

GUWAHATI@ICAI



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## Chairman Speaks...



Dear Esteemed Professional Colleagues,

The Guwahati Branch of EICASA celebrated the Teachers' Day on 05th September, 2022 and felicitated the faculties of the branch who are teaching students at various levels with constant dedication and motivation.

As a part of the celebrations, the Branch received direction from the Board of Studies that we need to have few CA-students who will present a PPT on the topic, 'My teacher, My Guru. The event witnessed five budding CA-students who deliberated their thoughts on the topic assigned, very beautifully and with all their heart.

They highlighted the importance of having teachers as 'Guru' but all of them were unanimous about the role of parents in their life and all of them branded parents as the very first teacher and gurus.

At that moment, I was struck with a thought about a situation when a child does not have any parent. We, the society, call them as orphans. Most of us are fortunate enough to have parents who hold our hands and support us but we should pause and contemplate about those children who are devoid of any parents. We must lend our help to the extent possible, wherever we come across any such person who was not benefited from the company of their parents.

At this moment we are busy chasing the Audit & Corporate Law deadlines and I wish my professional fraternity the very best for a trouble and stress free finale !!

Best wishes to you in all your professional endeavours,

Regards,

CA. Gaurab Garodia

Chairman



BUILDING TRUST ENABLING SUSTAINABILITY

## Editor's Desk...

Dear Professional Colleagues and Friends,

The season of winter is approaching with all its newness and freshness. In this spirit, we all need to 'edit' and 'rewrite' a plethora of things to pave a smooth way for the months to come. After all the festival of Diwali is coming and cleanliness of all things should be our priority.



As professionals, let us edit away the old files, de-clutter our work space, rewrite old methods and rephrase new ways of doing things. This way, we will be well equipped to handle the new challenges and grab fresh opportunities coming our way.

Keeping my message brief, I would conclude by urging all members to actively participate in all the activities with full spirit and effervescence. I earnestly request everyone to cultivate the habit of reading along with attending the CPE seminars and group discussions.

And yes, do keep writing articles and send them to us. Your writing endeavours will adorn our newsletter with knowledge.

My best wishes to everyone. This Diwali, may the festival of lights enlighten you with all the goodness!

Regards,  
CA. Saurav Somani  
Editor

## Article



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### Audit Evidences : An Analysis

**Audit evidence** is all the information, whether obtained from audit procedures or other sources that is used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions.

Audit evidence must be sufficient and appropriate. Sufficiency signifies the quantity and appropriateness refers to quality of the evidence. In other words sufficiency is decided by the risk associated with the control system and appropriateness is judged by the relevance and reliability of the evidence.

Audit evidence is aimed to prove or disprove the audit assertions made in the financial statements. Various elements (Assets, Liability, Income and Expenditure) of Financial Statements signify following assertions in respect of them:-

1. **Existence:** the existence verifies that asset, liability and equity exist in the same manner as they are specified by the financial statements. For Example, if balance sheet is showing Inventory @ Rs. 15,00,000 then there is first and foremost assertion in that respect is – Inventory of Rs. 15,00,000 exist.
2. **Occurrence:** It determines transaction recorded in financial statements have actually taken place. Example: if Financial Statements shows a sale of Rs. 50,00,000 then this assertion specify that transactions of Sales of Rs. 50,00,000 has actually occurred.
3. **Accuracy:** This is assertion as to the recording of correct amount in the financial statements. Example: Customer account is looked and checked with an intention to ensure that all the transactions in his/her accounts including payments are recoded correctly and the Account is showing accurate balance.
4. **Completeness:** This assertion depicts that all the transactions occurred during the financial period are completely recorded. Example: if it has to be established that all salaries and wages arises during the period are recoded completely. For the said purpose Payroll records, Payroll Journal and Active Employee List are to be referred.
5. **Valuation:** This assertion signifies that all elements of financial statements are truly valued and presented. Example: Receivable must be shown at their realizable value. If any receivable is being shown without allowing probable allowance of Bad Debts then certainly receivables are not perfectly valued.

6. **Rights and Obligation:** This assertion speaks about the ownership of Asset, Liability and Equity of the business. It signifies that Assets are rights of the business and Liabilities are the obligation of the business. Example: if Expenditure is incurred by the business on behalf of owner, it is not business expenditure.
7. **Classification:** This assertion says that Statements are presented in acceptable format, include all necessary information and easy to understand. Example: Interest payable and account payable must be shown separately as per the approved format of balance sheet.
8. **Cut Off:** This assertion determines whether the transactions recorded have been recorded in appropriate accounting period. Example: Prior Period, Outstanding and Prepaid are to be recorded.

Different authors and scholars have classified 'Audit Evidences' in their own way. Professor Jim Crockett has also specified different types of 'Audit Evidences' as follows:

1. **Physical Evidence:** He says such evidences are produced by Auditors' senses i.e. Evidence obtained from seeing, Touching, Hearing, Smelling or Tasting. **Audit evidences are anything that causes an Auditor to get closer to knowing that assertions are true.** For some assets it is very important audit evidence Like Stock and Fixed Assets. Through this evidence qualitative assurance as to stock is also obtained.
2. **Arithmetical Evidence:** Such evidences are produced by the auditors by performance of Arithmetical Calculations. Auditors normally compute how the value of inventory arrived and how gratuity and pension liabilities are recognized in balance sheet. The first step in this direction is to make sure that data and assumptions used by the preparer are appropriate, secondly auditor themselves calculates the value of financial statement items from the data and lastly, they compare those figures with the figures of balance sheet. Example: in a contractual liability plaintiff may value at Rs. 4.00 crore and defendant may value at Rs 350 crores. In such cases auditors should find sufficient appropriate audit evidence and value that liability at a reasonable level.
3. **Analytical Evidence:** Analytical evidence is based on postulate **"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."** Example: If business has expended Rs. 15000, 17000 and 14000 for Audit in last three years than it is expected to be reasonable if it expends around Rs. 15000 in the current year. Analytical evidence themselves has only persuasive value and not conclusive value. The analytical evidence simply signify that figures appearing does not seems to be reasonable and therefore substantial evidence is needed for acceptance or rejection of audit assertion in respect of those elements of financial statements.

In our example, if audit expense during the current year is shown as Rs. 14,500 then auditor can be satisfied with the less or less weighty evidence.

**Testimonial Evidence:** Auditor converse with people and secure answers to their query and from them auditor draw conclusions. Such oral evidences are lest weighty type of audit evidence, it normally needs to be corroborated by one or more other type of audit evidences. The success of oral evidence depends on "asking right question to the right person in proper language (Tone)". The question that has to be asked requires home work and plan on the part of auditor. Right person is one who is reliable, honest and who has by virtue of his position has knowledge and authority to answer the question. Right language depends how words and phrases are understood commercially.

4. **Documentary Evidence:** Documentary evidences are developed by the auditors as they examine documents. Main source documentary evidence is the entity's accounting information system. Some time reports generated by Management Information system also plays a crucial role while conducting audit. There can be 4 type of documentary evidences, which have various level of quality :
- a. **Documents that are produced and retained by the entity:** Such types of evidences are subject to various Internal Controls laid within the organization. Value and weight that can be assigned to these documents depends on the quality of Internal Control System prevailing in the organization to which these documents are subject. The better the design and functioning of the control system the higher the quality of the documentary evidence it produces. Examples are Vouchers, Payroll, Purchase requisitions, Purchase orders placed by the entity and various reports generated for use of management. These types of evidences can be easily manipulated.
  - b. **Documents produced by the entity and circulated outside the entity, returned back to the entity and form part of record:** These documents may have marking of the external party indicating their agreement with what is recorded on the documents. Marking by external party is called "Cleansing". It is somewhat difficult to fabricate such evidences. The classic example of such documents is Dishonored Cheques.
  - c. **Documents produced by the external party and retained into the entity's system:** These documents are considered to be of a higher quality, here it is to be understood that these documents are also subject to entity's control system once they enter the system. Here also the value and weight is substantially affected by the organization's laid internal control system. Examples of such evidences are Purchase Order received from external entities, Invoices etc.
  - d. **Documents produced by the third party directly to the Auditor:** Such type of audit evidences never enters the system of the Auditee. Such types of documents have highest vale and weight. Superiority of such documents is due to reliability and integrity associated with them. Examples of such evidences are Receivable confirmation and Bank Balance confirmation.
5. **Documenting Oral Audit evidence:** Questionnaire, Flow charts, Representation and electronic records are some of the ways how oral evidences can be documented. Electronic records may not be retrievable after a certain period of time if the information is not backed up.

Last but not the least documentation of Audit Plan, Procedure and Work Progress report are also comes with in this category.

#### **Audit Evidence Vs Audit Procedures**

In Audit literature Audit Procedures/ Tests/ Techniques are normally misunderstood as Audit Evidences.

Audit techniques (Procedure & Tests) are normally employed to produce Evidences and are not evidence in itself. On the other hand, Audit evidence is something which influences the auditor's mind in respect of assertions. Audit procedures and tests are done with an intention to produce the influence over views of the auditor.

Most common texts perceive Physical Examination, Confirmation, Documentation, Analytical Procedure, Inquires, Recalculation, Re-performance and Observation as audit evidences. Actually these are techniques to generate audit evidence.

# Guwahati Branch Activities

## ✓ CPE SEMINARS:

- a. On 10th September 2022, Guwahati Branch of ICAI organized a 4-hour-CPE Panel Discussion on various clauses of Tax Audit at Branch premises. The eminent panelists were CA. Anil Kumar Agarwala, CA. Somesh Bose, CA. Sunil Sharma and CA. Vivek Jain. The discussion was moderated by Branch Vice Chairman, CA. (Dr.) Ayush Saraf.



## ✓ Other Activities:

- a. On 16th September 2022, Guwahati Branch of ICAI conducted career counselling sessions at remote locations of Hamren, Assam viz. at Don Bosco High School and Hamren Govt. High Sec. School. More than 540 students were given counselling for the Chartered Accountancy course. The Sessions were taken by CA. Lokesh Agarwal.





- b. On 17th September 2022, Guwahati Branch of ICAI conducted career counselling sessions at remote locations of Hamren, Assam viz. at Kheroni High School and Jengkha High School. Around 300 students were given counselling for the Chartered Accountancy course. The Sessions were taken by CA. Lokesh Agarwal.



- c. On 20th September 2022, Guwahati Branch of ICAI, taking forward the initiative of spreading financial literacy under the "Vitty Gyan ICAI ka Abhiyan", organized an 'Investor Awareness Program' for the Officers of BSF Patgaon, Rani, Assam. The session was taken CA. Deepjyoti Singha Roy.



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## ICAI's Important Announcements

Points	Link
<ul style="list-style-type: none"><li>• <b>Third edition of the IFRS for SMEs Accounting Standard:</b></li></ul>	<a href="https://www.icai.org/post/3rd-edition-ifs-for-smes-accounting-standard">https://www.icai.org/post/3rd-edition-ifs-for-smes-accounting-standard</a>
<ul style="list-style-type: none"><li>• <b>Updation of UDINs at e-filing Portal:</b></li></ul>	<a href="https://www.icai.org/post/updation-of-udins-at-e-filing-portal-oct2022">https://www.icai.org/post/updation-of-udins-at-e-filing-portal-oct2022</a>
<ul style="list-style-type: none"><li>• <b>Hosting of Multipurpose Empanelment Form (MEF) 2022-23:</b></li></ul>	<a href="https://www.icai.org/post/hosting-of-mef-2022-23">https://www.icai.org/post/hosting-of-mef-2022-23</a>

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