The Importance of Quality Evidence in Auditing

A Guide to Obtaining Sufficient and Appropriate Evidence

By Ebenezer Dadzie | Kissi Consult

The auditing profession plays a crucial role in ensuring the accuracy and reliability of financial statements. Auditors are responsible for expressing an opinion on whether financial statements present a true and fair view of an organisation's financial position and performance. To form this opinion, auditors must obtain sufficient and appropriate audit evidence. This article explores the essential steps auditors should take to gather high-quality evidence, thereby ensuring a robust and credible audit process.

THE STANDARDS FRAMEWORK: ISA 500 and ISA 200

According to the International Auditing and Assurance Standards Board (IAASB), audit evidence comprises all information used by the auditor in arriving at the conclusions on which the audit opinion is based. The International Standard on Auditing (ISA) 500, “Audit Evidence,” outlines the principles governing the nature, timing, and extent of audit evidence necessary to support an auditor’s conclusions.

ISA 500 establishes the dual requirements of sufficiency and appropriateness. Sufficiency refers to the quantity of evidence needed to support an auditor's opinion, while appropriateness refers to its quality — that is, whether the evidence is relevant and reliable in supporting the conclusions drawn. Additionally, ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing," requires auditors to plan and perform the audit with professional scepticism, and to obtain sufficient and appropriate evidence to reduce audit risk to an acceptably low level.

Professional scepticism — maintaining a questioning mind and critically assessing audit evidence — is a cornerstone of quality evidence gathering and is mandated by ISA 200.

STEP 1: Understand the Entity and Its Environment

The first step in obtaining sufficient and appropriate audit evidence is to develop a thorough understanding of the entity and its environment, including its internal controls. This is governed by ISA 315, “Identifying and Assessing the Risks of Material Misstatement.”

This involves gaining an understanding of the organisation’s business model, industry, and regulatory environment. Auditors should identify the key risks and challenges facing the organisation, including any potential risks of material misstatement — whether arising from fraud or error. A robust entity understanding allows the auditor to focus evidence-gathering efforts on the highest-risk areas, making the audit both efficient and effective.

STEP 2: Identify the Audit Objectives and Financial Statement Assertions

Once the entity is understood, auditors must identify the specific audit objectives that drive evidence requirements. Central to this exercise are the financial statement assertions — the representations that management makes, either explicitly or implicitly, in the financial statements.

ISA 315 classifies assertions into three categories:

1. **Transactions and events:** occurrence, completeness, accuracy, cutoff, and classification.
2. **Account balances:** existence, rights and obligations, completeness, and valuation and allocation.
3. **Presentation and disclosure**: occurrence, completeness, classification and understandability, and accuracy and valuation.

Auditors should map their planned procedures to these assertions, ensuring that evidence gathered is targeted and purposeful.

STEP 3: Design and Perform Audit Procedures

With audit objectives established, auditors design and perform procedures to obtain the required evidence. ISA 500 recognises seven categories of audit procedures, each suited to different circumstances:

4. **Inspection** — examining records, documents, or tangible assets.
5. **Observation** — watching a process or procedure being performed.
6. **External Confirmation** — obtaining representations directly from third parties (e.g., bank confirmations).
7. **Recalculation** — independently checking mathematical accuracy of documents or records.
8. **Reperformance** — independently re-executing procedures or controls previously performed.
9. **Analytical Procedures** — evaluating financial information through analysis of plausible relationships.
10. **Inquiry** — seeking information from knowledgeable persons, both within and outside the entity. Inquiry is the most frequently applied procedure in practice, though it should not be relied upon in isolation.

Auditors should also consider the use of technology — including data analytics and computer-assisted audit techniques (CAATs) — to enhance the efficiency and effectiveness of evidence gathering, particularly where large volumes of data are involved.



STEP 4: Evaluate the Sufficiency and Appropriateness of Evidence

As audit procedures are performed, auditors must continually evaluate whether the evidence obtained is sufficient in quantity and appropriate in quality. This involves assessing the relevance and reliability of each piece of evidence in supporting the specific assertion being tested.

Evidence obtained directly by the auditor (e.g., through observation or external confirmation) is generally more reliable than evidence obtained indirectly (e.g., from management). Documentary evidence is generally more reliable than oral evidence. Auditors should remain alert to inconsistencies or contradictions in the evidence and investigate further where these arise, applying professional scepticism throughout.

Where the evidence obtained is insufficient or where contradictions cannot be resolved, auditors may need to perform additional procedures, modify their approach, or consider the impact on the audit opinion.

STEP 5: Document the Audit Evidence

The final step is thorough documentation of all audit evidence obtained. ISA 230, “Audit Documentation,” requires auditors to maintain a clear, complete, and timely record of the audit procedures performed, the evidence obtained, and the conclusions reached. Documentation must be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the work performed and the basis for the conclusions drawn.

Proper documentation serves multiple purposes: it supports the audit opinion, enables engagement quality control review, provides evidence of compliance with professional standards, and forms the basis for future audit planning.

Conclusion

Obtaining sufficient and appropriate audit evidence is the foundation of a reliable audit opinion. By following a structured, standards-driven approach — understanding the entity, identifying audit objectives and assertions, designing and performing comprehensive procedures, evaluating evidence with professional scepticism, and maintaining rigorous documentation — auditors can ensure their conclusions are well-founded and credible.

Adherence to ISA 200, ISA 230, ISA 315, and ISA 500 underpins the integrity, transparency, and reliability of the audit process. As the profession continues to evolve, the growing use of data analytics and technology offers new opportunities to enhance evidence quality and audit efficiency. Ultimately, high-quality audit evidence strengthens stakeholder confidence in financial reporting and reinforces the public trust that the audit profession exists to uphold.

Kissi Consult's ability to form well-grounded audit opinions is built on a rigorous, evidence-based methodology 2014 combining deep professional expertise, structured audit procedures and the application of current International Standards on Auditing. For a robust audit process and a reliable opinion you can stand behind, contact Kissi Consult today.

References

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Article written by Ebenezer Dadzie, Kissi Consult.



Ebenezer Dadzie, CA

Senior Audit Associate

Kissi Consult

+233 30 277 5912
+233 24 462 4032
+233 20 201 2030
Email: info@kissiconsult.com
www.kissiconsult.com