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2025

MSIT 208 - IT Governance and
Audit Practices

Audit Evidence Process



Table of Contents

1. Overview

2. Audit evidence and procedures

3. Compliance vs Substantive Testing

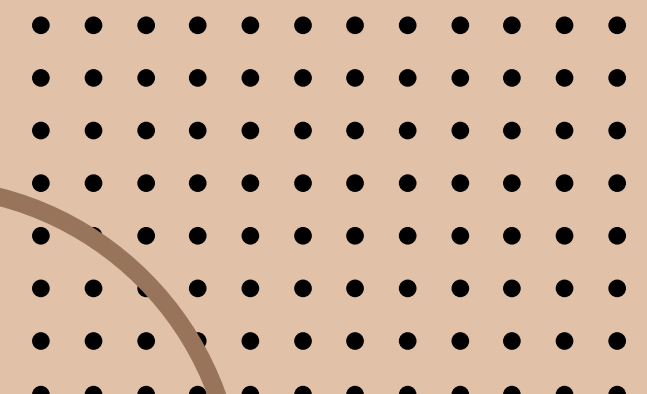
4. Sampling concepts and approaches

5. Computer assisted audit techniques (CAATS)

6. Audit reporting techniques

7. Writing the executive summary and detailed findings

8. Conclusion





Overview

Audit evidence refers to all the information used by auditors to reach conclusions on which the audit opinion is based.



International Standard on Auditing 500 (ISA 500) defines audit evidence as the information gathered by the auditor to support or refute management's assertions and to determine whether the financial statements are presented fairly.

Characteristics of Audit Evidence

According to **International Standard on Auditing 500 (ISA 500)**, audit evidence must be *sufficient* and *appropriate* to support the auditor's conclusions.





Sources of Audit Evidence

- Internal Documents
- External Confirmations
- Physical Inspection
- Analytical Procedures

Audit Evidence Procedures

are the methods auditors use to collect sufficient, relevant, and reliable information to form an opinion on financial statements

Steps in AEP:

1. Inspection
2. Observation
3. Inquiry
4. Confirmation
5. Recalculation
6. Reperformance
7. Analytical Procedures





Compliance Testing vs Substantive Testing

Auditors often use two broad types of procedures—compliance testing and substantive testing—to gather evidence.

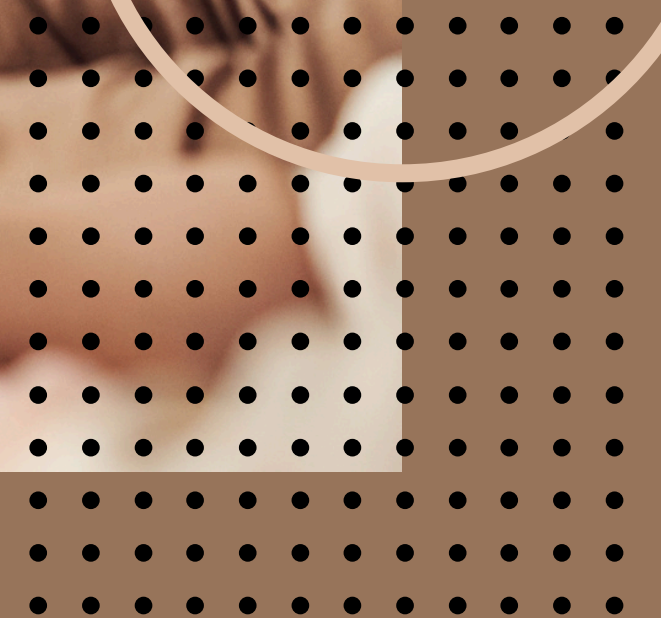


Compliance Testing

*also called **tests of controls**. It focuses on the process rather than the accuracy of individual financial amounts.*

Objective:

- To determine whether internal controls are functioning as intended
- To assess whether controls can prevent or detect errors and fraud.
- To decide the extent of substantive testing needed.



Substantive Testing

Its main focus is on detecting material misstatements rather than evaluating the internal controls themselves.



To detect errors, omissions, or fraud that could materially affect financial statements



To provide direct evidence regarding the accuracy of account balances and transactions



To corroborate the information obtained through other audit procedures.



Types of Substantive Testing

1. Substantive Analytical Procedures
2. Tests of Details



Audit Sampling Concepts and Approaches

Audit sampling is the process by which an auditor examines a portion of a population of transactions or balances instead of testing 100%.

- Governed by International Standards on Auditing (ISA) 530 – Audit Sampling.
- ISA 530 provides principles for designing, selecting, and evaluating audit samples





Sampling Concepts

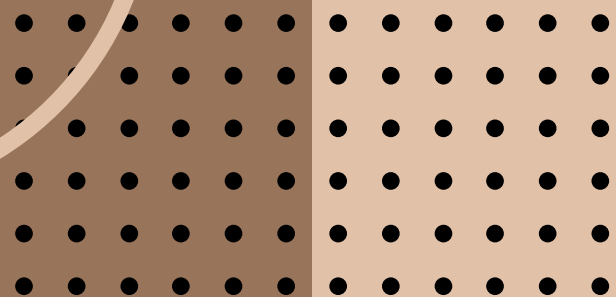
- Population
- Sample Size
- Sampling Risk
- Tolerable Error
- Expected Error

Approaches to Audit Sampling

allows auditors to test a portion of transactions or balances instead of the entire population.

Approaches

1. Statistical Sampling
2. Non-Statistical Sampling





Computer-Assisted Audit Techniques (CAATs)

are audit procedures that use technology and software tools to perform audit tasks more efficiently and effectively.



Common CAATs Applications

*used for both substantive testing
and compliance testing.*

CAATs Application:

1. Data Extraction
2. Fraud Detection
3. Duplicate Payment Analysis
4. Trend Analysis
5. Exception Reports



Benefits of Using CAATS



Analyze Large Datasets



Increase Audit Efficiency



Improve Fraud Detection

Audit Reporting Techniques

Audit reporting is the process of communicating the results of an audit, including findings, conclusions, and recommendations.



Elements of an Audit Report

1. Audit Objectives
2. Scope
3. Methodology
4. Findings
5. Recommendations





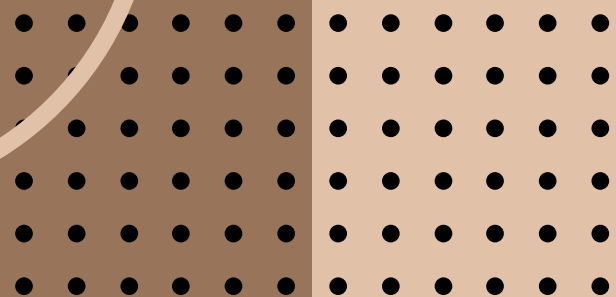
Characteristics of a Good Audit Report

- Clear
- Objective
- Evidence-Based

Writing the Executive Summary and Detailed Findings

two main sections:

1. Executive Summary
2. Detailed Findings





Conclusion

Audit evidence is crucial for forming an auditor's opinion on financial statements. Auditors gather sufficient and appropriate evidence through various procedures and testing methods to verify accuracy and detect errors. These findings are then communicated through clear audit reports to help stakeholders make informed decisions.

Thank You

Question? Let's Connect!

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