

ADVANCED AUDIT AND ASSURANCE

CORPORATE LEVEL

TUTE 03

(AUDIT EVIDENCE – S.L.Au.S -500)



by

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AUDIT EVIDENCE (S.L.Au.S 500)

The objective of the above mentioned/referred standard is to design and perform audit procedures in such a way as 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.

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A) Definition

Audit Evidence can be defined as **“all of the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.”**

Audit evidence includes both information contained in the accounting records underlying the financial statements and other information gathered by the auditors such as confirmations from third parties.

Sufficiency and Appropriateness of Audit Evidences

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining **sufficient appropriate audit evidence.**

Sufficiency

The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

Appropriateness

The measure of the quality of audit evidence; that is, its relevance, quality and its reliability in providing support for the conclusions on which the auditor's opinion is based.

The sufficiency and appropriateness of audit evidence are interrelated.

B) Detection Risk

The risk that the procedures performed by the Auditor to reduce the Audit Risk to an acceptable low level will not detect a misstatement that exists, and that could be material, either individual or when aggregated with other misstatements

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Methods used to obtain Audit Evidences

A) Risk Assessment Procedures

The audit procedures performed by an auditor to obtain an understanding of the entity and its environment, including the entity's internal controls to identify and assess the risk of material misstatements, whether due to fraud or error in the financial statements are referred as Risk Assessment Procedures.

B) Test of Controls

Test of controls are performed to obtain audit evidence about the operating effectiveness of controls in preventing or detecting and correcting material misstatements at the assertion level. Test of Controls are mainly focus on the Existence, Effectiveness and Continuity of the Accounting and Internal Control System.

Eg:

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C) Substantive Procedures

Substantive procedures are audit procedures performed to detect material misstatements at the assertion level. substantive procedures must always be carried out for material classes of transactions, account balances and disclosures.

D) The Reliability of the Audit Evidence

Reliability of audit evidence mainly depends on the Source which the audit evidence obtained and the Nature of the evidence. So auditor needs to decide the level of the reliability and it depends on Auditor's Professional Judgment.

However, auditor needs to focus on the following examples when performing the audits

- a) Audit evidences obtain from the external sources are much more reliable than the audit evidence obtain from internal sources.
- b) Audit evidences obtain directly by the auditor is much more reliable than the audit evidence obtain indirectly.
- c) Audit evidences obtain in the written format is much more reliable than the audit evidence obtain in the oral format
- d) Audit evidences obtain in the original form is much more reliable than the audit evidence obtain in photocopies or duplicate copies
- e) When there are strong internal controls (In a situation where you see EEC), the audit evidence obtain through the entity is having a higher level of reliability

Therefore, audit evidence obtains through external sources, directly, in the written format is more reliable than the audit evidence obtain through internal sources, indirectly in the oral format

E) Factors to be Considered when obtaining Sufficient and Appropriate Audit Evidence

- 1) **The materiality/importance of the item which the auditor is searching at/looking for**

When the significance increase, the auditor needs to obtain more sufficient and appropriate audit evidence

- 2) **The Source and the Reliability of the audit evidence**

The auditor always tries to obtain the audit evidence from External Sources. Because, the audit evidence obtained from the external sources are much more reliable than the audit evidence obtain internally. However, when there is a practical difficulty of obtaining audit evidence externally, auditor must obtain the audit evidence from internal sources. When obtaining audit evidence internally, auditor needs to increase the volume of the audit evidence

3) Inherent Risk, Control Risk and Nature of the Accounting and Internal Control Systems

When there is high tendency of having a higher Inherent Risk and higher Control Risks, it seems to be that the internal controls are weak. So in this kind of a situation, auditor needs to obtain much more sufficient and appropriate audit evidences.

4) Auditors knowledge of the Business and the Previous Years' Experience

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F) The Procedures to Obtain the Audit Evidences

a) Inspection

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b) Observation

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c) Questionnaires and Confirmations

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d) Re-computations

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e) Analytical Review Procedures

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f) Re-performance

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G) Important

Auditor needs to obtain audit evidences from various sources. If the evidence collected from one source is contradicted to the audit evidence obtain from another source, Auditors' high attention needs to be devoted to those instances

Auditor needs to obtain audit evidences all the Assertions. The audit evidence obtains which related to one assertion, neither treated as a substitute for another audit evidence that should obtain by the auditor for another assertion nor to a another audit procedure which need to perform by the auditor



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