IMPROVING THE PROCESS OF GATHERING EVIDENCE IN AUDITS

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ABSTRACT

This article explains the nature of audit evidence. The article also clarifies the aspects that need to be taken into account in the process of collecting audit evidence.

Keywords: *audit, audit evidence, analytical procedures, external confirmation, audit program.*

INTRODUCTION

The requirements for collecting evidence in the audit of financial statements of organizations are detailed in ISA No. 500 entitled "Audit evidence". Audit evidence is all the information collected by the auditor during the audit, which allows for the formation of an unbiased opinion. Evidence includes information from accounting documents, including financial statements and other information. During an audit, the auditor is required to gather sufficient and appropriate evidence to form an opinion.

The main requirement for evidence in the international standards of auditing is their reliability. The reliability of the evidence collected during the investigation will depend on the source from which it was obtained.

LITERATURE REVIEW

According to ISA 500 “audit evidence – 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 financial statements and other information” [1].

Stefan Zuca said that “audit evidence is defined as all the information used by the auditor in arriving at the conclusions on which the audit opinion is based and can be classified as: the underlying accounting records maintained by management to support the preparation of the entity's financial statements, and other information" [2].

According to other economists "audit evidence includes written and electronic information that permits the auditor to reach conclusions through reasoning. In this respect, audit evidence help auditors to establish a starting point from which an auditor expresses audit opinion on the accounts and financial operations of the company being audited" [3].

R. Nelly Nur Apandi, Alfira Sofia, Hanifa Zulhaimi said that "digitalization changes in business transactions require junior auditors to pay attention to these changes in the audit evidence collection process. For senior auditors who have more audit experience, it will be easier to understand changes in business digitization than junior auditors" [4].

ANALYSIS AND RESULTS

The need to use external confirmation methods to obtain audit evidence depends on the level of risk of material misstatement. The greater the risk of material misstatement, the greater the need to use external confirmation to obtain reliable evidence.

The auditor should use external inquiries to obtain answers from third parties in accordance with the audit objective. Factors affecting the reliability of audit evidence should be taken into account when preparing a request for third parties. Factors affecting the reliability of audit evidence include:

the form and content of the request sent to the third party;

accumulated experience in sending requests to third parties in an audit organization;

the nature of the information reflected in the external confirmation;

performance characteristics of the third parties who sent the external verification response.

During an audit, the auditor may use affirmative or negative inquiries, or both. A positive external inquiry involves a request by the auditor to respond in any way to the information provided by the recipient, or to respond by providing relevant information. In response to a positive request, reliable audit evidence is obtained. However, there is a risk that a third party will not respond to a request.

The auditor should clarify that the results of external verification, taking into account the results of other actions performed, ensure the reliability of financial statements.

When the organization's activity is checked for the first time by the auditing organization, it must comply with the requirements of ISA 510 Summary: Initial Audit Engagements—Opening Balances.

Organizations should pay attention to:

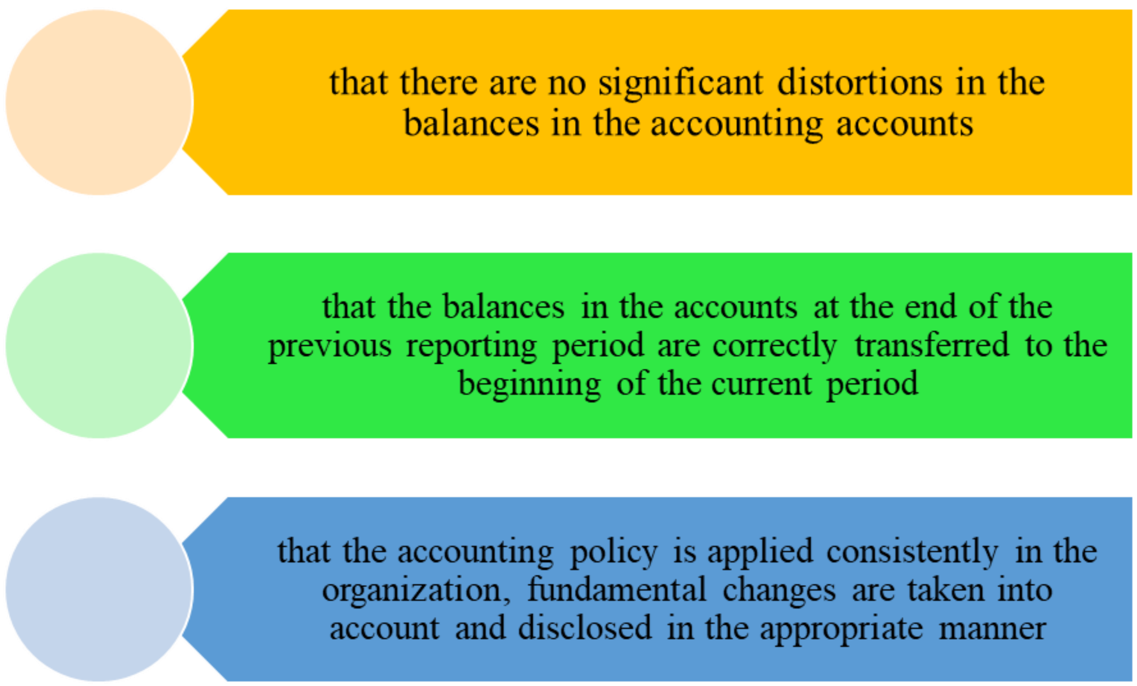

Figure 1. Considerations in gathering audit evidence[6]

If the organization's activities are audited for the first time by the audit organization, the auditor can use the results of the previous audit and the audit conclusion.

[6] Made by author

The following audit actions can be used when the organization's activities are audited by the auditing organization for the first time:

analysis of the level of payment of receivables or payables, obtaining evidence about the existence and amount of debt at the beginning of the reporting period and overdue debts;

getting acquainted with the results of the inventory conducted by the internal audit;

study whether income and expenses are correctly distributed over the reporting period.

If the auditor has not obtained sufficient audit evidence on the correctness of the balances in the accounts, the auditor may draw up an audit opinion with comments. An adverse audit opinion may be issued if there are material misstatements in the preliminary examination of the entity's activities or if the accounting policies have been incorrectly applied.

It is necessary to use the requirements of ISA No. 530 entitled "Audit sampling" in the sampling of inspection objects within the framework of international audit standards.

Audit sampling is understood as the application of audit actions to objects that are less than 100% of the balance sheet or operations category. Any item of the financial report or any object of accounting can be selected during audits. It helps the auditor to obtain audit evidence on certain characteristics of the selected objects and to form conclusions on the results of the sampling.

There are 2 methods of sampling in audits, statistical or non-statistical. Statistical sampling involves the random sampling of items and the use of probability theory to estimate the results of the sampling. Probability theory is also used in the process of sampling risk assessment. If the sampling does not conform to certain static laws, it is recognized as non-statistical sampling.

In audit inspections, the auditor selects objects for inspection from the general collection. According to international standards, the general set is the entire set of information about the activity of the subject. Individual objects in a common collection are sampling elements. Sampling elements may include balances of fixed assets, internal documents on inventories, etc.

The use of the sampling method is associated with a certain risk, and the auditor's conclusions based on the results of the sampling may differ from those obtained in the examination of the entire set. Sampling risk means that the auditor's conclusion on the results of the sampling may differ from the conclusion that would have been reached if the entire audit had been performed in the same way.

The auditor's professional judgment is usually used to assess audit risk. In an audit, the auditor must choose actions that reduce risk. Audit risk is the risk that the auditor will express a favorable opinion in the presence of material misstatements in the financial statements.

There is a direct and close relationship between audit risk and sampling risk. Sampling risk affects the components of audit risk. For example, if the auditor does not detect errors when he examines the controls, he concludes that the risk of the control system is low. In this case, the errors in the total set will be high.

The auditor may perform unacceptable analytical procedures to detect errors when material misstatements exist. Sampling risk can be reduced by increasing the sample size.

The auditor can select specific items from the set during the audit. It is based on the characteristics of the organization's activities, the level of control risk and takes into account the general characteristics of the collection.

When the auditor examines the estimated value, it is necessary to pay attention to the correctness of the calculations used by the management of the organization. When reviewing the rules for approval of the organization's management on accounting, the auditor must determine whether the estimated value is approved by the appropriate authorized person, whether the rules for verification and approval are reflected in the accounting documents.

In checking the assessed values, the auditor compares the obtained data with the data being audited.

Audit evidence on estimated values can be obtained by reviewing subsequent events that occur after the end of the reporting period but before the end of the audit. In this case, the reasonableness of the determination of appraised values may not require detailed consideration.

CONCLUSION

1. During the final assessment of the reasonableness of the assessed values, attention is paid to the study of the characteristics of the organization's activities and the analysis of the consistency of the assessment with other evidence obtained during the audit. If there is a significant difference between the value confirmed by the auditor's evidence and the value determined by the management, the management of the entity should justify it. If management does not provide an adequate basis for the assessment, the auditor should ask management to revise the estimates.

2. If the inconsistencies in determining the estimated value are reasonable, but there is a general tendency to overestimate or underestimate the estimates, the auditor should determine whether this situation has a material effect on the financial statements or not.

3. In the practice of international audit, transactions related to the parties directly related to the activities of the business entity are checked based on the requirements of ISA No. 550 entitled "Related parties". The auditor should perform audit procedures to obtain sufficient and appropriate audit evidence regarding the identification and disclosure of related parties and the effects of related party transactions that are material to the financial statements. However, the auditor should not be expected to identify all related party transactions.

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