Summary Is Not Evidence

CA Pranav Jain, FCA | Co-Founder, Anveshana Consulting Private Limited

There is a phrase that appears, in various forms, across audit files in every size of practice. "Management has represented that..." "As per management, the position is..." "Management has confirmed that the balance is recoverable." These sentences are not inherently wrong. Management representations are a legitimate and necessary part of the audit process. What they are not — and what too many files treat them as — is audit evidence. The distinction between recording what management said and obtaining evidence that tests what management said is where audit quality is most frequently, and most silently, lost.

What the Standard Actually Requires

SA 500 is unambiguous on this point. Audit evidence is information used by the auditor in arriving at conclusions on which the audit opinion is based. For that information to constitute evidence, it must be both sufficient and appropriate. Appropriateness has two components: relevance and reliability.

Management representations score poorly on reliability by design. They are internally generated. They are provided by the party whose assertions the auditor is independently verifying. SA 580 — which governs written representations — explicitly states that written representations do not constitute sufficient appropriate audit evidence on their own about any of the matters with which they deal. The standard is clear. The practice is not always consistent with it.

How the Confusion Enters the File

The problem rarely begins with a deliberate decision to substitute management's explanation for independent verification. It begins with something more mundane: time pressure, familiarity, and the reasonable-sounding nature of most management explanations.

An engagement team identifies an aged receivable that has not moved in nine months. Management explains that the customer is facing temporary liquidity difficulties but has verbally committed to payment. The team records the explanation. The file notes that management has confirmed the balance is recoverable. The provision assessment concludes that no impairment is required.

What is missing from that sequence is not documentation. The documentation exists. What is missing is evidence.

SUMMARY

Management has confirmed the balance is recoverable. The customer has communicated commitment to payment. No impairment has been recognised.

EVIDENCE

Post-balance sheet receipts examined. Customer financial position independently assessed. Industry conditions for customer's sector considered. Alternative scenario — non-recovery — evaluated and rejected on the basis of evidence, not management's expressed confidence.

If independent corroboration is absent, the file has recorded a summary. It has not obtained evidence.

> *"Management representations are a starting point for inquiry. Not a destination for evidence."*

Language Patterns That Signal the Problem

Experienced reviewers — and NFRA inspectors — recognise certain language patterns in audit files that signal this substitution has occurred.

1

1. "Management has confirmed..."

— without a following sentence describing what independent corroboration was obtained.

2

2. "As explained by management..."

— as the sole basis for accepting a significant accounting estimate.

3

3. "The auditor is satisfied..."

— without documentation of what created that satisfaction beyond management's own assertion.

4

4. "No exceptions were noted"

— in a procedure description that, on examination, consisted primarily of enquiry rather than independent verification.

None of these phrases are impermissible. Each becomes problematic when it represents the conclusion of an evidential process rather than the beginning of one.

Why This Matters Most in Judgement Areas

The substitution of management explanation for independent evidence is damaging across all audit areas. It is most consequential in areas involving significant judgement — precisely the areas where management has the greatest incentive to present optimistic assessments and where independent verification is most difficult to obtain.

Impairment of goodwill. Valuation of level 3 financial instruments. Expected credit loss provisioning. Going concern assessment. Revenue recognition under complex arrangements.

In each of these areas, management's explanation of its own assumptions is the starting point for audit work — not the conclusion of it. The auditor's obligation is to evaluate whether those assumptions are reasonable, whether they are consistent with available evidence, and whether alternative assumptions were considered and appropriately rejected.

> *"A file that records management's impairment model inputs without documenting how the auditor challenged the key assumptions has summarised management's position. It has not audited it."*

The Review Question That Changes Culture

In firms where this pattern is being addressed, the change often begins with a single question asked consistently at review stage:

> ***"For every significant conclusion in this file — what is the evidence, independent of management, that supports it?"***

That question reframes the review process. It shifts attention from whether procedures were performed to whether those procedures produced evidence capable of supporting the conclusion independently of what management has asserted.

It is a demanding question. In many files, it is uncomfortable to answer. That discomfort is itself informative — it identifies where the file has relied on summary rather than evidence, and where additional work is required before the conclusion can be defended.

What a Well-Evidenced File Looks Like in Practice

The distinction is not between short files and long files, or between simple engagements and complex ones. It is between files that demonstrate an independent evidential basis for their conclusions and files that record what management said and conclude accordingly.

On a Doubtful Receivable

A well-evidenced file does not merely record management's recovery expectation. It documents post-balance sheet receipts where available, correspondence reviewed, customer financial information examined, industry conditions considered, and the auditor's independent assessment of recoverability — arrived at through that evidence, not through management's confirmation of it.

On a Goodwill Impairment Assessment

A well-evidenced file does not merely record that management's model was reviewed. It documents the assumptions challenged, the sensitivity ranges tested, the comparable transactions or market data considered, and the basis on which the auditor concluded that management's assumptions fell within an acceptable range — or did not.

The difference in effort between these approaches is real. The difference in defensibility under inspection is more significant.

The Principle

Management representations are a starting point for inquiry, not a destination for evidence.

The audit file that confuses the two does not merely fail a documentation standard. It fails the foundational obligation of the audit itself — to provide an independent basis for the opinion, not merely a record of what management has asserted.

> *"In an inspection, the question is not whether management's explanation was recorded. The question is whether it was tested."*

Representations Are a Starting Point

Management representations open the inquiry. They do not close it. The auditor's obligation begins where management's explanation ends.

Evidence Must Be Independent

The file must show what the auditor independently verified — not merely what management asserted. Corroboration is not optional in judgement areas.

The Review Question That Matters

For every significant conclusion: what is the evidence, independent of management, that supports it? If the file cannot answer that question, it has not met the standard.

CA Pranav Jain, FCA
Co-Founder, Anveshana Consulting Private Limited
anveshana@anveshanaconsulting.com

This article is part of Anveshana's Audit Quality Insights series.