



September 18, 2019

AICPA Auditing Standards Board
Sherry Hazel – sherry.hazel@aicpa-cima.com

RE: Proposed Statement on Auditing Standards: *Audit Evidence*

Dear Committee Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (the “Committee” or “we”) is pleased to comment on the proposed Statement on Auditing Standards (“SAS”) *Audit Evidence* dated June 20, 2019. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

In drafting the proposed SAS, the Auditing Standards Board (ASB) requested feedback specific to certain issues. The Committee offers the following comments in response to the issues and specific questions the ASB posed:

Scope of the Proposed SAS

1. Please provide your views on whether the revised scope section of the proposed SAS clearly explains the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330, and 700. If the scope section does not clearly explain the relationship, please indicate why.

The Committee believes that the revised scope section of the proposed SAS clearly explains the relationship between the proposed SAS and other AU-C sections. We do note, however, that the referenced application material in A2 mentions only AU-C 330 and AU-C 700, potentially leaving an impression that the proposed SAS is not as relevant to AU-C 315. Furthermore, we note that paragraph 9 of the proposed SAS, which is part of the requirements, and its application material reference only AU-C 330 adding further uncertainty as to the relationship between the proposed SAS and these other AU-Cs. This may lead the auditor to believe that the link between AU-C 330 and the proposed SAS is more salient than the link between the proposed SAS and the other AU-C sections.

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

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

The Committee believes that the new requirements and application materials do assist the auditor to more effectively evaluate whether sufficient appropriate audit evidence has been obtained; however, we note that the proposed SAS includes more guidance, and is therefore more helpful, on assessing appropriateness of audit evidence as compared to assessing the sufficiency of audit evidence.

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



The Committee believes the proposed attributes and factors expand the types and sources of information considered by the auditor as audit evidence. However, the Committee does not believe the proposed standard lessens the emphasis on “audit procedures performed” nor does the Committee believe the proposed SAS needs to lessen this emphasis. The proposed SAS broadens the auditor’s consideration of the attributes of audit evidence, including the source, but does not lessen, nor does it need to, the emphasis on the reliability of audit evidence gathered using a specific audit procedure.

*The Committee notes paragraph .A6 of the proposed standard reads, “audit evidence is information to which audit procedures have been applied.” The Committee believes this sentence should be “audit evidence **includes** ~~is~~ information to which audit procedures have been applied,” which would help to achieve consistency with the definition of audit evidence in paragraph 8 of the proposed SAS.*

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

None noted.

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

Yes. The Committee believes that the far-right column in the Sources section of the diagram should be edited to read “Auditor — Developed from sources internal or external to the entity, including from an Auditor’s specialist.” As noted below, paragraph .A35.e should also be edited to read the phrase above for consistency. The Committee notes that auditors may obtain information from specialists and specifying auditor’s specialist as a source will increase the consistency between paragraphs .A35.c and .A35.e.

Automated Tools and Technologies

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

The Committee believes the examples included in the proposed SAS are helpful to auditors because the examples show how the proposed SAS can be applied to practical situations often encountered by auditors.

Professional Skepticism

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

The Committee agrees with the approach taken by the ASB in addressing professional skepticism as described in the ‘Background’ section. The requirements to consider the risk of bias and both corroborative and contradictory information help bring professional skepticism into more focus. However, the Committee believes that: a) including the definition of professional skepticism in the proposed standard (versus a mention in paragraph 4, a reference to AU-C 200 in paragraph A3, and a few other mentions in the application materials); and b) additional interweaving of the concept of when



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to exercise heightened professional skepticism would be helpful, particularly in regard to management bias.

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? If not, please explain why.

The Committee believes that inclusion of additional examples and application materials related to professional skepticism directly within this proposed SAS would reduce the risk of potential misunderstanding.

Definitions

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

The Committee believes the changes to the definitions to be appropriate, with a few suggested wording changes as outlined in the Committee's answer to question 10 below. In particular, the Committee agrees with the change in the definition of sufficiency to focus on the measure of persuasiveness of audit evidence rather than the quantity of such audit evidence. This change reflects the changing environment faced by auditors, especially as it relates to the increased reliance on automated tools and techniques to obtain sufficient appropriate audit evidence.

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

Yes, the Committee believes additional definitions should be included in the Proposed Standard and the definitions should be reordered. The Committee offers the following order and additional definitions:

Audit evidence. Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

Appropriateness (of audit evidence). The measure of the relevance and reliability of audit evidence, that includes consideration of the source of evidence and the corroborative or contradictory nature of 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.

External information source. An individual or organization external to the entity that develops information used by the entity in preparing the financial statements or used by the auditor as audit evidence, when such information is available for use by a broad range of users, including those in addition to management and the auditor. When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization, or auditor's specialist, the individual or organization is not considered an external information source with respect to that particular information.

Professional Skepticism. 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.¹

¹ AU-C §200.14



The Committee also has the following comments in the Application and Other Explanatory Material related to the Definitions in the proposed SAS:

- a. *The Committee proposes considering the relationship between and linking the contents of paragraph .A5 and paragraph .A11 or removing paragraph .A11 and including the first two sentences of paragraph .A11 to the end of paragraph .A5 as follows:*

.A5 When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be a factor for the auditor to consider. However, 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 the same type of audit evidence from more than one source or consider another type of audit evidence.

- b. *The Committee believes that including an example of when obtaining more audit evidence may not compensate for its lack of appropriateness would be helpful.*
- c. *Audit evidence might come from other services the auditor provides to the entity, including interim reviews of financial information, tax services, agreed upon procedure services, etc. The Committee believes that these other sources provide information that assists the auditor in arriving at the conclusions on which the auditor's opinion is based and could therefore be included along with previous audits in paragraph .A6.b.*

Audit Procedures

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

The Committee believes the guidance added to the application material is beneficial and provides a variety of examples that should assist the auditor in today's environment.

External Confirmations

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

The Committee believes auditors would benefit from more details on when an oral confirmation is adequate. At a minimum, if AU-C 500 is to rely on AU-C 330, then the Committee recommends a specific statement in AU-C 500 that reads, "generally, written confirmation is more persuasive than oral confirmation." This language is consistent with .A22 of the proposed SAS. While the linkage from AU-C 500 to AU-C 505 and AU-C 330 may provide adequate instruction to the auditor regarding the acceptability of oral confirmation, a direct statement in the proposed SAS should make practical implementation easier.



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Please also see the Committee's comments on AU-C 505, External Confirmations, below.

Management's Specialists

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

Yes.

14. If you agree that a relocation is appropriate, what are your views about whether the management's specialist content should be addressed in AU-C section 501 or in a separate new standard?

The Committee prefers a separate new standard for the relocation of the content dealing with management's specialists as this approach is consistent with PCAOB standards.

Audit Documentation

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

The Committee believes that many auditors would conclude that more documentation is required to memorialize how various pieces of information were evaluated with respect to the information's source, relevance, reliability, etc. While this documentation might generally be called for by AU-C 230, auditors may feel more compelled under this proposed SAS than under the extant audit evidence standard to document the rationale for concluding that certain information is sufficient appropriate audit evidence.

In addition to the response to the ASB's questions listed in the exposure draft, the Committee offers the following suggestions.

Effective Date

The Committee believes that the effective date for audits of financial statements for periods beginning on or after June 15, 2021 is appropriate as long as the proposed standard is finalized by December 31, 2019.

Other Comments on AU-C standards impacted by the proposed SAS

AU-C Section 505, External Confirmations

The Committee requests the ASB clarify paragraphs .13 and .A27 of the proposed AU-C Section 505. It is currently unclear to the Committee why "Written" is removed from the section header but remains the operative part of paragraphs .13 and .A27. Either "Written" should not be removed from the section header or it should also be removed from paragraphs .13 and .A27. In addition, since oral confirmation has been elevated to an acceptable level of audit evidence, the Committee believes this section should consider the following (throughout the standard):



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- *The acceptability of electronic confirmations and/or whether they should be considered as an equivalent (or subset) of written confirmations;*
- *Scenarios when written confirmations are required; and*
- *Considerations when the auditor determined that a written confirmation is necessary but only received an oral confirmation.*

The Committee requests the ASB leave in guidance surrounding verifying the source of an oral confirmation. The proposed SAS completely eliminates paragraph .A27; however, the Committee believes the following language from paragraph .A27 should remain:

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.

With the heightened acceptability of oral confirmations, the Committee believes that references to confirmations throughout the standard should be made clear as to whether they are referring to all forms of confirmations or just to certain types of confirmations.

Proposed Language Changes

The Committee proposes the following language changes:

10. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider the relevance and reliability of the information. ~~The auditor should also consider whether the information is sufficiently reliable for the auditor's purposes~~, including as necessary (Ref: par. A12-A33):

- obtaining audit evidence about the accuracy and completeness of the information; ~~and~~
- evaluating whether the information is sufficiently precise and detailed for the auditor's purposes;
- ~~evaluating the authenticity of the information; and~~
- ~~considering the risk of bias and how this risk is overcome by management and/or the auditor.~~

The Committee believes that these changes to paragraph 10 better align this paragraph with the four elements of reliability.

A1. The nature of the audit procedures that the auditor performs on information to obtain audit evidence may range from simple to more extensive procedures, and the time required to perform such procedures varies ~~accordingly~~.

A10. Audit evidence is sufficient (that is, persuasive) when an auditor would be persuaded to reach conclusions for the auditor's purposes based on consideration of the audit evidence. The more significant ~~the risk being addressed with a given audit procedure conclusion being reached~~, the more persuasive the audit evidence required to support the conclusion may need to be.

A15. Certain information to be used as audit evidence, ~~whether in paper or electronic form including in oral, paper, electronic and other mediums~~, provides ~~sufficient~~ evidence of the existence of an asset (for example, a



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document constituting a financial instrument such as a stock, bond, or a digital copy maintained by a financial institution of a mortgage and the related deeded property). Other information may provide only some evidence of existence of an asset (for example, a record viewed on a blockchain may be subject to consideration of the reliability of the blockchain itself). However, inspection of such information regarding existence may not necessarily provide audit evidence about ownership or value. Similarly, inspection of tangible assets may provide audit evidence with respect to their existence but not necessarily about the entity's rights and obligations or the valuation of the assets.

With the heightened acceptability of oral confirmations, the Committee believes that references to confirmations throughout the standard should be made clear as to whether they are referring to all forms of confirmations or just to certain types of confirmations (as proposed in the instance above).

A31. Judgment may be required in determining the impact of bias in evaluating the reliability of information from external information sources, to be used as audit evidence by taking into account the following:

- a. The ability of the entity to influence the external information source
- b. Management's selection of information from an external information source known to be favorably biased toward corroborating management's assertions or information
- c. Management's unknowing use of information from an external information source that is biased in generating information

A32. 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. The auditor may need to exercise judgment in determining the reliability of information to be used as audit evidence by taking into account the ability of the entity to influence the external information source.

A33. 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, but not limited to, the following:

- a. Availability bias, which involves considering information that is easily retrievable as being more likely, more relevant, and more important for a judgment
- b. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences
- c. Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions
- d. Anchoring bias, which involves making assessments by starting from an initial position (e.g., numerical value, assessment, initial judgment) and then adjusting insufficiently away from that initial position in forming a final judgment

The Committee also suggests considering expanding the examples of biases to include other common biases, including truth bias, hindsight bias, and distortion bias. For example, truth bias is particularly relevant to client inquiry. The Committee suggests adding examples of the impact of specific bias on the nature of the audit evidence. The audit procedure used to collect the audit evidence will interact with the likelihood of a given bias.



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A35. Information to be used as audit evidence may be obtained or derived individually or in combination from the following sources:

- a. Management — Generated internally from the financial reporting system
- b. Management — Generated outside the financial reporting system, including from sources external to the entity
- c. Management — Obtained from management’s specialists
- d. Auditor — Obtained from sources external to the entity
- e. Auditor — Developed from sources internal or external to the entity, **including from an Auditor’s specialist**

A50. Due to the length of the application materials related to audit procedures for obtaining audit evidence (paragraphs A50 – A72), we recommend that these paragraphs be preceded by a bullet point outline of the following paragraphs to facilitate navigation of those paragraphs.

A68. An auditor may use automated tools and 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, at the same time, relevant characteristics of an entire population of transactions and 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 deem the audit data analytic sufficiently precise to respond to the assessed risks of material misstatement. If so, 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 range of expectations. Thus, the **audit** data analytic may be used to perform both a risk assessment procedure and a further audit procedure (that is, a substantive analytical procedure).

Appendix A, paragraph 6. The auditor is required by paragraph 10 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;
- **details about 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, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, or, where applicable, AU- C section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.

Appendix A, paragraph 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:



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- Whether **the entity management** has in place controls to address the relevance and reliability of the information obtained and used **from the external information source**.

AU-C Section 330 ~~.A75A76~~ *AU-C section 500 explains the considerations involved in evaluating whether information is **sufficient 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...~~

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Scott Cosentine, CPA

Chair, Audit and Assurance Services Committee

Genevra D. Knight, CPA

Vice Chair, Audit and Assurance Services Committee



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2019 – 2020

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Jennifer E. Deloy, CPA	Marcum LLP
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Huong Nguyen, CPA	PricewaterhouseCoopers LLP
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Richard D. Spiegel, CPA	Wipfli LLP
Timothy Van Cott, CPA	Sikich LLP
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Regional:

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Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

Local:

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