

AUDIT EVIDENCE: CAS 500

- The objective of the auditor is to design and perform audit procedures to enable the auditor to obtain **sufficient appropriate** audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion

Requirements

Sufficient Appropriate Audit Evidence

- Design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining **sufficient appropriate** audit evidence
 - Audit procedures to obtain audit evidence include **inspection, observation, confirmation, recalculation, reperformance** and **analytical procedures**, and **inquiry**
 - Inquiry alone ordinarily does not provide sufficient audit evidence
 - **Sufficiency** is the measure of the **quantity** of audit evidence; it is affected by the auditor's assessment of the **risks of misstatement and** also by the **quality** of audit evidence
 - The higher the assessed risks, the more audit evidence is likely to be required
 - The higher the quality, the less may be required
 - **Appropriateness** is the measure of the **quality** of audit evidence
 - Quality is a function of **relevance** and **reliability** of the audit evidence
 - **Reliability** of evidence is influenced by its source and by its nature
 - Reliability of audit evidence is increased when
 - It is obtained from **independent sources** outside the entity
 - Obtained directly by the auditor (observation)
 - Provided by original documents rather than photocopies, fax, etc.
 - **Relevance** deals with the logical connection with the purpose of the audit procedure and the assertion under consideration
 - When testing for the completeness accounts payable, testing the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements may be relevant

Audit Procedures for Obtaining Audit Evidence

1) Inspection

- Involves examining records or documents, whether internal or external
- An example of inspection used as a test of controls is inspection of records for evidence of authorization
- Inspection of tangible assets may provide reliable audit evidence on existence

2) Observation

- Consists of looking at a process or procedure being performed by others
- Examples include:
 - The auditor's observation of inventory counting by the entity's staff
 - The auditor's observation of the performance of control activities
- Disadvantage of observation is that it is limited to the point in time at which the observation takes place (when auditor is observing, it may affect how the process is being performed by the client)

3) External Confirmation

- Audit evidence obtained by the auditor as a direct **written response** to the auditor from a **third party** (the confirming party), in **paper** or **electronic form**
- External confirmations need not be restricted to account balances only; i.e. the auditor may request confirmation of the terms of agreements

4) Recalculation

- Consists of checking the mathematical accuracy of documents or records

5) Reperformance

- Involves the auditor's independent execution of procedures or controls

6) Analytical Procedures

- Consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data

7) Inquiry

- Consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity
- Used extensively throughout the audit **in addition** to other audit procedures

Information to Be Used as Audit Evidence

- If information to be used as audit evidence has been prepared using the work of a **management's expert**, the auditor should:
 - Evaluate the **competence**, capabilities and objectivity of that expert
 - Obtain an **understanding** of the work of that expert
 - Evaluate the **appropriateness** of that expert's work as audit evidence for the relevant assertion
- **Management's expert** – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is **used by the entity** to assist the entity in preparing the financial statements
- When using information produced by the entity, the auditor shall **evaluate whether the information is sufficiently reliable** for the auditor's purposes by:
 - Obtaining audit evidence about the **accuracy** and **completeness** of the information
 - i.e. by **testing controls** over the preparation and maintenance of the information or by performing procedures concurrently with the actual audit procedure
 - Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes

Selecting Items for Testing to Obtain Audit Evidence

- When designing tests of controls and tests of details, the auditor shall determine **means of selecting items for testing**; some options are:
 - Selecting all items** (100% examination; i.e. the entire population)
 - Unlikely in the case of tests of controls; more common for test of details
 - Appropriate when:
 - The population constitutes a small number of large value items
 - There is significant risk and other means do not provide sufficient appropriate audit evidence
 - The repetitive nature makes a 100% examination cost effective
 - Selecting specific items**; and
 - Specific items may include high value or key items, all items over a certain amount, items to obtain information
 - Audit sampling**
 - Enable conclusions to be drawn about an entire population on the basis of testing a sample (i.e. extrapolate)

Inconsistency in, or Doubts over Reliability of, Audit Evidence

- If audit evidence obtained from one source is **inconsistent** with that obtained from another **or** the auditor has **doubts over the reliability** of information to be used as audit evidence, determine what **modifications or additions to audit procedures are necessary** to resolve the matter