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Discussant's Response to "An Assertion-Based Approach to Auditing"

William L. Felix, Jr.
The University of Arizona

Critiquing an assertion-based approach to auditing is a bit like criticizing motherhood and apple pie, given its reliance on Mautz and Sharaf and an existing SAS, but my role here today is not to toss bouquets. My discussion of this paper will begin with a number of general issues where I think the paper misses its target or I have doubts about its content. I will conclude my discussion with a few points of lesser significance. These comments are intended to stimulate discussion.

Some Basic Issues

The authors of this paper present a wide-ranging analysis of their views on an assertion-based approach with some interesting insights into Clarkson Gordon's use of this method in their development of microcomputer technology for audit practice. While very interesting and appealing ideas are presented, there are some major omissions that are critical to a careful evaluation of the ideas in this paper.

Beyond the author's assertions, there is no convincing argument in this paper as to why an academic or practitioner ought to view an assertion-based approach as either more effective or more efficient than some particular alternative or as a dominant strategy with respect to all available alternatives. An example of this lack of convincing argument is included in the last paragraph on the first page where it appears the authors suggest that since an assertion-based approach to auditing is in accordance with generally accepted auditing standards, that it *should* be used by practitioners and authors of auditing books. This is clearly an inadequate criteria. Our choices of both general audit philosophy as well as specific audit policies should be based on perceptions of improved efficiency and/or effectiveness. Ideally such perceptions would be based on some analysis or empirical data. Such evidence or other supporting analysis seems to have been omitted from the paper. If the authors or Clarkson Gordon have such data or analysis, it would be very worthwhile to present that information.

An assertion-based approach could be viewed as a planning framework to organize thinking about or planning for the types of errors that: 1) are possible or likely; 2) for which internal accounting controls may be considered; and 3) for which effective substantive tests (analytical review or substantive tests of details) need to be considered. Although the authors do not address the differences specifically, a useful focus for our following discussions might have been to identify key differences between the risk-oriented error-discovery

audit that the authors seem to be referring to as a foil and an assertions-based approach. By considering the specific differences between the two methods, possibly in the context of a specific illustration, we could have discussed how the assertions-based approach differed in terms of our own criteria. Such a discussion will be difficult today because we lack those specifics.

The questions stated in Section II are instructive. The authors' categorization of an error-based (negative) approach and an assertions-based (positive) approach is questionable. I prefer their following observation that both questions are probably considered jointly in many audit-planning approaches. Also, both questions can be stated either positively or negatively. However, since the authors appear to favor the second question in its positive form, it is worth reminding the group of the evidence from the philosophy and psychology of decision making. A number of authors have noted that the search for evidence to support a belief is suspect behavior on philosophic grounds (see for example *On Scientific Thinking*)¹; and empirical evidence in psychology suggests that human decision makers are overly inclined to recognize evidence that supports their views and ignore contrary evidence (see for example Waller and Felix).² Both of these observations suggest that there is considerable risk in pushing auditors to look for supporting evidence alone as suggested in the second question. However, the use of research from supporting disciplines uncritically is very questionable. Research on the issues implicit in an auditor searching for evidence to refute an assertion (negative approach) as opposed to searching for evidence to support an assertion (a positive approach) is needed.

In view of the comments above, I also found the eighth paragraph in Section III difficult to follow. An assurance as opposed to a risk approach does not differ as to "a proof-based thinking approach" per se. As the approaches are being used by the authors, they do differ in the direction of the implicit hypotheses about errors, but the concepts of evidence and the support of beliefs of which I am aware say very little about proving anything in an absolute sense.

In reading Section 4 of the paper, I must have missed something. The title suggests that "Assertions And The Links To Internal Control Procedures And Audit Procedures . . ." will be analyzed. Instead, the discussion seems to focus on procedure packages (also included in the title) without linking assertions and internal controls. To be fair, careful study of Figure 2 will supply some insights into the authors' implicit views. An explicit discussion of their views would still be preferable.

The authors sketch very briefly a Source of Assurance Plan (SAP). I suspect that this SAP is central to their planned microcomputer decision support package, but as described, it includes some unstated efficiency and/or effectiveness tradeoffs which are important to facilitate understanding. At a minimum, a brief comment as to how these tradeoffs were made would be very informative.

Some Other Comments

I disagree strongly with the description in Section III of the degree of assurance available from analytical review. The authors describe the degree of assurance as depending upon the type of procedure used to organize analytical review evidence. As is true of all audit evidence, the degree of assurance an

auditor obtains should depend on the quantity and the quality of the evidence. Not, as is described in this case, the choice between judgmental or statistical methods.

I agree with the author's position that internal control may be viewed as one alternative source of evidence, at least in a conceptual sense. However, this position is not unique to the assertions-based approach. It also raises the possibility that the approach may push auditors too far. Even in an assertions-based audit, internal control may be critical to adequate evidence in a client of larger size. In developing new approaches and new philosophies about carrying out the auditor's opinion formulation process, the central role of internal controls, particularly at the point of capture of transactions in large clients, may need special emphasis in order to avoid understating their significance.

In Section VI and also in Figure 3 a multidimensional evaluation concept is "asserted." It is not clear how this evaluation concept operates or relates to the notion of aggregating achieved levels of assurance and materiality across assertions and across balances. If there is some other role to this multidimensional evaluation concept, this discussion needs to be expanded significantly. Otherwise, Figure 3 adds little and should be omitted.

The notions of derived components and generating components were difficult to follow. Are they just complicated ways of labeling transaction flows into balances or are there more insights intended? Knowing Don Leslie I suspect there is more intended but it did not come through in my reading.

As always, a Leslie or a Leslie and others paper is stimulating reading. Our progress as both efficient and effective auditors requires that we continually question and reevaluate all that we do. This paper is an important contribution to that progress.

End Notes

1. Tweney, R.D., M.E. Doherty and C.R. Mynatt, *On Scientific Thinking*, Columbia University Press (1981), p. 458.

2. Waller, W.S. and W.L. Felix, Jr., "The Auditor and Learning from Experience: Some Conjectures," *Accounting, Organizations and Society*, Vol. 9, No. 3/4 (1984).