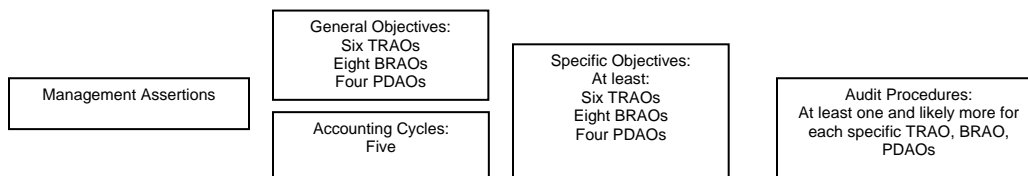


Chapter 7: Audit Evidence

I. Definition: Evidence – information used by the auditor to draw conclusions on the fair presentation of the financial statements. Audit objectives suggest the types of evidence to accumulate.

II. Decisions on evidence accumulation

A. Which audit procedures to use.



Audit procedures frequently “cover” more than one audit objective!
Select a sample of sales invoices and trace to the shipping document agreeing name and quantity.

Preparation Question: What is an audit procedure?

- B. What sample size to select for a given procedure.
- C. Which items to select from the population.
- D. When to perform the procedures (timing).

III. Audit Program

Preparation Question: What is an audit program?

IV. Persuasiveness of evidence

Which audit procedures:

A. Appropriateness

1. Relevance

Example: Trace from sales invoices in the Sales Journal to shipping documents.

B. Reliability

1. Independence of provider –
2. Effectiveness of client’s internal control structure (strong vs. weak)
3. Auditor’s direct knowledge
4. Qualifications of provider
5. Objectivity

What sample size and which items:

C. Sufficient

1. Likelihood of misstatements
2. Quality of internal control

When to perform

D. Timeliness

Other factors:

E. Combined effect

F. Cost

V. Type of Evidence

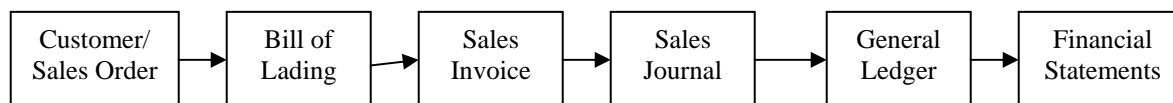
Preparation question: Enter key words that define each of the types of evidence listed.		
Type	Definition	Grade
1. Physical examination		
2. Confirmation		
3. Documentation:		
External		
Internal – good		
Internal – bad		
4. Analytical procedures:		
Tailored		
Broad		
5. Inquiries of the client		
6. Recalculation		
7. Reperformance		
8. Observation		

In-class exercise:

Audit Procedure	Type of Evidence	BRAOs
1. Examine supporting documents for cash disbursements several days before and after year-end.		
2. Examine the acquisitions and cash disbursements journals for the last few days of the current period and first few days of the succeeding period, looking for large or unusual transactions.		
3. Trace from the general ledger trail balance and supporting documentation to determine whether accounts payable, related parties, and other related assets and liabilities are properly included on the financial statements.		
4. For liabilities that are payable in a foreign currency, determine the exchange rate and check calculations.		
5. Discuss with the bookkeeper whether any amounts included on the accounts payable list are due to related parties, debit balances, or notes payable.		
6. Obtain vendors' statements from the controller and reconcile to the listing of accounts payable.		
7. Obtain vendors' statements directly from vendors and reconcile to the listing of account payable.		
8. Obtain a list of accounts payable. Re-add and compare with the general ledger.		

Example of writing/creating audit procedures:

Situation: The following depicts the document flow for sales for a typical company.



General Objective	Specific Objective	Audit Procedures
TRAO – Occurrence		
TRAO – Completeness		

See Table 7-6 (p. 187) for good “buzz” words to use when constructing an audit procedure.

Assign Problem 7-27, 7-28, 7-33

VI. Audit Documentation – a.k.a. Working Papers

A. Purpose

Preparation Question: What purpose do working paper have for the auditor?

B. Ownership

Preparation Question: Who owns the working papers?

C. Confidentiality

Preparation Question: What are to only acceptable times to share working papers with persons outside of the CPA firm?

D. Retention

Preparation Question: For privately held companies working papers are to be kept for how many years per SAS 103?

Preparation Question: For publically held companies working papers are to be kept for how many years per AS3?

Preparation Question: What documents should be retained for the audits of public companies?

E. Contents and organization

Preparation Question: What are the two basic files kept for an audit? What are the contents of each?

F. Preparation –

Preparation Question: Who prepares the working papers?

G. Work paper

What does a good working paper have:

What does an excellent working paper have:

Example:

1. See Figure 7-4 (p. 193)
2. In-class exercise Problem 7-39 (p. 206-207)

Assignment

See step-by-step instructions on Blackboard
ACL Problems 7-40 and 11-35