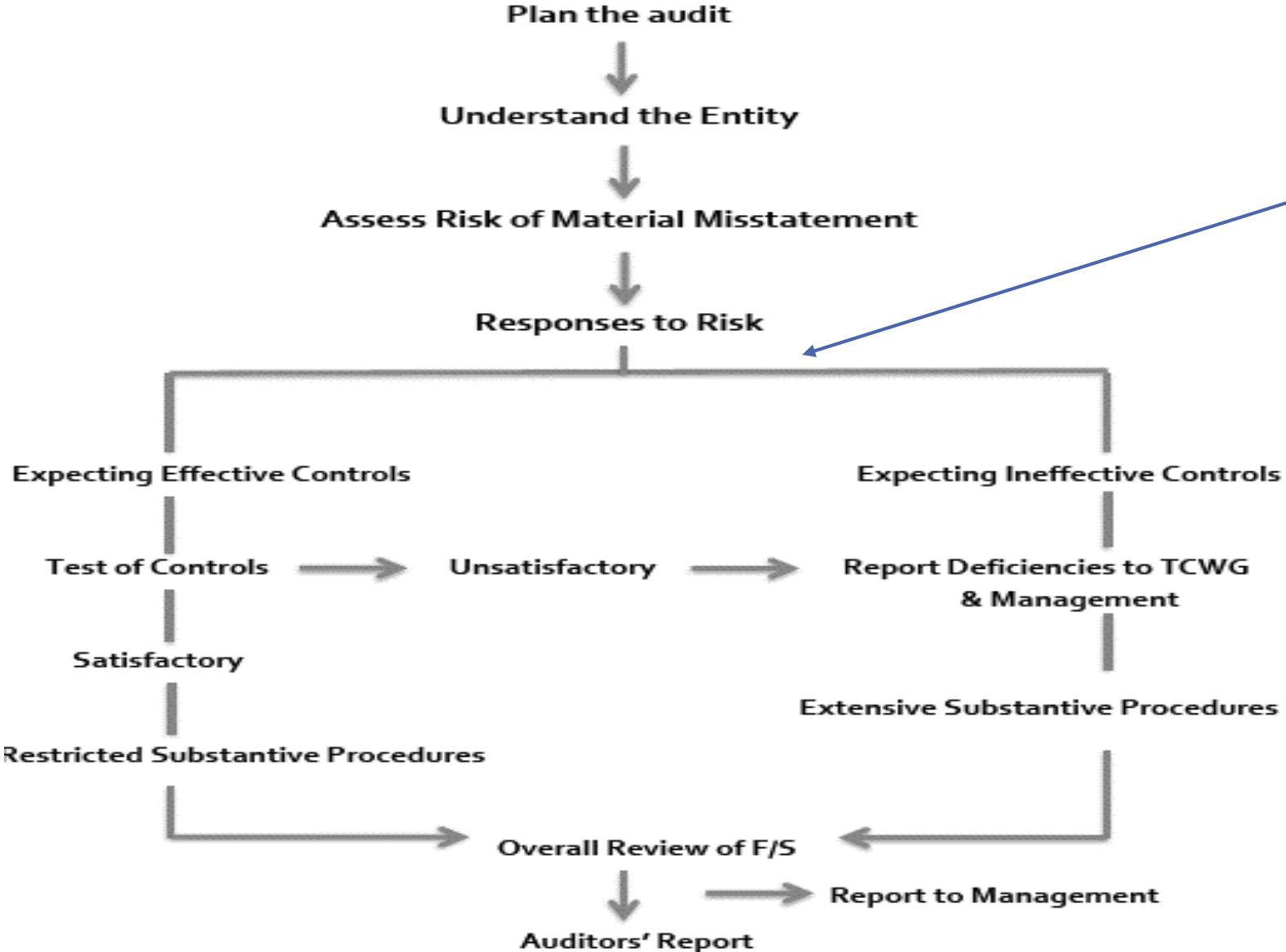


Chapter 5

Evidence

Stage



Evidence and Auditor

ISA 500 *Audit evidence* sets out the **objective** of the auditor as being to design and perform audit procedures in such a way to enable him to:

obtain **sufficient, appropriate** audit evidence to be able to draw reasonable conclusions

on which to base his audit opinion.

- **Sufficient** relates to the **quantity** of evidence.
- **Appropriate** relates to the **quality** relevance and reliability of the evidence.

Relevance

Relevant

- Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure
- A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others.
- Relevant audit evidence would include identifying conditions that indicate performance of a control, and deviation conditions.
- Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

Relevance

Reliability

- Original is more reliable than Copy
- Written is more reliable than Oral
- Independent source is more reliable than through client
- Auditor direct extraction of information is more reliable than through client
- Obtained where controls are effective is more reliable than where controls is ineffective

Evidence and Auditor

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Audit Assertions – 4 Key Questions

SN	Questions Related to Elements of Financial Statements.	Confirmation of Audit Assertions Related to		
		Account Balances	Transactions & Events	Disclosures & Presentation
1	Should it be in the financial statements at all?	Existence Right & Obligation	Occurrence Cut off	
2	Is there any more?	Completeness	Completeness	
3	Is it taken at the right value?	Allocation & Valuation	Accuracy Classification	
4	Is it properly presented or disclosed?			Understandability Completeness Classification Accuracy & Valuation

Audit Assertions

1. Accounts Balance

- Existence
- Right & Obligations
- Completeness
- Valuation and allocation

2. Event and transactions

- Occurrence
- Completeness
- Accuracy
- Cut-off
- Classification

3. Disclosure and Presentation.

- Occurrence
- Completeness
- Classification and understandability
- Accuracy and valuation

RMM at assertion level

At Assertion Level:

Risk at assertion level are those which relate to specific objectives of the financial statements.

Assertion

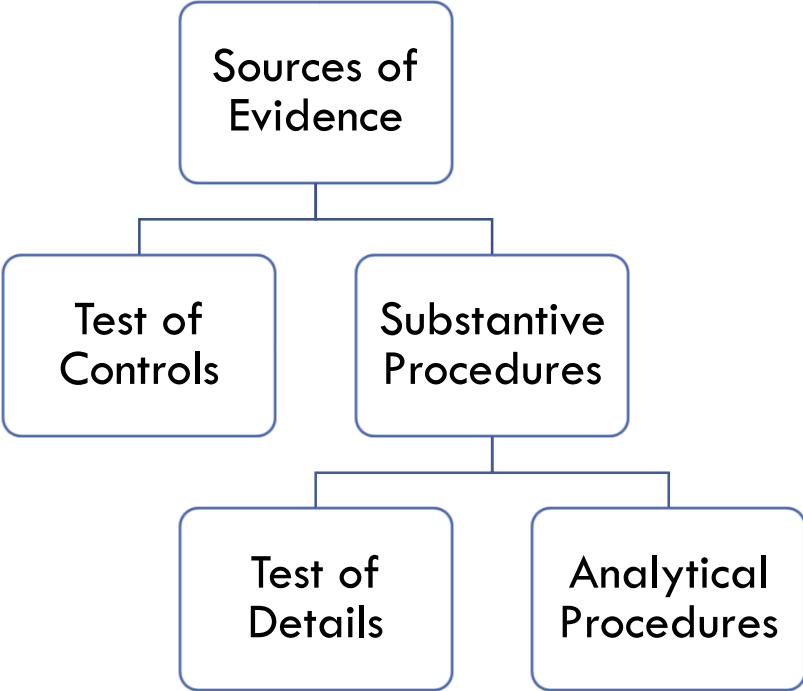
Dictionary meaning - A confident statement of the fact or belief.

ISAs definition – Representations (formal statements) by management, that are embodied (included) in the financial statements, as used by the auditor to consider the different type of potential misstatements that may occur.

ISAs definition simplified – Claims by management regarding the appropriateness of the various elements of financial statements and disclosures.

How auditor extract evidence?

Sources of audit evidence:



Means of Getting Audit Evidence

Analytical Review

Enquiry & RepErformance

Inspection (records as well as assets)

Observation & COnfirmation

RecalcUlation

Means of Getting Audit Evidence - Explained

- **Inspection.** Obtain evidence about an item by going to look at it.
- **Observation.** The auditor can obtain evidence by watching a procedure.
- **Inquiry.** Evidence can be obtained by asking questions.
- **Confirmation.** This is a specific type of enquiry where the auditor seeks confirmation from a party outside the entity, for example, from a bank or a customer.
- **Re-calculation.** The auditor checks the arithmetical accuracy of documents or records.
- **Reperformance.** The auditor re-performs a check or control originally carried out by the client.
- **Analytical procedures.** These are ratios, trends, comparisons and other indirect approaches to analyzed data.

Sampling

