



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Setup by an Act of Parliament)

## GURUGRAM BRANCH (NIRC)

NOVEMBER 2023  
E-NEWSLETTER

# CHARTERED ACCOUNTANTS



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# ICAI MOTTO

य एष सुप्तेषु जागर्ति कामं कामं पुरुषो निर्मिमाणः ।  
तदेव शुक्रं तद् ब्रह्म तदेवामृतमुच्यते ।  
तस्मिंल्लोकाः श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ॥

Ya eṣa supteṣu jāgarti kāmam kāmam puruṣo nirmimāṇah ।  
Tadeva śukram tad brahma tadevāmṛtamucyate ।  
Tasminlokāh śritāh sarve tadu nātyeti kaścan । Etad vai tat ॥

That person who is awake in those that sleep, shaping desire after desire, that, indeed, is the pure. That is Brahman that, indeed is called the immortal. In it all the worlds rest and no one ever goes beyond it. This, verily, is that, kamam kamam: desire after desire, really objects of desire. Even dream objects like objects of waking consciousness are due to the Supreme Person. Even dream consciousness is a proof of the existence of the self.

No one ever goes beyond it: of Eckhart: 'On reaching God all progress ends'.

Source: Kathopanishad





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**CA. Amit Gupta**  
Chairman

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**CA. Himmat Yadav**  
Executive Member

Gurugram Branch of NIRC of ICAI





### CA Amit Gupta

Chairman, ICAI Gurugram Branch

#### Dear Esteemed Members & Stakeholders,

Greetings!

Warm greetings to each one of you as we enter the festive month of November!

Diwali, the Festival of Lights, is upon us, illuminating our lives with joy and prosperity. As we celebrate this auspicious occasion, let us take a moment to reflect on the significance of light, not just in our festivities but also in our professional journeys.

In the spirit of Diwali, let us also extend our warmth and generosity to those in need. The festival is an opportune time for us to contribute to the well-being of our community and make a positive impact on society.

On a professional note, November brings with it the anticipation and excitement of the upcoming CA exams. To our diligent candidates, I extend my heartfelt wishes for success. Your hard work and dedication will undoubtedly bear fruit, and as you navigate the challenges of the examination, remember that the entire ICAI Gurugram Branch stands in solidarity with you.

To facilitate your exam preparation, our branch has organized a series of

preparatory sessions, mock exams, and guidance programs. I encourage all aspiring CAs to take full advantage of these resources and approach the exams with confidence and competence.

November is also a month of learning and growth for our members. Our branch has lined up a variety of workshops, webinars, and networking events to enhance your professional skills and broaden your knowledge base. I encourage all members to actively participate and engage with the diverse opportunities for learning and development.

Thank you for your unwavering support and commitment to the ICAI Gurugram Branch.

Wishing you all a joyous Diwali and a successful month ahead! Thank you for your continued support. We wish you an insightful reading experience & encourage you to give feedbacks about the newsletter on [gurgaon@icai.org](mailto:gurgaon@icai.org)

Happy reading!

Warm Regards,

**CA. Amit Gupta**

Chairman,

ICAI Gurugram Branch

## CA. Rahul Sharma

Senior Manager – UCO Bank



If your organization is required to follow one or more compliance frameworks, an external third party may demand an audit to verify that your company has actually met those compliance standards.

When an organization is undergoing an audit, it must provide audit evidence, such as financial statements, internal documents, logs, and emails. The auditor uses that evidence to reach a conclusion about whether or not the client organization has achieved compliance.

Audit evidence is collected through audit procedures. The evidence might either support the organization's claim of achieving compliance, or disprove the claim.

While a company can always conduct an internal audit of its own, most audits are performed by independent, third-party auditors. Some compliance frameworks and regulatory requirements even specify that the audit must be done by an external auditor.

For example, an independent certified public accountant (CPA) must perform a financial audit for a publicly traded corporation, but an internal auditor may suffice if the organization wants to evaluate its own processes and procedures.

### Why Is Audit Evidence Important?

Audit evidence is critical for any auditor to substantiate his or her conclusions. After all, the opinion presented by an auditor following the end of an audit depends on the audit evidence gathered. In addition, if the findings from the audit are disputed, auditors will rely on the strength of the audit evidence to support their opinion.

Gathering audit evidence is particularly important for financial information since auditors must assure that the financial statements provided by the client match the financial reporting framework. Financial statements are often used to make certain assertions by the client, which can be categorized as existence or occurrence,

completeness, valuation or allocation, rights and obligations, and presentation and disclosure.

Any statements or records provided by the client must be corroborated by an external third party (such as a bank); or the auditor must perform his or her own calculations and analyses to verify the legitimacy of information provided by the client.

### How Is Audit Evidence Obtained?

Audit evidence is collected via audit procedures. Those procedures are categorized into two main categories: risk assessment procedures and further audit procedures. The latter includes tests of controls and substantive procedures.

Typically, the purpose of the audit procedure will dictate the type of procedure it is. There are seven types of audit procedures:

**Inspection.** Auditors collect evidence by inspecting physical assets, records, or documents.

**Observation.** Auditors observe the client's business processes and operations to identify deficiencies.

**External confirmation.** Auditors may reach out to third parties to verify the financial information and accounting records provided by the client.

**Recalculation.** The auditors perform their own calculations to verify that the final accounting balances match those reported by the client.

**Reperformance.** Auditors may reperform certain tasks or processes to identify deficiencies and discover opportunities for further optimization.

**Analytical procedures.** Auditors analyze the client's financial records to find discrepancies.

**Inquiry.** Auditors talk with the client's senior management to gain a deeper understanding of business processes for the auditing process. Inquiry alone, however, is not considered sufficient audit evidence to reduce the audit risk.

Audit evidence is an integral part of the



overall audit process. That said, it's just as important to consider how the evidence is collected, where it's sourced from, and whether there is sufficient evidence available to approve or reject the assertions made by the company prior to the audit.

### What Are the Qualities of Obtained Audit Evidence?

According to the Public Company Accounting Oversight Board (PCAOB), any audit evidence obtained must be **sufficient and appropriate**. Sufficiency measures the quantity of the audit evidence. Appropriateness refers to the quality of audit evidence.

The sufficiency of the audit evidence is affected by both the risk of material misstatement or risk associated with the control and the quality of the audit evidence obtained.

The appropriateness of audit evidence is affected by its relevance and reliability:

Relevance refers to the relationship between the audit evidence and the control or claim being tested, and de-

pends on the design and timing of the audit procedure used.

Reliability refers to how the evidence is collected and its source.

### What Are the Types of Audit Evidence?

There are eight different types of audit evidence. Each type is used to achieve a specific purpose, depending on the purpose of the audit, the client, and the assertion being tested.

**Physical examination.** Physical evidence gathered by the auditors themselves to verify whether or not certain assets actually exist, or to verify the asset's condition. Physical examination is also a main source of audit evidence used primarily for any fixed assets, such as usage of machinery or supplies.

**Confirmations.** This refers to relying on third parties such as banks to confirm various aspects of the financial statements (for example, the closing bank balance or accounts payable records).

**Documentary evidence.** Auditors will

gather documentation such as internal process documents, emails, or logs, to help with different portions of the overall audit. The auditors may use documentation for vouching or tracing as part of the audit procedures.

**Analytical procedures.** Any analysis performed by the auditors where they use their own calculations to substantiate the financial information and any accounting records provided by the client to find any discrepancies.

**Oral evidence.** Auditors may hold Q&A sessions with their client’s senior leadership team to inquire about the business operations prior to designing the audit procedures.

**Accounting system.** Allows the auditor to access financial reporting documents and any information related to financial statements. The accounting system may also act as the source of audit evidence.

**Reperformance.** The auditor assesses the control risk by reperforming key internal control processes to check for deficiencies.

**Observatory evidence.** The auditors observe how their clients conduct their operations, policies, and protocols to find weaknesses; and make their own notes about how those processes work.

**There are numerous audit assertion categories that auditors use to support and verify the information found in a company's financial statements.**

Existence. ...

Occurrence. ...

Accuracy. ...

Completeness. ...

Valuation. ...

Rights and obligations. ...

Classification. ...

Cut-off.

1. Existence

The existence assertion verifies that assets, liabilities, and equity balances exist as stated in the financial statement. For example, if a balance sheet indicates inventory on hand for \$10,000, it is the job of

the auditor to verify its existence.

The same process is used when verifying accounts receivable balances. The auditor is tasked with authenticating the accounts receivable balance as reported through a variety of means, including choosing a particular accounts receivable customer and examining all related activity for that particular customer.

Bank deposits may also be examined for existence by looking at corresponding bank statements and bank reconciliations. Auditors may also directly contact the bank to request current bank balances.

## 2. Occurrence

The occurrence assertion is used to determine whether the transactions recorded on financial statements have taken place. This can range from verifying that a bank deposit has been completed to authenticating accounts receivable balances by determining whether a sale took place on the day specified.

## 3. Accuracy

Accuracy looks at specific transactions and then checks the accuracy of the recorded entry to determine whether the amounts are recorded correctly. In many cases, an auditor will look at individual customer accounts, including payments, to verify that the amount recorded as paid is the same as received from the customer.

## 4. Completeness

Completeness helps auditors verify that all transactions for the period being examined have been properly entered in the correct period.

For example, an auditor may want to examine payroll records to make sure that all salaries and wages expenses have been recorded in the proper period. This may include an examination of payroll records, a payroll journal, an active employee list, and any payroll accruals that were made and reversed in the period being examined.

Inventory can also play a large role in the completeness assertion, with auditors

looking at inventory transactions that took place during a specific period by examining inventory levels and corresponding sales numbers to determine that inventory was recorded properly.

Completeness, like existence, may examine bank statements and other banking records to determine that all deposits that have been made for the current period have been recorded by management on a timely basis. Auditors may also look for any deposits in the bank that have not been recorded.

#### 5. Valuation

The valuation assertion is used to determine that the financial statements presented have all been recorded at the proper valuation.

For instance, the reporting of a company's accounts receivable account does not provide a guarantee that the customer will pay the accounts receivable amount owed. In this case, an auditor can examine the accounts receivable aging report to determine if

bad debt allowances are accurate.

Inventory is another area that auditors may review to determine that inventory is properly valued and recorded using the appropriate valuation methods.

#### 6. Rights and obligations

Rights and obligations assertions are used to determine that the assets, liabilities, and equity represented in the financial statements are the property of the business being audited. In other words, if your small business is being audited, the auditor may ask for proof that the cash balance of your bank account belongs to the business.

Auditors may look at other assets as well to determine whether they are the property of the business or are just being used by the business. Liabilities are another area that auditors will review to determine that any bills paid from the business belong to the business and not the owner.

#### 7. Classification

The classification assertion addresses the

financial statements themselves. Are the statements presented properly in an acceptable format? Do they include all of the necessary information and related disclosures? Are they easy to understand?

For example, accounts payable notes payable and interest payable are all considered payables, but they are all very separate entities and should be reported as such. For example, notes payable transactions should never be classified as an accounts payable transaction, with the same being true for interest payable transactions.

It is the auditor's responsibility to determine that these items are properly disclosed in the financial statements.

#### 8. Cut-off

The cut-off assertion is used to determine whether the transactions recorded have been recorded in the appropriate accounting period. Payroll and inventory balances are often checked for cut-off accuracy to determine that the activity that took

place was recorded in the appropriate period. This is particularly important for those accruing payroll or reporting inventory levels.

#### #1 – Physical Examination

Physical examination is where the auditor inspects the asset and counts them whenever required. This evidence is collected wherever possible based on the nature of the audit.

#### #2 – Documentation

Under the documentation, the auditor collects written documents like purchase invoices, sales invoices, policy documents of the company, etc., which can be internal or external. This evidence is more reliable as there is some proof in writing based on which the auditor is forming his opinion.

#### #3 – Analytical Procedures

Auditor uses the analytical procedure to derive the required data or know the correctness of different information. It includes the usage of the comparisons, calculations, and the relationships between

the various data by the auditor.

#### #4 – Confirmations

The auditors often require the balance confirmations from the third party to ensure that the clients do not manipulate the balances reflected in the financial statements. This receipt of the written response directly from the third party to verify the accuracy and authenticity of different information required by the auditor.

#### #5 – Observations

Observation is where the auditor of the company observes the various activities of the clients and their employees before making any conclusion.

#### #6 – Inquiries

Inquiries are the different questions asked by the company's auditor to the company's management or concerned employee in the areas where the auditor has doubts. The auditor obtains the answers to these questions.

If you want to learn more about Auditing, you may also consider taking courses

offered by **Coursera** –

[Auditing I: Conceptual Foundations of Auditing](#)

[Auditing II: The Practice of Auditing](#)

Example of Audit Evidence

The company Y Ltd appoints M/s B as the company's auditor for auditing the company's financial statements for the fiscal year 2018-19. The auditor asks for the written confirmation of the balances from the customers as selected by them to ensure that the balances reflected in the financial statements are correct.

Receiving the written response directly from the third party is required to verify the accuracy and authenticity of various information needed by the auditor. It forms part of the audit evidence of the auditor's work. In the above case, the auditor asks for the written confirmation of the balances from the customers as selected by them to ensure that the balances reflected in the financial statements are correct. So, these written confirmations are an example of audit evidence.

### **Advantages of Audit Evidence**

1. It helps ensure the auditor's accuracy and authenticity of the information furnished to him by his client.
2. It forms the basis on which the auditor of the company expresses his opinion on the company's financial statements during the period under consideration, i.e., whether the company's financial statements present the right and fair picture or not.

### **Disadvantages of Audit Evidence**

1. Sometimes the information obtained as the audit evidence, mainly derived from the internal sources, is manipulated by the clients. If the auditors rely on that information, it will express the wrong audit opinion on the company's financial statements.
2. If the data size is enormous, then the auditor generally considers the material things only as his sample for verification of the data and not the whole of the data. If the data having

the problem are left out by the auditor in his sample, it will not present the correct picture of the company.

### **Important Points**

- The auditor can obtain different types of audit evidence, including physical examination, documentation, analytical procedure, observations, confirmations, inquiries, etc.
- The type and amount are dependent on the type of organization that is being audited and the required audit scope.
- It can be obtained from internal as well as external sources. However, the evidence obtained from the external sources is more reliable than the evidence obtained from the company's internal sources.

### **Conclusion**

Audit Evidence is the vital information that the auditor appointed by the company collects as part of its auditing work to express his opinion on the financial statements of the company during the

period under consideration, i.e., whether the financial statements of the company present the right and fair picture or not.

### Recommended Articles

This article has been a guide to what is audit evidence and its meaning. Here we discuss various types of audit evidence along with an example. You can learn more about auditing from the following articles-

Types of Audit Evidence by Professor Jim Crockett

July 9, 2021

*Please enjoy this excerpt from Professor James Crockett's self-study book entitled [The Audit Risk Formula available here on YellowBook-CPE for 3.5 hours of CPE credit.](#) In this chapter, he discusses types of audit evidence.*

There are several different lists of types of audit evidence contained in the audit literature. The following is my attempt to capture all the types of audit evidence in a general listing of broad categories.

### Physical Evidence

Physical evidence is evidence produced by auditors' senses, i.e., evidence gained from seeing, touching, and maybe even hearing, smelling, or tasting. When auditors see or touch something, they know that item exists.

Whether that item has the qualities it is represented to have may sometimes be confirmed or disproved by the sound made when it is struck, the odor it emits or the way it tastes.

Remember audit evidence is anything that causes an auditor to get closer to knowing that assertions are true. Physical evidence is usually a very persuasive form of evidence.

### Arithmetical Evidence

Arithmetical evidence is produced by auditors performing arithmetical calculations, i.e., "crunching numbers." Auditors often need evidence that numbers reflecting such things as the value of inventory or pension fund liability have been properly computed.



Auditors first make sure that the data and assumptions used by the preparer are appropriate then do the arithmetical calculations themselves and compare their numbers to those used by the preparer. Arithmetical evidence is confirming. Auditors can prove the accuracy of numbers given the assumptions used and the proper application of math. Two plus two always equals four.

However, assumptions used by preparers are very important. I am familiar with a legal case in which accountants and other experts were asked to compute the liability of one party to another in a civil suit. Both sides of the case had their experts submit numbers. Given the written contract between the parties, undisputed history, and projections of future events, the range of the liability projections ran from \$6.8 million to \$470.8 million – an astonishing \$464 million difference.

The differences were entirely attributable to different interpretations of the contract and assumptions about future events. Of

course, the plaintiff's experts came up with relatively high numbers and the defendant's experts proposed relatively low numbers! Is anyone surprised?

### **Analytical Evidence**

*What types of audit evidence do you need to support your conclusions?*

Analytical evidence is produced by drawing conclusions from valid comparisons (data interrelationships). Remember the postulate that states: "In the absence of clear evidence to the contrary, what has held true in the past for the enterprise under examination will hold true in the future."

Given this postulate, it should take very strong evidence to the contrary that an audited expense item that has ranged from \$19,000 to \$21,000 over the prior three years should appear on the latest financial statement as either \$100,000 or \$1,000. Given no dramatic change in the entity's business, auditors would form an expectation that the expense reflected in the financial statement for the current year would be fairly close to \$20,000. Something

must have changed dramatically to make either \$100,000 or \$1,000 appear reasonable to auditors.

While performing analytical review or “analytics,” auditors would discover this unexpected change. Then they would secure other evidence as to the validity of the reported expense figure.

Notice that the analytical evidence itself does not provide enough information to show that the reported figure is valid or invalid. The analytical evidence simply says that the figure does not appear to be reasonable and therefore substantial evidence is needed to accept or reject the figure. If, however, the figure reported for this year was \$20,000, it would appear reasonable, and auditors could be satisfied with less or less weighty evidence to accept the figure as valid.

### **Testimonial Evidence**

Testimonial evidence is secured as auditors talk to people, ask relevant questions (inquire), and get answers orally (oral evidence) from which auditors

draw conclusions.

Oral evidence is the least weighty type of audit evidence and it usually needs to be corroborated by one or more other forms of evidence. (A former federal prosecutor told me that more innocent people have been sent to jail based on eyewitness testimony than any other kind of evidence!) Oral evidence is the most common form of evidence auditors secure.

Auditing involves a lot of talking to people. When I teach auditing, I tell students that being a good auditor requires being able to ask the right questions to the right people in the right tone of voice.

Asking the right questions requires auditors to do their homework and plan the audit properly. The right person is someone considered reliable and, who by virtue of their position, is knowledgeable enough and has the authority to answer the question properly. Asking in the right tone of voice helps to assure persons being queried that auditors are not their adversaries.

I am familiar with a situation where an auditor asked the right question to an

honest person who unknowingly gave a flawed answer because he lacked knowledge about the matter. The auditor had asked the right question to the wrong person. The auditor accepted the incorrect response, and this led to chagrin later as the audit report had to be withdrawn.

### Documentary Evidence

Documentary evidence is a type of audit evidence developed by auditors as they examine documents.

One of the main sources of documentary evidence is the entity's accounting information system (ledgers and journals). But there are numerous other internal and external sources of documentary evidence auditors must rely on to achieve their audit objectives related to financial representations and other matters.

There are four types of documents that may produce evidence with various levels of quality:

1) documents produced and retained by

the entity under audit,

2) documents produced by the entity's system that circulate outside the entity's system and return to the entity's system where they are retained,

3) documents that are produced by another organization that enter the entity's system and are retained,

4) documents that are produced by other organizations or by the auditor and never enter the entity's system.

**Documents that are produced and retained by the entity** are generally subject to its internal controls. Examples include journal vouchers, payroll records, and documents produced when materials are transferred from inventory to production. The better the design and functioning of the control system the higher the quality of the documentary evidence it produces. Nevertheless, documents produced and retained internally generally produce a low form of documentary evidence because they may be manipulated by the entity. Theoretically, auditors cannot perform audits relying wholly on evidence secured from internally

generated and controlled documents (internal documents).

**Documents may be produced by the entity and circulated outside the entity before they are returned to the entity and become a part of its records.** Such documents may be marked some way by the external party indicating their agreement with what is recorded on the documents. The marking by the external party is sometimes called “cleansing.” It is difficult for the entity to manipulate this type of document. This type of document may be subjected to the entity’s internal controls before it leaves the entity and when it returns to the entity. Since the information on the retained documents has been attested to by an outside party, the evidence produced by examining such documents is generally considered to be of higher quality than that secured from internal documents. The classic example of such documents is the canceled check (internal/external documents).

**Documents may be produced by an external party and flow into the entity’s**

**system** where they are retained. Such documents are usually subjected to the entity’s internal controls when they enter its system. This type of document is difficult to manipulate because the entity generally has nothing to do with its production. The evidence produced by examining this type of document is considered to be of a higher quality than that produced by examining either internal or internal/external documents. A good example of this type of document is a purchase order received from a customer (external/internal documents).

**Examination of documents produced by a third party that flow directly from the third party to the auditor and never get into the entity’s system** generally produces documentary evidence of the highest quality. Documents of this type are never subjected to the entity’s internal controls. For this potential source of audit evidence to be reliable, auditors must be able to assume that the document was submitted to the auditor by a person (or system) with the requisite knowledge, integrity, and authority to ensure that the information contained in the

document is accurate. This assumption is generally made in the absence of evidence to the contrary. Confirmations of receivables and bank balances are examples of sources of this type of documentary evidence (external evidence).

### **Documenting Testimonial Evidence**

Interviews, actions, and documents can be recorded electronically. Once accessed, the information can be printed out, listened to, or viewed to produce documentary, oral, or physical evidence. Some electronic information may not be retrievable after a certain period of time if the information is not backed up. Auditees should be advised to properly backup information that auditors may need in a manner that will allow it to be accessed.

Client representations are sometimes listed as a type of audit evidence. Such representations may be made orally (in which case they may be better characterized as oral testimony evidence) or they may be in writing (in which case they may be characterized as written testimo-

ny evidence). The same is true with third-party representations, which is sometimes referred to as a type of evidence..

### **Confusion About Types of Audit Evidence and Types of Audit Procedures**

A word needs to be said about the confusion in the audit literature about types of audit evidence and audit procedures, tests, or audit techniques. (This is a hang-up of mine!)

Audit procedures, tests, and techniques are often said to be forms or types of audit evidence. One widely used audit text lists physical examination, confirmation, documentation, analytical procedures, inquiries, recalculation, re-performance, and observation as types of audit evidence.

All of these are actually audit techniques that produce evidence. That is, they help auditors make decisions as to the validity of assertions.

In reality, evidence is what influences auditors' minds concerning assertions, not what is done to produce that influence. The following examples explain what I mean:

**Analytical procedures**, for example, ratio analysis, provide analytical evidence as to reasonableness.

**Inquiry** produces either testimony (oral) evidence or documentary evidence, depending on whether the inquiry is answered orally or in writing.

**Inspection** (sometimes called physical examination) of items, records, or documents produces either physical evidence or documentary evidence.

**Observation** produces physical evidence.

**Confirmation** produces either documentary evidence or oral evidence depending on whether the auditor's request for information is answered in writing or orally.

**Recalculation** is a mathematical technique that produces arithmetical evidence. Re-performance is a technique that requires the auditor to accomplish the same procedure the entity did to arrive at what is being subjected to verification. Re-performance provides either arithmetical or analytical evidence.

The term 'documentation' is particularly troublesome in the audit standards

The audit procedure documentation involves inspection of the entity's documents and records, and it produces documentary evidence. The term documentation is also used in audit literature in regard to what auditors reduce to writing in accomplishing their work. This involves such things as planning documents, developing expectations used in analytical review, and recording the results of interviews with entity personnel.

Documents and physical things are sometimes (and better) referred to as evidential matter. They are not evidence in and of themselves.

I feel better now!

### **More on Audit Procedures and Techniques**

The following are additional audit procedures or techniques that are used to secure evidence:

**Tracing** – Involves selecting information from original source documents which

should have been recorded in the accounting records and by using information in the accounting system determining whether the information was in fact recorded correctly. Tracing produces documentary evidence.

**Vouching** – Involves starting with an entry in the accounting records and by using information in the accounting system finding and examining the original source of the information to determine whether the entry was made properly. This technique is the opposite of tracing and it is sometimes called retracing. Vouching usually produces documentary evidence.

**Reconciliation** – This is a very powerful technique by which auditors take information from different sources (such as accounting records and bank statements) and make sure the information jibes. It should be possible to make the balance in the cash in bank account (when adjusted for unrecorded accurate information on the bank statement) agree with the balance on the bank statement

(when adjusted for accurate information recorded in the cash account). Reconciliation produces documentary evidence.

**Account Analysis** – This technique is used in financial audits and it involves vouching for every entry to an account made during the period under audit to original source documents. It is used to audit accounts that have material balances but few entries such as depreciable equipment, and it produces documentary evidence.

#### A Lesson Learned the Hard Way

Autopsies of some major frauds have revealed that young inexperienced auditors were intimidated by older and more experienced fraudsters. As a young auditor, I was convinced by a manager of a theater that I simply didn't understand why a reconciliation of ticket sales to cash deposits would not work. I finally gave up and accepted the manager's explanation that I couldn't really understand.

After doing many other similar reconciliations it finally dawned on me that I had

made a mistake in the theater audit. (Things that are supposed to be reconcilable must always reconcile or there is something wrong.) Now, I warn my students about more experienced people who may try to intimidate them.

I also tell (senior and graduate) students that they are smart people who can understand, or they would never have progressed so far as accounting majors. The take-away is that auditors should never quit a quest for evidence until the auditor understands what really happened.

Two categories of audit procedures

Audit procedures can be classified into two categories: **Risk assessment procedures** and **further audit procedures**, which are subdivided into tests of controls, substantive tests, and dual-purpose tests.

1. Tests of controls are procedures employed to evaluate the design and functioning of control systems.
2. Substantive tests are procedures to directly evaluate the validity of repre-

sentations (assertions).

3. Dual-purpose tests are procedures designed to test the functioning of the control system and to test the validity of representations at the same time.

The types of audit procedures listed above are used in performing both tests of controls and substantive tests.

Data Analytics and Big Data

In baseball, football and basketball sophisticated computer algorithms are being used to analyze large data sets (Big Data) and the results are changing the way the games are played. We now know that the risks associated with stealing bases are usually not worth taking. That going for it on fourth and short is more productive than trying a field goal in most cases and that, although 3-point shots carry more risk of a miss than 2-point shots, the expected payoff usually makes the risk worth taking.

Basically, the same thing is happening in auditing, at least in large organizations with well-designed and maintained data bases. Auditors need to be aware of the nature of



audit analytics and be prepared to learn more so they can design and use those powerful tools in situations where such use can be efficient and appropriate.

Data analysis (analytics) has been defined as a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, informing conclusions, and supporting decision-making.

Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, and is used in different business, science, and social science domains. In today's business world, data analysis plays a role in making decisions more scientific and helping businesses operate more effectively.

In auditing, data analytics is especially useful in assessing risk. That is, analytics makes it possible to access entire data bases, even multiple data bases, to mine the data to discover key characteristics and relationships. This makes it easy to identify high risk areas, for example

outliers and unexpected relationships such as unusual debit-credit combinations. Fictitious or fraudulent entries are often made on weekends or holidays.

Data analytics can be tailored to highlight all such entries. Many other examples could be cited such as payments to vendors not on approved vendors lists and lack of correlation of things expected to correlate and correlation of things not expected to correlate.



Gurugram Branch of NIRC of ICAI

**Topic:** Seminar on Forensic Audit  
**Day & Date :** Saturday, 7th October 2023  
**Venue :** Hotel Radisson Gurgaon, Sector-48, Gurugram





Gurugram Branch of NIRC of ICAI

**Topic:** Seminar on Practical Aspects of Transfer Pricing Regulations

**Day & Date :** Saturday, 14th October 2023

**Venue :** Hotel Radisson Gurgaon, Sector-49, Gurugram





## Gurugram Branch Managing Committee for the Session 2023-24

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**Feedback & Suggestions:** Gurugram Branch will be happy to receive the feedback from you regarding the seminars/workshops and other activities organized by branch. You may please send feedback at Gurugram Branch of NIRC of ICAI requests the members & students to come forward & share the articles (Professional & other) to be published in the upcoming newsletter. The submissions may be sent to

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