¹⁹ 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 audit evidence relevant to their existence. In contrast, while inspecting individual inventory items may provide relevant audit evidence about the need for an obsolescence provision, such inspection may not provide relevant audit evidence over the need for a lower of cost or market adjustment.
	A20. External confirmation ²⁰ procedures may provide relevant information when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, their relevant details. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).
	Reliability
	A21. The reliability of information is affected to varying degrees, individually or in combination, by the following attributes: <ul style="list-style-type: none"> • Accuracy • Completeness • Authenticity

¹⁹ See AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*.

²⁰ See AU-C section 505, *External Confirmations*.

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	<ul style="list-style-type: none"> • Risk of bias
	A22. The auditor’s consideration of the reliability of audit evidence is affected by the attributes in paragraph A21 and is influenced by the auditor’s professional judgment and application of professional skepticism, the assessment of the risks of material misstatements, and the audit procedures performed.
	A23. The reliability of information, whether internal or external, is increased when the related controls (whether manual or automated), including those over its preparation and maintenance are effective. ²¹
	A24. Information obtained directly by the auditor (for example, observation of the application of a control) is more reliable than information obtained indirectly or by inference (for example, inquiry about the application of a control).
	A25. Information in documentary form, whether paper, electronic, or other medium, may be more reliable in certain circumstances than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
	Accuracy and Completeness
	A26. Information to be used as audit evidence, regardless of its source, needs to be sufficiently accurate and complete for the auditor’s purposes.
	A27. Therefore, in accordance with paragraph 11 <i>b</i> the auditor may need to obtain audit evidence about the accuracy and completeness of the information.
	A28. Obtaining audit evidence about the accuracy or completeness of information to be used as audit evidence may be accomplished concurrently with the audit procedure applied to the information when obtaining such audit evidence is an integral

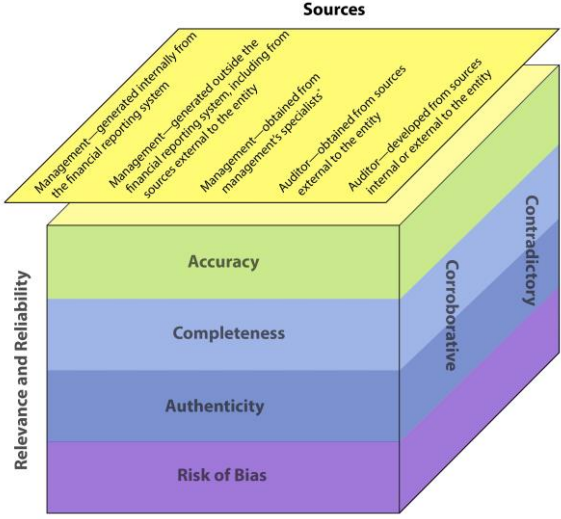
²¹ See also paragraph 5 of section 520, *Analytical Procedures*.

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	<p>part of the audit procedure itself. For example, in testing investment transactions, the auditor may reconcile the listing of investment purchases in testing for completeness before selecting a sample. In other situations, the auditor may consider it necessary to obtain audit evidence about the accuracy and completeness of information by testing controls over the preparation and maintenance of the information (for example, in light of the nature, frequency, and volume of transaction).</p>
	<p>A29.However, in some situations, the auditor may determine that additional audit procedures to address accuracy or completeness of the information are needed. For example, the reliability of information used 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 such as, authorization, the results of the test will be less reliable if the population from which items are selected for testing is not complete.</p>
	<p>A30.In some cases, the auditor may intend to use internal information 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 of internal information originally developed by the entity for monitoring activities such as reports of the internal audit function. In such cases, the reliability of the information obtained is affected by whether the information is sufficiently precise or detailed for the auditor’s purposes (for example, performance measures used by management may not be precise enough to detect material misstatements).</p>
	<p>Authenticity</p>
	<p>A31.AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, addresses circumstances in which the auditor has reason to</p>

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	believe that a document (that is, information) may not be authentic or may have been modified without that modification having been disclosed to the auditor. ²² AU-C section 240 further explains that an audit performed in accordance with GAAS rarely involves the authentication of documents, nor is the auditor trained as, or expected to be, an expert in such authentication.
	A32. Information in its original form is more likely to be authentic than information 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 transformation and maintenance). In some situations, the auditor may obtain audit evidence about the authenticity of electronic information by testing controls over the transformation and maintenance of the information. In other situations, the auditor may determine that additional substantive procedures to address the authenticity are needed (for example, inspecting underlying original documents to validate the authenticity of information in electronic form when available).
	Risk of Bias
	A33. Information with a higher risk of bias is considered less reliable than information where the risk of bias is lower.
	A34. A risk of bias may exist in the development of information itself or may exist due to interpretation of the information by the entity or the auditor.
	A35. External 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 the reliability of information to be

²² Paragraph .A11 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*.

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	<p>used as audit evidence by taking into account the following risks of bias:</p> <ul style="list-style-type: none"> <li data-bbox="841 373 1440 443">i. the ability of the entity to influence the external information source. <li data-bbox="841 464 1440 604">ii. selecting information from an external source known to be favorably biased toward corroborating management’s assertions or information. <li data-bbox="841 625 1440 766">iii. Management unintentionally uses information from an external information source that is biased in generating information.
	<p>A36. The auditor’s consideration of information to be used as audit evidence may be inhibited by tendencies in judgment that lead to bias and affect professional skepticism, such as the following:</p> <ul style="list-style-type: none"> <li data-bbox="841 951 1440 1129">a. Availability bias, which involves considering information that is easily retrievable as being more likely, more relevant, and more important for a judgment. <li data-bbox="841 1150 1440 1291">b. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences. <li data-bbox="841 1312 1440 1491">c. Overconfidence bias, which involves overestimating one’s own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions. <li data-bbox="841 1512 1440 1690">d. Anchoring bias, which involves making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.
<i>Sources</i>	<i>Sources</i> (Ref: par. 12)
12. In evaluating the appropriateness of audit evidence in accordance with paragraph 10, the auditor should consider the sources	A37.

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<p>of the information to be used as audit evidence. (Ref: par. A37–A44)</p>	
	<p>A38.Information to be used as audit evidence may be obtained or derived individually or in combination from the following sources:</p> <ol style="list-style-type: none"> a. Management—generated internally from the financial reporting system, b. Management—generated outside the financial reporting system, including from sources external to the entity, c. Management—obtained from management’s specialists,²³ d. Auditor—obtained from sources external to the entity, or e. Auditor—developed from sources internal or external to the entity
	<p>A39.In considering the sources of information to be used as audit evidence, the auditor considers the possibility that the information source may not be reliable.</p>
	<p>A40.As indicated in paragraph A38, information to be used as audit evidence by the auditor may be obtained directly or derived individually or in combination from the sources of information described therein. For example, in making an accounting estimate for an accumulated pension</p>

²³ See AU-C section 501.

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	<p>obligation, management may use information that is generated internally by the financial reporting systems; information generated externally of the financial reporting system (including information and assumptions from <i>external information sources</i>); and information obtained from a management’s specialist. Similarly, an auditor may obtain information 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 about square footage of retail space and sales prices (both management-generated) and changes in the Consumer Price Index (an <i>external information source</i>).</p>
	<p>A41.Evaluating certain attributes and factors of information obtained by the auditor from <i>external information sources</i> is ordinarily beyond the auditor’s control. Practical considerations may limit the auditor’s ability to evaluate the reliability of such information, in particular evaluating the completeness and accuracy of the information obtained from an external source to the same degree as internal information.</p>
	<p>A42.The auditor’s evaluation of the information to be used as audit evidence can be enhanced by the use of automated tools and techniques such as audit data analytics that may enable the auditor to aggregate and consider information obtained from multiple sources.</p>
	<p>A43. However, in some situations, there may be only one provider of certain information external to the entity, for example, information from a central bank or government, such as an inflation rate or a single recognized industry body. In such cases, the auditor’s consideration of the reliability of such information is influenced by the nature and credibility of the source of the external information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that external information is relevant to the reasons for the assessed risk of material misstatement. For</p>

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	<p>example, when information from an <i>external information source</i> is from a credible and authoritative source, such information may be more persuasive than information obtained from another source. In other cases, if an <i>external information source</i> is not considered credible, the auditor may determine that more persuasive audit evidence is necessary. In the absence of alternative independent information source against which to compare, the auditor may consider whether obtaining information from the external information source lacking credibility is appropriate in order to obtain sufficient appropriate audit evidence.</p>
	<p>A44.Some sources of electronic information (for example, a record maintained in a blockchain) may provide a central location from which the auditor may obtain audit evidence. A blockchain may exist in different forms and may include information that is internal or external to the entity, which among other factors, may affect the auditor’s consideration of the reliability of the information in a blockchain.</p>
<p><i>Corroborative or Contradictory Information</i></p>	<p><i>Corroborative or Contradictory Information (Ref: par. 13)</i></p>
<p>13. The auditor should evaluate the appropriateness of audit evidence in accordance with paragraph 10, regardless of whether the information to be used as audit evidence corroborates or contradicts the assertions in the financial statements. (Ref: par. A45–A48)</p>	<p>A45.</p>

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	A46. AU-C section 330 states that in forming a conclusion about whether sufficient appropriate audit evidence has been obtained, the auditor should consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict the assertions being tested by the auditor or the amounts recorded in the financial statements. ²⁴
	A47. Evaluating the appropriateness of audit evidence involves consideration of information that both corroborates assertions in the financial statements and information that contradicts assertions in the financial statements. For example, corroborating information obtained from a source independent of the entity may increase the assurance that the auditor obtains from information that is generated internally.
	A48. Information that contradicts assertions in the financial statements may be considered by the auditor even when the source of that contradictory information is less reliable than the source of corroborative information. However, the auditor does not consider contradictory information in isolation, but rather as part of the auditor’s consideration of the information obtained with respect to that management assertion taken as a whole.
Audit Procedures for Obtaining Audit Evidence	Audit Procedures for Obtaining Audit Evidence (Ref: par. 14)
14. When designing and performing audit procedures to address the risk of material misstatement at the relevant assertion level, the auditor should consider whether the results of audit procedures applied are reasonably expected to provide a basis for concluding on the appropriateness of audit evidence obtained. (Ref: par.A49–A73)	A49. The nature, timing, and extent of audit procedures performed on information influences the persuasiveness of the audit evidence obtained. For example, inspection or observation provides more persuasive audit evidence than inquiry about existence.
	A50. As explained further in AU-C section 315 and AU-C section 330, audit evidence to draw

²⁴ Paragraph 28 of AU-C section 330.

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	<p>reasonable conclusions on which to base the auditor’s opinion is obtained by performing the following:^{25 26}</p> <ul style="list-style-type: none"> a. Risk assessment procedures b. Further audit procedures, which comprise <ul style="list-style-type: none"> i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and ii. substantive procedures, which include tests of details and substantive analytical procedures.
	<p>A51.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 through the use of automated tools or techniques.</p>
	<p>A52.An example of automated tools or techniques are audit data analytics, which are described as the analysis of patterns, identification of anomalies, or extraction of other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, or visualization.</p>
	<p>A53.The auditor may use automated tools or techniques such as audit data analytics, to process, organize, structure, or present data in a given context to generate useful information to be used as audit evidence.</p>
	<p>A54.The nature and timing of the audit procedures to be performed may be affected by the fact that some of the information may be available only in electronic form or only at certain points or periods in time.</p>

²⁵ Paragraphs .05–.06 of AU-C section 315.

²⁶ Paragraphs .06–.07 of AU-C section 330.

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	<p>A55.Certain electronic information may not be available after a specified period of time (for example, if files are changed and backup files do not exist). Accordingly, the auditor may find it necessary, as a result of data retention policies, to request retention of some information for the performance of audit procedures at a later point in time or to perform audit procedures at a time when the information is available.</p>
	<p>A56.Some electronic information (for example, records maintained on a 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 information about transactions on a real-time basis.</p>
	<p>A57.Audit procedures performed on information can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. These procedures may be performed either manually or using automated tools and techniques such as audit data analytics. Although inquiry may provide important information and may even lead to the identification of a potential misstatement, inquiry of management alone ordinarily does not provide sufficient appropriate audit evidence.</p>
	<p>Inspection</p>
	<p>A58.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.</p>
	<p>A59.Inspection procedures may involve the use of automated techniques, for example, text recognition programs used to examine large</p>

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	populations of documents such as contracts that may aid the auditor in identifying items for further audit considerations.
	Observation
	A60. 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).
	A61. 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.
	A62. Audit evidence obtained through observation procedures 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.
	External Confirmation
	A63. An external confirmation consists of the auditor obtaining a direct response knowingly provided to the auditor by a third party (the confirming party). See AU-C section 505 , <i>External Confirmations</i> , for further guidance.
	Recalculation
	<p>A64.Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or through automated techniques.</p> <p>A65.Through the use of automated techniques auditors may be able to perform recalculation procedures on 100 percent of a population, for example, recalculating the gross margin for each product sold for an entity’s product line.</p>

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	Reperformance
	A66. Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity’s internal control.
	Analytical Procedures and Audit Data Analytics
	A67. As a risk assessment procedure, an audit data analytics technique may be used to produce a visualization of 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 information about the identification and assessment of the risks of material misstatement, it may not be sufficiently precise in obtaining information to respond to the assessed risks of material misstatement at the assertion level.
	A68. An auditor may use automated tools or techniques such as audit data analytics 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. Further, the auditor may also determine that the audit data analytics technique performed meets the objective of a substantive procedure with respect to information obtained about those transactions in the population falling within the predefined expectations if the auditor deems the audit data analytic sufficiently

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	<p>precise to respond to the assessed risks of material misstatement.²⁷ Thus, the data analytic may be used to perform both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).</p>
	<p>A69.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, the auditor may be able to obtain corroborating information about the effectiveness of sequential numbering of sales invoices for the year through use of audit data analytics and determine whether any gaps in numbering or duplicates exist thereby providing information about completeness of invoices issued during the period.</p>
	<p>A70.<i>Scanning</i> is a type of analytical procedure involving the auditor’s exercise of professional judgment to review data to identify significant or unusual items to test. This may include the identification of unusual individual items within account balances or other data through the reading or analysis of, for example, entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports for indications of misstatements that have occurred. Automated 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 using automated tools</p>

²⁷ See paragraph 5c of AU-C section 520.

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	and techniques to extract only those transactions meeting the auditor’s criteria for a transaction being unusual.
	A71. 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.
	A72. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative information. 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.
	A73. AU-C 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.
Inconsistency and Reliability of Audit Evidence	Inconsistency and Reliability of Audit Evidence (Ref: par. 15)
<p>15. If</p> <ul style="list-style-type: none"> <i>i.</i> audit evidence obtained from one source is inconsistent with that obtained from another or <i>ii.</i> the auditor has doubts about the reliability of information to be used as audit evidence, <p>the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of the</p>	A74. Information 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 information 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. AU-C section 230, <i>Audit Documentation</i> , includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor’s final conclusion regarding a significant finding or

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matter, if any, on other aspects of the audit. (Ref: par. A74–A75)	issue. ²⁸
	<p>A75.In the case of inquiries about management’s intent, the information available to support management’s intent may be limited.²⁹ AU-C section 580, <i>Written Representations</i> provides guidance about obtaining written representations that address management’s intent. 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 about the information obtained through inquiry if it is not inconsistent.</p>

²⁸ Paragraph .12 of section 230

²⁹ See paragraph .A13 of AU-C section 580, *Written Representations*

A76.

Appendix A – Considerations Regarding the Use of External Information Sources

- .1 As defined in paragraph .09, an external information source is an individual or organization that is external to the entity that develops information that has been used by the entity in preparing the financial statements, or that has been used by the auditor as audit evidence, when such information is available for use by a broad range of users.
- .2 External information sources may include pricing services, governmental organizations, central banks, recognized stock exchanges, media, or academic journals. Examples of information that may be obtained from external information sources include:
 - Prices and pricing related data;
 - Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
 - Credit history data;
 - Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and
 - Mortality tables used to determine liabilities in the life insurance and pension sectors.
 - Documents or records in websites, databases, or distributed ledgers.
- .3 An external individual or organization cannot, in respect of any particular set of information, be both an external information source and:
 - a management’s specialist,
 - service organization, or
 - auditor’s specialist.
- .4 When information has been provided by an individual or organization acting in the capacity of management’s specialist, service organization³⁰, or auditor’s specialist³¹ the particular information individual or organization is not considered an external information source with respect to that particular information.
- .5 However, an external individual or organization may, for example, be acting as a management’s specialist when providing a particular set of information but may be acting as an external information source when providing a different set of information. Professional judgment may be needed to determine whether an external individual or organization is acting as an external information source or as a management’s expert with

³⁰ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

³¹ AU-C section 620, *Using the Work of an Auditor’s Specialist*.

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.

- .6** The auditor is required by paragraph 11 to consider the relevance and reliability of information to be used as audit evidence regardless of whether that information has been used by the entity in preparing the financial statements or was obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include:
- Information about the external information source or the preparation of the information by the external information source, or
 - Audit evidence obtained through designing and performing further audit procedures in accordance with AU-C section 330 or, where applicable, AU-C section 540.
- .7** 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 those same attributes of that information.
- .8** The following factors may be important when evaluating the relevance and reliability of information obtained from an external information source, including whether it is sufficiently accurate and complete, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:
- The nature and authority of the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public can likely be considered a reliable external information source for certain types of information;
 - The ability of management to influence the information obtained, through relationships between the entity and the external information source;
 - The competence and reputation of the external information source with respect to the information, including whether, in the auditor’s professional judgment, the information is routinely provided by an external information source with a track record of providing reliable information;
 - Past experience of the auditor with the reliability of the information provided by the external information source;
 - Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor;
 - Whether the entity has in place controls to address the relevance and reliability of the information obtained and used;
 - Whether the external information source accumulates overall market information or engages directly in “setting” market transactions;
 - Whether the information is suitable for use in the manner in which it is being used and,

- if applicable, was developed taking into account the applicable financial reporting framework;
- Alternative information that may contradict the information used;
 - The nature and extent of disclaimers or other restrictive language relating to the information obtained;³²
 - 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.
- .9** 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 external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement, and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor’s consideration of the matters described in paragraph 6, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with AU-C section 315, or that further audit procedures, in accordance with AU-C section 330,³³ and AU-C section 540³⁴ when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:
- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
 - When relevant to considering management’s use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.
 - Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding and, when relevant, testing the operating effectiveness of its controls.
- .10** When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with

³² See paragraphs .A56–.A62 of AU-C section, *Audit Evidence—Specific Considerations for Selected Items*.

³³ Paragraph .06 of AU-C section 330.

³⁴ Paragraphs .12–.14 of AU-C section 540

the requirements of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

A77.

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

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

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

[No amendment to paragraphs .01–.13.]

Definitions

.14For purposes of GAAS, the following terms have the meanings attributed as follows:

...

Audit evidence. Information *to which audit procedures have been applied or which has been obtained from other sources*. ~~used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.~~ *Sufficiency of audit evidence* is the measure of the *persuasiveness* quantity of audit evidence. The *persuasiveness* quantity of the audit evidence **required** ~~needed~~ is affected by the auditor's assessment of the risks of material misstatement, ~~and also by the quality of such audit evidence.~~ *Appropriateness of audit evidence* is the measure of the *relevance and reliability* of audit evidence. *The appropriateness of audit evidence is affected by the source from which it is obtained.*; ~~that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

...

[No amendment to paragraphs .15–.A32.]

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

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

.A76 The auditor is required by paragraph .23b to use the objectives stated in the relevant AU-C sections to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If, as a result, the auditor concludes that *sufficient appropriate* the audit evidence *has not been obtained* ~~is not sufficient and appropriate~~, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph .23b:

- Evaluate whether further ~~relevant~~ audit evidence has been, or will be, obtained as a result of complying with other AU-C sections, in particular, AU-C sections 330.
- Extend the work performed in applying one or more requirements
- Perform other procedures judged by the auditor to be necessary in the circumstances

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

AU-C Section 230, *Audit Documentation*

[No amendment to paragraphs .01–.05.]

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

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

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

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

.A80 *Audit evidence for elements of the control environment.* ~~Relevant a~~ Audit evidence *related to elements of the control environment* may be obtained through a combination of inquiries and other risk assessment procedures, such as corroborating inquiries through observation or inspection of documents. For example, through inquiries of management and employees, the auditor may obtain an understanding of how management

communicates to employees management's views on business practices and ethical behavior. The auditor may then determine whether relevant controls have been implemented by considering, for example, whether management has a written code of conduct and whether it acts in a manner that supports the code.

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

[No amendment to paragraphs .01–.26.]

.28The auditor should conclude whether sufficient appropriate audit evidence has been obtained. In forming a conclusion, the auditor should consider all ~~relevant~~ audit evidence, regardless of whether *the information* ~~it appears to~~ corroborates or contradicts the assertions in the financial statements.

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

[Paragraphs .A17–.A47 are renumbered as .A18–.A48. The content is unchanged.]

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

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

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

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

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

[Paragraphs .A54–.A57 are renumbered as .A55–.A58. The content is unchanged.]

A58 Paragraph .22 requires the auditor to perform substantive procedures that are specifically responsive to risks the auditor has determined to be significant risks. Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence ~~with the high level of reliability~~ that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. For example, if the auditor identifies that management is under pressure to meet earnings expectations, a risk may exist that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may, for example, design external confirmation procedures not only to confirm outstanding amounts but also to confirm the details of the sales agreements, including date, any rights of return, and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of nonfinancial personnel in the entity regarding any changes in sales agreements and delivery terms.

A65 An effective test provides appropriate audit evidence to the extent that it will be sufficient for the auditor’s purpose when taken with other audit evidence obtained or to be obtained. In selecting items for testing, the auditor is required by AU-C section 500 to *consider* ~~determine~~ the relevance and reliability of information to be used as audit evidence; ^{fn 12} the other aspect of effectiveness (~~sufficiency~~ *extent*) is an important

^{fn 12} Paragraph .07 of section 500.

consideration in selecting items to test. The means available to the auditor for selecting items for testing are

- a. selecting all items (100 percent examination),
- b. selecting specific items, and
- c. audit sampling.

[Paragraphs .A54–.A73 are renumbered as .A66–.A73. The content is unchanged.]

.A74 By performing audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements. However, accounting records alone do not provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements.

.A75 AU-C section 500 explains the considerations involved in evaluating whether information is appropriate audit evidence. The auditor’s professional judgment about what constitutes sufficient appropriate audit evidence is influenced by ***the following additional*** ~~such~~ factors: ~~as the~~

- significance of the potential misstatement in the relevant assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements (see [section 450](#), *Evaluation of Misstatements Identified During the Audit*).
- effectiveness of management’s responses and controls to address the risks.
- experience gained during previous audits with respect to similar potential misstatements.
- results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- ~~• source and reliability of the available information.~~
- ~~• persuasiveness of the audit evidence.~~
- understanding of the entity and its environment, including its internal control.

AU-C Section 505, *External Confirmations*

[No amendment to paragraph .01]

~~.02 Section 500 indicates that the reliability of audit evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained.^{fn1} Section 500 also includes the following generalizations applicable to audit evidence.^{fn2}~~

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

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

^{fn1} ~~Paragraph A5 of section 500, *Audit Evidence*.~~

^{fn2} ~~Paragraph A32 of section 500.~~

[Subsequent footnotes are renumbered.]

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

- section 330 discusses the auditor's responsibility (a) to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and (b) to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level.^{fn3} In addition, section 330 requires that, irrespective of the assessed risks of material misstatement, the auditor design and perform substantive procedures for all relevant assertions related to each material class of transactions, account balance, and disclosure.^{fn4} The auditor is required to consider whether external confirmation procedures are to be performed as substantive audit procedures and is required to use external confirmation procedures for accounts receivable unless
 - the overall account balance is immaterial,
 - external confirmation procedures would be ineffective, or

— the auditor’s assessed level of risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.^{fn 5}

- section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor’s assessment of risk.^{fn 6} ~~To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both.~~ For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. Section 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.^{fn 7}
- section 240, *Consideration of Fraud in a Financial Statement Audit*, indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.^{fn 8}
- Section 500 indicates that corroborating information obtained from a source independent of the entity (such as external confirmations) may increase the assurance the auditor obtains from **information evidence** existing within the accounting records or representations made by management.^{fn 9}

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

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

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

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

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

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

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

[No amendment to paragraphs .03–.04.]

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

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

Exception. A response that indicates a difference between information requested to be confirmed, or contained in the entity’s records, and information provided by the confirming party.

External confirmation. Audit evidence obtained as a direct ~~written~~ response to the auditor from a third party (the confirming party). (Ref: [par. .A1](#))

...

[No amendment to paragraph .07.]

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

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

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

[No amendment to paragraphs .09–.A2.]

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

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

.A12 ~~Section 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.~~^{fn-13} ~~All~~ Whether written, electronic or oral, confirmation responses usually carry some risk of interception, alteration, or fraud. Factors that may indicate doubts about the reliability of a response include whether it

- was received by the auditor indirectly or

- appeared not to come from the originally intended confirming party.

^{fn 13} Paragraph .A32 of section 500

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

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

^{fn 14} Paragraph ~~10~~ **11** of section 500.

[No amendment to paragraphs .A17–.A26.]

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

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

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

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

AU-C Section 520, *Analytical Procedures*

Objectives

[No amendment to paragraphs .01–.A16.]

AU-C Section 530, *Audit Sampling*

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

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

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

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

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

.A28 Management may have, or the entity may employ individuals with, the experience and competence necessary to make estimates. In some cases, however, management may

need to engage a specialist to make estimates or assist in making them. This need may arise because of, for example

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

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

[No amendment to paragraphs .A29-.A69]

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

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

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

- ~~a. obtaining audit evidence about the accuracy and completeness of the data.~~
- ~~b. evaluating whether the data is sufficiently precise and detailed for the auditor's purposes.~~

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