What is Audit Evidence and Sufficiency Assessment?

Worksheet

Audit evidence sufficiency assessment is the process of evaluating whether the quantity (sufficiency) and quality - relevance and reliability (appropriateness) - of evidence gathered is enough to reduce audit risk to an acceptably low level.

Questions

1. What does 'sufficiency' of audit evidence refer to?
A) The reliability of the evidence
B) The quantity of evidence gathered
C) The client's cooperation level
D) The auditor's professional certification

2. AR target = 0.05, IR = 1.0, CR = 1.0 (no reliance on controls). What is the required detection risk?
A) 0.05
B) 0.5
C) 1.0
D) 0.005

3. Which type of evidence is generally considered most reliable?
A) Verbal representations from management
B) Client-prepared internal memos
C) External confirmations obtained directly by the auditor
D) Photocopies of client invoices

4. As assessed risk of material misstatement increases, what generally happens to the evidence needed?
A) Less evidence is needed
B) More, and more reliable, evidence is needed
C) Evidence requirements stay the same
D) Only the timing of evidence changes, not the amount

5. The auditor wants overall audit risk of 5%. Inherent risk is assessed at 80% and control risk at 50%. What detection risk is required?

6. For a high-risk revenue account (IR = 90%, CR = 70%), the auditor still wants 5% audit risk. What detection risk is needed, and what does it imply for evidence?

7. An auditor receives a bank confirmation directly from the bank versus a copy of a bank statement printed by the client. Which is more appropriate evidence, and why?

8. Define: What is audit evidence?

9. Define: What does sufficiency of evidence measure?

10. Define: What does appropriateness of evidence measure?

Answer Key

1. B) The quantity of evidence gathered - Sufficiency is about quantity; appropriateness is about quality (relevance and reliability).

2. A) 0.05 - DR = 0.05 / (1.0 1.0) = 0.05.

3. C) External confirmations obtained directly by the auditor - Evidence obtained directly by the auditor from an independent external source is the most reliable.

4. B) More, and more reliable, evidence is needed - Higher risk requires lower detection risk, which is achieved through more and higher-quality evidence.

5. DR = AR / (IR CR) DR = 0.05 / (0.80 0.50) = 0.05 / 0.40 = 0.125 (12.5%)

6. DR = 0.05 / (0.90 0.70) = 0.05 / 0.63 0.079 (7.9%) A lower detection risk than a low-risk account means more, and more reliable, evidence is required

7. The direct bank confirmation is obtained by the auditor from an independent external source The client-printed statement passed through client hands, so it is less reliable the confirmation is more appropriate

8. All information used by the auditor to arrive at the conclusions on which the audit opinion is based.

9. The quantity of evidence - how much is needed, which increases as assessed risk increases.

10. The quality of evidence - its relevance to the assertion and its reliability.