



April 24, 2023

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**Re:** Exposure Draft: Proposed International Standard on Auditing, *Audit Evidence*

Dear Mr. Botha,

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced Exposure Draft. The ASB's mission is to serve the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enables practitioners to provide high quality, objective audit and attestation services to nonissuers in the United States of America effectively and efficiently.<sup>1</sup> As set forth in the ASB's operating procedures, convergence with the International Standards on Auditing (ISAs) is a key strategic objective. In this context, we<sup>2</sup> appreciate the opportunity to help inform the IAASB's standard-setting process.

The ASB issued SAS No. 142, *Audit Evidence*, in July 2020. In developing SAS No. 142, the ASB shared objectives similar to those of the IAASB in revising ISA 500, particularly the aim of increasing attention to external information sources and maintaining professional skepticism when evaluating information to be used as audit evidence. The ASB also considered the feedback received by the IAASB in response to its Request for Input, *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*. In addition, SAS No. 142 includes substantially all of the IAASB's conforming amendments to ISA 500 from other projects (e.g., the revision of ISA 540, *Auditing Accounting Estimates and Related Disclosures*).

We appreciate that the IAASB Audit Evidence Task Force took SAS No. 142 into consideration in developing the proposed standard. Accordingly, in principle, we support the proposed standard. However, to fully realize the IAASB's objectives in revising ISA 500, we believe certain requirements need to be clarified such that they can be consistently understood, implemented, and applied.

We offer the following feedback, based on our consideration of the proposed ISA and an analysis of the similarities and differences with SAS No. 142, which is effective for 2022 calendar year-end nonissuer audit engagements in the U.S. We highlight below our key overall

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<sup>1</sup> Refer to the [ASB's Strategic Plan 2021-2025](#).

<sup>2</sup> References to "we," "our," or "us" refer to the AICPA's ASB and not to the AICPA as a whole or to members or member firms.

observations and provide more detailed feedback in Appendix A, where we respond to each of the questions presented in the Exposure Draft.

### ***Key Overall Observations***

#### ***Automated tools and techniques (see question 4)***

As noted in our response to the IAASB's consultation on its proposed strategy and work plan, the topic of automated tools and technology (including audit data analytics) is a current area in practice where we observe that financial statement auditors globally are increasingly in need of additional guidance in applying such techniques in performing their audit engagements. We believe a more holistic focus on how technology affects the audit, including how audit procedures are designed and performed using automated tools and techniques, is needed to fully modernize the proposed ISA in line with the IAASB's stated objective. While we acknowledge the work performed by the IAASB's Technology Consultation Group, the non-authoritative guidance it has published has not alleviated the questions that are being faced in practice and we believe a greater focus on technology within the standards is necessary. Accordingly, we ask that, as part of the IAASB's proposed Strategy and Work Program, the Board address technology more holistically in a separate project.

#### ***Audit Evidence and the concept of "information intended to be used as audit evidence" (see question 6)***

As noted in the Explanatory Memorandum, the proposed standard sets out a framework whereby information (the "input") does not become audit evidence until audit procedures are applied to it (the "output"). We generally agree with this approach but perceive there to be circularity in terms of how the phrase "audit evidence" is defined and used in certain requirements. There may be instances where the only audit procedure necessary to apply to the information are the procedures required by this exposure draft (that is, procedures performed to evaluate the information for relevance and reliability). In such circumstances, the relationship between the requirements in paragraph 9 and 10 and the requirement in paragraph 13 is not sufficiently clear.

#### ***Evaluation of Relevance and Reliability (see question 8)***

We are concerned that the proposed requirement to evaluate the relevance and reliability of information intended to be used as audit evidence (paragraph 9) is unclear with regard to the extent of evaluation and documentation needed to be performed for each piece of information the auditor obtains. We agree with the views expressed in paragraphs 47 and 48 of the Explanatory Memorandum that not all of the attributes of relevance and reliability may be applicable in the circumstances; that the attributes in ED-500 are not intended to be used as a checklist; and that the auditor is not required to document the consideration of every attribute of relevance and reliability of information. However, the proposed standard is not clear on how the auditor may determine what attributes of relevance and reliability are applicable "in the circumstances" (paragraph 9b) and how the auditor may determine that completeness and accuracy are applicable (paragraph 10). We have concerns that the requirement creates an expectation that the auditor must document the judgment of which attributes were applicable in

the circumstances as well as the intended purpose of the procedures for every piece of information. We ask the Board to clarify how the evaluation of relevance and reliability is intended to be documented.

***Intended purpose of the audit procedures (see question 8)***

We believe clarity is needed in relation to the phrase “intended purpose of the audit procedures” such that the requirements (namely paragraphs 8 and 13) can be understood consistently without reference to the application material.

***Linkage with ISA 330<sup>3</sup> (see question 10)***

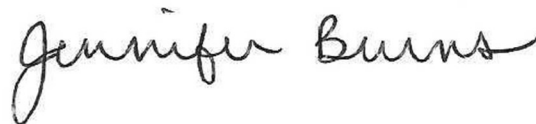
It is unclear how requirement 13(a) interacts with the overall requirement in ISA 330 for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

We thank you for the opportunity to present our views on the Exposure Draft. If you have any questions regarding the comments in this letter, please contact the Chair of the ASB, Sara Lord at [sara.lord@rsmus.com](mailto:sara.lord@rsmus.com) or the AICPA’s Chief Auditor, Jennifer Burns, at [jennifer.burns@aicpacima.com](mailto:jennifer.burns@aicpacima.com).

Respectfully submitted on behalf of the ASB,



Sara Lord  
Chair, Auditing Standards Board



Jennifer Burns  
AICPA Chief Auditor

**About the AICPA Auditing Standards Board**

The ASB is the senior committee of the AICPA designated to issue auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for non-issuers.

**About the American Institute of CPAs**

The American Institute of CPAs® (AICPA®) is the world’s largest member association representing the CPA profession, with more than 428,000 members in the United States and

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<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organizations, and federal, state, and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent, and drives continuing education to advance the vitality, relevance, and quality of the profession.

## Appendix A: Responses to Questions Included in the Exposure Draft

1) *Is the purpose and scope of ED-500 clear? In this regard:*

- *Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?*
- *Are the relationships to, or linkages with, other ISAs clear and appropriate?*

We support the IAASB's intent to provide an appropriate principles-based reference framework for auditors and generally agree that the exposure draft accomplishes that objective. However, there are certain concepts and requirements we think need further clarification to enhance understandability and ensure consistent application. See responses to the remaining questions that follow for more details.

With regard to linkages with other ISAs, we think more clarity is needed with respect to how the requirements in the exposure draft interplay with ISA 330. For more details, see response to question 10.

2) *What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?*

We believe certain elements of ED-500 will lead to enhanced auditor judgments while others require further clarification.

In particular, as the use of external information sources continues to grow, it becomes increasingly important to drive consistency in practice regarding how those sources are evaluated. In such a foundational standard, we believe it is important to be clearly explicit upfront that the standard applies to both information produced by the entity and information from external information sources. As such, we suggest adding this concept into the introduction or scope section of the standard. We further recommend explicitly defining the term *external information source* in the Definitions section by elevating and expanding material from paragraph A46 as follows:

An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements or the auditor intends to use as audit evidence. When information has been provided by an individual or organization acting in the capacity of management's expert, service organization,<sup>4</sup> or auditor's expert,<sup>5</sup> the individual or organization is not considered an external information source with respect to that particular information.

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<sup>4</sup> See ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

<sup>5</sup> See ISA 620, *Using the Work of an Auditor's Expert*.

We believe that, to the extent auditors are not already evaluating the relevance and reliability of external information sources, the proposed revisions will improve practice. In addition, the enhanced requirement to focus the auditor on understanding how management has considered the appropriateness of information prepared by management's experts may improve practice to the extent this is not already being considered. However, as expressed in the cover letter, to the extent the proposed standard is inconsistently interpreted because of a lack of clarity of the requirements or interpreted as requiring documentation of the evaluation of each attribute of every piece of evidence, it could have the unintended negative consequence of detracting from audit quality.

- 3) *What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?*

As noted in our cover letter and in our response to question 8, we have some concern that the requirements do not appropriately stand on their own; that is, their scalability and how they are intended to be applied is only understood when requirements are read in connection with application material. In addition, there are certain concepts we think need further clarification, which may require further application material. See responses to questions 4 and 6, where we recommend further application material to help clarify and drive consistency.

In addition, we note certain topics where the AICPA has provided additional application material in SAS No. 142 that may be helpful to include in the final ISA 500 (Revised). Refer to Appendix B for detailed recommendations on this point.

- 4) *Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?*

We are concerned that the proposed standard does not go far enough with regard to technology and could be unduly restrictive, or require subsequent revision as the IAASB considers the impact of technology more holistically, including how auditors use audit data analytics (ADAs) to design and perform audit procedures.

Auditors may use automated tools and techniques (ATT), such as automations and data analytics, for the purpose of planning or performing the audit. In SAS No. 142, data analytics is 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. Examples of other automated tools and techniques are artificial intelligence, machine learning, remote observation tools, and robotic process automation.

We recognize the IAASB's objective of modernizing ISA 500 to be adaptable to the current business and audit environment, while considering the scalability of the standard to a wide variety of circumstances regarding the use of technology by the entity and the auditor. We appreciate that both ISA 315 (Revised) and the proposed standard acknowledge the use of

ATT. However, we are concerned that, as currently drafted, the proposed standard is unduly limiting, in part because it does not define ATT or data analytics, and does not explain how using audit data analytics fits into the types of procedures that the auditor may perform. We believe that, while remaining principles-based, the proposed ISA could go further in explaining how auditors can use technology to obtain sufficient appropriate audit evidence.

We also have the following observations and recommendations:

- The development of the LCE standard may open up the opportunity for the IAASB to provide more in-depth guidance about technology in the ISAs. The development of the LCE standard is meant to simplify and streamline the audit requirements relevant to less complex entities, whose management and auditors may not employ the use of technology as often or to the same degree as more complex entities. Therefore, there may be more leeway to expand on technology-related topics that are relevant to more complex entities in the suite of ISAs; for example, to explain how management's use of technology affects how the auditor thinks about obtaining evidence or other examples of technology's impact on the audit.
- Including only the drawbacks related to automation in the proposed standard might be interpreted as being overly cautious or negative about the use of technology rather than appropriately facilitating the use of technology. For example, we believe that more advanced auditing techniques may provide more persuasive audit evidence than traditional audit approaches.
- Application material should be added to note that auditors may consider whether there is a risk related to management not using technology; for example, in today's environment, it might raise concerns for the auditor if information that was expected to be provided in a digital format was prepared manually.

As part of the IAASB's proposed Strategy and Work Program, we recommend that the Board address technology more holistically in a separate project. We are concerned that the Board's approach to technology is disparate and siloed.

- The Board might consider modernizing the ISAs by addressing technology in each ISA, as appropriate, that it revises in the future.
- We also recommend that the Board consult with national standard-setters about their initiatives related to technology.
- Lastly, we think the Board could consider developing an International Auditing Practice Note (IAPN) as a possible path forward related to addressing technology.

5) *Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?*

We agree with reinforcing the need for professional skepticism, but think the Board should continue to emphasize professional judgment as well, particularly in paragraph 4. We suggest the following:



4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. This ISA further emphasizes **exercising professional judgment** and maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:

- Designing and performing audit procedures in a manner that is not biased.
- Evaluating the relevance and reliability of information intended to be used as audit evidence, including taking into account how the information will be used in determining and performing the audit procedures.
- Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

6) *Do you support the revised definition of audit evidence? In particular, do you agree with the “input/output model” that information can become audit evidence only after audit procedures are applied to it?*

As noted above, we generally agree with this approach but believe there to be circularity in terms of how the phrase “audit evidence” is defined and used in certain requirements. Our approach in developing SAS No. 142 used a similar concept, but recognized that there may not always be a discrete step between the input of information and the output of audit evidence. Rather, the information itself may be evidence, the relevance and reliability of which is evaluated in accordance with the standard itself.

SAS No. 142 explains that the nature and extent of procedures that may be required to turn information intended to be used as audit evidence into audit evidence will often vary depending on the source of the information and may range from simple to extensive audit procedures. Furthermore, the procedures that may be required to evaluate the relevance and reliability of information intended to be used as audit evidence in accordance with proposed paragraphs 9 and 10 may be the same procedures that turn that information into actual audit evidence that is then evaluated in proposed paragraph 13. Said another way, the procedures performed over the information intended to be used as audit evidence and ultimately what may become audit evidence is intertwined and may overlap. The proposed requirements do not acknowledge this overlap and therefore may cause confusion when applied. For example, when the information is a document, such as a contract, and the audit procedure to be applied is to inspect the document, it is not clear whether additional procedures are expected to be performed on the document to make it appropriate to use the information as audit evidence. In practice, additional procedures are likely performed to evaluate how the company has accounted for the contract, and so a prescriptive focus on the relevance and reliability of a single piece of information may not be necessary.

Accordingly, we believe it is necessary to revisit certain definitions and the overarching requirement in paragraph 9 to address this circularity and ensure the final standard is



appropriately principles-based. Doing so will also better enable the final standard to be able to adapt to the increasing use of technology by management and the auditor. For example, the Appendix of the proposed ISA includes a section entitled “Types of Audit Procedures,” listing inspection, observation, confirmation, recalculation, analytical procedures, and inquiry. While we agree that all information intended to be used as audit evidence should be evaluated in order for it to become audit evidence, we believe there may be procedures an auditor could perform to effectively evaluate that information that may not fit neatly into the types of audit procedures listed in the Appendix of the proposed ISA.

We suggest the following:

- Simplify the definition of audit evidence:  
Information, ~~to which audit procedures have been applied,~~ that the auditor uses to draw conclusions that form the basis for the auditor’s opinion ~~and report~~.  
Note: we suggest deleting “and report” for the sake of consistency within ED-500, as all other references are to the auditor’s opinion only.
- Add application material to the definition:  
“Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.”
- Clarify paragraph 1 to state:  
“This ISA deals with the auditor’s responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include performing procedures to evaluate the relevance and reliability of information intended to be used as audit evidence and evaluating the audit evidence obtained.

7) *Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?*

Yes.

8) *Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?*

*Evaluation*

There is a very broad array of “information” that an auditor will use in an audit, and therefore a spectrum of work effort in evaluating the relevance and reliability of information. The nature and extent of procedures that may be required to turn information the auditor intends to use as audit evidence into audit evidence will often vary depending on the source of the information. By separating the concept of designing procedures (paragraph 8) from the auditor’s expectation about the inputs to those procedures and the results of those procedures

(paragraph 9), the IAASB seems to have established a very granular expectation that auditors will be able to perform a robust evaluation of the relevance and reliability of each piece of “information” that the auditor intends to be used as audit evidence.

In practice, the auditor may need to perform procedures to evaluate relevance and reliability in different ways, which are taken into account when the auditor develops the audit strategy and involve the exercise of professional judgment:

- The auditor may need to test information produced by the entity for accuracy and completeness and then perform other procedures on that information (for example, to test a listing of accounts receivable for completeness and then send confirmations for a sample of selected accounts receivable balances).
- The auditor may perform tests of details to test the accuracy of information.
- The auditor may need to test information produced by the entity for accuracy and completeness and then may use this information in an audit data analytic, then evaluate the outcome of applying the audit data analytic as audit evidence.
- The auditor may be able to obtain information from an external information source (e.g., a pricing service) and may focus on the credibility of the source and corroborating the information with the source’s website.

We are also concerned that the requirement and related application material as drafted do not provide clarity as to how auditors may make consistent judgments as to what is applicable in the circumstances. One could argue that the attributes are always applicable, but to varying degrees, and therefore the impact on the auditor’s procedures will vary.

We note that *evaluate* is defined in the CUSP drafting principles and guidelines as “Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter.” “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk. The guidelines further state that “Documentation may include details about the specific items considered by the auditor in coming to a conclusion, and the basis for the auditor’s conclusion”.

We agree with the IAASB’s position set out in paragraph 48 of the Explanatory Memorandum that the proposed standard does not require the auditor to document the consideration of every attribute of relevance and reliability of information. However, in light of the CUSP drafting principles and a lack of application material, we are concerned that the requirement as drafted could be interpreted to mean that the auditor is required to include details about every individual piece of information considered, which with regard to the attributes of relevance and reliability could become onerous while not enhancing audit quality. We do not believe this is the IAASB’s intent based on paragraphs 42, 47, and 48 of the Explanatory Memorandum.

We believe the requirement should allow for auditor judgment about the nature and extent of procedures needed to evaluate information to be used as audit evidence, and to accommodate the use of technology. Therefore, we suggest the following changes, which

we believe are more reflective of how auditors design and perform procedures and evaluate the outcome of those procedures:

9. The auditor shall evaluate ~~the relevance and reliability of~~ information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref. Para. A34–A47)
  - (a) The relevance and reliability of the information, including its source of the information; and (Ref. Para. A48–A52)
  - (b) ~~The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedures;~~ and (Ref. Para. A53–A62)
  - (c) Whether it is necessary to perform audit procedures to test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.
10. ~~If the auditor considers that the accuracy and completeness attributes are applicable in accordance with paragraph 9(b), the auditor shall obtain audit evidence about the accuracy and completeness of the information.~~ (Ref: Para. A63-A65)

*“Intended purpose of the audit procedures”*

We believe clarity is needed in relation to the phrase “intended purpose of the audit procedures” such that the requirements (namely par 8, 9 and 13) can be understood consistently without reference to the application material. The IAASB has indicated that the use of the phrase “intended purpose of the audit procedures” is meant to relate to meeting a particular audit objective (e.g., a risk assessment procedure or a further audit procedure to respond to an assessed risk of material misstatement). However, that is not clear from the requirements. Paragraph A44 of SAS No. 142 explains that an audit procedure may have characteristics of one or more of categories (risk assessment procedures, tests of controls, tests of details, substantive analytical procedures), and can be designed to accomplish more than one objective. However, because paragraph 8(b) refers to “...the intended purpose (*singular*) of those audit procedures”, this is not obvious that an audit procedure could have more than one purpose.

Accordingly, we suggest the following changes to paragraph 8:

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref. Para. A15–A18)
  - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref. Para. A19–A23)

(b) The nature, timing and extent of which are appropriate in the circumstances to ~~provide audit evidence to meet~~ based on the intended purpose of those audit procedures (i.e., whether those procedures support the auditor's risk assessment or are further audit procedures designed to respond to an assessed risk of material misstatement, or a combination of both). (Ref. Para. A24–A33)

9) *Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?*

No, we think clarification is needed because the requirement may be inconsistently interpreted as requiring an onerous amount of documentation. We also have concerns about the ability of an auditor to comply with paragraph 10 in relation to information obtained from sources external to the entity when the auditor has no rights of access to obtain evidence over the accuracy and completeness of information obtained from that external source. In these circumstances, the auditor may find it sufficient to evaluate other attributes (e.g., credibility and bias) in order to evaluate the reliability of such information.

Please also see our comments above in response to question 8.

10) *Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?*

We are concerned with how the requirement in paragraph 13(a) is articulated and the linkage with ISA 330. When the auditor is making judgments as to whether sufficient appropriate audit evidence has been obtained to comply with the requirement in paragraph 28 of ISA 330, the auditor will be looking collectively at all the audit evidence that has been obtained to determine whether the assessed risk of material misstatement has been addressed. We believe the focus in paragraph 13(a) should not be on whether the intended purpose of the audit procedures has been met, but rather on whether the results of the totality of the audit procedures that have been performed enable the auditor to conclude whether sufficient appropriate audit evidence has been obtained. Accordingly, we suggest the following changes:

13. ~~As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330~~In evaluating the audit evidence obtained, the auditor shall consider:

(a) ~~Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedures~~Whether the results of all audit procedures that have been performed provide an appropriate basis for the conclusion required by ISA 330; and

(b) ~~Consider a~~All audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

11) *Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.*

- We believe the IAASB should include the language in paragraph A3 of extant ISA 500 that states “An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management’s expert, or service organization or auditor’s expert.” The exposure draft is clear that an external information source cannot also be a management’s expert, but it is not clear on the point that it cannot also be a service organization or an auditor’s expert.
- In our view, auditing standards need to remain sufficiently principles-based so as not to constrain the use of technology or appear to do so. Accordingly, we agree with relocating the types of audit procedures to the Appendix and noting that it is not an exhaustive list. For example, the use of audit data analytics may result in the auditor being able to perform a robust analysis of full populations of data, and understand patterns and anomalies to determine where potential misstatements may occur. While this represents procedures to analyze, such activities do not neatly fit in the current category of analytical procedures or the requirements in ISA 520, *Analytical Procedures*, as they can have characteristics of both tests of details and substantive analytical procedures. We therefore agree with the following sentiment in the Explanatory Memorandum and suggest explicitly stating in the proposed standard that “it is more important for auditors to focus on the appropriateness of the audit procedures in the circumstances (i.e., whether the audit procedures are appropriately designed to achieve their intended purpose, and have been effectively applied by the auditor) rather than the type of audit procedure (i.e., in which “category” the audit procedure falls).”

## Appendix B: Additional Application Material from SAS No. 142

We recommend the IAASB consider the following:

- In paragraph A24 of ED-500, we suggest the IAASB revise the language of the first example as follows.
  - Inspection or ~~external confirmation~~ observation procedures may provide more persuasive audit evidence than inquiry.
- In addition, we suggest adding the following application material paragraph contained within SAS No. 142:
  - Although external confirmations may provide audit evidence relating to certain assertions, some assertions exist for which external confirmations provide less persuasive audit evidence, for example, external confirmations provide less persuasive audit evidence relating to the recoverability of accounts receivable balances than they do of their existence.
- SAS No. 142 includes consideration that evidence can be sourced from management, external sources, or from the auditor themselves, while ED-500 only focuses on information produced by the entity or external sources. We suggest the IAASB consider adding application material similar to paragraph A12 of SAS No. 142, which states:
  - .....“*Auditor*. The auditor may develop information to be used as audit evidence. For example, an auditor may accumulate and analyze industry trends to be used in the audits of entities in that industry. The auditor may also employ or engage a specialist to assist the auditor in developing audit evidence, which could include developing an independent expectation to evaluate the reasonableness of an accounting estimate. The auditor may also use automated tools and techniques to analyze information provided by management or external parties, resulting in audit evidence.”
- The following paragraphs from SAS No. 142 are not included in ED-500, but may provide additional clarification on various topics, including (but not limited to) considerations related to technology:
  - A14. An example of information provided by management that is obtained from outside the general and subsidiary ledgers is internal marketing information developed by the entity’s sales function as an assumption in making an accounting estimate for a warranty provision.
  - A24. Information in documentary form, whether paper or electronic, may be more reliable than evidence obtained through oral inquiries (for example, a contemporaneously written record of a meeting may be more reliable than a subsequent oral representation of the matters discussed).
  - A25. Determining whether controls are effectively designed and implemented (including general IT controls, as appropriate) may help the auditor design appropriate audit procedures to evaluate the reliability of information. In some cases, the reliability of such information may only be established when the related controls, whether manual or automated, including those over the preparation and maintenance of the information, have been tested and determined to be operating effectively.

- A26. Using electronic information may require the auditor to perform additional audit procedures to establish its reliability. For example, when using a scanned version of an executed sales contract provided by the sales department, additional audit procedures, such as confirmation of the key terms with a third party, may be necessary if the auditor has not tested the operating effectiveness of the controls around execution of the original contract and the maintenance of the scanned version.
- A37. Contradictory information may be relevant even when the source of that information is less reliable than the source of corroborative information. For example, in the audit of a depository institution, reports of decreasing property values in a particular geographical area may have been obtained by the auditor that contradicted the report of an external appraisal provided by management to support its estimate of the values of collateral for a loan portfolio. In this case, given that contradictory information has been obtained, the auditor may determine that it is necessary to perform additional audit procedures to obtain audit evidence about the value of the property.
- A38. Contradictory information is not considered in isolation but, rather, as part of the auditor's consideration with respect to that management assertion taken as a whole. In such cases, professional skepticism and judgment is necessary to evaluate the persuasiveness of the audit evidence taken as a whole, rather than focusing on an individual piece of audit evidence. For example, the auditor may be aware of information on social media suggesting a company's product has major quality issues and that all buyers would be returning the product. The auditor may have obtained external confirmations regarding product sales and outstanding accounts receivable that do not indicate quality or return issues and may have scanned the sales returns subsidiary ledger, which contained only an immaterial amount of returns subsequent to year-end. In light of that, the auditor may conclude that the contradictory information does not suggest a reasonable possibility of a risk of material misstatement and that further audit procedures are not necessary.
- A39. In some cases, the auditor may intend to use information obtained from management for other audit purposes. For example, the auditor may use the performance measures included in the entity's internal audit function reports, initially obtained for the purpose of evaluating monitoring activities, in a substantive analytical procedure. In such cases, the appropriateness of this information to be used as audit evidence is affected by whether the information is sufficiently precise or detailed for the auditor's purposes.
- A41. The auditor may obtain audit evidence about the accuracy or completeness of information to be used as audit evidence through the performance of an audit procedure that was not primarily intended for that purpose. For example, in testing valuation, the auditor may reconcile the listing of investment purchases 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 transactions).



- A45. The auditor may use automated tools and techniques to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence.
- A47. The auditor may also use automated tools and techniques to obtain audit evidence about the operation of the entity's internal control. For example, if management has controls over the sequential numbering of sales invoices, the auditor may be able to obtain corroborating audit evidence about the sequential numbering of sales invoices for the period by using automated tools and techniques to determine whether any gaps in numbering or duplicates exist, which may provide audit evidence about the controls over the completeness of invoices issued during the period.
- A48. Some information may be available only in electronic form or only at certain points or periods in time, which may affect the nature and timing of the audit procedures to be performed.
- A49. Certain electronic information may be destroyed or deleted after a specified period of time (for example, if files are changed and back-up files do not exist). Accordingly, as a result of the entity's data retention policies, the auditor may find it necessary 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.
- A50. Some electronic information (for example, records maintained on a distributed ledger, such as a blockchain) is available on a continuous basis during the audit. In such cases, auditors may develop audit procedures using automated tools and techniques to obtain information about transactions on a real-time basis.
- A57. By using automated tools and 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
- A61. Analytical procedures involve the auditor's exercise of professional judgment and may be performed manually or by using automated tools and techniques. For example, the auditor may manually scan data to identify significant or unusual items to test, which may include the identification of unusual individual items within account balances or other data through the reading or analysis of 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. The auditor also might use automated tools and techniques to scan an entire population of transactions and identify those transactions meeting the auditor's criteria for a transaction being unusual. The identification of items that exhibit characteristics of risk of material misstatement through analytical procedures provides the auditor with audit evidence about those items. Analytical procedures also provide audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has determined, exercising professional judgment, that the items not selected for further audit procedures are less likely to be materially misstated.

- A64. Inquiries of knowledgeable persons outside the entity do not meet the definition of external confirmations in accordance with AU-C section 505. However, the responses to inquiries of persons outside of the entity are considered in accordance with this SAS and may constitute reliable information to be used as audit evidence.