TECHNIQUES AND PROCEDURES TO OBTAIN AUDIT EVIDENCE ASSETS

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Abstract

The auditor should obtain sufficient appropriate audit evidence relevant to be able to draw reasonable conclusions on which to base the audit opinion. These are information obtained by the auditor to draw conclusions that will be based opinion audit. An important aspect that can be held in connection with the audit evidence is the procedures for obtaining them. Profile literature refers to several procedures used to gather audit evidence, which can be classified into the following two significant categories: basic procedures and analytical procedures. Also, another aspect of particular significance discussed in this article is the types of evidence presented in relation to assets. The nine main categories of evidence obtained by the auditor during his mission are captured and developed on the example of property owned by economic entities, such as: checking the documents, inspection of tangible assets, their field observations, investigation, confirmation, recalculation, re-performance, review and analytical procedures.

Key words: *techniques, procedures, testing, auditing, assets*

JELClassification: M40, M42

The auditor should obtain sufficient appropriate audit evidence relevant to be able to draw reasonable conclusions on which to base the audit opinion. These are information obtained by the auditor to draw conclusions that will be based audit opinion. Audit evidence can take the most diverse forms: verbal or written statements of the audit, written confirmation from third parties, documents on which were built financial statements, databases, personal observations of the auditor etc. The auditor should obtain sufficient appropriate audit evidence in order to check the consistency of audit information and criteria.

An important aspect that can be held in connection with the audit evidence is the procedures for obtaining them. Profile literature refers to several procedures used to gather audit evidence, which can be classified into the following two significant categories: basic procedures and analytical procedures. Before you submit to the two categories above, we consider useful definition of audit procedure, by which is meant a set of instructions presented in a detailed manner and used for the preparation of a specific type of audit evidence, in a phase thereof. The defining characteristic is the precision with which they are formulated in the instructions.

Another aspect of special significance is the types of evidence. In the decision on the procedure to be used for audit, the auditor may choose between nine main categories of evidence. In Fig. 1 below, are presented basic methods that an auditor may have about the audit procedures.

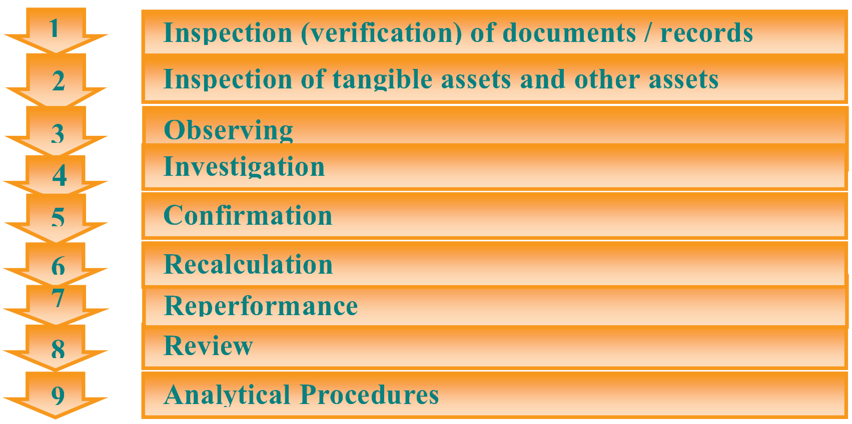

Fig. 1 Basic *Techniques audit procedures*[1]

[1]Source: W. Boyton, Johnson R., Modern Auditing, Wiley Publishing House, 2005.

1. Inspection (checking) records / documents

Inspection of records/documents is to examine the accounting records on transactions and operations and their supporting documents, aiming at the collection of audit evidence showing varying degrees of credibility, in order to justify the information that is or should be included in financial statements.

Much of the evidence obtained by the auditor are a result of this audit procedures in this regard, however, it can not disregard the reliability of these tests and their relationship with how to apply the assertions of management in the preparation of annual financial statements .

Documents reviewed by the auditor are client records used to generate the information necessary for management of its activities organized manner. Because normally, any operation of the client organization is justified by at least one document, the auditor has provided a significant amount of such evidence. Inspection of records/documents is a form of sample used very widely in any audit, because it is usually easily accessible auditor at a relatively low cost. Sometimes is the only type of evidence reasonably available to the auditor.

Documents can be usefully classified into internal and external documents.

An internal document is one that has been created and used within the customer's organization and is retained here, without ever reaching the hands of a company external parties, such as a buyer or a supplier. Examples of internal documents include: copies of invoices for purchase of property, records and minutes of fixed assets acceptance and commissioning. An external document is one that was formerly in the possession of a person outside the customer organization, that person taking part in Operation documented, but today it is the customer's possession or readily accessible. In some cases, external documents are generated outside the customer organization and ultimately reach its possession. Examples of such external documents are suppliers of property, bills, bank statements that match the operations of payment of the consideration of property and insurance policies (RCA, CASCO etc.).

The main determinant of the auditor's acceptance of a document that is characteristic of reliable evidence of internal or external document and, if the document is internally provided it was prepared and processed in an appropriate internal control. Internal documents created and processed under satisfactory internal control could be rejected as reliable evidence. Because external documents were found in possession of both the client and in that of another party to the transaction, there is some presumption that both parties agree with the information and conditions contained herein. Therefore, external documents are considered to be evidence more reliable than internal documents. Some external documents exceptional reliability because they are made with a special vigor and wereoften checked by lawyers or other qualified specialists. Examples include documents such as land ownership of property, insurance policies and contracts.

2. Inspection of tangible assets and other assets

Inspection of tangible assets and other assets is to examine (check) their physical, providing reliable audit evidence, especially in terms of their existence. Samples obtained from the application of this procedure provides less assurance, however, and can offer no assurance as to the rights and obligations of the entity in connection with such activities. This type of test is most often associated with stocks and cash and cash equivalents, but it also applies when verifying securities receivable effects and tangible.

As a direct way to check if an asset there (objective existence), is considered to be one of the most reliable and useful types of audit evidence. In general, the physical examination is an objective way to determine both the quantity and characteristics of the asset. In some cases, it is also a useful method to assess the condition or quality of the asset. However physical examination is not sufficient evidence to verify owned assets identified client (objective rights and obligations) and in many cases is not sufficiently qualified auditor to assess qualitative factors: the type of obsolescence or authenticity (objective value Net realizable).

3. Observation

Observation is the use of certain senses to assess certain activities. During the audit, there are many opportunities to appeal to sight, hearing, touch or smell to assess a wide range of items. For example, the auditor may visit a factory to make an impression of the means of production of the client, to see if the machines are rusty and whether they are obsolete, and you notice that performs accounting employees in order to determine whether a person has been assigned a specific task does his duty. Another example is the observation of inventory assets of the entity's personnel.

This observation provides audit evidence about the conduct of a trial, but the evidence was limited to the period during which this procedure was applied and that the act of observation can affect even how to carry out the process.

Observation is rarely sufficient by it because there is a risk that customer personnel involved in such activities be aware of the presence of the auditor and requires further confirmation by the auditor obtained (data/ documents from the accounting records and other information). Therefore, workers may tend to fulfill their obligations under company policy and then to resume normal activities as soon as auditor disappeared from sight. It is necessary that initial impressions are subsequently corroborated by other evidence. However, the observation is useful in most areas of the audit.

Inspection and observation are two words often can be considered interchangeable, but in terms of financial audit is necessary to distinguish between them, having the aim of inspection documents or assets, and observing referring to processes (operations).

4. Investigation

Investigation consists of gathering information (financial, non-financial) from people with experience (competence) or from inside or outside the entity, may vary from written inquiries (official) to oral inquiries (unofficial).

One way of making an investigation is questioning, namely obtaining written or oral information from the client in response to questions raised by the auditor. Despite a considerable amount of evidence can be obtained from the client through questionnaires, usually, this technique can not be considered conclusive because the information obtained not from an independent source and can be manipulated in favor of the customer. Therefore, when the auditor wishes to obtain the questionnaire samples, it is usually necessary to collect a number of additional samples by means of other methods.

Evaluating responses in the investigation process is very important both in terms of quality samples of this nature, but he did not regard the notification of certain "way" approach to audit and collect other evidence.

Typically, the investigation does not provide, as such, sufficient appropriate audit evidence and also is not sufficient to test the effectiveness of the internal control system.

5. Confirmation

Confirmation is a specific type of investigation and describes receiving a written or oral response from a third party, independent, corroborating (confirming) the information that was requested by the auditor. The request is made on behalf of the customer and the customer asks independent third party auditor to respond directly. Because confirmations from sources independent of the client, they are a very popular type of evidence and often used. However the confirmations is relatively expensive and may have some disadvantages those who are required to provide confirmation. Therefore, they are not used in any situation where there are applicable. Due to the high reliability of confirmations, auditors seek usually obtain written answers rather than oral, where this is practical. Written confirmations are easily checked by superiors and they provide a better justification if there is a need to show that you received confirmation.

Using confirmations depend on the need of reliability required by each situation, as well as alternative evidence available to the auditor traditionally audit confirmations are rarely used in acquisition of fixed assets because they can be checked very proper manner through documentation and examination Physical. Similarly, confirmations are not normally used for verification of individual operations between organizations, such as sales operations because the auditor may use various other documents for this purpose.

Confirmations are frequently used when talking about their account balances and composition and to obtain audit evidence about the existence/ non-existence of certain transactions or documents, such as, for example, the absence of a contract, which may in turn affect recognition income. Table 1 shows selected balances and information confirmed by the auditor application of this procedure.

Amounts and / or information confirmed	*Source acknowledgment (third parties)*
Cash balances (cash) and loans	**Banks**
Shares and other securities	**Operators of financial markets (capital) entities.**
Claims / Other debtors	**Individual customers and other third parties**
Inventory on consignment	**Consignees**
current Liabilities	**Individual suppliers and other creditors**
Hedging	**Insurance companies**
Search guarantees	**Lenders lenders**

Table1 *Amounts and frequently confirmed information audits*

International Standards on Auditing identifies **three common types of acknowledgments used by auditors.**

The first is a positive acknowledgment requesting information from the recipient of the letter of confirmation. A positive acknowledgment means that the addressee is required to respond to the confirmation under any circumstances. When the auditor does not receive a response to a positive acknowledgment, it is customary to send a second or even third application, and in some cases even the customer may be required to contact the third party independent and request a response to the auditor. If other efforts fail or are considered too expensive, the auditor may use different types of other samples to achieve the objective of the audit in question. These samples are called „alternative procedures ".

The second type of confirmation is confirmed positive confirmation of the information included in the application form. This confirmation is considered less reliable than the first type, if the recipient can sign a confirmation and can return without carefully analyzing the information. Research shows that the frequency of responses to the first type of confirmation is lower because the recipient is obliged to make more effort to complete the form.

The third type is a negative acknowledgment. A negative acknowledgment means that the recipient is required to respond unless the information is incorrect. Since confirmations are considered as significant evidence only when it receives a reply from them, negative confirmations are considered less sound than positive confirmations.

The reliability of the evidence obtained through confirmation confirmation form is directly influenced by previous experience with the auditee, the nature of the information confirmed and/or receiving confirmation. For example, if requested and obtained confirmation of a tenant on a class of property that was received to use, this is evidence that the entity holds assets or claims regarding the rights and obligations assertion. To be considered reliable evidence, confirmations should be checked by the auditor, not the audited entity.

6. Reperformance

Reperformance is the performance by the auditor independently, procedures or controls the entity originally performed by its system of internal control, either manually or using computer-assisted audit techniques (CAATs). As auditor check directly through this type of evidence the internal control system reliability, they are perceived as having a high degree of credibility.

7. Recalculation

Recalculation consists of checking the accuracy of (mathematical) information from documents or accounts, and can be performed by using information technology (getting files/databases, using CAAT) and involves the review of a sample of calculations and transfers of information made client during the period under audit.

Recalculation include procedures such as calculation of the entry of purchase invoices and bills of property records, calculating totals of journals and analytical records and verification of the calculation of the depreciation costs and expenses incurred in advance. Reconstitution information transfers is to retrace (recovery) during certain amounts to the conclusion that when the same information is mentioned in several places, the same amount is recorded every time.

For example, the auditor normally do a limited number of tests to be sure that the information in the log for property acquisitions were recorded in the appropriate category and the amount of suitable analytical records, and that these amounts are correctly summarized in the book great. Other specific examples of such procedures include recalculation of depreciation of fixed assets, intangible values recalculations entity used depending on the degree of wear and tear, recalculation of obligations resulting from contracts of purchase.

8. Review

Revision is the process by which analyzes and verifies the accounting data to identify situations (amounts/turnovers/balances/ transactions) important or unusual. This procedure involves the identification of irregularities (values, composition) of the account balances or other amounts in the financial statements, after analyzing transactions records (logs) accounting adjustments, reconciliations and other documents and detailed reporting. Review (review) includes identifying the major operations (unusual) from the accounting records and verification / analysis of data (records) on certain categories of expenditure (special, unusual) and/or adjustments/reversal performed. Review (checking) can be used in conjunction with analytical procedures and as a stand-alone procedure, can be performed manually or by using computer-assisted audit techniques (CAAT).

9. Analytical procedures

Analytical procedures are also important and effective samples collected throughout the audit engagement, including when setting the terms of the engagement and planning process, consisting of evaluations of information in the financial statements, based on the analysis of indicators (trends, comparisons) and some correlation between this information and/or between these and other data/information kind.

In other news, analytical procedures involve analysis (investigation) fluctuations and/or relations/correlations identified that are not consistent (correlated) with other relevant information or deviate significantly from reasonable values (forecast) .

The analytical procedures used for comparisons and indicators in order to determine whether account balances or other data are reasonable. An example is comparing the annual average assets for the current year with the previous year or comparing the input of fixed assets to the actual scheduled. For specific audit objectives or insignificant accounts balances, analytical procedures may be the only evidence required. In some cases, analytical procedures are used in order to emphasize certain accounts or transactions that should be investigated in more detail in order to decide if further verification is needed. An example is comparing total expenditure on repairs during the current year with the previous year and analyzing the difference, if it is material, in order to determine the cause of the increase or decrease spending that post.

Level of Assurance (safety) offered evidence collected by analytical procedures is determined, among other things:

- extent available and provides security information and data used;
- plausibility and predictability of (co) tested relations;
- accuracy (reasonableness) and rigor of analysis and investigations.

In conclusion, we note that the auditor obtains audit evidence in order to substantiate reasonable conclusions from this view, applying for this purpose various audit procedures by which:

- to obtain an understanding of the entity's business and the environment in which it and it carries, including its internal control, so that it may assess the risks of material misstatement, evaluating and testing assertions in this regard (accounting rules) applied by management in preparing the financial;
- test, when necessary and/or decided to do so, the effectiveness of the internal control system to prevent/detect/correct material misstatements at the assertion level applied by management;
- to detect material misstatements at the assertion level applied by management.

During a mission, the auditor's judgment is a very important element, which should also have the ability to properly assess both the quantity and quality of audit evidence supporting its view. The auditor should have thorough knowledge about the nature of audit evidence, the type and quantity, so be sufficient to document and support the opinion on the audited financial statements. In evaluating the evidence collected, the auditor's judgment must remain objective and not be influenced by other factors (sympathy/antipathy to people surveyed), complying with the requirements of the Code of Ethics. When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding the measurement and disclosure.

Audit procedures regarding long-term investments include at least:

- Consideration of evidence on the entity's ability to continue to maintain long-term investments,
- Discuss issues concerning the preservation and further development of management entities,
- Obtaining a written statement about their effect.

Other procedures include, typically, considering related financial statements (issued by the entity to which the holdings) and other information, such as market quotations, which gives an indication of value and comparing these values with the carrying amount of investments until the auditor's report.

If these values do not exceed the carrying amounts, the auditor should consider whether it is necessary to reduce their carrying amount. If it is not certain that the carrying amount will be recovered, the auditor should consider whether adjustments were made and/or appropriate disclosures.

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