

KCO BLOGS 2020

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EIGHT THINGS TO KNOW ABOUT THE AUDIT EVIDENCE STANDARD

As we were finalizing Statement on Auditing Standards No. 142, COVID-19 arrived and caused major disruptions to the country's economy, including changing the ways auditors were working. Automated tools and techniques — like conducting remote observation using cameras or drones — became necessary to perform certain audit procedures, such as observing the physical count of inventory. These and other automated tools and techniques are referenced in the guidance accompanying the audit evidence standard that was issued last five months. After practitioners' experiences over the past several months, these techniques likely will feel more familiar today than they did several months ago.

Before you dive in to read the standard, we'd like to highlight some key changes; the standard:

1. IS PRINCIPLES BASED.

You won't find a step-by-step procedure manual or a formula in SAS No. 142. What you will find are requirements and guidance that set up a conceptual framework on what to consider when evaluating audit evidence. This is not a "check the box" performance standard.

2. RECONSIDERS BROAD GENERALIZATIONS THAT WERE ONCE RELIED UPON.

Given the evolving nature of today's business environment, information that can be used as audit evidence should be viewed through a different lens than the one used for the audit evidence standard issued a decade ago. Rules of thumb from the days of the old standard aren't necessarily true today. For instance, auditors shouldn't assume that information obtained from an external source is necessarily better quality than information from an internal source. Given the substantial increase in sources of information available to auditors today, it's more important than ever to consider the reliability of information to be used as audit evidence regardless of its source.

3. FOCUSES ON A FRAMEWORK TO EVALUATE AUDIT EVIDENCE.

When evaluating audit evidence and assessing whether it's sufficient and appropriate for the auditor's purposes, it's important to consider attributes of quality information such as accuracy, completeness, authenticity and whether it's susceptible to management bias.

4. IMPROVES AUDIT QUALITY BY EMPHASIZING JUDGEMENT.

Audit standards require auditors to think critically and maintain professional skepticism. In evaluating audit evidence, this includes considering biases (such as availability bias, confirmation bias, anchoring bias and others), and exploring whether the audit evidence obtained corroborates or contradicts management's assertions.

5. HELPS AUDITORS WORK REMOTELY.

By referencing examples of different types of automated tools and techniques that may be used in performing audit procedures, the standard highlights innovative ways of gathering audit evidence, regardless of the location of the auditor.

6. ENCOURAGES AUDITORS TO BROADEN THEIR VIEW OF EVIDENCE.

New automated tools and techniques provide auditors with access to greater amounts of information. Instead of relying on traditional techniques like audit sampling, practitioners may use technologies like audit data analytics to examine greater amounts of information and in some cases entire populations of transactions. This may include performing audit data analytics that may simultaneously accomplish the objectives of a risk assessment and substantive audit procedures. This leads to enhanced audit quality.

7. IT'S FORWARD LOOKING.

The standard is intended to be reflective of today's business and auditing environment. The guidance is intended to be "future proof," since it's written in such a manner that it can be applied today and in the future.

8. It's effective for audits of financial statements for periods ending on or after December 15, 2022. Early implementation is also permitted

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October 26, 2020

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