ASSERIONS AND AUDIT OBJECTIVES

Nature of Assertions:
Financial statements are not statements of facts. They are a collection of claims and assertions, made implicitly or explicitly by the entity’s management, about the recognition, measurement, presentation, and disclosure of information in the financial statements.

Assertions (or management assertions) are representations by management, explicit or otherwise, that are embodied in the financial statements. These assertions relate to the fairness of presentation of the financial statements, thus, they are directly related to applicable financial reporting framework.

Examples of assertions:
- All the assets exist. (Existence)
- All sales transactions have been recorded. (Completeness)
- Inventories are properly valued. (Valuation)
- All amounts are properly presented and disclosed in the financial statements. (Accuracy)

Levels of Assertions:
1. **Financial statement level** – entity's management representation that the financial statements as a whole are presented fairly, in all material respects, in accordance with the applicable financial reporting framework
   - For example, management asserts the financial statements are free from material misstatements.

2. **Account balance or class of transactions level** – entity’s management representation that the underlying account balances and class of transactions, including related disclosures, are free of material misstatements
   - For example, when considering the sales balance, management is asserting that sales revenue is complete (completeness assertion), the transactions occurred (occurrence assertion), and transactions have been appropriately recorded in the accounting records (accuracy assertion).

Categories of Assertions used by the Auditor:
1. Assertions about classes of transactions and events for the period under audit
   a. **Occurrence** – recorded transactions and events have occurred and pertain to the entity
   b. **Completeness** – all transactions and events that should have been recorded have been recorded
   c. **Accuracy** – amounts and other data relating to recorded transactions and events have been recorded appropriately
   d. **Cutoff (proper period)** – transactions and events have been recorded in the correct accounting period
   e. **Classification** – transactions have been recorded in the proper accounts

2. Assertions about account balances at the period end
   a. **Existence** – assets, liabilities, and equity interests exist
   b. **Rights and obligations** – the entity holds or controls the rights to assets, and liabilities are the obligations of the entity
   c. **Completeness** – all assets, liabilities and equity interests that should have been recorded have been recorded
   d. **Valuation and allocation** – assets, liabilities, and equity interests are included in the FS at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded

3. Assertions about presentation and disclosure
   a. **Occurrence and rights and obligations** – disclosed events, transactions, and other matters have occurred and pertain to the entity
   b. **Completeness** – all disclosures that should have been included in the financial statements have been included
   c. **Classification and understandability** – financial information is appropriately presented and described, and disclosures are clearly expressed
   d. **Accuracy and valuation** – financial and other information are disclosed fairly and at appropriate amounts

The existence and completeness objectives emphasize opposite audit concerns. Existence deals with overstatements and completeness deals with understatements (such as due to unrecorded transactions).

Auditor’s Use of Relevant Assertions:
The auditor uses relevant assertions in developing audit objectives that will be the basis for designing audit procedures. Relevant assertions are assertions that have a meaningful bearing on whether an account is fairly stated. For example:
• Existence assertion, not valuation, is typically relevant to the audit of cash account.
• The valuation assertion would be relevant to assessing the inventory balance than assessing sales balance.

The auditor should use relevant assertions to:

a. **Consider the types of potential misstatements that may occur**
   Examples include:
   - Does the asset exist? (Existence)
   - Are all sales transactions recorded? (Completeness)
   - Is inventory properly valued? (Valuation)
   - Did the transaction occur? (Occurrence)
   - Are amounts properly presented and disclosed in the financial statements? (Accuracy)

b. **Assess the risks of material misstatement** – The auditor should identify what controls have been implemented to address the relevant assertions.
   Examples:
   - How does management ensure transactions are recorded? (Completeness)
   - How does management ensure that significant estimates are based on reasonable assumptions and properly recorded in the financial statements? (Accuracy)

c. **Design audit procedures that are responsive to the assessed risks**
   Examples:
   - If the risk is high that receivables are being overstated, the audit procedures should be designed to specifically address the valuation assertion.
   - When the auditor designs tests of controls, emphasis should be placed on testing controls over the relevant assertions rather than just significant controls.

   - An audit procedure may provide evidence supporting more than one assertion. For example, when an auditor obtains confirmation of inventories held at outside locations, evidence is obtained not just about completeness, but also about the existence of inventory.
   - More than one procedure may be required to fully support an assertion. For example, in order to be reasonably certain that inventory quantities include all inventories on hand at year-end, the auditor should also inspect receiving transactions near year-end for recording in the proper period.

Audit Objectives:
The auditor develops audit objectives that relate to management assertions about the financial statement components. To achieve audit objectives, the auditor shall design audit procedures and gather sufficient appropriate audit evidence whether the assertions are in accordance with the applicable financial reporting framework.

Audit objectives are used to verify management assertions. Thus, there should be proper matching of auditor’s objectives with management assertions.

**Types of Audit Objectives:**

1. **Whether general or specific:**
   a. **General audit objectives** – are broad objectives of auditing an account balance or class of transactions
      - Examples of general audit objectives include existence, completeness, valuation, classification, cut-off, accuracy, presentation and disclosure, validity, ownership, and overall reasonableness
   b. **Specific audit objectives** – audit objectives stated in terms tailored to the specific audit engagement
      - The general audit objectives remain the same for every audit engagement, but the evidence varies, depending on the circumstances. The general audit objectives are applicable to every account balance on the financial statements.
      - After the general objectives are understood, specific objectives for each account balance on the financial statements can be developed. There should be one specific audit objective for each relevant general objective.

2. **Whether substantive or compliance**
   a. **Substantive audit objectives** – objectives that relate to the determination of the validity of assertions on account balances or class of transactions or disclosures found in the financial statements
   b. **Compliance audit objectives** – objectives that relate to the degree of entity’s compliance with relevant controls

**AUDIT PROCEDURES**

Based on audit objectives, the auditor should plan and perform audit procedures. Audit procedures are the means for obtaining sufficient appropriate audit evidence to satisfy financial statement assertions and to
support audit opinion on the fairness of the financial statements. They are the detailed instructions for the collection of a particular type of evidence that is to be obtained during the audit. Since audit procedures are performed to verify management assertions, they would differ depending on the particular assertion or account audited.

**Primary Purpose of Audit Procedures:**
Audit procedures are performed to gather necessary (not all) corroborative evidence to achieve audit objectives in order to result to sufficient appropriate audit evidence on the fairness of the presentation of the entity’s financial statements.

**Audit procedures distinguished from audit standards and audit techniques:**
- **Audit standards** – measure of the quality of the audit performance; they are set by the AASC, thus, they remain the same from one audit engagement to another
- **Audit procedures** – performed to meet the audit standards; determined by the auditor, thus, they vary from audit to audit; although they vary from audit to audit, the auditor should perform relevant essential audit procedures provided by the audit standards (PSAs)
- **Audit techniques** – methods used by the auditor or the details of the audit procedures; they also vary from audit to audit

**Nature, Timing and Extent of Audit Procedures:**

| a. **Nature of an audit procedure** – refers to: |
| (1) Its purpose (i.e., test of controls or substantive procedure) and |
| (2) Its type (i.e., inspection, observation, inquiry, confirmation, recalculiation, reperformance, or analytical procedures) |
| When RMM is assessed at high level it affects the types of audit procedures to be performed and their combination. |

| b. **Timing of an audit procedure** – refers to when to perform the audit procedure, or the period or date to which the audit evidence applies |
| Audit procedures are normally performed: |
| a. Early in the accounting period being examined |
| b. Throughout the accounting period being examined, but with emphasis of the transactions near the end |
| c. Within one to three months after the close of the accounting period |
| Audit procedures performed before period end are known as *interim work*. |
| The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. |

| c. **Extent of an audit procedure** – refers to the quantity to be performed or the extent of testing or the number of items to be examined (for example, a sample size, or the number of observations of a control activity) |

**Audit Procedures for Obtaining Audit Evidence:**

1. **Risk assessment procedures** – procedures to obtain an understanding of the entity and its environment, including its internal control, in order to identify and assess the risks of material misstatement (RMM)
   - Risk assessment procedures include:
     a. Inquiry of management and other personnel
     b. Analytical procedures (as a planning tool)
     c. Observation and inspection
   - Risk assessment procedures alone do not provide audit evidence sufficient to support an audit opinion. Risk assessment procedures must be supplemented by tests of controls, when necessary, and substantive procedures.

2. **Further audit procedures** – The auditor shall design and perform audit procedures whose nature, timing, and extent are based on and are responsive to the assessed RMM at the assertion level.
   - Further audit procedures are actually audit procedures classified according to purpose
   - In designing the further audit procedures to be performed, the auditor shall:
     1. Consider the assessed RMM
     2. Obtain more persuasive audit evidence the higher the auditor’s assessment of risk by:
        a. Increasing the quantity of evidence; or
        b. Obtain evidence that is more relevant or reliable (such a obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources)

   **Auditor’s responses to assessed risks of material misstatements (RMM) include both:**
   a. **Overall responses** – The auditor shall design and implement overall responses to address...
the RMM at the financial statement level.
Overall responses may include:
- Emphasizing to the audit team the need to maintain professional skepticism
- Assigning more experienced staff or those with special skills or using experts
- Providing more supervision
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed
- Making general changes to the nature, timing, or extent of audit procedures (such as performing substantive procedures at the period end instead of at an interim date)

Overall responses affect auditor’s general approach:
- **Substantive approach** – an approach whose emphasis is on substantive procedures
- **Combined approach** – an approach that uses both tests of controls and substantive procedures

b. Further audit procedures

Further audit procedures include:
(1) **Tests of controls (compliance tests)** – audit procedures designed to evaluate the operating effectiveness of relevant controls in preventing, or detecting and correcting material misstatements at the assertion level
- In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the higher/greater reliance the auditor places on the effectiveness of a control.
- Test of controls, although not intended to detect material misstatements, may provide evidence that a misstatement is likely to occur.

When to perform tests of controls:
- When the auditor **intends to rely** on the operating effectiveness of relevant controls in determining the nature, timing and extent of substantive procedures; or
  - Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in an assertion.
- When substantive procedures alone cannot provide sufficient appropriate evidence at the assertion level
  - For example, an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system.

Dual purpose test:
- The auditor may design a test of controls to be performed concurrently with a test of details on the same transaction. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing test of controls and test of details on the same transaction, also known as a **dual-purpose test**.

(2) **Substantive procedures** – audit procedures designed to detect material misstatements at the assertion level

**Other best descriptions:** Substantive procedures may also be described as audit procedures that are designed to:
- Detect material peso/monetary errors or fraud
- Substantiate the validity of management's assertions regarding the financial statements. Thus, substantive procedures are sometimes called **validation procedures** because they provide evidence about the existence of misstatement.
- Gather evidence in respect to all material classes of transactions, account balances, and disclosures.
- Be performed in response to the assessment of the risks of material misstatement at the assertion level, which includes the results of tests of controls, if any. In other words, substantive procedures are performed in response to the planned level of detection risk.

**Substantive procedures are mandatory:**
Irrespective of the assessed risks of material misstatement, substantive procedures are required for all relevant assertions related to each material class of transactions, account balance, and disclosure. This requirement reflects the fact that:
- a. The auditor’s assessment of risk is judgmental and so may not identify all risks of material misstatement; and
- b. There are inherent limitation to internal control

Substantive testing cannot be eliminated. However, it may be reduced by auditor’s reliance on entity’s effective internal control.
Nature, timing and extent of substantive tests:
When internal control is not reliable, the auditor will have to perform extensive substantive tests. Thus, the result of test of controls is a major factor in determining the nature, timing and extent of substantive tests.
1. **Nature**: relates the quality of audit evidence (performing more effective or less effective audit procedures)
2. **Timing**: also relates to the quality of evidence (performing the audit procedures at year-end or at interim date)
3. **Extent**: relates to the quantity of audit evidence (using larger sample size or smaller sample size)

Reliance on substantive tests:
The reliance placed on substantive tests in relation to the reliance placed on internal control has an inverse relationship.

Types of substantive procedures:
Whether or not to use substantive analytical procedures or to perform tests of details of transactions and balances, the auditor usually consider the relative effectiveness and efficiency of the tests.

1. **Tests of details** – examining or obtaining audit evidence on the actual details of account balance, class of transactions, and disclosure
   - The objective of tests of details is to substantiate or identify misstatements in the recorded amounts.
   - **Directional testing** – refers to the direction of an audit test
     a. **Tracing** – if the auditor starts from original source documents and traces forward to the accounting records, this tests the assertion of completeness. This helps the auditor identify understatement errors.
     b. **Vouching** – if the auditor starts from the accounting records and vouches backwards to the original source documents, this tests the assertion of existence or occurrence. This helps the auditor identify overstatement errors.

   a) **Test of details of transactions** – testing of transactions which give rise to the ending balance of a given account; these involve examining authorization, recording and posting of transactions (such as examining receipts or disbursements of Cash account)
   - **Applicability of test of details of transactions**: It is used when the account being substantiated has relatively few or smaller volume of transactions of relatively material amounts occurring during the year (for example, PPE, intangibles, bonds payable and stockholders’ equity accounts)
   - Test of transactions are often performed several months prior to the balance sheet date.
   - Tests of details of transactions primarily involve tracing and vouching.

   b) **Tests of details of balances** – direct testing of accounts ending balance
   - Tests of details of balances focus on obtaining evidence directly about an account balance.
   - More types of evidence are obtained using tests of details of balances than by using any other type of test.
   - Test details of balances is usually the most costly to perform.
   - **Applicability of test of details of balances**:
     - For accounts whose balances are affected by large volume transactions of relatively immaterial amounts (such as cash, accounts receivable and inventories).
     - If an account has a high turnover rate with many transactions occurring during the year, the auditor generally will concentrate more on the ending balance total.
     - It is used when the auditor is satisfied that internal control is strong.

2. **Substantive analytical procedures** – these are analytical procedures performed during testing phase to substantiate predictable relationships among both financial and non-financial data
   - **Analytical procedures** are evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data. Analytical procedures generally involve comparisons of recorded amounts to independent expectations developed by the auditor.
   - The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.
• Analytical procedures will result to circumstantial evidence rather than conclusive evidence.
• Results of substantive analytical procedures would entail additional tests to be performed.
• Analytical procedures are the audit tests that are usually the least costly to perform.

Applicability of substantive analytical procedures:
• Generally more applicable to large volume of transactions that tend to be predictable over time
• Not required substantive procedures during testing phase (but are required during audit planning and final or overall review stages)
• When appropriate, they are used on accounts that are predictable and plausible.

Limitations of analytical procedures: Since analytical procedures are based on expected plausible relationships among data, differences do not necessarily indicate errors or fraud, but simply indicate the need for further investigation. Changes in an account, changes in accounting principle, and inherent differences between industry norms and the client all contribute to fluctuations in expected amounts.

Audit Procedures According to Types:
The following procedures, individually or in combinations, may be used as risk assessment procedures, test of controls, or substantive procedures, depending on the context in which they are applied by the auditor:

1. **Inspection** – consists of examining records or documents (whether internal or external, in paper form, or other media), or a physical examination of an asset
   - For example, an inspection of records or documents for evidence of authorization is a test of controls.

2. **Observation** – consists of viewing/looking at a process or procedure being performed by others.
   - Observation of the counting of inventories by the entity’s personnel
   - Observation of the performance of control activities that leave no audit trail

3. **External confirmation** – represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party) in paper form, or by electronic or other medium
   - Confirmation is a specific type of inquiry that involves the process of obtaining a representation of information or of an existing condition about account balances and transactions or events directly from independent third parties.
   - Confirmations are controlled by the auditor because the auditor:
     a. Selects the parties to be contacted
     b. Prepares and mails the confirmation requests, and
     c. Receives the confirmation replies directly from the third parties
   - External confirmations frequently are relevant when addressing assertions associated with certain account balance and their elements. However, they are not restricted to account balances only.

Examples of external confirmation:
- Confirmation of accounts receivable balances:
  a. **Positive confirmation** – customers should reply whether or not they agree with their respective balances; it is considered more effective than negative confirmation
  b. **Negative confirmation** – customers should reply if there are discrepancies
- Bank confirmation of account balances (including amount of loan outstanding)
- Suppliers’ confirmation of accounts payable
- Confirmation from lenders
- Inventory confirmation when inventory is under custody and control of a third party
- Confirmation from lawyers or financiers who have custody over client’s property title deeds
- Confirmations of the terms of agreements or transactions an entity has with third parties
- Confirmation about the absence of certain conditions, for example, the absence of a “side agreement” that may influence revenue recognition

d. **Recalculation (computation)** – consists of checking the mathematical accuracy (manually or electronically) of documents or records
   - Examples:
     a. Auditor’s recalculation of depreciation, interest expense or earnings per share

e. **Reperformance** – involves the auditor’s independent execution of procedures or controls that were originally performed (by the client’s staff) as part of the entity’s internal control

f. **Analytical procedures** – consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data

Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.
g. **Inquiry** – consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.
   - Inquiry is used extensively throughout the audit in addition to other audit procedures.
   - Inquiries may be formal written inquiries or informal oral inquiries.
   - Evaluating responses to inquiries is an integral part of the inquiry process.
   - Evidence obtained from inquiry can be gathered with every type of audit test.

In respect of some matters, the auditor may consider it necessary to obtain written representation from management and, where appropriate, those charged with governance to confirm responses to oral inquiries.

**Audit Techniques:**

The auditor applies audit techniques (methods) to gather corroborative evidence and uses his professional judgment to determine which audit techniques would best result to the audit evidence he needs.

Examples of audit techniques:

1. **Confirm** – to obtain information directly from an independent third party
2. **Inspect** – to obtain evidence through physical examination
3. **Count** – physical examination of assets (such as cash count or petty cash count)
4. **Compare** – technique used after count of assets; also used to compare current period balances with those of prior periods
5. **Inquire** – asking questions, whether oral or written, directed to the client or to third parties
6. **Trace** – to determine whether transactions supported by source documents are properly recorded and posted
7. **Vouch** – examine and authenticate of underlying evidential papers
8. **Verify** – to prove the accuracy of extensions, footings, postings, ownership and existence
9. **Reconcile** – to bring into agreement information obtained from two groups of related, but independent, figures

<table>
<thead>
<tr>
<th>Reconciliation involves comparing financial amounts from two independent sources for agreement, such as:</th>
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<tbody>
<tr>
<td>• Reconciling the cash balance per the books with the balance per bank</td>
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<tr>
<td>• Reconciling the physical inventory count with the perpetual inventory records</td>
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<tr>
<td>• Reconciling lead schedules to general ledger amounts</td>
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10. **Analysis of accounts** – to detail the composition of an account or to detail the individual debits and credits in the account in a chronological sequence
11. **Review** – perform to obtain evidence of authoritative documentation to support certain transactions
12. **Extend** – to prove the accuracy of multiplications (on invoices, payroll records, etc.)
13. **Foot** – to prove the accuracy of vertical or horizontal additions
14. **Scan** – looking for evidence of unusual amounts/items, which, if found, would be further investigated

**Audit Program**

An **audit program** is a detailed listing of the nature, timing and extent of planned audit procedures (tests of controls and/or substantive tests) that the auditor will perform to gather sufficient appropriate evidenced. It is a set of instructions to assistants involved in the audit and as a means to control and record the proper execution of work.

**Audit Evidence**

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining reasonable assurance or sufficient appropriate audit evidence to reduce audit risk at acceptably low level thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.

Most of the auditor’s work in forming the auditor’s opinion consists of obtaining and evaluating audit evidence. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained based on his professional judgment.

**Audit Evidence, Defined:**

- **Audit evidence** refers to all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Thus, audit evidence supports the opinion and the auditor’s report.
- Sometimes called as **evidential matter**, it is the main output/product of performing audit procedures.

**Audit Evidence Relationship with Assertions:** Audit evidence comprises both:

a. Information that supports and corroborates management's assertions, and
b. Information that contradicts such assertions.

**Nature of Audit Evidence:**
Audit evidence includes both information contained in the accounting records underlying the financial statements and other information:

1. **Accounting records (Underlying data)** – accounting records/data prepared by the client’s personnel and from which financial statements are prepared
   a. Records of initial accounting entries
   b. Supporting records, such as checks and records of electronic fund transfers, invoices and contracts
   c. General and subsidiary ledgers
   d. Journal entries and other adjustments to the financial statements that are not reflected in formal journal entries
   e. Records such as worksheets and spreadsheets supporting cost allocations, computations, reconciliation and disclosures

2. **Corroborating evidence** – corroborating information that are used by the auditor to verify the fairness of the accounting records
   a. Documents (such as checks, bank statements, contracts and minutes of meetings)
   b. Information/evidence from other sources such as:
      - Previous audits
      - Quality control procedures for client acceptance and continuance
      - Confirmations from third parties
      - Industry analysts’ reports
      - Comparable data about competitors (benchmarking)
      - Client written representation
   c. Information obtained by the auditor from audit procedures such as inquiry, observation, inspection and computation
   d. Other information developed by, or available to, the auditor that permits the auditor to reach conclusions through valid reasoning

**Types of Audit Evidence:**
1. **Physical evidence** – obtained by physical examination of assets (such as count of stock certificates in support of stock investment account or observation of client’s processes or procedures)
2. **Mathematical recomputations** – auditor’s recomputation of the accuracy of client’s computations such as depreciation, amortization, doubtful accounts, etc.
3. **Documentation** – examination of the supporting documents of recorded transactions and balances appearing in the financial statements
4. **Representation by third parties (or confirmation)** – a document originating from independent outside party and sent directly to the auditor
5. **Representation by client personnel** – statements from client personnel in response to queries posed by the auditor
6. **Results of analytical procedures**
7. **Internal control** – existence of effective internal control may be regarded as a strong evidence of the validity of the accounts and amounts found in the financial statements
8. **Subsequent events** – they provide additional evidence regarding conditions that already existing on the balance sheet that affect accounting estimates

**Sources of audit evidence:**
- Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. However, it may also include information obtained from other sources such as:
  - Previous audits (where the auditor performs audit procedures to establish its continuing relevance)
  - Firm’s quality control procedures for client acceptance and continuance
- **Audit evidence may come from:**
  a. Internal sources (inside the entity) – generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation
  b. External or independent sources (outside the entity) – for example, confirmations from third parties analysts’ reports, and comparable data about competitors (benchmarking data)
  c. Direct knowledge of the auditor
- Audit evidence may also come from:
  a. Information obtained from testing the accounting records (accounting records are an important source of audit evidence) – for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information
b. Non-financial original records
- Audit evidence may include information prepared using the work of a management's expert.
- In some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

Information to Be Used as Audit Evidence
- When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.
- When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:
  a. Evaluate the competence, capabilities and objectivity of that expert;
  b. Obtain an understanding of the work of that expert; and
  c. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.
- When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:
  a. Obtaining audit evidence about the accuracy and completeness of the information; and
  b. Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

Sufficient Appropriate Audit Evidence:
The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

1. Sufficiency – the measure of the quantity or amount of audit evidence that the auditor shall accumulate
   - Sufficiency is determined based on the auditor's professional judgment.
   - Audit evidence is sufficient if there is enough of it to afford a reasonable basis for an audit opinion on the financial statements.
   Factors affecting sufficiency of audit evidence:
   - Auditor's judgment as to the quantity of audit evidence is influenced by:
     a. Auditor’s assessment of the risks of misstatement – the higher the assessed risks, the more audit evidence is likely to be required.
        - For example, as risk of material misstatement increases in Accounts Receivable, audit evidence required also increases.
     b. Quality or competence of audit evidence – the higher the quality, the less may be required. Obtaining more audit evidence, however, may not compensate for its poor quality.
     c. Materiality of item being examined – more material amounts, more evidence to support its validity
     d. Experience gained during previous audit may indicate the amount of evidence taken before and whether such evidence was enough
     e. Type of information available

   Merely obtaining more audit evidence may not compensate for audit evidence of lower quality. The auditor should exercise professional judgment and professional skepticism in evaluating the sufficiency and appropriateness of audit evidence to support the audit opinion.

The sufficiency and appropriateness of audit evidence are interrelated.

2. Appropriateness – measures the quality of audit evidence, that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based
   a. Relevance – deals with the logical connection with, or bearing upon, the purpose of audit procedures and the assertion under consideration

       - Audit evidence is considered relevant if it pertains to the assertions being evaluated or to the specific audit objective being tested. For example:
         - Obtaining audit evidence relating to the physical existence of inventory is not relevant in obtaining audit evidence relating to the valuation of inventory.
         - Accounts receivable confirmations are relevant to the existence of receivables, but not to their valuation (i.e., a customer can confirm that a receivable exists, but this does not necessarily imply that the customer has the intent or the ability to pay).

      The relevance of information to be used as audit evidence may be affected by the direction of testing.
      - A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not to others.
      - Obtaining audit evidence regarding a particular assertion, for example, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion.
      - Audit evidence from different sources or of a different nature may often be relevant to the same assertion.
b. **Reliability** – objectivity of evidence

Reliability of evidence is influenced by:

- Its source (external or internal)
- Its nature (visual, documentary, or oral)
- The circumstances under which it is obtained
- Where relevant, the controls over its preparation and maintenance

<table>
<thead>
<tr>
<th>Generalizations about the reliability of audit evidence:</th>
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<tbody>
<tr>
<td>1. The reliability of audit evidence is increased when it is obtained from knowledgeable independent sources outside the entity.</td>
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<tr>
<td>- Examples of information from sources independent of the entity may include confirmations from third parties, analysts' reports, and comparable data about competitors (benchmarking data).</td>
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<tr>
<td>2. The reliability of audit evidence that is generated internally is increased when the related controls, including controls over its preparation and maintenance, imposed by the entity are effective. (Effective internal control provides more reliable audit evidence than ineffective internal control.)</td>
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<tr>
<td>3. Audit evidence obtained directly by the auditor is more reliable than evidence obtained indirectly or by inference.</td>
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<tr>
<td>- For example, observation of the application of a control is more reliable than inquiry about the application of a control.</td>
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<tr>
<td>4. Audit evidence in documentary form (whether paper, electronic, or other medium) is more reliable than evidence obtained orally.</td>
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<tr>
<td>- For example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed.</td>
</tr>
<tr>
<td>5. Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.</td>
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</tbody>
</table>

The above generalizations should be considered in determining which evidence is persuasive or least persuasive.

Generalizations about reliability are subject to important exceptions, for example, even when the information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability (such as if the source is not knowledgeable or a management's expert may lack objectivity).

More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually.

<table>
<thead>
<tr>
<th>Hierarchy of reliability of evidence: (from most reliable to least reliable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct evidence or personal observation and knowledge (such as physical observation)</td>
</tr>
<tr>
<td>2. Externally generated evidence sent directly to the auditor (such as confirmations from banks and customers and bank statements and cut-off bank statements received from banks)</td>
</tr>
<tr>
<td>3. Externally generated evidence kept by the client (such as vendor's invoices, bank statements received from the client)</td>
</tr>
<tr>
<td>4. Internally generated evidence circulated externally (such as sales invoices from sale to customers and paid checks and cost allocations)</td>
</tr>
<tr>
<td>5. Internally generated evidence not circulated externally (such as purchase requisitions, customer's order and cost allocations)</td>
</tr>
<tr>
<td>6. Oral evidence</td>
</tr>
</tbody>
</table>

**Persuasive Evidence:**

Audit evidence is persuasive if it is sufficient both in quantity and quality to support audit opinion. Thus, sufficiency and appropriateness of audit evidence are the determinants of persuasiveness of audit evidence. The auditor may need to rely on audit evidence that is persuasive rather than conclusive. However, to obtain reasonable assurance, the auditor must not be satisfied with audit evidence that is less than persuasive.

**Cost-benefit considerations:**

The auditor should consider the relationship between the cost of obtaining audit evidence and the usefulness of the information obtained.

- Relative risk (or inherent risk) involved
- Relationship between the cost of obtaining audit evidence and the usefulness of the information obtained
c. Degree of reliance on the relevant internal controls (or Assessment of control risk at a low level)

Difficulty and expense involved in testing a particular item is not a valid basis for an auditor of deciding to omit an audit procedure.

Information produced by a management expert as audit evidence:
A **management expert** is 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 information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes:

1. **Evaluate the competence, capabilities and objectivity of that expert**
   a. Competence – relates to the nature and level of expertise of the management’s expert
   b. Capability – relates to the ability of the management’s expert to exercise that competence in the circumstances
   c. Objectivity – relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the management expert

### Sources of information regarding competence, capabilities and objectivity of a management’s expert:
- Personal experience with previous work of that expert
- Discussions with that expert
- Discussions with others who are familiar with that expert’s work
- Knowledge of that expert’s qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition
- Published papers or books written by that expert
- An auditor’s expert, if any, who assists the auditor regarding the information produced by the management expert

2. **Obtain an understanding of the work or field of expertise of that management’s expert**
   Aspects of the management’s expert’s field relevant to the auditor’s understanding may include:
   - Whether that expert’s field has areas of specialty within it that are relevant to the audit.
   - Whether any professional or other standards, and regulatory or legal requirements apply.
   - What assumptions and methods are used by the management’s expert, and whether they are generally accepted within that expert’s field and appropriate for financial reporting purposes.
   - The nature of internal and external data or information the auditor’s expert uses

3. **Evaluate the appropriateness of that expert’s work as audit evidence for relevant assertion**
   The auditor shall consider:
   a. The relevance and reasonableness of that expert’s findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
   b. If the expert’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
   c. If that expert’s work involves significant use of source data the relevance, completeness, and accuracy of that source data

**Evaluating the Sufficiency and Appropriateness of Audit Evidence:**
Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the RMM at the assertion level remain appropriate.

**Factors affecting sufficient appropriate audit evidence:**
The auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:
- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect on the financial statements.
- Effectiveness of management’s responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of the available information.
- Persuasiveness of audit evidence.
- Understanding of the entity and its environment, including internal control.