

Chapter 08

1. The audit evidence gathering technique known as computation or recalculation refers to _____.
 - A. sending letters to independent third parties
 - B. counting inventory
 - C. recalculating depreciation
 - D. checking prices as per the price list
2. To provide efficient, reliable evidence, confirmations should be _____.
 - A. created by the client and sent to third parties to be returned to the client
 - B. created by the auditor and sent to third parties to be returned to the client
 - C. created by the auditor and sent to third parties to be returned to the auditor
 - D. created by the client and sent to third parties to be returned to the auditor
3. One example of a formal authoritative document is a _____.
 - A. purchase order
 - B. bank statement
 - C. vendor invoice
 - D. loan application
4. Analysis is most useful in providing evidence of _____.
 - A. existence, completeness, and ownership
 - B. existence, ownership, and valuation
 - C. completeness, ownership, and presentation
 - D. completeness, valuation, and presentation
5. In considering the effectiveness of evidence gathering procedures, it was found that most companies have adjustments. Research also shows that _____.
 - A. both receivables and payables are usually overstated
 - B. receivables are usually overstated and payables are usually understated
 - C. receivables are usually understated and payables are usually overstated
 - D. both receivables and payables are usually understated
6. In preparing for a repeat engagement, the first thing an audit team should do is _____.
 - A. interview client management for any changes in the business and industry
 - B. take a tour of a client's physical facilities, noting obvious inventory obsolescence or equipment maintenance issues
 - C. obtain a copy of the year-end financial statements for the current year
 - D. review prior-year working papers and permanent file documents
7. Which of the following is true about specialists?
 - A. They are persons skilled in accounting and auditing.
 - B. They are not members of the audit team.
 - C. They have to be unrelated to the company or organization under audit.
 - D. They are relied on to verify all significant information on which they base their conclusions.
8. What is the strongest form of audit evidence?
 - A. The auditor's direct personal knowledge.
 - B. Evidence gathered directly from independent third parties.
 - C. Evidence produced by independent third parties.
 - D. Comprehensive analysis performed by the auditor.
9. An auditor selects audit procedures that will provide _____.
 - A. the most evidence
 - B. the most persuasive evidence
 - C. the most reliable evidence that can be obtained in a cost-effective manner
 - D. the most relevant information to the audit assertion

10. The overall audit strategy is documented in the _____.
 - A. engagement letter
 - B. management letter
 - C. audit program
 - D. planning memorandum
11. The audit program prepared by the independent auditors prior to the start of fieldwork is considered appropriate documentation of _____.
 - A. planning
 - B. supervision
 - C. information evaluation
 - D. quality assurance
12. Where would a copy of an auditee's long-term lease for a building most likely be kept?
 - A. In the planning file.
 - B. In the permanent file.
 - C. In the administration file.
 - D. In the audit evidence file.
13. Working papers should be clear, concise, and complete. They communicate _____.
 - A. the degree of planning in the audit
 - B. the amount of work performed by the auditor
 - C. the amount of time spent by the auditor
 - D. the quality of the audit
14. For good form, each audit evidence paper should be indexed using a standard system of letters and numbers. The main purpose of this practice is to allow _____.
 - A. other papers to be easily cross-referenced so that connections among accounts can be followed
 - B. a check of the completeness of working papers
 - C. working papers to be easily re-filed if they are taken out of the file or when the paper is first created
 - D. auditors to prove that they have performed sufficient work to support their audit opinion
15. A combination of evidence gathering techniques provides more persuasive than evidence gathered from a single technique.
True False
16. Reading the terms of lease agreement for lessee is an example of analysis.
True False
17. An auditor should re-perform calculations on a random basis to check for accuracy. Usually, if one component has been calculated properly, the auditor can rely that the other components have also been computed properly.
True False
18. Oral evidence from inquiry is considered to be very important.
True False
19. Loan application documents are considered authoritative evidence.
True False
20. Substantive procedures give direct evidence about the financial amounts reported in the financial statements.
True False
21. For new clients, the auditor can obtain knowledge about the client's business and its industry from the permanent file.
True False
22. A first audit requires more work than a repeat engagement.
True False

23. Evidence that does not relate to one of the management assertions can still be relevant to the auditor.
True False
24. Spoken and written representations given by the auditee's officers, directors, owners, and employees are generally considered reliable enough to stand on their own.
True False
25. There are two kinds of audit programs: (1) balance-audit programs and (2) cycle-audit programs.
True False
26. The auditor is the legal owner of the working papers related to an auditee's financial statements.
True False
27. Destroying working papers may prevent auditors from proving due care if they are sued for negligence.
True False
28. Permanent audit files contain such documents as the engagement letter, client organization chart, and internal control system flowcharts.
True False
29. The audit technique of inquiry has advantages and disadvantages. Discuss some of them.
30. Define and discuss the evidence gathering technique of inspection.
31. Analytical procedures are one type of evidence-gathering procedure. According to auditing standards, there are five general forms of analytical procedures. Auditing standards also provide examples of five sources of information for analytical procedures.

Required:

- A. Describe three of the five general forms of analytical procedures.
B. For each form, describe a typical source of the information for the form.
C. For each source, include any questions or concerns an auditor would have about the reliability or relevancy of the source.

Chapter 08 Key

1. The audit evidence gathering technique known as computation or recalculation refers to _____.
- A. sending letters to independent third parties
 - B. counting inventory
 - C.** recalculating depreciation
 - D. checking prices as per the price list

Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Easy

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #1

Topic: 08-01 Evidence-Gathering Audit Procedures
Topic: 08-04 Recalculation/Reperformance

2. To provide efficient, reliable evidence, confirmations should be _____.
- A. created by the client and sent to third parties to be returned to the client
 - B. created by the auditor and sent to third parties to be returned to the client
 - C.** created by the auditor and sent to third parties to be returned to the auditor
 - D. created by the client and sent to third parties to be returned to the auditor

Accessibility: Keyboard Navigation
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #2

Topic: 08-01 Evidence-Gathering Audit Procedures
Topic: 08-03 External Confirmation

3. One example of a formal authoritative document is a _____.
- A. purchase order
 - B.** bank statement
 - C. vendor invoice
 - D. loan application

Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Easy

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #3

Topic: 08-01 Evidence-Gathering Audit Procedures

4. Analysis is most useful in providing evidence of _____.
- A. existence, completeness, and ownership
 - B. existence, ownership, and valuation
 - C. completeness, ownership, and presentation
 - D.** completeness, valuation, and presentation

Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Easy

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #4

Topic: 08-01 Evidence-Gathering Audit Procedures

5. In considering the effectiveness of evidence gathering procedures, it was found that most companies have adjustments. Research also shows that _____.
- A. both receivables and payables are usually overstated
 - B.** receivables are usually overstated and payables are usually understated
 - C. receivables are usually understated and payables are usually overstated
 - D. both receivables and payables are usually understated

Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Easy

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #5

Topic: 08-01 Evidence-Gathering Audit Procedures

6. In preparing for a repeat engagement, the first thing an audit team should do is _____.
- A. interview client management for any changes in the business and industry
 - B. take a tour of a client's physical facilities, noting obvious inventory obsolescence or equipment maintenance issues
 - C. obtain a copy of the year-end financial statements for the current year
 - D. review prior-year working papers and permanent file documents**

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Difficult

Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditee's business and industry; assessing risk; and responding to assessed risk.

Smieliauskas - Chapter 08 #6

Topic: 08-08 Business Information Sources and Methods

7. Which of the following is true about specialists?
- A. They are persons skilled in accounting and auditing.
 - B. They are not members of the audit team.**
 - C. They have to be unrelated to the company or organization under audit.
 - D. They are relied on to verify all significant information on which they base their conclusions.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Difficult

Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditee's business and industry; assessing risk; and responding to assessed risk.

Smieliauskas - Chapter 08 #7

Topic: 08-08 Business Information Sources and Methods

8. What is the strongest form of audit evidence?
- A. The auditor's direct personal knowledge.**
 - B. Evidence gathered directly from independent third parties.
 - C. Evidence produced by independent third parties.
 - D. Comprehensive analysis performed by the auditor.

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-03 Explain audit evidence in terms of its appropriateness and relative strength of persuasiveness.

Smieliauskas - Chapter 08 #8

Topic: 08-09 Sufficient Appropriate Evidence In Auditing

Topic: 08-10 Appropriateness of Evidence

Topic: 08-11 Sufficiency of Evidence

9. An auditor selects audit procedures that will provide _____.
- A. the most evidence
 - B. the most persuasive evidence
 - C. the most reliable evidence that can be obtained in a cost-effective manner**
 - D. the most relevant information to the audit assertion

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-03 Explain audit evidence in terms of its appropriateness and relative strength of persuasiveness.

Smieliauskas - Chapter 08 #9

Topic: 08-09 Sufficient Appropriate Evidence In Auditing

Topic: 08-10 Appropriateness of Evidence

Topic: 08-11 Sufficiency of Evidence

10. The overall audit strategy is documented in the _____.
- A. engagement letter
 - B. management letter
 - C. audit program
 - D. planning memorandum**

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-04 Describe the content and purpose of the audit plan as well as the specific audit programs and detailed procedures it contains.

Smieliauskas - Chapter 08 #10

Topic: 08-12 Audit Plan and Detailed Programs

Topic: 08-13 The Planning Documentation

11. The audit program prepared by the independent auditors prior to the start of fieldwork is considered appropriate documentation of _____.
- A.** planning
 - B. supervision
 - C. information evaluation
 - D. quality assurance

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Difficulty: Moderate*

*Learning Objective: 08-04 Describe the content and purpose of the audit plan as well as the specific audit programs and detailed procedures it contains.
Smieliauskas - Chapter 08 #11
Topic: 08-12 Audit Plan and Detailed Programs
Topic: 08-13 The Planning Documentation*

12. Where would a copy of an auditee's long-term lease for a building most likely be kept?
- A. In the planning file.
 - B.** In the permanent file.
 - C. In the administration file.
 - D. In the audit evidence file.

*Accessibility: Keyboard Navigation
Blooms: Comprehension
Difficulty: Moderate*

*Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.
Smieliauskas - Chapter 08 #12
Topic: 08-14 Audit Documentation
Topic: 08-15 Permanent File
Topic: 08-16 Audit Administrative File
Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing*

13. Working papers should be clear, concise, and complete. They communicate _____.
- A. the degree of planning in the audit
 - B. the amount of work performed by the auditor
 - C. the amount of time spent by the auditor
 - D.** the quality of the audit

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Moderate*

*Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.
Smieliauskas - Chapter 08 #13
Topic: 08-14 Audit Documentation
Topic: 08-15 Permanent File
Topic: 08-16 Audit Administrative File
Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing*

14. For good form, each audit evidence paper should be indexed using a standard system of letters and numbers. The main purpose of this practice is to allow _____.
- A.** other papers to be easily cross-referenced so that connections among accounts can be followed
 - B. a check of the completeness of working papers
 - C. working papers to be easily re-filed if they are taken out of the file or when the paper is first created
 - D. auditors to prove that they have performed sufficient work to support their audit opinion

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Easy*

*Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.
Smieliauskas - Chapter 08 #14
Topic: 08-14 Audit Documentation
Topic: 08-15 Permanent File
Topic: 08-16 Audit Administrative File
Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing*

15. A combination of evidence gathering techniques provides more persuasive than evidence gathered from a single technique.
- TRUE**

*Accessibility: Keyboard Navigation
Blooms: Knowledge
Difficulty: Moderate*

*Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.
Smieliauskas - Chapter 08 #15
Topic: 08-01 Evidence-Gathering Audit Procedures*

16. Reading the terms of lease agreement for lessee is an example of analysis.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Moderate

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #16

Topic: 08-01 Evidence-Gathering Audit Procedures

17. An auditor should re-perform calculations on a random basis to check for accuracy. Usually, if one component has been calculated properly, the auditor can rely that the other components have also been computed properly.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Moderate

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #17

Topic: 08-01 Evidence-Gathering Audit Procedures

Topic: 08-04 Recalculation/Reperformance

18. Oral evidence from inquiry is considered to be very important.

TRUE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Moderate

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #18

Topic: 08-01 Evidence-Gathering Audit Procedures

Topic: 08-09 Sufficient Appropriate Evidence In Auditing

19. Loan application documents are considered authoritative evidence.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Moderate

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #19

Topic: 08-01 Evidence-Gathering Audit Procedures

20. Substantive procedures give direct evidence about the financial amounts reported in the financial statements.

TRUE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Moderate

Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditees business and industry; assessing risk; and responding to assessed risk.

Smieliauskas - Chapter 08 #20

Topic: 08-08 Business Information Sources and Methods

21. For new clients, the auditor can obtain knowledge about the client's business and its industry from the permanent file.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditees business and industry; assessing risk; and responding to assessed risk.

Smieliauskas - Chapter 08 #21

Topic: 08-08 Business Information Sources and Methods

22. A first audit requires more work than a repeat engagement.

TRUE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditees business and industry; assessing risk; and responding to assessed risk.

Smieliauskas - Chapter 08 #22

Topic: 08-08 Business Information Sources and Methods

23. Evidence that does not relate to one of the management assertions can still be relevant to the auditor.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 08-03 Explain audit evidence in terms of its appropriateness and relative strength of persuasiveness.

Smieliauskas - Chapter 08 #23

Topic: 08-09 Sufficient Appropriate Evidence In Auditing

Topic: 08-10 Appropriateness of Evidence

Topic: 08-11 Sufficiency of Evidence

24. Spoken and written representations given by the auditee's officers, directors, owners, and employees are generally considered reliable enough to stand on their own.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-03 Explain audit evidence in terms of its appropriateness and relative strength of persuasiveness.

Smieliauskas - Chapter 08 #24

Topic: 08-09 Sufficient Appropriate Evidence In Auditing

Topic: 08-10 Appropriateness of Evidence

Topic: 08-11 Sufficiency of Evidence

25. There are two kinds of audit programs: (1) balance-audit programs and (2) cycle-audit programs.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-04 Describe the content and purpose of the audit plan as well as the specific audit programs and detailed procedures it contains.

Smieliauskas - Chapter 08 #25

Topic: 08-12 Audit Plan and Detailed Programs

Topic: 08-13 The Planning Documentation

26. The auditor is the legal owner of the working papers related to an auditee's financial statements.

TRUE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.

Smieliauskas - Chapter 08 #26

Topic: 08-14 Audit Documentation

Topic: 08-15 Permanent File

Topic: 08-16 Audit Administrative File

Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing

27. Destroying working papers may prevent auditors from proving due care if they are sued for negligence.

FALSE

Accessibility: Keyboard Navigation

Blooms: Comprehension

Difficulty: Moderate

Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.

Smieliauskas - Chapter 08 #27

Topic: 08-14 Audit Documentation

Topic: 08-15 Permanent File

Topic: 08-16 Audit Administrative File

Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing

28. Permanent audit files contain such documents as the engagement letter, client organization chart, and internal control system flowcharts.

FALSE

Accessibility: Keyboard Navigation

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.

Smieliauskas - Chapter 08 #28

Topic: 08-14 Audit Documentation

Topic: 08-15 Permanent File

Topic: 08-16 Audit Administrative File

Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing

29. The audit technique of inquiry has advantages and disadvantages. Discuss some of them.

The two types of audit programs are the internal control program and the balance-audit program. The internal control program specifies the procedures to follow in obtaining an understanding of the client's internal control system and assessing both inherent risk and control risk. The balance-audit program specifies the substantive procedures to follow in gathering direct evidence on the assertions about dollar amounts in the account balances.

Advantages: Inquiries, interviews, and other oral evidence are significant because management's explanations are an important part of obtaining an understanding of the business and the nature of specific transactions.

Inquiry is especially useful in determining management's strategic plan such as its intentions to invest in new products, divest old product lines or expand into new markets.

Informal discussion with client personnel may reveal a great deal of information which more formal procedures may not uncover.

It is a relatively inexpensive means of gathering audit evidence.

Disadvantages: Inquiry can only produce spoken representations, which are the least reliable form of evidence.

The auditor may misunderstand statements made during a discussion or fail to properly document the discussion, or the interviewee may later deny statements made during the discussion.

Evidence gathered by formal and informal enquiry of auditee personnel generally cannot stand alone and must be corroborated by the findings of other procedures.

Blooms: Comprehension

Difficulty: Difficult

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #29

Topic: 08-01 Evidence-Gathering Audit Procedures

Topic: 08-06 Inquiry

30. Define and discuss the evidence gathering technique of inspection.

i. Inspection consists of looking at assets with physical substance or at records and documents.

ii. Physically inspecting tangible assets provides reliable evidence of existence and may give some evidence of condition, and hence valuation, but it does not provide sufficient evidence of ownership.

iii. Inspection of documents involves varying degrees of thoroughness: examining, perusing, reading, reviewing, scanning, scrutinizing, and vouching.

iv. Inspecting formal documents with intrinsic value, such as securities certificates, also provides reliable evidence about existence.

v. Records and documents that don't have an intrinsic market value, such as invoices or purchase orders, have varying degrees of reliability for different assertions, depending on their source.

vi. Much auditing work involves examining authoritative documents prepared by independent parties and by the auditee.

Blooms: Comprehension

Difficulty: Difficult

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #30

Topic: 08-01 Evidence-Gathering Audit Procedures

31. Analytical procedures are one type of evidence-gathering procedure. According to auditing standards, there are five general forms of analytical procedures. Auditing standards also provide examples of five sources of information for analytical procedures.

Required:

- A. Describe three of the five general forms of analytical procedures.
- B. For each form, describe a typical source of the information for the form.
- C. For each source, include any questions or concerns an auditor would have about the reliability or relevancy of the source.

A) The five general forms of analytical procedures are:

- i. Comparison of current-year account balances to one or more prior periods.
- ii. Comparison of the current-year account balances to budgets and forecasts prepared by the company.
- iii. Evaluation of the relationships of current-year account balances to other current-year balances to determine if they conform to expectations based on the company's historical experience.
- iv. Comparison of current-year account balances and financial ratios with similar information for the industry in which the company operates.
- v. Study of the relationships of current-year account balances with relevant nonfinancial information (e.g., physical production statistics).

B) The five sources of information for analytical procedures are:

- i. Financial account information for prior period(s).
- ii. Company budgets and forecasts.
- iii. Financial relationships among accounts in the current period.
- iv. Industry statistics.
- v. Nonfinancial information, such as physical production statistics.

C) Concerns about relevance and reliability of the sources of information are:

- i. Has the financial information from prior period(s) been audited?
- ii. Are company budgets or forecasts generally accurate?
- iii. What processes does the client go through to develop these?
- iv. Are the industry statistics from a reliable source? Are the industry statistics specific enough to the client or the particular segment or division of the client being examined?
- v. Has the nonfinancial information been audited? Have the controls over the production of the nonfinancial information been tested?

Blooms: Comprehension

Difficulty: Moderate

Learning Objective: 08-01 Outline six general audit techniques for gathering evidence.

Smieliauskas - Chapter 08 #31

Topic: 08-01 Evidence-Gathering Audit Procedures

Topic: 08-05 Analysis

32. A first-time audit requires more work than a continuing client. Identify some of the issues involved in the first audit of a company that do not occur in an ongoing engagement.

If an organization has been operating for a while but has never been audited, an auditor must include an audit of the beginning balances on the balance sheet in addition to the closing balances. In the case of accounts receivable, opening balances can be verified by reviewing cash receipts during the year. Fixed assets can be audited by examining the original purchase and ownership documents. Often, opening inventory is too time-consuming to audit which may result in a qualified opinion. In addition, for any new audit, a review of several years' industry trends is necessary. Systems notes must be created to document internal control systems. Documents such as lease contracts, share registers, and borrowing arrangements must be accumulated for the permanent file. In an ongoing audit, these matters only need to be updated for any changes during the year.

*Blooms: Comprehension
Difficulty: Moderate*

*Learning Objective: 08-02 Identify the procedures and sources of information auditors can use to obtain evidence for understanding an auditee's business and industry; assessing risk; and responding to assessed risk.
Smieliauskas - Chapter 08 #32
Topic: 08-08 Business Information Sources and Methods*

33. Contrast the qualitative aspects of evidence in terms of reliability.

- i. An auditor's direct, personal knowledge is considered the most reliable form of evidence.
- ii. Documentary evidence obtained from independent third parties is usually considered to be very reliable.
- iii. Documentary evidence that has originated outside of a client but has been received and processed by the client is considered to still be reliable but less reliable than evidence directly received from a third party.
- iv. Documentary evidence produced within a client's system is considered to be low in reliability. However, because it is easy to obtain, the quantity of evidence available can make up for the lack of reliability when the documents are prepared under satisfactory internal controls.
- v. Spoken or written representations given by client management are considered very weak evidence. It should be corroborated with other types of evidence.

*Blooms: Knowledge
Difficulty: Difficult*

*Learning Objective: 08-03 Explain audit evidence in terms of its appropriateness and relative strength of persuasiveness.
Smieliauskas - Chapter 08 #33
Topic: 08-09 Sufficient Appropriate Evidence In Auditing
Topic: 08-10 Appropriateness of Evidence
Topic: 08-11 Sufficiency of Evidence*

34. Identify the three main types of audit programs and indicate the purpose of each.

The three types of audit programs are the risk assessment program, the internal control program and the balance audit program. The risk assessment program lists the specific procedures for gaining understanding of the auditee's business transaction processing system and controls, as well as for assessing the inherent risks and control risks. The internal control program specifies the procedures to follow in obtaining an understanding of the client's internal control system and assessing both inherent risk and control risk. The balance audit program specifies the substantive procedures to follow in gathering direct evidence on the assertions about dollar amounts in the account balances.

*Blooms: Knowledge
Difficulty: Easy*

*Learning Objective: 08-04 Describe the content and purpose of the audit plan as well as the specific audit programs and detailed procedures it contains.
Smieliauskas - Chapter 08 #34
Topic: 08-12 Audit Plan and Detailed Programs
Topic: 08-13 The Planning Documentation*

35. Since audit papers are the property of the auditor, what was fundamentally wrong about Arthur Andersen's decision to shred working papers related to the Enron audit.

Andersen's reputation declined in January 2002, when it announced publicly that it had shredded documents related to Enron's audit. This was after rumours began to circulate that Andersen should not have given a clean audit opinion on Enron's financial statements. Not only did shredding working papers give the appearance of guilt, since lawsuits had already been launched, Andersen may have in fact been guilty of obstructing justice.

Perhaps more damaging, following the announcement that it shredded Enron audit documents, the share prices of Andersen's other clients experienced a significant drop. This indicated that investors downgraded the quality of the other audits performed by Andersen. These findings show the importance of the auditor's reputation to investors. If investors believe the audit is of low quality, they have less assurance that the company's financial statements reflect its real business performance and financial position. They assess a higher likelihood that its income and net book value are overstated and that the auditor has failed to report this. In reaction, Andersen's other clients dismissed Andersen as their auditors and Andersen was no longer able to stay in business.

Blooms: Comprehension

Difficulty: Moderate

Learning Objective: 08-05 Evaluate audit working paper documentation for proper form and content.

Smieliauskas - Chapter 08 #35

Topic: 08-14 Audit Documentation

Topic: 08-15 Permanent File

Topic: 08-16 Audit Administrative File

Topic: 08-17 Audit Evidence Files—Current File Organization and Indexing

Chapter 08 Summary

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Difficulty: Easy	17
Difficulty: Moderate	13
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