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Audit Evidence Concept, Classification and Collection Techniques in China and the US

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Abstract- The audit process is the process of continuously collecting audit evidence. Audit evidence is processed when auditors are doing financial audits. Generally speaking, audit evidence shall be both reliable and relevant. Auditors exam evidence available from various sources to decrease the probability of material misstatement and audit failure (Bell, Peecher, and Solomon, 2005). This paper elaborates on the definition of audit evidence, classification of audit evidence, and techniques of collecting audit evidence in China and the United States. On this basis, the paper then compares the differences between the definition, classification and, collection of audit evidence in China and the United States. We used the method of comparison and analysis. In general, China and the US have the same concepts in audit evidence. They both defined the sufficiency and appropriateness of audit evidence to draw an audit opinion (Audit Evidence: Meaning, Definition, and Importance). China and the US have a different emphasis on audit evidence classification. China and the US have most audit evidence collection techniques in the same. China more emphasize the collection technique of supervision besides observation (The Central People's Government of the People's Republic of China, 2004), while the US listed reperformance as one of its most significant collection techniques (Audit evidence: Definition, Type, Procedures, and Quality). China and the US have the same expressions, both of which are "adequate and appropriate" and state that auditors must obtain sufficient evidence.

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Abstract- The audit process is the process of continuously collecting audit evidence. Audit evidence is processed when auditors are doing financial audits. Generally speaking, audit evidence shall be both reliable and relevant. Auditors examine evidence available from various sources to decrease the probability of material misstatement and audit failure (Bell, Peecher, and Solomon, 2005). This paper elaborates on the definition of audit evidence, classification of audit evidence, and techniques of collecting audit evidence in China and the United States. On this basis, the paper then compares the differences between the definition, classification and collection of audit evidence in China and the United States. We used the method of comparison and analysis. In general, China and the US have the same concepts in audit evidence. They both defined the sufficiency and appropriateness of audit evidence to draw an audit opinion (Audit Evidence: Meaning, Definition, and Importance). China and the US have a different emphasis on audit evidence classification. China and the US have most audit evidence collection techniques in the same. China more emphasize the collection technique of supervision besides observation (The Central People's Government of the People's Republic of China, 2004), while the US listed reperformance as one of its most significant collection techniques (Audit evidence: Definition, Type, Procedures, and Quality). China and the US have the same expressions, both of which are "adequate and appropriate" and state that auditors must obtain sufficient evidence. The presentation of audit reports and opinions needs to rely on audit evidence. In the process of audit, the evidence is continuously collected and identified to improve the quality of the audit, to provide efficient suggestions and business decisions for the operation of companies.

I. INTRODUCTION AND PURPOSES

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users" (American Accounting Association, n.d.). The most reliable source and reference of accounting information available to external users are audited financial statements (Alkhatib & Marji, 2012). Alfredson also stated that "to have relevance, financial information must have a quality that influences users' economic decision (Alfredson *et al.*, 2009)." Audit evidence is processed when auditors are doing financial audits. Generally speaking, audit evidence shall be both reliable and relevant. Auditors examine evidence available from

various sources to decrease the probability of material misstatement and audit failure (Bell, Peecher, and Solomon 2005). Auditors also should aim to obtain sufficient competent evidence by the requirements of professional standards (PCAOB 2007). The process of audit review involves an examination of evidence obtained by another auditor and making a judgment about how strongly the evidence (Rich et al. 1997). The cognitive processing difference between preparers and reviewers (Libby and Trotman 1993) has suggested that reviewers are more sensitive to the objectivity and sufficiency of evidence (Reimers and Fennema 1999). Regulators scrutinize the evidence previously collected and render a judgment on the strength of the evidence (PCAOB 2008). In audit litigation trials, jurors and judges evaluate the audit evidence and assess how strongly the evidence supports the auditor's opinion, to decide the issue of dispute (Latham and Linville 1998). Jurors often assess audit quality based on standards of care determined after the fact (Kadous 2000). The assessments they used depend on the reliability of the audit procedures and tools used to gather evidence (Lowe et al. 2002). Therefore, studying the concept of audit evidence is quite necessary. The difference between the economic environment in China and the United States has formed different audit modes and different audit modes have determined different financial presentations and Reports. The goal of this article is to compare the concepts, classification and collection techniques of audit evidence in China and the US to generate a better understanding of audit evidence.

II. LITERATURE REVIEW

a) *The Concept of Audit Evidence in China*

Audit evidence is the basis for auditors to express audit opinions and make audit conclusions. At the end of audit activities, auditors shall express audit opinions and make audit conclusions according to audit standards on whether the economic activities of the auditee are legal, compliant and reasonable, and whether the accounting materials and other materials are true and correct. To ensure the reliability of audit opinions and conclusions, auditors must obtain sufficient evidence (He, 1990). Dr. Zhang Rui also defined audit evidence in her book published by China Science Press as: "All information used by certified public accountants to draw audit conclusions and form audit opinions, including accounting information and

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other information on which financial statements prepared. (Zhang, n.d.)” Audit evidence is the basis for state audit institutions and auditors to write audit reports, support audit opinions, and make audit decisions. Audit evidence can also refer to the evidence obtained by audit institutions and auditors to illustrate the truth of audit items and form the basis of audit conclusions (Xu, 2012). Audit standards require auditors to obtain sufficient and appropriate audit evidence as to the basis for expressing an audit opinion. Accounting records are the audit evidence of financial procedures, but they are not sufficient and appropriate evidence to support financial statements. Auditors must search for evidence that supports these records through personal knowledge, document review, and employee inquiries, etc. (Smieliauskas, Jiang, & Chen, 2013). Audit evidence refers to the evidence obtained by audit institutions and auditors to illustrate the truth of audit items and form the basis of audit conclusions. Audit evidence is of the following kinds: (1) written evidence that exists and proves the audit matters, (2) evidence in physical form and the physical evidence for audit items, (3) evidence with sound recording, video recording, proof of computer storage, processing of audit matters audio visual or data, namely the electronic audit evidence, (4) oral evidence from the audit matters concerned personnel, (5) specialized agencies record or personnel appraisal conclusion and examination, (6) Other evidence (Smieliauskas, Jiang, & Chen, 2013). With the development of internet and social networks, modern information technology can produce a large amount of data anytime and anywhere. The influence of big data on audit evidence is more and more complex and non corporate financial information, as the subject of big data has gradually become a significant source of audit evidence, which makes audit evidence greatly enriched (Xiong, 2017). Compared with the characteristics of traditional paper audit evidence and electronic audit evidence, we can clearly understand the significant influence of big data on audit evidence (Xiong, 2017).

b) *The Concept of Audit Evidence in the US*

In the US, audit evidence is evidence obtained by auditors during a financial audit and recorded in the audit working papers (Abrema Audit Courses, 2007). “‘Audit evidence’ is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes the information contained in the accounting records underlying the financial statements and other information. Auditors are not expected to address all the information that may exist. Audit evidence, which is cumulative, includes audit evidence obtained from audit procedures performed during the audit and may include audit evidence obtained from other sources such as previous audits and a firm’s quality control procedures for client acceptance and continuance (Audit Evidence Contents,

2007).” Audit evidence consists of the documents used during an audit to substantiate an audit opinion. While working on an audit, one encounters many different types of evidence (written, oral, and soon). Documents can be prepared by employees of the client or by outside parties. To properly evaluate the strength of evidence gathered, one must understand the four concepts of evidence (Loughran, 2010):

- Nature: The form of the evidence - for example, oral, visual, or written.
- Appropriateness: The quality, relevancy, and reliability of the evidence.
- Sufficiency: The quantity of audit evidence - enough evidence to evaluate the audit client’s management assertions.
- Evaluation: A decision on whether the evidence is compelling enough to allow an auditor to form an opinion.

“Auditing evidence is the information collected for review of a company’s financial transactions, internal control practices and other factors necessary for the certification of financial statements by an auditor or certified public accountant. The amount and type of auditing evidence considered varies considerably based on the type of firm being audited as well as the required scope of the audit (Kenton, 2019).” “Audit evidence is a reflection of the realities found during an audit. All audit techniques and procedures are derived from the concept of evidence. It helps the auditor in perceiving the types of evidences available in an audit situation, collecting them through the various audit techniques and evaluating their sufficiency and appropriateness to support the accounting data. Thus, the audit evidence will have a definite impact on the mind of the auditor to arrive at his professional judgement (Audit Evidence: Meaning, Definition, and Importance).” “Audit evidence refers to information or data that use by auditors as part of their audit works to conclude their opinion whether or not financial statements are prepared in all material respect and by the applicable financial frameworks (Audit evidence: Definition, Type, Procedures, and Quality).”

c) *The Classification of Audit Evidence in China*

Combined with the specific objectives of the audit, this paper expounds the classification of audit evidence according to its form of existence (or its appearance characteristics), which is divided into physical evidence, written evidence, oral evidence, and environmental evidence (Baidu Baike Audit Evidence, n.d.). Physical evidence refers to the evidence obtained by the certified public accountant through on-the-spot observation and taking part in the inventory to prove the existence of relevant physical assets. Written evidence is audit evidence in the form of written information obtained by certified public accountants through the

implementation of test procedures and the use of different methods. The oral evidence is the audit evidence formed by the relevant personnel or other personnel of the audited unit who respond orally after the inquiry of the certified public accountant. Environmental evidence, also known as condition evidence, refers to all kinds of environmental facts that affect the subject matter (Baidu Baike Audit Evidence, n.d.).

As to the classification by the form of evidence, there is physical evidence, written evidence, oral evidence and environmental evidence, and computational analysis evidence. Calculate and analyze the evidence refers to the evidence obtained by the auditor to achieve an audit effect by independent calculation and analysis of the evidence. For example, the auditor calculates and analyzes the total amount of a certain type of business error, compares and adjusts the situation of a certain kind of business, summarizes the problems found (Zhao, 1988).

The classification according to the evidence power of audit includes: natural evidence, that is, evidence in its natural form; processing evidence, that is to say, the evidence produced by the compilation and handling of personnel; reasoning evidence, which refers to the evidence obtained by judgment and reasoning with logical methods according to the known facts (Zhao, 1988). The classification by sources of evidence obtained includes internal evidence and external evidence. The classification, according to the relationship between evidence and fact, includes direct evidence and indirect evidence. On the other hand, according to the scope of evidence function, there are situational evidence, matter evidence, and responsibility evidence. According to the importance of evidence, it can also be divided into main evidence and auxiliary evidence (Zhao, 1988).

d) *The Classification of Audit Evidence in the US*

The types of evidence we discussed include physical examination, confirmations, documentation, analytical procedures, inquiries of the client, reperformance, and observation (Hawks, n.d.). "The quality of audit evidence is dependent mainly on the form and source of the evidence." Here is the detail (Audit evidence: Definition, Type, Procedures, and Quality):

- External Source: The evidence obtained directly from external parties like customers, suppliers, or banks are more reliable than obtaining from clients. For example, accounts receivable confirmation obtained from client's customers is more reliable than the records that prepare by clients.
- Prepared by Auditor: The evidence prepared by auditors themselves are more reliable than the one prepared by or obtains from the client. For example, the bank reconciliation prepared by the auditor is

more reliable than the bank reconciliation prepared by the accountant.

- Prepared by client: The level of reliability of evidence obtained from clients depends on the reliability of client internal control.
- Written form: The audit evidence in written forms is more reliable than verbal forms of evidence. For example, management confirmation in the form of an email is more reliable than the verbal confirmation.
- Original Form: Original invoices that use to support the payments transactions are more reliable than the copy invoices.

e) *Audit Evidence Collection Techniques in China*

Auditors shall collect audit evidence by the following methods (The Central People's Government of the People's Republic of China, 2004):

- Where audit evidence is collected through inspection, accounting data, commitment letter of the auditee, minutes of meetings, documents, contracts, and other data related to the audit matters, as well as summary, adjustment, analysis and other materials prepared by auditors shall be obtained.
- Where audit evidence is collected through the method of supervision, a physical assets inventory list, a cash, and securities inventory list and other materials shall be prepared and signed by the auditors and the relevant personnel of the auditee.
- Where audit evidence is collected through observation, observation records shall be prepared, indicating the observation items, contents and results.
- Where audit evidence is collected using inquiry, the written reply materials or oral reply records of the unit or individual to be inquired shall be obtained, and the inquiry items, contents, methods, and results shall be indicated;
- Where audit evidence is collected using correspondence, the reply letter of the unit or individual to be inquired shall be obtained and compiled;
- Where audit evidence is collected through calculation methods, calculation tables or calculation work records shall be prepared, indicating the items to be calculated, the relevant data on which they are based, the methods and results of calculation, etc.
- Where audit evidence is collected through analytical review, a comparative analysis table, a ratio analysis table, and a trend change table shall be prepared to analyze and explain the differences between the abnormal change items, important ratios or trends, and the expected amount and relevant information.

According to the specific standards for independent auditing No. 5 - audit evidence, audit procedures (or audit methods) such as inspection, supervision, observation, inquiry, letter, calculation and analytical review can be used to obtain audit evidence in the audit process (Baidu Baike Audit Evidence, n.d.). The collection of audit evidence includes pre-processing and in-process collection. (1) Pre-process collection means auditors collect the audit evidence related to the collection project before the audit, set up an evaluation standard, and then conduct relevant audits on whether the audit object is legal and conforms to the specifications. (2) The in-process collection includes evidence directly obtained from the audited entity with the relevant materials as proof, collected in the field, and obtained from spot check on relevant materials when the audit work is carried out. The identification of audit evidence must be comprehensively identified by the special personnel assigned by the audit department for the authenticity and quality of things. However, due to the increasingly complicated audit work, auditors must have higher professional and moral qualities, and ensure that each audit evidence is authentic and persuasive with a solid business foundation and integrity (Chang, 2014).

f) *Audit Evidence Collection Techniques in the US*

“Such procedures include audit inquiry, audit observation, audit inspection, analytical procedure, audit recalculation, audit confirmation, as well as reperformance (Audit evidences: Definition, Types, Procedures, and Quality).”

- Audit inquiry: Auditor inquires management on certain business transactions or events on the purpose of obtaining an understanding or confirming some related assertion.
- Audit observation: The auditor observes how certain controls related to financial reporting perform.
- Audit Inspection: The auditor inspects on certain documents or evidence that related to financial transaction or event.
- Analytical Procedure: Analytical procedure is normally used by the auditor to assess the transactions or amounts in the financial statements through other financial and non-financial data.
- Recalculation: The auditor sometimes recalculates some depreciation expenses prepared by management.
- Reperformance: The auditor sometimes re-performs bank reconciliation that prepares by the client.

The techniques used in obtaining evidence are: inspection, observation, inquiry and confirmation, calculation control, and analytical procedures (Whittington & Pany, 2014). Audit procedures for obtaining audit evidence includes inspection, observation, inquiry, confirmation, recalculation,

reperformance, and analytical procedures (PCAOB, 2010). The importance of obtaining pieces of evidence is that they inspire confidence in the work performed by the auditor (Jovkovic, 2014). The audit plan and the program containing the nature, volume, and time of audit procedures are documented. Depending on the quality of the internal control system, the volume of tests, and substantive testing to be carried out in the process of collecting evidence is determined (Jovkovic, 2011, 94). An audit examination is a carefully planned activity aimed at determining activities to be conducted during an audit engagement. The most important parameter the auditor should express while planning activities is the risk that the auditor is willing to accept in his or her engagement. It is used for defining adequate evidence-collection techniques and the implementation of the examining procedures that will lead to the achievement of the basic audit objectives (Jovkovic, 2014). Due to the achieved level of the development of information technologies and software, it is possible to apply many of the evidence-collection techniques in the audit process using software customized for audit purposes. Computer-assisted audit tools and techniques (CAATT) use audit software to perform many of the evidence-collection techniques (Boynton & Johnson, 2006, 246).

III. DISCUSSION

By comparing the concepts of audit evidence in China and the US, they both define auditors must obtain sufficient evidence (He, 1990). The amount and type of auditing evidence might be various (Kenton, 2019). However, the different types of evidence shall be sufficient and appropriate to draw an audit opinion (Audit evidence: Definition, Type, Procedures, and Quality). In China, the classification of audit evidence is according to the form of evidence, the evidence power of audit, the sources of evidence, the relationship between evidence and fact, the scope of evidence function, and the importance of evidence (Zhao, 1988). In the US, the classification of audit evidence is more emphasized on the form and source of the evidence (Audit evidence: Definition, Type, Procedures, and Quality). Both China and the US has various audit evidence collection techniques, and most are the same. CPAs in China can use such methods as inspection, observation, supervision, inquiry, confirmation, calculation and analytical method, to obtain sufficient and appropriate audit evidence, to form audit opinions and to issue audit reports. In China, it particularly lists the method of supervision out of observation, which gives auditors more authority and responsibility (The Central People's Government of the People's Republic of China, 2004). CPAs in the US can use methods including physical inspection, confirmation, document inspection, analytical procedures, customer inquiry, re

execution and observation to obtain sufficient and appropriate audit evidence, to form audit opinions and to issue audit reports. However, in the US, the supervision is included in the method of observation (Audit evidence: Definition, Type, Procedures, and Quality). Also, in the US, it particularly lists the method of reperformance while Chinese auditing does not particularly list reperformance: auditor sometimes re performs bank reconciliation that prepares by the client (Audit evidence: Definition, Type, Procedures, and Quality). Auditors also should aim to obtain sufficient competent evidence by the requirements of professional standards (PCAOB 2007). To ensure the reliability of audit opinions and conclusions, auditors must obtain sufficient evidence (He, 1990). As for the quantity and quality of audit evidence, China and the US have the same expressions, both of which are "adequate and appropriate" and state that auditors must obtain sufficient evidence. Generally speaking, audit evidence shall be both reliable and relevant. Auditors exam evidence available from various sources in order to decrease the probability of material misstatement and audit failure (Bell, Peecher, and Solomon 2005).

IV. CONCLUSION

In general, China and the US have the same concepts in audit evidence. They both defined the sufficiency and appropriateness of audit evidence to draw an audit opinion (Audit Evidence: Meaning, Definition, and Importance). China and the US have a different emphasis on audit evidence classification. However, as the development of technology, audit evidence classification would become more specific and accurate. China and the US have most audit evidence collection techniques in common. China more emphasizes the technique of supervision besides observation (The Central People's Government of the People's Republic of China, 2004), while the US listed reperformance as one of its most important collection techniques (Audit evidence: Definition, Type, Procedures, and Quality). China and the US have the same expressions, both of which are "adequate and appropriate" and state that auditors must obtain sufficient evidence. The presentation of audit reports and opinions needs to rely on audit evidence. In the process of audit, the evidence is continuously collected and identified to improve the quality of the audit, to provide more effective suggestions and business decisions for the operation of companies.

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