Audit Evidence and Documentation

- Sufficient, competent evidence should be enough to reduce audit risk
  - More effective audit procedures closer to balance sheet date
- Competent means relevant and valid
  - Evidence is more valid if it originated outside the client, when controls are effective, if it is obtained directly by auditor, and the documentation is original
- Sufficient means quantity
  - If the risk of misstatement is high, more evidence is needed
  - Evidence needs to be persuasive, not conclusive
- Types of evidence
  - Accounting Information Systems
    - That record, process, summarize and report transactions
    - Journal entries are initiated, recorded and processed here
    - Good controls and well-maintained records give journals and ledgers usefulness
  - Documentary evidence
    - Checks, invoices, contracts, minutes to meetings
    - Outsider processing→more reliable
  - 3rd party representations (customers, vendors, banks, lawyers)
    - Confirmations- for cash, receivables, debt and stock
      - Good for existence
      - Better if sent to auditor's office
    - Lawyer’s letters about pending litigation
    - Specialist reports for specialized inventory and pensions
      - Other than an accountant
      - Auditor must determine qualifications and reputation
      - Refer to specialist in report→not supporting opinion
  - Physical evidence: Actual count (existence)
  - Computations (foot a column down, cross foot a row across, extend means to multiply)
  - Data interrelationships: financial and non-financial
  - Oral and written client representations
    - Consider knowledge, objectivity, experience, responsibility and qualifications of those making the representations
    - Structure questions to address relevant issues
    - Oral is not sufficient in itself but may corroborate other forms of evidence
  - Representation letter
    - At the conclusion of the audit
    - Summarizes most important oral representations by management
      - Records, data and minutes
      - Complete financials→GAAP
      - Responsibility for controls
      - Adjusting entries