Sufficiency and Appropriateness of Audit Evidence for Giving an Opinion on the True and Fair View of Financial Statements

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ABSTRACT
The important of audit evidence in preparing audit report cannot be overemphasized. The reliability of the audit evidence is what leads to an acceptable audit report, and conversely where the audit evidence is marred with non conformity to acceptable standards in terms of reliability and sufficiency, the audit exercise carried out in that situation becomes in doubt. This paper succinctly discusses the concepts of audit evidence, distinguishing between sufficiency and appropriateness of audit evidence for audit report production. Policeman theory of auditing is the theoretical foundation on which this paper is rooted whilst highlighting the reliability, sources; testing procedures used to ascertain management assertions as well as documentation of the audit evidence that leads to an acceptable audit report that conforms to acceptable standards.

Keywords: Appropriateness; Audit Documentation, Audit Evidence; Financial Statements; Sufficiency

1. INTRODUCTION
The important of audit evidence in preparing audit report cannot be overemphasized. The reliability of the audit evidence is what leads to an acceptable audit report, and conversely where the audit evidence is marred with non conformity to acceptable standards in terms of reliability and sufficiency, the audit exercise carried out in that situation becomes in doubt. In this paper, first the definitions of audit evidence are provided, followed by the explanation of sufficiency and reliability concept. Types of audit evidence available for audit exercise will be mentioned whilst looking the sources of audit evidence. The paper concludes by looking at documentation of audit after the audit exercise.

2. Theoretical Framework and Conceptual Review
2.1 Theoretical Framework
In this paper the Policeman’s theory is adopted as its main theoretical framework due to its relevance in the discussion of the issue of Audit functions and the process of gathering evidence for audit activities in organisations.

Policeman Theory of auditing
This theory of auditing is based purely on the arithmetical accuracy and on the prevention and detection of fraud. This theory makes the auditor to detect and prevent errors and fraud in organizations. In other words, as this theory posits, the auditor has to act as a policeman with actions and intentions to watch, safeguard and protect the organizational resources so that stakeholders could benefit overall. It is argued
that from the 1940s till present, there has been a shift of audit paradigm as compounded by recent financial statement frauds, such as those at Societe Generale, Satyam, Ahold, Enron, etc (Egbunike & Egbunike 2017), consequently there is an increasing debate on the responsibility of the auditor both at the internal and external level to detect and disclose fraud, thus the auditor must “Police” the organizations at all times. And this must reflect even in gathering evidences needed to conduct audit activities.

2.2 Conceptual review

2.2.1 Definition and explanation of Audit evidence

According to Association of Certified Chartered Accountants (ACCA), UK, Continues Personnel Development Manual (2015), audit evidence is the documents or materials obtained by auditors during an audit exercise and these are documented in the audit working papers, and these evidences would help in the carrying out of audit exercise effectively and efficiently according to the recommended standards. ACCA (2015), further explains that the main objective of the work performed by the auditor in an audit engagement is that of obtaining reasonable assurance as to whether the financial statements, as a whole, are free from material misstatement, so that the auditor is able to express an opinion on the financial statements and report accordingly in the auditor’s report. And to obtain reasonable assurance about the financial statements, which is a high but not absolute level of assurance, the auditor needs to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

During the audit engagement, acceptance or reappointment stage, audit evidence is the information that the auditor considers for appointment. For example, change in entity control environment, inherent risk and nature of the entity business and scope of audit work all constitute evidences that can been looked to ascertain whether the audit report will present a true and fair view of what transpired in the organization. On the other hand, in the audit planning stage, audit evidence is the information that the auditor must consider for the most effective and efficient audit approach, reliability on internal controls procedures in existence, and analytical review of the systems. For example, the auditor would look at the In the control testing stage however, there is evidence to consider. These are in the information that the auditor considers for the mix of the audit test of control and audit substantive test. In the substantive testing stage however, the information needed to support the appropriation of financial statements assertions, for example, the rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure of a particular transactions or account balance, all constitute the audit evidence that in needed for the audit exercise. In doing this, he or she would have discovered the level of risk available and thus focus on sufficiency and appropriateness concept so that that acceptable samples and testing would be done to authenticate the evidence.

2.2.2 Sufficiency and Appropriateness of Audit evidence

Sufficiency and appropriateness of audit evidence are two qualities that are interrelated. Sufficiency is the measure of the quantity of audit evidence (Ohaka & Imo, 2016). The quantity of audit evidence needed is affected by the risks of misstatement assessed by the auditor, whereby the higher the risks the more audit evidence required, and by the quality of the evidence, where the higher the quality the less evidence perhaps required. Obtaining more audit evidence, however, may not compensate for its poor quality (ICAN, 2013), thus quality is essential as well as quantity in other to provide an acceptable audit report. On the other hand, appropriateness is the measure of the quality of audit evidence. The quality of audit evidence depends on whether it is relevant and reliable in providing support to the conclusions on which the auditor’s opinion is based. Whether evidence is reliable also depends on its source; for instance, whether it is generated by the client, a third party or the auditor; and also from its nature, whereby documentary evidence is normally more reliable than verbal evidence (ACCA, 2015). Appropriateness is the measure of 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. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s
opinion, is a matter of professional judgment. NSA 14 and other relevant NSAs establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor’s considerations in obtaining sufficient appropriate audit evidence (According to Nigerian Standards on Auditing, 2013, as issued provided by ICAN).

Audit evidence is necessary to support the auditor’s opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm’s quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity’s accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity.

Audit evidence comprises both information that supports and corroborates management’s assertions and any information that contradicts such assertions. In addition, 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. Most of the auditor’s work in forming the auditor’s opinion consists of obtaining and evaluating audit evidence (ACCA, 2015). The sufficiency and appropriateness of audit evidence are interrelated.

As earlier stated, whether the audit evidence obtained in the course of an engagement is sufficient and appropriate to support the auditor’s opinion is a matter of professional judgment that the auditor needs to establish. Professional judgment is not, however, an abstract and subjective category of the auditor’s frame of mind, and should be informed by a structured approach to gathering evidence that is based on the assessed risks of material misstatement of the financial statements.

2.2.3 Characteristics that make audit evidence reliable and appropriate for audit exercise

One of the things that make audit evidence reliable is the procedure that is used to obtain the evidence. Consequently, what constitutes sufficient and appropriate evidence is based on the testing to confirm management assertions in the financial statements. The reliability of information to be used as audit evidence depends on: i) its source and ii) nature and the circumstances under which it is obtained.

Furthermore, ACCA (2015) stated that audit evidence would be relevant if it adheres to the following characteristics:

i) Capable of meeting the purpose of the audit procedure, which is normally that of verifying an assertion in respect of a financial statements item,

ii) The direction of testing. For instance when an audit objective of a procedure is that of testing for existence or valuation of accounts payable, testing the recorded accounts payable may produce relevant audit evidence. However when the audit objective is that of testing completeness (ie understatement) of accounts payable, testing the accounts payable already recorded would not be relevant, as it could be, for instance, testing information like subsequent disbursements, unpaid invoices and suppliers’ statements. Audit procedures may provide evidence that is relevant to certain assertions but not others. For example the inspection of documents in respect of the collection of receivables after the year end may provide relevant evidence about existence and valuation but not cut-off. However audit evidence from different sources or of a different nature may be relevant to the same assertion.

Similarly, (ISA, 500) provides a general guideline that helps to authenticate the audit evidence procedure that increases the reliability of the audit evidence in order to provide audit reports that are acceptable and meets with international standards. These include:

1. The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.

2. Audit evidence obtained directly by the auditor (Physical evidence) (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
3. Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally.
4. Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form.

2.2.4 Procedure for obtaining appropriate and sufficient audit evidence
Various international audit standards (ISA 300, ISA 315, ISA 330) explained that audit evidence should be obtained by performing risk assessment procedures and further audit procedures in order to authenticate the audit evidence. The further audit procedures are however listed as to include the test on controls and substantive procedures, including test of details and substantive analytical procedures. The audit procedures that are performed in respect of specific assertions in the financial statement and their timing which are documented in the audit plan and strategy are helpful in producing appropriate, reliable and sufficient audit evidence. In other words, the audit evidence generated through this process should be sufficient and appropriate to support of contradict the management assertions in respect of specific classes of transactions, account balances or disclosures in the financial statements.

Additionally, audit procedures in respect of specific items in the financial statements should be designed with the objective of providing evidence capable of verifying the assertions embodied in an item, so that the auditor can draw a reasonable conclusion about that item. Audit evidence and the auditor’s conclusions in respect of the various assertions tested contribute to the overall audit evidence on which the auditor’s opinion is based (ACCA, 2015).

The tables below summarized the some management assertions of which audit evidence and objective must either corroborate or contract via the tests conducted:

**Table 1. Assertions about classes of transactions and events for the period under audit (usually profit or loss account assertions):**

<table>
<thead>
<tr>
<th>Financial statement assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occurrence</td>
<td>To form an opinion as to whether transactions and events that have been recorded have occurred and pertain to the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>To form an opinion as to whether all transactions and events that should have been recorded have been recorded.</td>
</tr>
<tr>
<td>Accuracy</td>
<td>To form an opinion as to whether amounts and other data relating to recorded transactions and events have been recorded appropriately.</td>
</tr>
<tr>
<td>Cut-off</td>
<td>To form an opinion as to whether transactions and events have been recorded in the correct accounting period.</td>
</tr>
<tr>
<td>Classification</td>
<td>To form an opinion as to whether transactions and events have been recorded in the proper accounts.</td>
</tr>
</tbody>
</table>

**Source (ACCA, 2015)**

**Table 2. Assertions about account balances at the period end (usually balance sheet assertions):**

<table>
<thead>
<tr>
<th>Financial statement assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence</td>
<td>To form an opinion as to whether assets, liabilities, and equity interests exist.</td>
</tr>
<tr>
<td>Rights and obligations (Ownership)</td>
<td>To form an opinion as to whether the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>To form an opinion as to whether all assets, liabilities and equity interests that should have been recorded have been recorded.</td>
</tr>
<tr>
<td>Valuation and allocation</td>
<td>To form an opinion as to whether assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.</td>
</tr>
</tbody>
</table>

**Source (ACCA, 2015).**
Table 3. Assertions about presentation and disclosure (covering both the profit and loss account and balance sheet):

<table>
<thead>
<tr>
<th>Financial statement assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occurrence and rights and obligations</td>
<td>To form an opinion as to whether disclosed events, transactions, and other matters have occurred and pertain to the entity.</td>
</tr>
<tr>
<td>Completeness</td>
<td>To form an opinion as to whether all disclosures that should have been included in the financial statements have been included.</td>
</tr>
<tr>
<td>Classification and understandability</td>
<td>To form an opinion as to whether financial information is appropriately presented and described, and disclosures are clearly expressed.</td>
</tr>
<tr>
<td>Accuracy and valuation</td>
<td>To form an opinion as to whether financial and other information are disclosed fairly and at appropriate amounts.</td>
</tr>
</tbody>
</table>

Source (ACCA, 2015)

Some special Procedures performed in other to obtain sufficient and appropriate evidence

A major consideration of the auditor in terms of performing audit procedure for evidence gathering is the suitability of the procedures to meet the audit objectives. Furthermore, the auditor must make a judgment of whether or not to embark on procedures of testing either in isolation or in a combination of various procedures in other to gather the appropriate and reliable audit evidence needed for the audit activity. While some procedures may be suitable in varying one type management assertions as discussed previously, it may not be for another. Testing for other assertions may require a combination of other procedures in other to test the assertions. However, the general procedures are enumerated and discussed below:

i) **Inspection**: this is an audit procedure based on the examination of records or documents, whether internal or external, that could be held in various forms, ie paper, electronic or similar, or on the physical assessment of an asset. The inspection of records and documents provides audit evidence whose reliability depends on their nature and source. Inspecting certain documents may provide direct audit evidence of the existence of an asset, for instance a financial instrument like a share or a bond where the document itself constitutes the asset. It is important to also note that the inspection of the document may not provide evidence in respect of the assertions of ownership and valuation of the asset. Similarly the inspection of tangible assets may provide reliable audit evidence about their existence but not about the entity’s rights and obligations or the valuation of the assets. Another example may be the inspection of an executed contract that may provide evidence in respect of the entity’s application of accounting policies like revenue recognition (ACCA, 2015).

As noted by (ICAN, 2013), in some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organizations. As a report on controls at the service organization may not be available in these circumstances, visiting the service organization may be the most effective procedure for the user auditor to gain an understanding of controls at the service organization, as there is likely to be direct interaction of management of the user entity with management at the service organization (NSA, ICAN 2013).

ii) **Observation**: this is a type of audit procedure that consists of looking at a process or procedure being performed by others so that evidence about the actual performance is obtained. However observation provides evidence that is limited to the point in time when it takes place and by the fact that being observed may influence how the process or procedure is performed on such occasion. Examples of observation are the auditor’s attendance at the inventory counting by the entity’s staff and observing the performance of control activities.

iii) **External confirmation**: this procedure involves the obtaining of evidence from a third party by writing to them and obtaining their direct written response (the confirming party) in paper form,
electronic medium or other medium. External confirmations are normally used when confirming assertions relating to account balances, like payables and receivables, but should not be restricted to such items only. The auditor may ask confirmation of the terms of agreements and transactions with third parties, whether any changes to existing agreements has occurred or whether no additional conditions are attached to an agreement, perhaps in a separate document.

iv) Recalculation: this is a procedure that consists of checking the mathematical accuracy of documents or records and that can be used to verify the accuracy of the recording of transactions or of the application of accounting policies, for example by recalculating depreciation of tangible assets. It has its shortcomings too. Recalculation however does not provide evidence of the accuracy of the estimated rate of depreciation charged in relation to each class of assets (ACCA, 2015).

v) Reperformance: this procedure involves the independent execution by the auditor of procedures or controls that were originally performed as part of the entity’s internal control.

vi) Analytical procedures: according to ISA 500, this procedure is to be used at various stages of an audit engagement: at the risk-assessment stage, as substantive audit procedures to verify financial statements assertions and towards the end of the audit to corroborate whether the financial statements are consistent with the auditor’s understanding of the entity. Analytical procedures involve evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. They also include investigation of fluctuations and relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. At the assertion level, analytical procedures may be used as substantive procedures either on their own or in conjunction with tests of details.

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time and for which there is an expectation that the relationships among data exist and will continue in the absence of indications to the contrary. Sometimes a simple model may work out as effective analytical procedures. For instance if an entity has a stable number of employees at fixed rates of pay during a period, then the auditor may estimate the total payroll costs for the period with a high level of accuracy, therefore obtaining audit evidence for a significant item in the accounts and reducing the need to perform tests of details on the payroll. In other cases analytical procedures may provide less persuasive evidence, for instance when gross margin percentages are calculated and compared in order to confirm a revenue amount, that may in any case be relevant if used with other procedures. An example of effective combination of substantive analytical procedures and tests of details could be in respect of the valuation assertion for accounts receivable, where the auditor may perform analytical procedures on an aged list of debtors in addition to tests of detail on subsequent cash receipts to verify collectability of the receivables.

vii) Inquiry: this is a type of audit procedure that is used extensively during the performance of an audit in addition to other procedures. It consists of seeking both financial and non-financial information of knowledgeable persons within or outside the entity. Inquiries are important as they may provide new information to the auditor or corroborative audit evidence or, on the contrary, information that differs significantly from other information obtained by the auditor.

3. Audit Evidence Documentation

Documentation is an important aspect in the audit evidence gathering. In other words, audit procedures designed and performed by the auditor should clearly document the audit objective that they intend to achieve (in terms of assertions relating to a specific class of transactions, account balance or disclosure), the actual work performed, the results obtained, their evaluation and a conclusion as to whether the audit evidence obtained is sufficient and appropriate to verify or not the assertion and is capable of supporting the auditor’s opinion. There are various means by which audit evidence is documented. These include:

- **Free form working papers** (when documenting uncommon procedures or procedures in respect specialist items working, like defined benefit pension plans)

- **Structured working papers** (like those included in audit programmes, which also suggest audit objectives and standard procedures in respect of the most common financial statements items).
Finally, it is important that the auditor only select relevant procedures and documentation according to the risk assessment in that area of the financial statements, the materiality assessment, and the extent to which the auditor wishes to rely on directional testing. In addition, standard audit tests may need to be varied or substituted by more efficient non-standard tests that are better suited to the nature of the client and the systems employed.

4. Audit Evidence gathering and documentation chart

Audit evidence gathering and testing process (source Auditing and Assurance Handbook 2008, ASA 520 Analytical procedures)

5. CONCLUSION
As can be seen, the importance of audit evidence in preparing audit report cannot be overemphasized. The reliability, sources, testing procedures as well as documentation of the audit evidence is what leads to an acceptable audit report, and conversely where the audit evidence is marred with non-conformity to acceptable standards in terms of reliability, appropriateness and sufficiency – which are ascertained via various testing procedures that are done, the audit exercise carried out and report produced by the auditor, in that situation becomes in doubt as to whether it provides a true and fair view of what transpired in the entity within the period of audit exercise.

REFERENCES
International Standards on Auditing (ISAs), ISA 300, ISA 330, ISA 350, ISA 500.
NSA (2013, 17), Appropriate Audit Evidence and Audit Risk (Ref: Para. 7 and 18) Sufficiency and Appropriateness of Audit Evidence A28.