

September 13, 2019

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, NY 10036

By e-mail: Sherry.Hazel@aicpa-cima.com

Re: Proposed Statement on Auditing Standards (SAS)—*Audit Evidence*

Dear Ms. Hazel:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

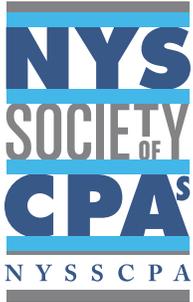
The NYSSCPA's Auditing Standards Committee deliberated the proposed SAS and prepared the attached comments. If you would like additional discussion with us, please contact Jonathan Zuckerman, Chair of the Auditing Standards Committee, at (212) 867-8000, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink, appearing to read "Ita M. Rahilly". The signature is written over a faint, semi-transparent watermark of the NYSSCPA logo.

Ita M. Rahilly
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
PROPOSED STATEMENT ON AUDITING STANDARDS (SAS)—*AUDIT EVIDENCE***

September 13, 2019

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Bruce H. Nearon**

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New York State Society of Certified Public Accountants

Comments on

Proposed Statement on Auditing Standards (SAS)—*Audit Evidence*

We welcome the opportunity to respond to the AICPA Auditing Standards Board's (ASB or the Board) invitation to comment on its exposure draft of Proposed Statement on Auditing Standards—*Audit Evidence* (proposed SAS or ED).

General Comments

We are generally supportive of the proposed SAS and believe most of the proposed changes are not controversial. However, we call attention to our response to Question 11 below, which we hope the Board will address in the final standard, and believe that it should be clear that use of automated tools and techniques is not required or appropriate for all audits.

In addition, we have provided comments on specific paragraphs in the Application and Other Explanatory Material section of the ED.

Specific Comments

We offer the following responses to the numbered requests for comment presented by the Board in the ED:

Question 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.*

Response: Although we believe the revised scope section (paragraphs 1-5) of the proposed SAS clearly explains its relationship to other AU-C sections, including AU-C sections 315, 330, and 700, we believe an auditor's understanding of those relationships would be better assured if amendments to those other AU-C sections, including their related application material, were to contain cross-references in an Appendix (i.e., from such other sections to the proposed SAS). The current ED contains no proposed amendments to those paragraphs.

Question 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.*

Response: As stated in our General Comments, we generally support the proposed SAS and do not believe the proposal would markedly change current practice. We request that you refer to our specific suggestions for improvements that can be found in our responses to Questions 1, 7,

12, and 15 and elsewhere in this letter.

Question 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.*

Response: We suggest that the consideration of “attributes and factors” proposed in the diagram appearing in paragraph 5 of AU-C section be included directly into text in the final standard.

Question 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.*

Response: Please refer to our response to Question 3.

Question 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?*

Response: We believe the diagram appearing in paragraph 5 of the AU-C section 500 and elsewhere in the proposed SAS is perplexing and that auditors might find its objective difficult to understand, and refer you to what we propose in our response to Question 3.

Question 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.*

Response: Although we believe the examples of automated tools and technologies, such as those referred to as Audit Data Analytics (ADA), Artificial Intelligence (AI), machine learning, and Robotic Process Automation (RPA), as described in the proposed application material, could be useful to some auditors for some audits, they are not necessarily appropriate for all audits. We refer the Board to our response to Question 11.

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

Response: This proposed evidence standard is an appropriate place to deal with professional skepticism. Professional skepticism is mentioned only once, very briefly, in the body of the proposed standard (in paragraph 4), and several brief mentions of it appear in the proposed application material including a brief reference in paragraph A3 to the application material that is contained in AU-C section 200.

The subject of professional skepticism is significant and suggest that it be prominently placed under a separate caption and discussed more robustly. We refer the Board to the PCAOB’s Staff Audit Practice Alert No. 10, “Maintaining and Applying Professional Skepticism in Audits,” issued December 4, 2012, as a source of additional content consideration.

Question 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.*

Response: We have reservations that the content on the subject of professional skepticism, in the form currently presented in the proposed SAS, will significantly enhance an auditor’s understanding or appreciation of the need to exercise it when evaluating the sufficiency of audit evidence. A more robust and prominently placed discussion should be included as noted in our response to Question 7.

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

Response: We believe the definitions presented in paragraph 8 are not necessary with the exception of the last sentence, “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,” which, although not a definition, is useful; and should be included in the final standard. We also believe the content of paragraphs A5-A8 to be useful and should be retained in the final standard.

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

Response: We do not see a need for any additional definitions.

Question 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.*

Response: We suggest that the proposed SAS state that for certain industries, business environments, or for all but very large businesses, it may not yet be practical to use automated tools and techniques. The use of automated tools and techniques should be determined based on the auditor’s professional judgment and as part of audit planning considerations.

We are concerned about the incorporation of guidance in the Application and Explanatory section of the proposed standard regarding the role of automated tools and techniques. We believe that its inclusion may inadvertently imply that such tools and technologies are required to be used in an audit under generally accepted auditing standards (GAAS). We would prefer that auditors be referred to the role of automated tools and techniques described in other auditing publications with no authoritative status; however, these auditing publications, such as the AICPA’s *Guide to Audit Data Analytics* and *Audit Data Standards* may help the auditor understand and apply the SASs.

If the Board does decide to include guidance addressing the use of automated tools and techniques in the final standard, we suggest paragraphs A51, A55, A56, A58 and A66-A68 should each be referenced to another paragraph that clearly emphasizes that an auditor is *not* required to use (or consider using) these high-tech tools and techniques to comply with the standard. And it should contain a statement such as was made about ADA on p. 11 of the ED (*i.e.*, that it is not “an *audit procedure* ...; 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.”

Also, both paragraph A68 and Appendix A should include language cautioning auditors against overreliance on ADA because it may be based on data that has no veracity, is out-of-date, or incomplete. ADA often uses non-parametric tests, since the distribution of the population of interest is often unknown, or if known, not normally distributed. Auditors should be cautioned that inferences drawn from non-parametric tests are not as reliable as parametric tests, since parametric tests have greater statistical power, which means they are likely to find a true significant effect.

The entire ED appears to be biased in favor of audit data analytics. The term “audit data analytics” is mentioned 16 times, ADA mentioned 14 times, artificial intelligence two times, AI three times, robotic process automation once, and RPA twice. We question why AI and RPA were not given equal emphasis with ADA. Also, ADA, AI, RPA are not emerging technologies. Auditors have been using ADA for more than 30 years and management has been using AI for at least 20 years. RPA is essentially desktop and application keyboard macros and keystroke recorders that have been available for more than 30 years. Many audit firms’ marketing materials and social media communications proclaim their use of ADA and AI, and some do use ADA on some of their audits, but there is a relatively infrequent use of these techniques at this time.

Question 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?*

Response: Perhaps, but the probability of faithful compliance by auditors would be significantly enhanced if all scope guidance relevant to the use of external confirmations be transferred to one place (in AU-C section 505) from AU-C 330 and referenced therefrom as well as from the proposed standard when finalized.

Question 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.*

Response: We have no preference as to the placement of this material so long as the standards contain cross-references wherever appropriate.

Question 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?*

Response: See our response to Question 13.

Question 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.*

Response: We do not believe that the proposed SAS establishes audit documentation requirements beyond those that already exist in AU-C section 230 and other AU-C sections; however, it would be helpful if the term “to be used” is defined, or replaced with “may be used.”

Other Comments

We also wanted to bring to your attention other comments and observations from our review of the ED, as follows.

In reviewing paragraphs 8 and 9 of the proposed SAS, we do not consider the recommended procedures to be realistic. Sometimes, the auditor will obtain a Service Organization Control (SOC) report from a vendor, if functioning as a service organization, and is therefore not an external source as it is a stakeholder of the organization. Since a SOC report is not relevant to an external source it is highly unlikely that the entity that generated the external information would provide information sufficient to understand its processes, techniques, and assumptions, or that it would consent to testing the operating effectiveness of its controls.

We believe the content of paragraph A48 should be moved from the application material to the body of the standard and that it be converted to a presumptively mandatory provision by substituting “should” for “may,” thus requiring documentation pursuant to AU-C section 230 paragraph A12 and consistent with paragraph A73 of the proposed SAS and AU-C section 230.12, both of which more specifically provide for documentation of consideration of information that is inconsistent with an auditor’s final conclusion.

In reviewing paragraph A9 we cannot ascertain the meaning of “obtain” in the context of the sentence. We recommend further clarification to the definition. We were unclear if this refers to documentation received from a source, inspected, observed, recalculated, reperformed, etc. and placed in the audit file, or does it mean documenting that it was obtained and tested and describing the attributes and factors of the evidence?

Regarding the information contained in paragraph A44 we do not agree with the information disclosed in the ED. Almost all blockchains are distributed ledgers with each node having a copy of the blockchain. Since each node of the blockchain has a copy, it is not in a central location. A ledger in a central location would be a database, though a database could use blockchain technology for integrity and completeness, provided the relevant and appropriate controls are in place.

After reviewing paragraph A55 we recommend the paragraph be deleted from the ED. In our view, management would not allow external auditors to monitor their systems at all times as this would constitute an internal control of the organization. A continuous audit may appear to some parties that the external auditors would be assuming a management function and would result in an independence issue, in particular, if such tools and techniques were developed by the external auditors and embedded in a client’s system.