

Quadrant II – Notes

Paper Code: COD 105

Module Name: Methods of obtaining audit evidence, Physical verification, Documentation, Direct confirmation, Re-computation, Analytical review techniques, and representation by management.

Notes:

Physical Verification

1. In this method the auditor check whether the assets actually exist or not according to the list of company's list of assets.
2. It is performed by group of Auditors and it may consist of a specialist auditor who is expert in verification of assets.
3. The auditors may use financial records, contracts and policies to verify the assets which are not physically present.

Documentation

1. Documentation means the supply of documents or supporting reference and records.
2. A document is written or printed paper that consist of a legal form of something which can be used as evidence.
3. According to ICAI, working papers prepared by the Auditor are a form of documentation.

Direct Confirmation

1. It refers to the assurance which is given to the auditor by third parties.
2. This method of obtaining evidence is followed in case of items like accounts payable and accounts receivable.
3. To find out the exact amount of the above heads, the auditor can request the lender or borrower to send him/her a written confirmation of the amount to be paid or received.
4. The same method can be followed for settling accounts with the Bank.

Re-Computation

1. It is the process of checking the mathematical accuracy of the documents and records through use of information technology.
2. It includes use of Computer assisted audit techniques and Computer aided audit tools and techniques.
3. Items like depreciation expense, totalling, cross totalling, reconciling , subsidiary ledgers are recomputed.

Analytical review techniques

1. It is the process of analysing financial information through the study of inter-relationship of financial and non-financial data.
2. The basic need is that stable relationship exist among financial and non-financial data.
3. If the auditor cannot find the relationship, he would be required to carry out additional work and analysis.

Example of Analytical Review Techniques are:

1. Comparing current period financial information to prior periods data.
2. Comparing current period financial information to budgeted or forecasted results.
3. Calculating relationships among elements of financial information and ratio analysis.
4. Comparing current period financial information to industry statistics.
5. Comparing financial information to non-financial information.

Representation by Management

1. It includes a written letter issued by the management to the auditor as a Audit evidence.
2. It is a statement that the information, records, data and accounts furnished by the management are true and sufficient.
3. Further it states that there has been no omission of materials facts of financial statements to the best of management knowledge.