

REGIONAL TRAINING INSTITUTE, JAIPUR

INDIAN AUDIT AND ACCOUNTS DEPARTMENT



Audit Evidence

Contents

- ✓ **Introduction**
- ✓ **C&AG of India's auditing standards regarding evidence**
- ✓ **Characteristic of Evidence**
 - **Competence**
 - **Relevance**
 - **Sufficiency**
- ✓ **Factors affecting the evidence**
- ✓ **Types of evidence**
- ✓ **Sources of evidence**
- ✓ **Gathering and Evaluating Evidence**
 - **Gathering Evidence**
 - **Evaluation of Evidence**

Introduction

Audit evidence is the information collected and used to support audit findings. It provides a factual basis for developing observations and concluding against audit objectives. As such, it is evidence which must support the contents of an audit report, including all observations leading to recommendations.

[Go-to Next](#)

C&AG of India's auditing standards regarding evidence

Standard 3(e) in chapter-III of the Auditing Standards of C&AG of India state:

'Competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organisation, programme, activity or function under audit.'

The auditing standards further emphasise that:

- (i) data collection and sampling techniques should be carefully chosen;
- (ii) (ii) the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and
- (iii) the evidence should be competent, relevant and sufficient and as direct as possible.

The concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits, is elaborated below.

[Previous Topic](#)

[Next Topic](#)

[Quiz](#)

Competence

Evidence is competent when it is *valid* and *reliable* and actually represents what it purports to represent. Some factors that can help in assessment of the evidence from the point of view of reliability are:

- If the piece of evidence is corroborated with help of different types of evidence obtained from other sources;
- Documentary evidenced is more reliable than oral evidence;
- Evidence obtained through direct observation is more reliable than indirectly obtained evidence;
- The reliability of entity generated information is a function of reliability of internal control system within the entity;
- Oral evidence, which is corroborated in writing is more reliable than oral evidence alone; and
- Photocopies being less reliable evidence than the originals, the source of photocopies should be identified by noting the source and as far as possible, the photocopies should be certified.

[Previous Topic](#)

[Next Topic](#)

Relevance

An evidence is relevant if it bears a clear and logical relationship to audit objectives and to the criteria. The relevance of the evidence in the performance audits can be ensured by linking the evidence and the audit procedure with each of the audit objectives, sub-objectives and then to each of the criteria. Relevance is measure of *quality* of audit evidence.

[Previous Topic](#)

[Next Topic](#)

Sufficiency

Sufficiency is a measure of *quantity* of audit evidence. Evidence is sufficient if the test is carried out on a reasonable representative of the population, the sample being selected objectively. In performance audit the evidence may be persuasive. Thus, evidence is sufficient or reasonable, when there is enough relevant and reliable information to persuade a reasonable person that the performance audit findings, conclusions and recommendations are warranted and are fully supported.

Considerations that determine the strength of evidence required are:

- If the observation is highly significant and material, it will require stronger evidence to sustain;
- The strength of evidence should be very high when the degree of risk associated with wrong conclusion is high;
- If previous experience suggests that the entity's documents are reliable, less corroboration of the evidence may be necessary; and
- Evidence needs to be more convincing, if the issue is controversial or sensitive.

[Previous Topic](#)

[Next Topic](#)

[Quiz](#)

Factors affecting the evidence

Some factors that may affect the competence, relevance and sufficiency of the evidence are:

- Samples selected are not representative (*sufficiency*);
- Evidence collected relate to an isolated occurrence (*sufficiency*);
- Evidence is incomplete and does not establish a cause and effect relationship (sufficiency, relevance);
- Evidence is conflicting (competence); and
- Evidence is biased (competence).

[Previous Topic](#)

[Next Topic](#)

[Quiz](#)

Types of evidence

Evidence can be categorised with reference to their type as physical, oral, documentary or analytical.

Physical evidence is obtained through observation, photographs, charts, maps, graphs or other pictorial representations, etc.. It is desirable to corroborate physical evidence, particularly if it is crucial to any audit findings (linked to the audit objectives), with other types of evidences.

Oral evidence is the statement in response to audit inquiries or interviews. The statements made can either provide a background or a lead for further examination that may not be available through other forms of audit work or may provide corroborating evidence (e.g. beneficiary survey). The statements can be by the employees of the entity, beneficiaries, experts and consultants contacted to provide corroborative evidence, etc. It will be essential to corroborate the oral evidence, if the oral evidence is itself to be used as primary evidence rather than simply as a background or lead for further examination.

The corroboration of oral evidence could be:

- by written confirmation by the person interviewed;
- by weight of multiple independent sources disclosing same facts;
- by checking the records later; or
- by entrusting the collection of evidence to independent organisations of repute.

In cases of surveys through independent agencies, it may not, however, be possible to obtain written confirmation from the subjects of the survey. In this background, credibility of the agency selected for survey would be critical for sustaining the competence of the evidence. It is also important to note that surveys are generally corroborative (secondary) evidence rather than being the primary evidence. In instances in which it is not possible to gather primary evidence, the decision to develop audit findings on the basis of the survey or other secondary evidence may be taken with the approval of Department's top management.

Documentary evidence in physical or electronic form is the most common form of audit evidence. These could be both internal as well as external. Some examples of internal documentary evidence are accounting and information records, copies of outgoing correspondence, plans, budgets, annual reports and internal audit reports, etc. Some examples, of the evidence from external sources are documents originating from other entities (viz. notes or reports of other ministries, coming correspondence, external evaluations and surveys).

Internal documentary evidence originates within the entity. In most cases, the external evidence is also obtained from the records of the entity.

The reliability, relevance and sufficiency of documentary evidence should be assessed in relation to the objectives of the audit. For example, if the objective is to ensure whether contract procedures are followed by an entity, mere existence of an updated manual of contract is not a competent, relevant and sufficient evidence for audit conclusions.

Analytical evidence stems from analysis and verification of data, which can involve computations, analysis of rates, trends and patterns, comparisons against standards and benchmarks, *etc.* The analysis and comparisons can be both numerical and non-numerical. The source of data analysed to develop an evidence should be indicated to facilitate acceptance by the entity.

[Previous Topic](#)

[Next Topic](#)

[Quiz](#)

Sources of evidence

The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:

- **Policy statements and legislations**- policy documents, operating guidelines and manuals, administrative orders, *etc.* along with the background papers leading to their promulgation.
- **Published programme performance data** - budget, accounts including VLC outputs, plan documents, performance budgets and reports, programme documents, annual reports and replies or statements placed before Parliament and legislature.
- **Management reports and reviews** - internal reports and reviews, minutes of meetings, management information chain and information/performance reports, *etc.*
- **Files of the entity on the subject** - provide strong evidence to support audit findings. It may not be possible to examine all files of the entity due to time constraint. The selection of the files for examination will be guided by the audit objectives or the purpose of the investigation. Depending upon the subject of performance audit, the audit team may examine a sample selected at random. Some of the more important files that can provide the desired evidence are:
 - Strategic and operational planning files;
 - Budget files;
 - Management control, monitoring and review files;
 - Internal audit reports, internal and external evaluations;
 - Complaints and disputes *etc.*;
 - *Databases* - maintained by the entity are important source of audit evidence; and
 - *External sources* - independent surveys, evaluation, research, *etc.*

Website of audited entities, the regulators and other related entities. It may be ensured the website from which the audit evidence is being taken is reliable and updated. The source of such information should be shared with audited entity and suitably depicted in the audit report.

Department's sources – evidence collected in previous audits and during finalisation of strategic plan could provide evidence in many cases.

Physical verification/inspection is an important source of evidence. Accountants General may make an assessment based on the nature of the subject of performance audit and the audit objectives as to whether physical verification/inspection is required to achieve the audit objective

and document the results of their assessment. Accountants General should be conscious of the relatively lower levels of acceptability of evidence when the physical inspection/verification is carried out by auditors alone. Some of the measures to transform the observed evidence into competent evidence could be joint inspection in which the result of such inspection is certified by the representative of the entity holding responsible position, out-sourcing the physical observation to an agency of repute and supplementing the observed results with photograph, *etc.* attested by the representative of the entity.

Auditors' observation – could form an important source of evidence, particularly when supported and corroborated by photograph, video recording, *etc.* and attested by the representative of the entity. The audit team should record a detailed description of the results of observation.

The auditor's professional judgment as to what constitutes sufficient and appropriate evidence is influenced by factors as the following:

- Significance of a potential non-compliance or compliance deviation and the likelihood of its having a material effect, individually or when aggregated with other potential non-compliance, on the subject matter information;
- Effectiveness of the responsible party's responses to address the known risk of noncompliance or compliance deviations;
- Experience gained during previous audit with respect to similar potential non-compliance or compliance deviation; and
- Results of procedures performed, including whether such procedures identified specific noncompliance or compliance deviation.

[Previous Topic](#)

[Next Topic](#)

[Quiz](#)

Gathering and Evaluating Evidence

The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves:

- a) Gathering evidence by performing appropriate audit procedures
- b) Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality)
- c) Re-assessing risk and gathering further evidence as necessary

The evidence gathering and evaluation process should continue until the auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the auditors' conclusion.

[Previous Topic](#)

[Next Topic](#)

Gathering Evidence

Audit evidence is gathered using a variety of techniques such as the following:

- **Document scrutiny** - This is the predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents – Cabinet Notes, Expenditure Finance Committee minutes and recommendations, agenda and minutes of Board of Directors files, cash books and accounting records, reports etc.
- **Physical inspection/site visits**-This involves inspection of physical assets (eg a dam, road, bridge, stores and stock etc). Generally such inspection is conducted jointly with departmental personnel to ensure acceptability to the audit findings. Where the auditable entity does not co-operate with physical inspection, the fact of such non-cooperation may be appropriately documented and reported to the top management of the auditable entity, but the physical inspection may continue nevertheless by the audit team on its own. Photographs taken during physical inspection/site visits are an acceptable form of evidence, provided the location and date of photograph are amply clear.
- **Observation**-Observation involves looking at the process or procedure being performed. In performing compliance audit, this may include looking at how transactions are processed in real time by staff of the auditable entity, including processing of information and transactions in an IT system.
- **Questionnaires**- This involves seeking information from relevant persons within the auditable entity through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.
- **Surveys**- This involves interaction with persons outside the auditable entity to get the information from the affected parties or the beneficiaries of programmes/ schemes, as the case may be. This would involve careful selection of the survey sample, formulation of an appropriate survey questionnaire, collation and analysis of the survey responses. Evidence gathered from surveys would be corroborative in nature to support evidence gathered by conventional techniques.

- **Confirmation** - Confirmation is a type of inquiry and involves obtaining, independently of the auditable entity, a reply from a third party with regard to some particular information – for example confirmation of balances from the banks.
- **Re-performance** - Re performance involves independently carrying out the same procedures which have already been performed by the auditable entity. This can be carried out either manually or by computer assisted audit techniques. Where highly technical matters are involved experts may be involved for re-performance.
- **Analytical procedures** - Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent. Data analytics tools, statistical techniques or other mathematical models could also be used in comparing actual with expected results.

[Previous Topic](#)

[Next Topic](#)

Evaluation of Evidence

Audit evidence, collected through above mentioned audit procedures, is to be evaluated against the relevant, already identified criteria. This involves consideration of evidence collected vis-à-vis the subject matter information as well as the written responses obtained from responsible officers of the auditable entity against the applicable criteria. The evaluation process enables auditors to assess whether the subject matter information is, in all material aspects, compliant with the identified criteria.

What constitutes material non-compliance is a matter of professional judgement and includes consideration of the circumstances, quantitative and qualitative aspects of the transactions or the issues concerned. Auditors consider a number of factors in applying professional judgement to determine whether or not the non-compliance is material. Such factors may include the following:

- Extent and importance of amounts involved, which include both monetary values and other quantitative measures;
- Nature of the non-compliance;
- Cause leading to the non-compliance;
- Possible effects and consequences of the non-compliance;
- Visibility and sensitivity of the program in question; and
- Needs and expectations of the legislature, public and other users of audit reports

[Previous Topic](#)

[Top](#)

[Quiz](#)