

SA Sol (Chapter - 4, Para - 4.62 to 4.71)

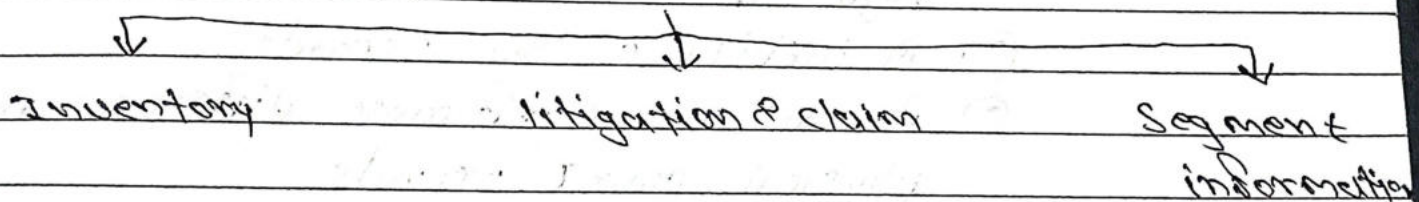
* Audit Evidence - specific considerations for selected item.

* Scope:- it deals with obtaining sufficient and appropriate audit evidence with respect to inventory, litigation and claims, and segment information.

* Objective:- To obtain evidence regarding

1. existence & condition of inventory
2. completeness of litigation & claim inventory involving entity.
3. presentation and disclosure of segment inform.

* Specific conditions:-



(i) Inventory:-

→ Auditor's procedure when inventory is material to financial statement, he shall obtain SAAE with respect to existence & condition of inventory by

(SAAE :- Sufficient Appropriate Audit Evidence)

⇒ Attendance at physical inventory ~~control~~ counting

- ① Evaluate management instruction for controlling inventory counting
- ② observe management count procedure
- ③ perform test count.

(AND)

⇒ Examining entities final inventory records and comparing them with actual count result.

→ Physical inventory counting conducted on a date other than the date of financial statement.

- Perform audit procedure to obtain audit evidence about whether any change in inventory has taken place

① weather records are properly adjusted.

② Reliability of the records

③ Reasons for significant difference in physical count records.

→ Auditor unable to attend physical counting due to unforeseen claims.

- observe or perform physical counting on alternative date

→ Attending physical inventory count is impracticable due to nature & location of inventory

- Perform alternative audit procedure if unable to obtain evidence, modify the opinion.

* Inventory under the custody of 3rd party

→ Auditor will have to collect SAAE by performing one or both of the following

- Ⓐ Request confirmation from 3rd party about the quality & conditions of inventory OR
- Ⓑ Perform inspection.

(ii) Litigation & claims :-

→ litigations & claims which may give rise to a risk of material misstatement.

- Auditor shall design & perform audit procedure as follows :-

- ① Inquire of management & in house council
- ② Reviewing minutes of meeting
- ③ Reviewing legal exp. etc.

- Auditor may perform other relevant procedure to establish requirements and the accounting estimate & related disclosure in the financial statement are correctly recorded.

→ If risk of material misstatement is identified by auditor
- The auditor shall in addition to the procedure specified in standards seek direct communication with the external legal counsel.

(1) Auditor shall make general inquiry through letter and if he considers that external legal counsel will not respond may make specific inquiry through a letter about (letter of inquiry)

(A) list of litigation

(B) management assessment the outcome and the cost involved.

(C) confirm the reasonableness of management assessment and if the picture is incomplete provide further info.

(2) If law prohibits external legal counsel to communicate directly to the auditor, auditor will perform alternative audit procedure.

(3) If auditor requires he may visit the external legal counsel if there is a significant risk, matter is complex & there is a disaggre between management & legal counsel.

(ii) If management

(A) deny permission to communicate

(B) refuse to meet council

(C) law prohibits and the auditor is unable to obtain evidence by performing alternative procedure,

→ Auditor may modify the opinion.

(iii) Segment information :-

→ information about different types of product and service of an enterprise and its operations in different location

(1) — Auditor will obtain SAAG by

(A) understand the method used by management in determining segment information and evaluate whether such method will result in a disclosure as per applicable FRF and to testing the application of such method and

(B) Perform analytical procedure & Audit Procedure.

(2) — it is auditor's responsibility regarding presentation & disclosure of segment info. in relation to financial statement as a whole and not on stand alone basis

(3) — some of the example are sales, transfer between segments, allocation of cost & asset among statement, etc..