



# THIRUTHANGAL NADAR COLLEGE

**(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai  
Dharma Fund)**

**Selavayal, Chennai-51.**

**A Self-Financing Co-educational College of Arts & Science**

**Affiliated to the University of Madras**

**Accredited with 'B' Grade by NAAC**

**An ISO 9001: 2015 Certified Institution**

**NAME OF THE DEPARTMENT : COMMERCE GENERAL**  
**SUBJECT : PRACTICAL AUDITING**  
**TOPIC : AUDITING EVIDENCE**  
**STAFF NAME : B.SRIDHAR**

# COURSE OUTCOME 1

**UNDERSTAND THE NATURE OF PRESENT DAY AUDITING IN INDIA.**

# Auditing Evidence



The information obtained by the auditor in arriving at the conclusions on which the audit opinion is based . The auditor should obtained sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

- Appropriateness of audit evidence depends upon :

*Relevancy of data*

*Reliability of data*

## **Definition-**

Evidential matter supporting the financial statements consists of the underlying accounting data and all information available to the auditor. - The American Institute of Certified public Accountants

# NATURE OF AUDIT EVIDENCE

## Definition:

All the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

Being obtained from the audit procedures performed during the audit fieldwork, and also include evidence obtained from other sources such as from previous audit

Meaning of Audit Procedures: - the actions that an auditor takes in acquiring evidence

# OBJECTIVE

The auditor should obtain Sufficient and Appropriate Audit Evidence to be able to draw reasonable conclusions on which to base the audit opinion.

## Sufficient and Appropriate Audit Evidence

1. Sufficiency is the measure of quantity of audit evidence.
2. Appropriateness is the measure the quality of audit evidence and its relevance to a particular assertion and reliability.

# Questions to form an opinion and reporting Financial Statements

## Balance Sheet Items:

Have all of the assets and liabilities been recorded?

Do the recorded assets and liabilities exist?

Are the Assets owned and liabilities belongs to Enterprise?

Have the amounts arrived at are in accordance with the policies?

Have all the items (A/L/E/R) properly disclosed?

# Questions to form an opinion and reporting Financial Statements

## Profit and Loss Accounts:

Have all income and expenses been recorded?

Did the recorded income and expense transactions in fact occur?

Have the income and expenses been measured in accordance with the a/c policies?

Have income and expenses been properly disclosed where appropriate?

# **SOURCES**

## **TEST OF CONTROL**

Test performed to obtain audit evidence about the suitability of design and effective operation of the accounting and internal control systems.

## **SUBSTANTIVE PROCEDURES**

Test performed to obtain audit evidence to detect material misstatement in the financial statements by tests of details of transactions and balances, and analytical procedures.



# FINANCIAL STATEMENTS ASSERTIONS

Assertions are the representations of the management, explicit or otherwise, in the financial statements.

They can be categorized as follows:

- 1. Existence:** An asset or a liability exists at a given date.
- 2. Rights & Obligations :** An asset or a liability pertains to the entity at a given date.
- 3. Occurrence:** A transaction or event took place actually incurred during the accounting period.
- 4. Completeness:** There are no unrecorded assets, liabilities, transactions or events, or undisclosed items.

# Cont..

**5. Valuation:** An asset or liability is recorded at an appropriate carrying value.

**6. Measurement:** A transaction or event is recorded at the proper amount and revenue or expense is allocated to the proper period.

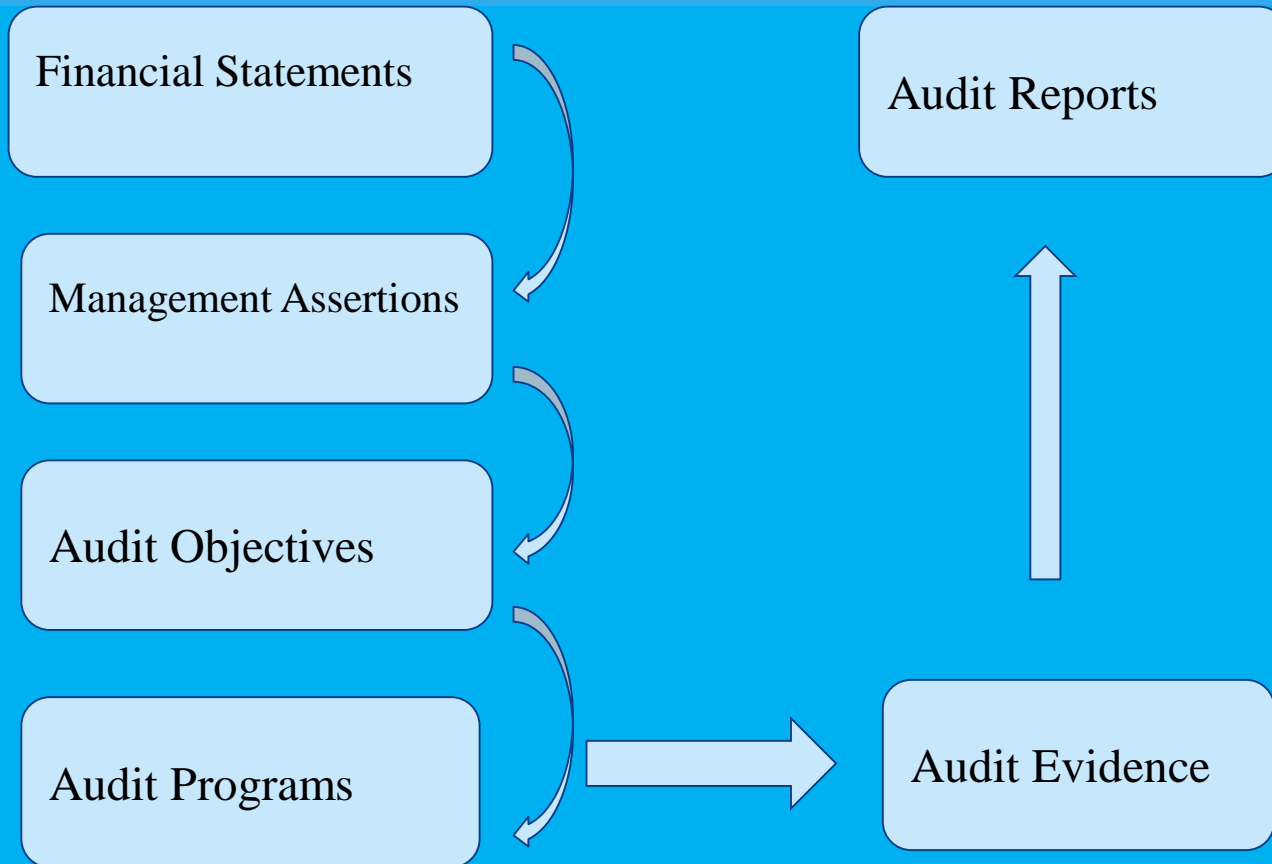
**7. Presentation & Disclosure:** An item is disclosed, classified and described in accordance with the applicable financial reporting framework.

**8. Validity & Authorization:** All the transactions recorded are totally authorized by the management and are valid in the accounting period.

# Sufficient and Appropriate Audit Evidence

- ❖ Factors which are influenced to the judgment of auditor regarding sufficient appropriate audit evidence:
  - ❖ Nature and level of Inherent Risk
  - ❖ Nature of the Accounting and Internal Control System and Control Risk
  - ❖ Materiality of the item being examined
  - ❖ Experience gained during previous audit
  - ❖ Results of audit procedures
  - ❖ Source and reliability of information available

## Evidential Matter To The Audit Report



## PERSUASIVENESS OF AUDIT EVIDENCE

ISA 500 Audit Evidence requires the auditor to accumulate sufficient appropriate evidence to support the opinion issued.

Determinants of the persuasiveness of evidence are

- ❖ *Appropriateness or Reliability*
- ❖ *Sufficiency*

## Appropriateness or Reliability

Def... the degree to which evidence can be considered reliable or worthy of trust

E.g. if an auditor counted the inventory, the evidence will be more appropriate if the auditor counted the inventory rather than the management give the figure

Characteristics of appropriate or reliable evidence:-

1. Relevance
2. Independence of provider
3. Effectiveness of client's internal control
4. Auditor's direct knowledge
5. Qualifications of individuals providing the information
6. Degree of objectivity
7. Timeliness

## Reliability Of Audit Evidence

- Evidence from sources outside an entity is more reliable than evidence obtained solely from within the entity.
- Evidence generated internally is more reliable when the internal control structures are effective.
- Evidence obtained directly by the auditor is more reliable than evidence obtained from the client.
- Evidence in the form of documents or written representations is more reliable than oral representations.
- Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles

## TYPES OF AUDIT EVIDENCE

*1. Physical examination/ Inspection*

*2. Observation*

*3. External Confirmation*

*4. Documentation*

*5. Re-performance*

*6. Analytical procedures*

*7. Inquiriy*



# 1. Physical Examination

Def... the inspection or count by the auditor of a tangible asset

## Objective:

- ❖ Verifying that an asset actually exist (tangible assests.)
- ❖ Ascertaining both the quantity & the description of the asset
- ❖ Evaluating an asset's condition or quality

## 2.Observation

Def... the use of the sense to assess certain activities or Opportunities to exercise sight, hearing, touch & smell to evaluate a wide range of items.

Observation is an *act of witnessing or viewing* the process or procedure without doing it.

The auditor observes the policies, procedures, that are carried by the organisation.

Eg- Stock verification procedure adopted by the staff

### 3. Confirmation

Def... the receipt of a written or oral response from an independent third party verifying the accuracy of information that was requested by the auditor.

Confirmation is *the act of responding* to an inquiry with the external sources.

ISA 501...identifies 2 common types of confirmation requests i.e. positive confirmation & negative confirmation

#### **Positive confirmation**

– *Ask the recipient to respond in all circumstances*

#### **Negative confirmation**

– *The recipient is asked to respond only when the information is incorrect*

## 4. Documentation

Def... the auditor's examination of the client's documents & records to substantiate the information that is or should be included in the financial statements

### **Advantage:**

- Widely used (bills, purchase invoices, counterfoils of receipts, insurance policies)
- Readily available at a relatively low cost

Classified into 2; Internal & External

### **Internal Documents**

- Docs. that has been prepared & used within the client's organisation & retained without ever going to an outside party
- E.g. duplicate sales invoice, employees' time reports & inventory receiving report

## External Documents

- Docs. that has been in the hands of someone outside the client's organisation; who is party to the transaction, but which is either currently in the hands of the client or readily accessible
- In some cases, docs originate outside the client's organisation & ended up in the hand of client
- E.g. vendor's invoices, cancelled note payable, insurance policies, cancelled cheque (returned by supplier/vendor)

### **Vouching**

The process in which the auditor use documentation to support recorded transactions or amounts

- E.g. to vouch recorded acquisition transactions, the auditor trace transaction from acquisition journal to support vendor's invoices & receiving reports

## 5.Re-performance

Def... Involves rechecking a sample of the computations and transfers of information made by the client during the period under audit

Also known as testing the client's arithmetical accuracy

## 6. Analytical Procedures

ISA 520 – Analytical procedures use comparisons & relationships to assess whether account balances or other data appear reasonable

It is being used for different purposes on an audit

- Understand the client's industry & business
- Assess the entity's ability to continue as a going concern
- Indicate the presence of possible misstatements in the financial statements
- Reduce detailed audit tests

## 7. Inquiries of the Client

Def... the obtaining of written or oral information from the client in response to questions from the auditor

### **Disadvantage:**

- It is not from an independent source & may be biased in the client's favor .
- When the auditor choose to obtain evidence through inquiries, it is normally necessary to obtain further corroborating evidence through other method





*Thank You!*

#53740257