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Q&A 500

Audit Evidence

Q-1 Define Audit Evidence.

Audit evidence is defined as 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 f/s.

Q-2 Define sufficiency & appropriateness of Audit Evidence.

- Sufficiency = Quantity

How to decide

- Materiality
- ROMM (IRXCR)
- Size of Account / Population

- Appropriateness = Quality

How to decide

- Source of Audit evidence
- Nature of Audit evidence
- Should be complete & accurate (≠ PE)

- The higher the assessed risks, the more audit evidence is likely to be required.

* Types of Audit evidence

According to nature

- Visual (Eg: Physical stock)
- Documentary (Eg: Agreement)
- Oral (Eg: Discussion)

According to source

Internal

- Created internally
- Less reliable
- (More reliable if I.C. system is good)
- Eg: Sales Invoice

External

- Created outside
- More reliable
- Eg: Purchase Invoice

Q-3 Relevance of Audit evidence.

- Purpose of the audit procedure
- Assertion under consideration
- AP applied — relevant for some assertion — not for others

Eg: Physical verification = Existence ✓

To D = Control ✓ ; Existence X

Q-4 → Reliability of Audit Evidence is more when obtained through:

i) Independent sources outside the entity

Eg: External confirmation

ii) Internal evidence (if related controls are effective)

iii) Directly by Auditor

Eg: observation of application of control

iv) Documentary form → written record rather than oral
(original document — more reliable than photocopy)

Q-5 → Information obtained from mgmt's expert

Auditor shall evaluate:

- Competence
- Capability
- Objectivity
- Understanding of work
- Assertion satisfied

• when using info. prepared by management's expert, auditor shall evaluate:

- i) Nature & complexity of matter to which expert relates
- ii) Role of that matter
- iii) Alternative source of evidence
- iv) Independence of expert

• when using info. produced by the entity, auditor shall evaluate:

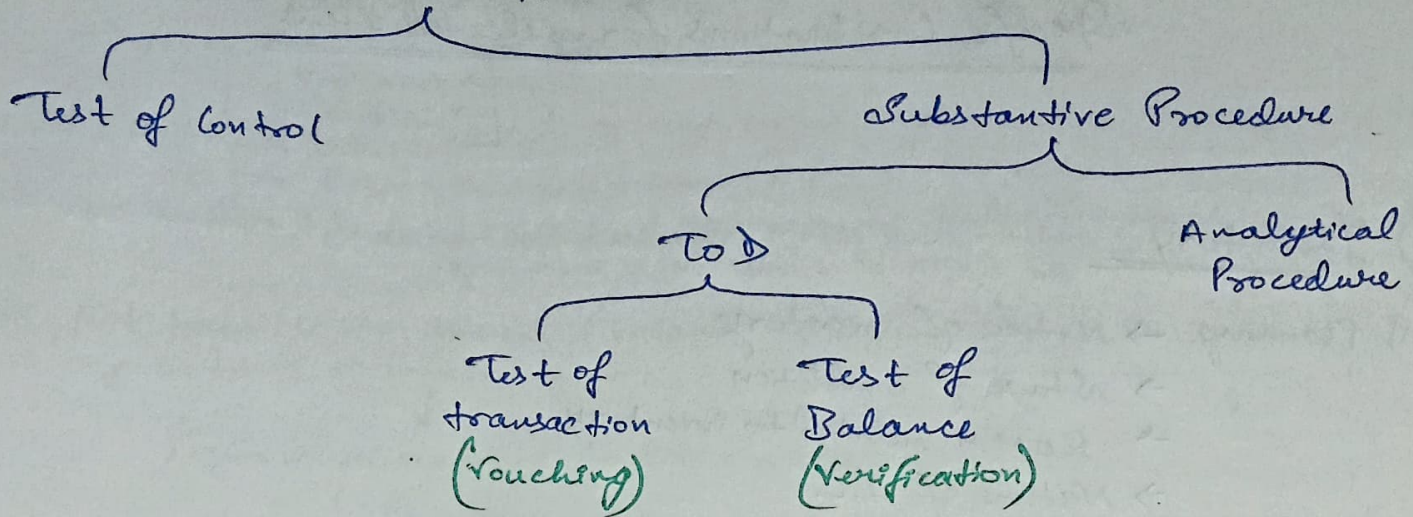
- i) if it is sufficiently reliable
- ii) if it is sufficiently precise/relevant
- iii) Accuracy & completeness

Mgmt's Expert → Apply SA 500 ; Auditor's Expert → Apply SA 620

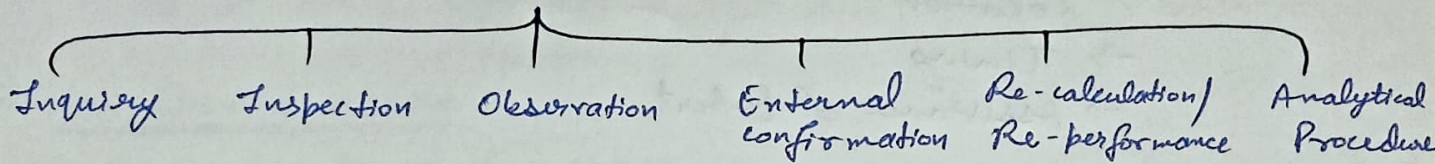
Q-6 → Inconsistency of Audit evidence

If there is inconsistency among different evidences relating to a single item, the auditor shall determine what modifications or additions to AP are necessary. (Perform additional AP)

* Procedures to obtain Audit Evidence



* Methods to obtain audit evidence



- Evaluating responses to inquiries is an integral part of the inquiry process. ~~Q~~ Inquiry alone is not sufficient.