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Proposed Statement on Auditing Standards – Audit Evidence

Dear Ms. Hazel,

Ernst & Young LLP is pleased to submit this comment letter to the Auditing Standards Board (ASB or the Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS) on audit evidence. We support the ASB's efforts to modernize standards to address the evolving nature of business, new technologies and audit techniques.

We believe the proposed SAS is clearer and easier to understand than AU-C section 500, *Audit Evidence*, and we support the use of a framework that provides attributes and factors for auditors to consider when assessing whether they have obtained sufficient appropriate audit evidence. We also believe that by proposing that the SAS move away from the traditional hierarchy of audit evidence and the measurement of the quantity of audit evidence, the ASB would appropriately recognize the new types of audit technologies and tools the auditor uses to obtain evidence. We also support the ASB's efforts to incorporate the concept of professional skepticism throughout the proposed SAS.

However, because audit evidence is foundational to an audit, we recommend that the Board work with the International Auditing and Assurance Standards Board (IAASB) to develop a converged standard on evaluating audit evidence rather than issue a final SAS. We are also concerned that the proposed SAS would create a new documentation requirement for auditors to demonstrate that they have met the objective of the SAS, which we don't believe was the Board's intent.

Attachment A provides responses to the ASB's requests for comment along with additional recommendations for your consideration if the Board decides to move ahead with the proposed SAS. Attachment B includes other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

Attachment A – Responses to requests for comments

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.

Overall, we believe the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330 and 700, is clear.

Please provide your views on the following:

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.
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.
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.
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?

We support the approach the ASB has proposed for evaluating whether sufficient appropriate audit evidence has been obtained. We believe the attributes and factors the proposal would require auditors to use to evaluate information to be used as audit evidence are helpful and easy to understand. We also believe the diagram in the proposal appropriately captures those considerations and could help auditors focus on exercising professional skepticism. However, we believe the diagram could be improved by showing the relationship of the proposed SAS with other standards used to determine when sufficient appropriate evidence has been obtained. In addition, we recommend modifying the front panel of the diagram to show attributes and factors relating to relevance or move the word “relevance” to another location.

While we recommend that the Board coordinate any changes with the IAASB, we believe that if the Board moves ahead with this proposal, it would be appropriate for any final guidance to focus on these attributes and factors. We do not believe the proposed SAS would increase or change the types or sources of information auditors use as evidence. Instead, the proposal would recognize that auditors have begun using data analytics and other new technologies to obtain audit evidence.

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.

We believe the examples that mention drones, data analytics and blockchain technology focus primarily on how the procedure is performed rather than how the auditor would evaluate resulting audit evidence. We recommend that if the ASB moves ahead with the proposed SAS, it should expand the examples to address how auditors should evaluate whether they have obtained sufficient appropriate audit evidence using these tools and techniques.

In addition, certain examples relating to blockchain technology appear to discredit the evidence obtained from a blockchain. In Attachment B, we provide recommendations for how our concerns can be addressed.

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

We support the Board's approach of weaving professional skepticism into the proposed SAS. We recommend that the ASB clarify whether it intended for auditors to document the specific evidence or procedures that demonstrate that they appropriately applied professional skepticism.

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.

Yes. If an auditor examines each piece of audit evidence using the factors and attributes set out in the diagram, the application of professional skepticism would be enhanced.

Please provide your views on the following:

9. Are the changes to the definitions in extant AU-C section 500 appropriate? If not, please explain why.
10. Are there any other definitions that should be included in the proposed SAS? If so, describe them.

The changes to the definitions in the proposed SAS are appropriate and complete. We are especially supportive of redefining sufficiency to be a measure of the persuasiveness of audit evidence rather than the quantity of audit evidence.

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

We believe the additional guidance is helpful because it acknowledges the automated tools and techniques that are being used by auditors to generate information that can be used as audit evidence. However, there are a few instances where a specific tool or technique is referenced in a way that could limit the application of the guidance. That is, if the language is too specific (e.g., if it refers to cloud computing), the standard would need to be continually updated to address emerging technologies.

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?

We believe an oral confirmation may be as reliable as a written confirmation if the oral request is made to an appropriate individual, the response is provided by an appropriate individual and the response is documented by the auditor. However, without additional guidance and examples to assist the auditor in determining whether an appropriately planned and executed oral confirmation sufficiently addresses the risk of material misstatement and whether it should be supplemented by a written confirmation, we believe that oral confirmations should be permitted only in limited circumstances.

Please provide your views on the following:

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

We believe the content relating to management's specialist should not be addressed in a separate standard. Considering the use of information sources is an integral part of the framework being proposed to evaluate whether sufficient appropriate audit evidence has been obtained and, therefore, should be part of the proposed SAS. We recommend that the guidance addressing management and auditor sources of evidence be together in the proposed SAS.

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.

We are concerned that the explicit objective of the proposed SAS to evaluate the information to be used as audit evidence could imply that auditors are required to document the specific attributes and factors that they considered in assessing the audit evidence to demonstrate that the objective was met. Requiring this level of documentation is neither desirable nor practical. In addition, we are concerned that the weaving of professional skepticism throughout the proposed SAS could imply that auditors are required to provide evidence of their exercise of professional skepticism.

Attachment B – Recommendations for other edits and improvements

Paragraph	Observation
A1	We recommend deleting "..., and the time required to perform such procedures varies accordingly" because it is not contextually relevant.
A10	We recommend the following edit: 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 purpose, including as necessary:
A15	This paragraph appears to discredit evidence obtained from a blockchain by saying it provides "only some evidence of existence." A record viewed on a blockchain is arguably the most relevant and often the only evidence of the existence of a digital asset. Therefore, it wouldn't be appropriate to say, "only some evidence of existence." The paragraph also states that evidence from a blockchain needs to be evaluated for reliability when all evidence needs to be evaluated for reliability. We recommend the following edits: Certain information to be used as audit evidence, whether in paper or electronic form, provides evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, a digital copy maintained by a financial institution of a mortgage and the related deeded property and a record viewed on a blockchain). 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, inspecting tangible assets may provide audit evidence about their existence but not necessarily about the entity's rights and obligations or the valuation of the assets.
A24	The examples in this paragraph show that the evidence is affected by the accuracy and completeness of the information. We believe an example should also be provided where obtaining the accuracy and completeness of the information is not necessary. For example, the auditor may determine that the information is sufficiently reliable for risk assessment purposes without obtaining additional evidence over the accuracy and completeness of the information.
A25	The attributes of reliability of information are set out in proposed paragraph A18. However, proposed paragraph A25 states that the reliability of information is affected by the <i>precision</i> of the information, which does not align with the accuracy or completeness attributes set out in proposed paragraph A18. For example, an auditor may receive from a company the monthly sales report by geographic region and by store location. Both may be accurate and complete, but the auditor may need the level of detail provided in the store location to perform his or her procedures. We recommend removing this paragraph from the section on reliability to the relevance section.

Paragraph	Observation
A31	We believe it will be difficult to establish bias from an external source without an understanding of and access to the external source. For example, the information from the external source may provide corroborating information, but the auditor may not know whether this is due to errors, a different methodology or bias. In addition, public points of view may suggest that an external source is known to have a bias to corroborate management's assertions, but there may not be evidence that these views are credible. We recommend deleting this paragraph.
A32	We recommend the following edit: " ... likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free makes it available to a wide range of users for free or in return for payment of a fee."
A35	We recommend the following edit to proposed paragraph A35(e): Obtained or developed from sources internal or external to the entity. For example, auditors obtain data directly from an entity's GL system, which has not been modified or developed. Conforming changes would need to be made to the diagram.
A38	This paragraph seems to be contextually out of place, and we recommend moving it to the section on <i>Analytical Procedures and Use of Audit Data Analytics</i> .
A40	We recommend the following edit: "An example of information developed by other internal sources outside the financial reporting system is ..." to better align with proposed paragraph A39(b).
A41	We recommend removing the word "cloud" from proposed paragraph A41(b) as it may be outdated in the future, and the generic description of "a network of remote servers" is sufficient.
A44	We recommend that the reference to a central location to describe a blockchain be deleted because a blockchain is inherently decentralized. We are unclear whether the reference to information that is internal or external to the entity is referring to private vs. public blockchains. Without additional clarification, we are unsure how the existence of internal vs. external information would affect the reliability of the information on the blockchain. We recommend that the ASB add an example of the factors that affect the reliability of information when multiple parties validate information on a blockchain, using a consensus mechanism.