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To JICPA members

The Japanese Institute of Certified Public Accountants

Remote Work Series No.3

## Audit Considerations In Relation to Authentication of Evidence Converted to PDF Format

### <<I. Introduction>>

In order to prevent the spread of novel coronavirus infectious disease (COVID-19), people were asked to reduce opportunities for contact between them, which imposed significant restrictions on economic activity. In terms of corporate activities, it is recommended that operations be performed without meeting face-to-face, and that remote work be used primarily for desk-based administrative functions. Audit engagements are usually performed by visiting offices, such as the company headquarters, in order to be able to view actual evidence, and communicate directly with company management and employees. However, with companies introducing remote work, and in similar manner auditors also being required to adopt remote work, it has become necessary to perform audit engagements in a non-face-to-face environment. Taking into account the likelihood that the resolution of the COVID-19 pandemic will need time, as well as the recent trend towards work style reforms and digital transformation in companies, we assume that providing audit engagements without meeting face-to-face is not a temporary development, but rather it will continue as the “new normal” in terms of work style.

Formerly, auditors performed audit procedures to confirm internal and external corporate records and documents stored on paper, electronic and other media. In a remote work environment, there has been a significant increase in cases where records and documents from the company are obtained by being converted to PDF and sent in electronic form to the auditor via the Internet.

These “Considerations” constitute a summary of audit issues to consider when the auditor obtains internal corporate records and documents from the company in PDF format. They do not constitute new requirements, but while respecting the requirements of Auditing Standards Committee Statements, auditors in a remote work environment are suggested to take them into account from the perspective of their practices. In order to aid the understanding of the members, we have added the additional guidances as an Appendix to the main document for the reference of the readers.

<<II What is audit evidence that has been converted to PDF format?>>

“Audit evidence that has been converted to PDF format” is audit evidence that originally consisted of documents in paper form etc., that have been converted to PDF format to enable them to be displayed, transmitted, and stored as electronic information. In some cases, auditors request that audit clients convert the original documents to PDF format, and in some cases the companies convert the original documents by themselves to PDF format and store them in electronic format to improve efficiency. In some circumstances the company may obtain PDFs from external parties including customer/vendor. The following table shows those involved in the original document or PDF conversion, categorized by the party initiating the PDF conversion process. The initiating party means the party that suggests the PDF conversion process, and shows whose initiative it is that drives the whole process of converting the original document to PDF format, then displaying, transmitting, and storing it as electronic data.

Party initiating PDF conversion	Party performing PDF conversion	Party storing original document	Obtaining/storing PDF
Auditor	Company	Company	Auditor
Company	Company or external party.*	Company or external party.*	Company
External party.	External party.	External party.	Company

\*In some cases the company will obtain the PDF by requesting the external party including customer/vendor to convert the original document into PDF form. In such cases, the original document is stored at the external party. In cases where the company obtains the original document after obtaining the PDF from the external party, the PDF is considered to have been obtained only temporarily, and is therefore not covered by these “Considerations”.

<<III Considerations when evaluating audit evidence that has been converted to PDF format>>

1. Risks associated with obtaining evidence that has been converted to PDF format

In Paragraph 7 of Auditing Standards Committee Statement 500, “Audit Evidence” (hereinafter, “ASCS 500”), it is stated that when designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. Audit evidence provided by documents converted to an electronic medium through digitalization, etc. is deemed to be less persuasive than audit evidence provided by original documents (ASCS 500, Paragraph A31). Auditors shall bear in mind the audit risk (detection risk) that arises from digitalization, and shall consider obtaining additional audit evidence when necessary. (ASCS 500, Paragraphs 6 and A6)

In cases where the auditor uses records and documents from inside or outside the company that have been converted by the company to PDF format from a paper, electronic, or other

medium, or that have been obtained by the company in PDF format from external parties. as audit evidence, the authenticity of the information contained in records and documents, etc. must be ensured. In other words, the assumption is that rewriting, deletions and other changes are prevented after the PDF has been created, but as described below, there is the risk that information is changed during the process by which the original document is converted to PDF format, either deliberately or through negligence.

Medium before PDF conversion	Risks before PDF conversion	Risks during PDF conversion process
Paper	Touching up of the paper original, use of photocopier to perform falsification, etc.	The omission or partial substitution of pages, falsification of contents through use of PDF editing tools, etc.
Electronic file*	Changes to contents caused by editing, etc.	
Monitor screen	Designating an inappropriate area for screenshots, etc.	

\*Electronic file created using word processing software, spreadsheet software, etc.

In addition, readers are referred to “2. Example of risks associated with obtaining evidence that has been converted to PDF format” in the Appendix to this document for further details on this subject.

## 2. Audit considerations with a focus on the party initiating PDF conversion

In a remote work environment, in cases where the auditor obtains accounting records and approved documents, etc. from the company as part of an audit procedure, the focus should be placed on the party initiating PDF conversion. There are cases that the company converts them to PDF at the request of the auditor, the company converts them to PDF and stores them as part of their business processes, or in some cases the company obtains PDFs from external parties. The points that must be kept in mind for each of these cases are as follows:

### (1) Cases where the company performs the conversion to PDF at the request of the auditor

When the auditor identifies information stored by the company in paper form or in an electronic format other than PDF as a source of audit evidence, and requests that it be provided, the company may convert evidence specified by the auditor to PDF format. When the company performs conversion to PDF format in response to a request from the auditor, it is likely that the procedure is not governed by systematic rules, as a business process.

In such situations, the auditor shall pay attention to the following points in order to confirm the authenticity of the PDF obtained. Also refer to Appendix “3. Example of company performing conversion to PDF at the request of the auditor”.

#### (i) In cases where the auditors identify indications that a misconversion has arisen during

the conversion process from the original to the PDF, whether intentionally or through negligence, a careful investigation will be conducted to confirm that the PDF obtained has been generated from the source of audit evidence specified by the auditor.

- (ii) Bear in mind that intentional falsification could have taken place either before or after the conversion to PDF format, and understand how the company discovers and prevents such falsification.
  - (iii) Check whether the PDF obtained has any obvious indications of having been modified or having had pages removed, and whether the graphic appears clearly inferior, and if necessary, request the company to resubmit the PDF and . scrutinize carefully.
- (2) Cases where the company performs to convert to PDF as part of their own business processes

In some cases, before the introduction of remote work, there are companies which convert documentation from paper form to PDF and storing them on the server as evidence or sending documents that have been converted to PDF format to a shared service company for entering into an information system, or for verification of the transactions. It is likely that some companies built similar processes after the introduction of remote work. The controls were usually incorporated into the process of converting to PDF format in such cases.

In these situations, the auditor pays attention to the following points in order to confirm the authenticity of the PDF obtained and, when necessary, consider reviewing their assessment of the risk of material misstatement and detection risk.

- (i) During the risk assessment procedure, the auditor evaluates the design and the implementation of the company's procedure for converting to PDF (including internal controls), and considers performing tests of controls as necessary.
  - (ii) When performing tests of controls in relation to the PDF conversion process, it is necessary to check whether or not a mismatch between the PDF and the original has arisen during the conversion process, either intentionally or through negligence. Furthermore, the auditor bears in mind that intentional falsification could have taken place either before or after the conversion to PDF format, and understand how the company discovers and prevents such falsification.
  - (iii) It is necessary to remain aware of the risk of management override of controls, and the auditor bear in mind that the auditor may check some original documentation even if the results of the test of controls are valid.
- (3) Cases where the company obtains PDFs from external parties.

Before the introduction of remote work, some companies has been using the external services to create electronic contracts, or obtaining transaction documents from external parties in PDF format. It is likely that some companies built similar processes after the introduction of remote work. In such cases, the conversion to PDF format takes place in the electronic contract service system, or at the external parties. In some cases, electronic signatures are attached to the PDF to prevent falsification.

In these situations, the auditor pays attention to the following points in order to confirm the authenticity of the PDF obtained:

- (i) During the risk assessment procedure, the auditor evaluates the design and implementation of the internal controls incorporated into the process for determining whether a PDF can be obtained for authenticating the original, and considers performing tests of controls as necessary.
- (ii) In cases where the company has newly switched to using PDF under the remote work for interactions between companies that were previously conducted on paper, the auditor understands the background to the use of PDF, evaluate the impact on internal controls of the change from paper to PDF, and when necessary, considers reviewing their assessment of the risk of material misstatement, or detection risk.

Types of the parties initiating PDF conversion are summarized as follows:

	Party initiating PDF conversion	Party performing PDF conversion	Points to keep in mind
1	Auditor request	Company	In cases where there are signs of a mismatch between the original and the PDF, whether intentionally or through negligence, investigate carefully.
2	Operational process of the company	Company	Evaluate internal controls in relation to the PDF conversion process.
3	External party of company	Customer/vendor, etc.	Evaluate impact on internal controls of company for using PDF to obtain transaction documents, etc.

### 3. Procedure for confirming the authenticity of audit evidence converted to PDF

In Paragraph 7(b) of Auditing Standards Committee Statement 330 “The Auditor’s Responses to Assessed Risks” (hereinafter, “ASCS 330”), it is stated that “Obtain more persuasive audit evidence the higher the auditor’s assessment of risks is.” Auditors are not necessarily required to check the original of every PDF obtained for audit evidence, but as stated in Paragraph A19 of ASCS 330, when obtaining more persuasive audit evidence

because of a higher assessment of risk of material misstatement, the auditor may increase the quantity of audit evidence, or obtain audit evidence that is more relevant or reliable. In addition, as explained in Paragraph A31 of ASCS 500, audit evidence provided by original documents is more reliable than audit evidence provided by photocopies, facsimiles, or documents that have been filmed, digitized or otherwise converted into electronic form.

In cases where the audit evidence is used for highly mitigating the risk of material misstatement, or in cases where there are doubts about the reliability of the PDFs used as audit evidence when compared to the points in “2. Audit considerations with a focus on the party initiating PDF conversion”, the auditor may check the originals of PDFs, and perform further procedures in combination. The details and results of audit procedures shall be described in the audit documentation, as appropriate.

The following procedures might be considered for the authenticity of audit evidence converted to PDF:

(Example)

- (1) Check the original of the PDF<sup>1</sup>. In “2. Audit Considerations with a focus on the party initiating PDF conversion (3) Cases where the company obtains PDFs from external parties.” above, in addition to checking the transmission record for PDFs, such as email<sup>2</sup> sent from external parties, perform the procedures of (2)(i)-(iv) might be performed, and then determine whether sufficient appropriate audit evidence has been obtained.
- (2) Perform the following procedures:
  - (i) Ask questions of the individuals involved in the creation of PDFs obtained.
  - (ii) Examine whether there are contradictions with audit evidence obtained through other audit procedures.
  - (iii) In cases where the original of the PDF was issued outside the company, check directly with the person issuing the original.
  - (iv) Using the information in the PDF properties, check the creator of the PDF, the date and time of creation, and the date and time it was last modified (refer to “4. Method for checking information in PDF properties”).

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<sup>1</sup>In the major package of tax revisions scheduled for FY2021, it has been indicated that there will be amendments to the system for preserving electronic ledgers, with the requirement for appropriate administrative procedures being abolished, enabling original paper documents to be disposed of without performing certain procedures. These are scheduled to be applied on January 1, 2022. The JICPA is planning to consider a separate response to audit considerations in relation to this development.

<sup>2</sup>It is possible that file transfer systems other than email will be used.