

Internal Audit (ACCT 337)

Chapter 10 Audit Evidence

Audit Evidence – General Info

Gathering and documenting Audit Evidence

Quality of IA conclusions and recommendations

Audit Procedures and Audit Evidence

Extensive communication with the auditee

Professional Skepticism & Reasonable Assurance

Professional Skepticism: IAs take nothing for granted

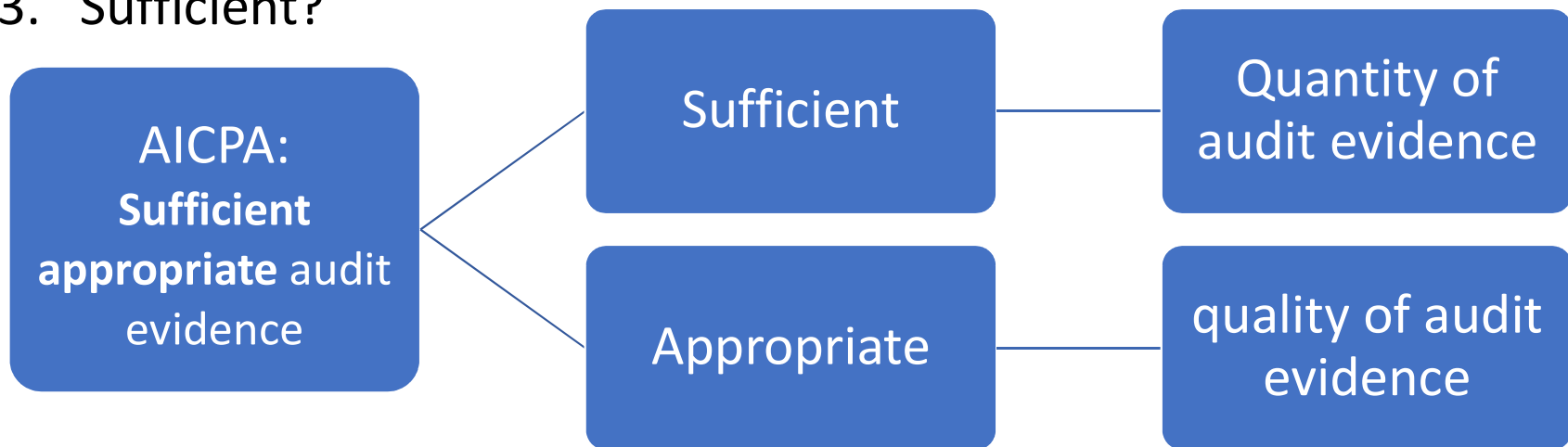
- Open minded
- Critically assess audit evidence
- Auditee : honest or dishonest?

Reasonable Assurance: level of assurance that is supported by generally accepted auditing procedures and judgements.

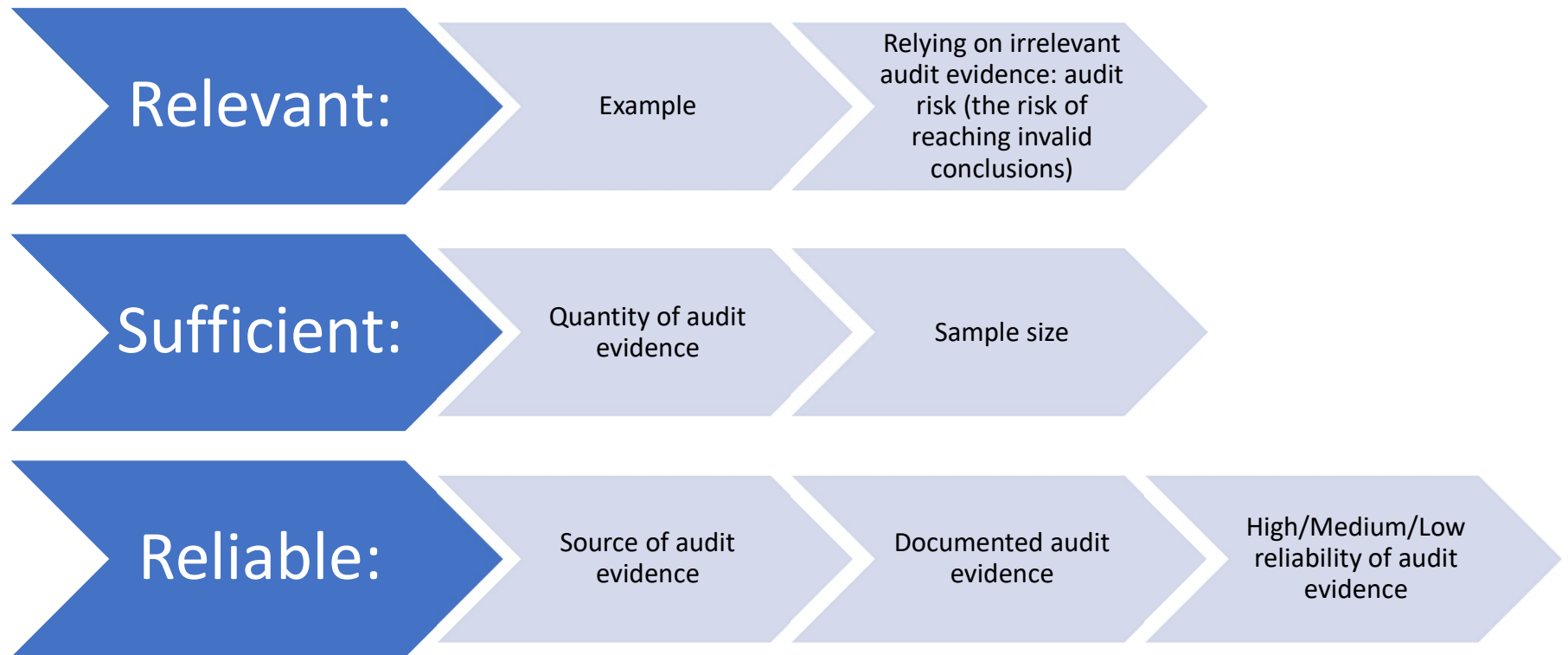
- Reasonable not absolute
- Persuasive rather than absolutely convincing audit evidence

Persuasive Audit Evidence

1. Relevant?
2. Reliable?
3. Sufficient?



Persuasive Audit Evidence



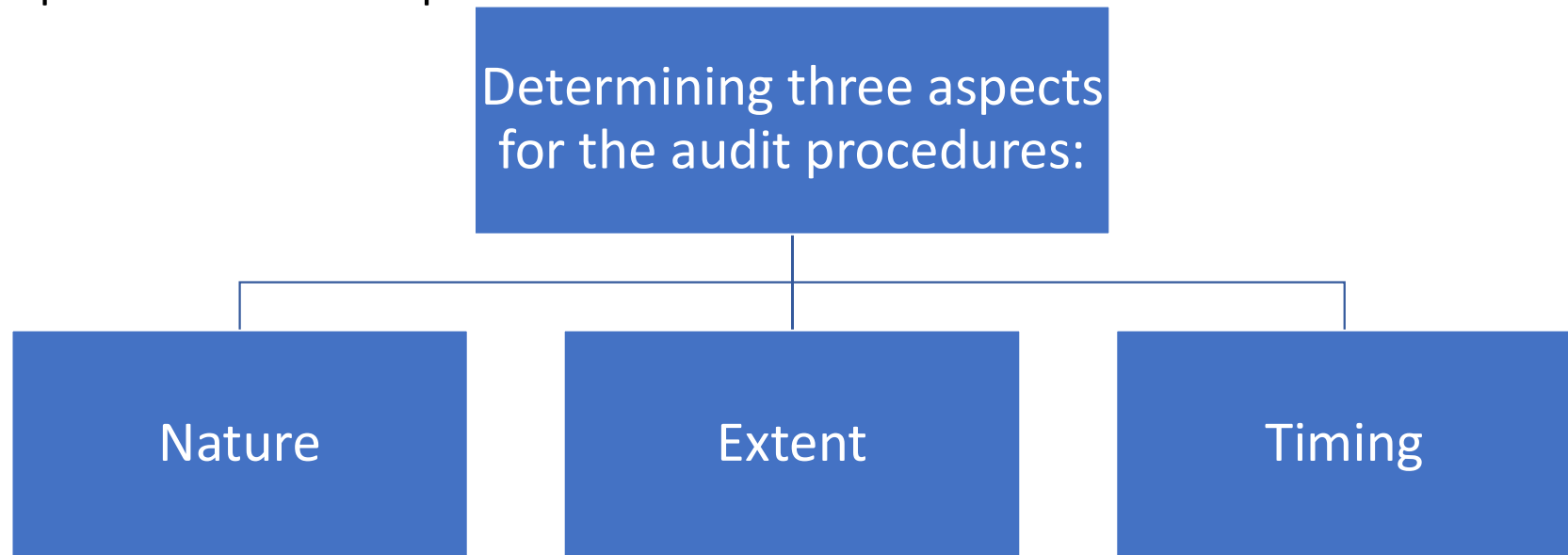
Reliability of Audit Evidence

**EXHIBIT 10-2
RELIABILITY OF DOCUMENTARY EVIDENCE**

| Levels of Reliability | Descriptions | Example Documents |
|-----------------------|--|---|
| High | Documents prepared by the internal auditor. | Inventory test counts Process maps Risk and control matrices |
| | Documents sent directly from a third party to the internal auditor. | Confirmations Cutoff bank statements Letters from outside attorneys |
| Medium | Documents created by a third party, sent to the organization, and requested from the organization by the internal auditor. | Vendor invoices Customer purchase orders Bank statements |
| | Documents created by the organization, sent to a third party, returned to the organization, and requested from the organization by the internal auditor. | Remittance advices Canceled checks Deposit slips |
| Low | Documents created by the organization and requested from the organization by the internal auditor. | Written policy statements Receiving reports Time cards |

Audit Procedures

- Specific tasks performed by the IA to gather sufficient appropriate evidence to achieve specific audit objective.
- Obtaining sufficient appropriate audit evidence involves determining the following aspects for the audit procedures.



Audit Procedures

Nature

1. Manual Audit Procedures
2. CAAT (Computer Assisted Audit Techniques)

Extent

- How much?

Timing

- When and what period is covered by these tests?

Manual Audit Procedures

1. Inquiry
2. Observation
3. Inspection
4. Vouching
5. Tracing
6. Reperformance
7. Analytical Procedures
8. Confirmations

Manual Audit Procedures

Inquiry:

- Asking questions of the auditee or third party
- Ex.: Interviews, and surveys

Observation

- Watching people, procedures or processes
- What is observed might not be a representation of what really happened.
- Ex.: observe year end physical count

Inspection

- Studying documents/records or physically examining tangible assets
- Ex.: reading P&Ps/ inspection of selected inventory items

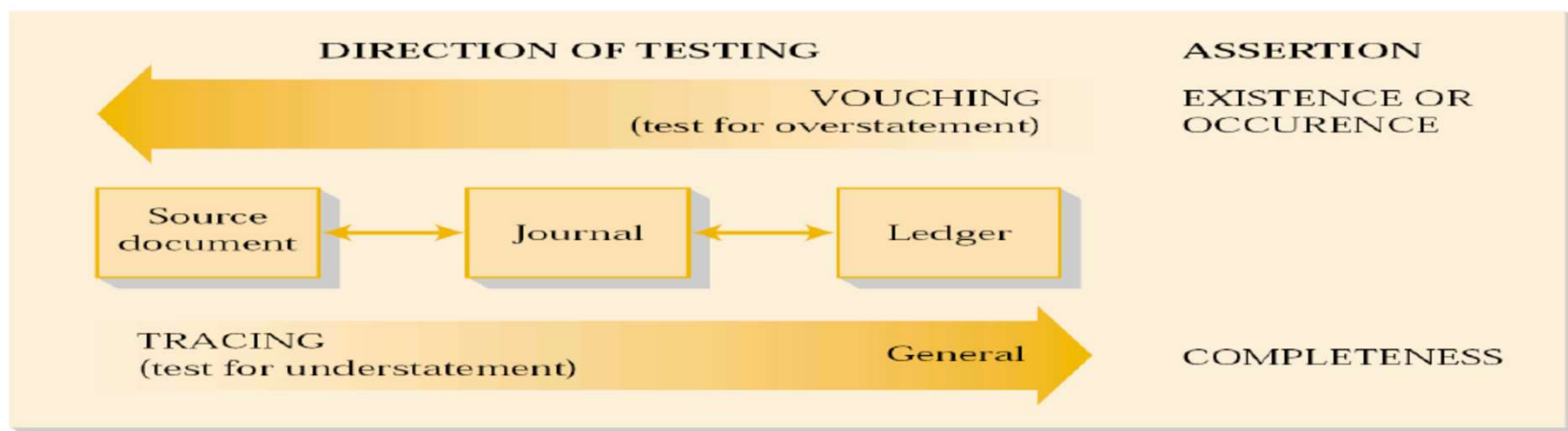
Manual Audit Procedures

Vouching

- Tracking information backward
- To test for overstatement in the recorded amounts

Tracing

- Tracking information forward
- To test for understatement in the recorded amounts



Manual Audit Procedures

Reperformance

- Redoing controls or other procedures
 1. Reperforming controls: bank reconciliation
 2. Reperforming calculations: depreciation expense and AD
 3. Reperforming accounting estimates: allowance for DA

Analytical Procedures

- Assessing information obtained by comparing the auditee information with expectations identified or developed by the IAs
- Examples
 - Analysis of common size FSs ?
 - Ratio Analysis
 - Trend analysis?
 - Internal benchmarking?
 - External benchmarking?

Manual Audit Procedures

Confirmations

- **Obtaining direct written verification of the accuracy of information from independent third parties.**
- **Two types of confirmations:**
 1. **Positive confirmations: recipients to respond regardless?**
 2. **Negative confirmations: recipients only respond if?**

End of Chapter