

Chapter - 9

Audit Evidences

SAs	REMARK
500	BOOK (10.1)
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SA-501

Audit Evidences - Specific

Consideration for Selected items

• Attendance At Physical Inventory counting (PIC) :-

When inventory is material to f.s.

Inspect the inventory

↓
To Ascertain Existence and condition of Inventory.

④
Perform test count

observing mgt. instruction

④
procedure for recording and controlling

obtain A.E. As to Reliability of mgt's count procedure.

INVENTORY

P.I.C conducted O/T
date of F.S.

Auditor shall P.A.A.P
To obtain SFAE thru
dim INV.

Blw count date
Date of F.S.
Blw properly recorded

Audit procedure.

Inventory

properly ADJ?

reliability

diff. b/w info. obtained, & it and its reason.

Attendance at PIC is impracticable (N-1)

P.A.A.P

To obtain SFAE for existence condition of inventory

if NOT possible modify opinion (SAROS)

It is also NOT possible.

inspection of b/w of subsequent sale of specific INV.

Acquired parcel to PIC

N-1

general inconvenience to auditor is NOT the example of impracticable situation for NOT attending PIC

Inventory under custody / control of 3rd party.

request confirmation quantity condition

O.A.P. includes.

inspecting b/w inventory held by 3rd party.

when INV. held as pledged. REQ. confirmation

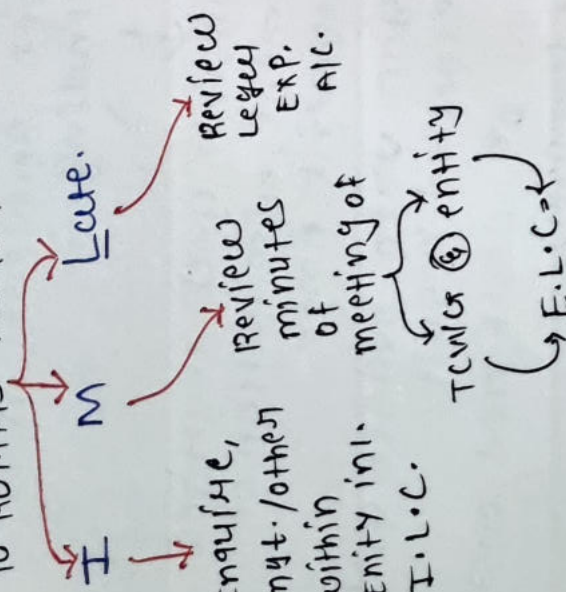
attend T.P. PIC if practicable

obtain SFAE of T.P. ensure that INV. held properly.

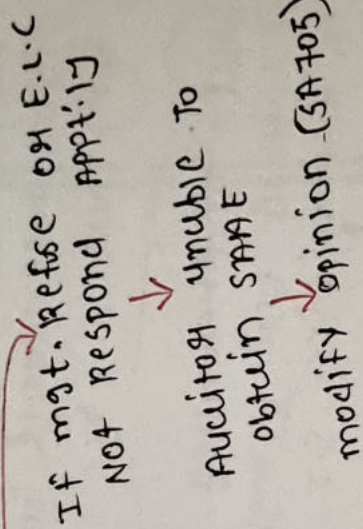
LITIGATION & CLAIM → WA UBI HEREDING!!!

regarding L&C.

A.P. To identify L&C which may give rise to ROMMS include



If Auditor Assess ROMMS then communicate with E.L.C.

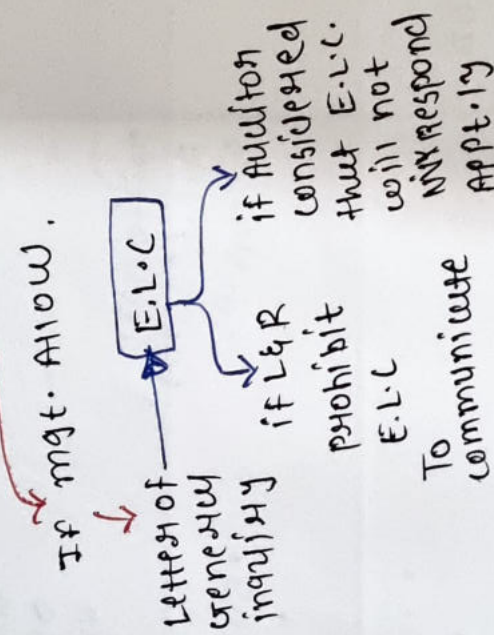


* Auditor's direct meeting with E.L.C.

- 1. Disagreement mgt. E.L.C.
- 2. complex
- 3. significant RISK

NOTE

→ Require mgt. permission & held in attendance of mgt. REP.



It includes

- 3. Req. E.L.C. to confirm reasonableness of. → list of L&C
- 1. list of L&C
- 2. mgt. asses. of each L&C and estimate of financial implication & it's cost
- 4. provide further info. if list considered incomplete or inconsistent

SEGMENT INFORMATION [SI]

The Auditor shall obtain SARE that P&D of SI is in accordance with AFRF for that

obtain understanding of method used by mgt. in determining S.I.

Evaluate method whether provide disclosure as per AFRF.
testing the Application of such method.

performance
A.P. (SAR 20)
& O.A.P.

understanding The method used by mgt.

following are the examples of mgt. relevant in understanding...

- Sales, Transfer and changes B/w segment, elimination of Intersegment Amt.
- comparison with budget and other expected result.
- Allocation of Asset and cost segment (among)
- consistencies with prior period and adequacy of the disclosure.

SA-505

External Confirmation

External Confirmation

meaning.

The A.E. obtained as a direct written response to Auditor, by Third party, in paper form or E-form or other medium.

- Terms of Agreement
- Contact
- Transaction B/w entity & other parties
- confirm absence of side agreement.

Determine info. to confirm / requested.

It may also used to confirm,

Selecting app. confirming party
C.P. should be knowledgeable about the info. to be confirmed.

design the confirmation request. it should be properly addressed and in written form

- Factors to be considered includes
- specific I/RMS inc. fraud risk.
 - layout & presentation of c.req.
 - assertion being addressed.
 - the method of communication [i.e. paper, E-form, other]
 - Ability of intended C.P. to confirm or provide req. info.

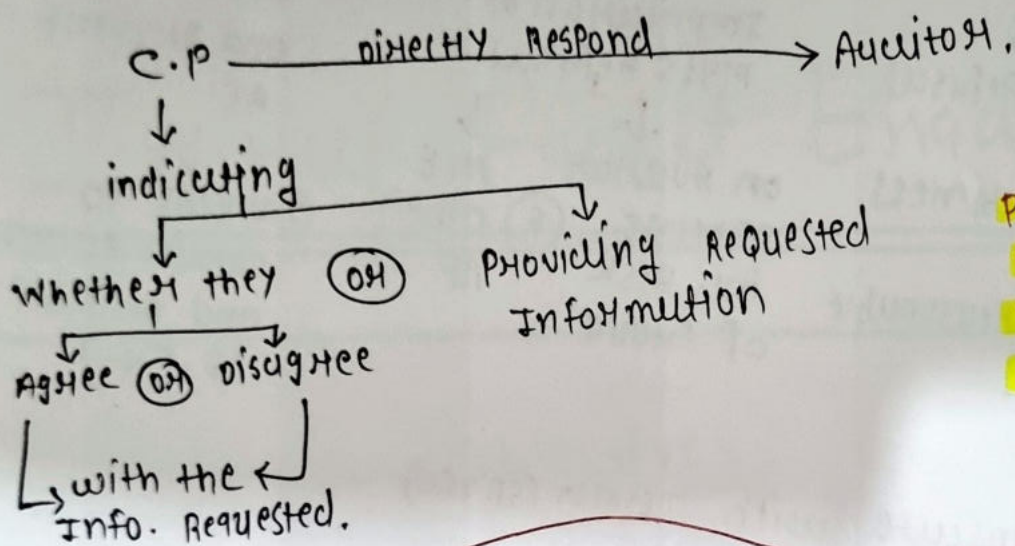
External confirmation procedure, includes,

sending the request inc. follow up the request.

[PCR]

Positive Confirmation Request

meaning:- A Request that,



PCR ni Agree
or disagree
Respond too
sachhi hai!!!

RISK

C.P. may Reply without being verifying that information is correct

SOLUTION

use PCR that

do not state the Amt. (or)

ASK CP TO fill the Amount or furnish the Info.

[NCR]

Negative Confirmation Request

Request

meaning

CP directly Respond to auditor only if they disagree with info. provided in REQUEST.

Auditor shall not use NCR as SOLE SUBSTANTIVE PROCEDURE unless,

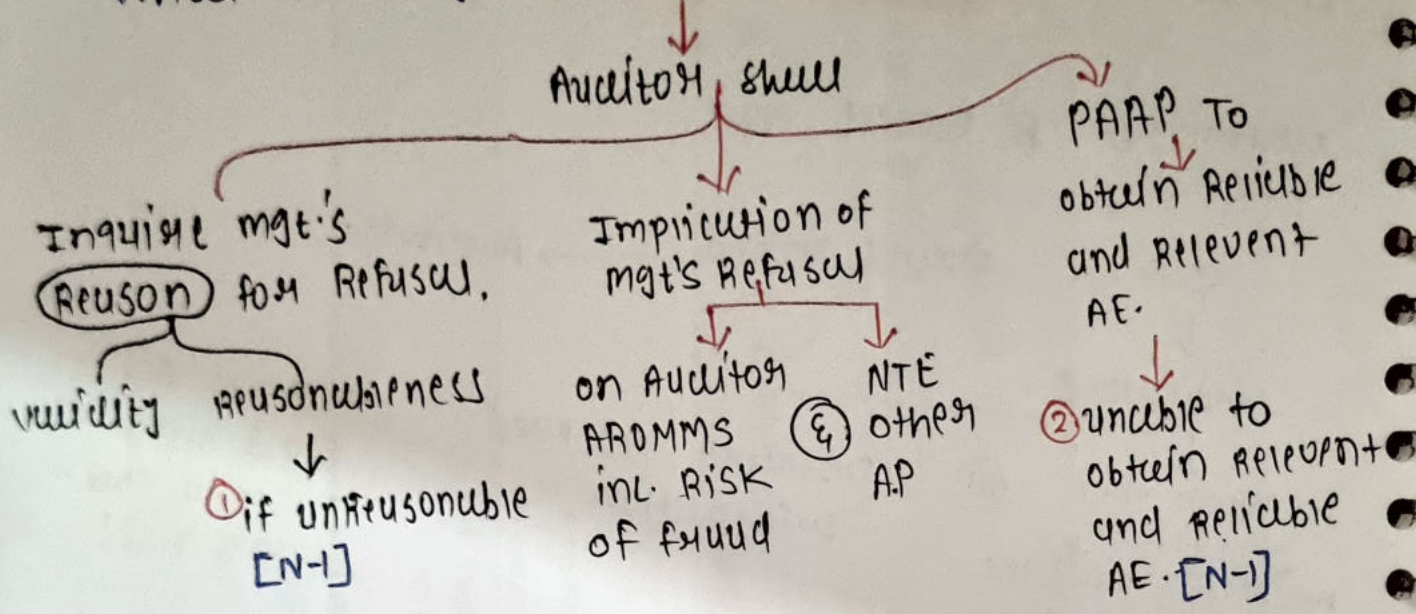
↓ Exception Rule.

Auditor is NOT aware of circumstances that cause recipient of NCR to disregard such REQ.

population consists of large no. of small, homo., ac balance, transaction

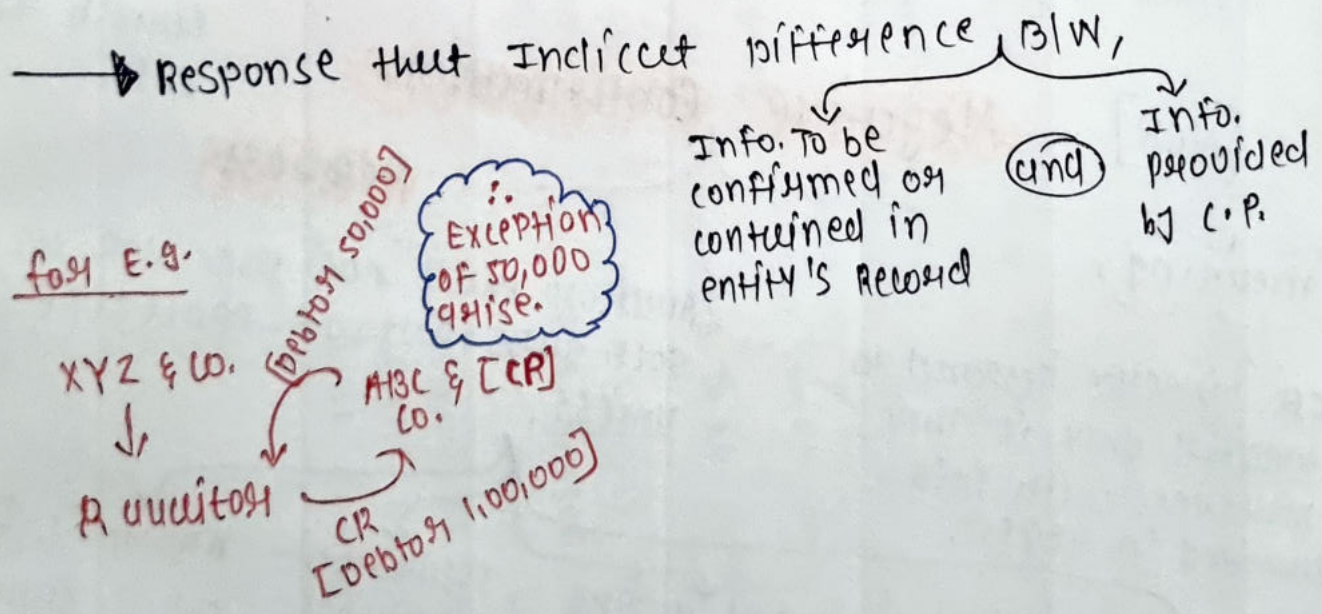
AROMM ↓ (or) obtain SAME regarding operating effectiveness of control

• What if mgt. Refuse To Allow To send Request:-



N-1 → communicate with TC/IC (SA 260)
 (+)
 determine implication on audit and opinion (SA 705)

Exception → only for understanding



SA-510

Initial Audit Engagement

Objectives

obtain SAAE whether

opening Balance contain MMS that materially affect the CPFS

④

APPT. A.P. Reflected in op. Bal.

Have been consistently applied in CPFS

⑤

A in AP are properly accounted per in ACCO. with AFRF.

<p>Audit procedure.</p>	<p>opening Balance</p>	<p>A.P. for opening Balance</p>	<p>relevant info. in A.R of predecessor Auditor (P.A.)</p>
<p>obtain same that whether op. Bal contain any mis that materially affect C.F.S, B.Y, B.A.P.</p>	<p>• obtain same whether A.P. reflected in op. Bal. applied consistently in C.P.F.S</p>	<p>• P.P.F.S. were audited by P.A. and modification to opinion given.</p>	
<p>③: prior period balance correctly B/P to C.P. (A): op. Bal. reflect the App. of A.P.P. A/c policies. (P): prior one more :- - P.P.F.S audited then purchasing copies of that A/c Bal. Docs. - evaluate AP applied in C.P. provide sufficient A.E. rel. to op. Bal. - perform specific A.P. to obtain A.E. requirement op. Bal.</p>	<p>• any changes is properly accounted and properly disclosed in acco. with A.F.R.F.</p>	<p>• auditor will evaluate the effect of matter giving rise to modification in assessing ROMMS in C.P.F.S (SA 315)</p>	
<p>Audit Reporting</p>	<p>- unable to obtain same S/O opinion. - op. Bal. contain mis ↓ not properly accounted Q/A opinion</p>	<p>- Not consistently applied - not properly accounted paid. ↓ Q/A opinion</p>	<p>- modification to opinion is relevant and material to C.P.F.S ↓ modify opinion (SA 705 & SA 710)</p>

→ other Important points:-

① NTE of A.P. necessary to obtain SAE regarding Op.Bal. depends on matters,

A.P. found by Entity

Nature of CAB and ROMMS in CPFS

significance of Op.Bal. relative to CPFS

Whether PFS were invited by P.A.
↓
whether he modified opinion

② Audit procedure for opening balance regarding Inventory:-

→ one or more of the following may provide SAE

• observing current P.I.C. and reconcile it to the opening inventory Qty.

• performing A.P. on

② valuation of opening inventory item

③ gross profit and cut off.

SA-520

Reference
- CA DIPIKA RATHI

Analytical Procedure

meaning:-

• Analytical procedure (AP) means SA 520 → Evaluation of F.I. → through plausible relationship → among F.O and NFD

Also Encompasses such investigation → Identified fluctuation or relationship → That are inconsistent with → Other Relevant Info. (64) → That differs from expected values by significant.

AP useful for comparison of F.I with.

(+)

consideration of relationship.

(+)

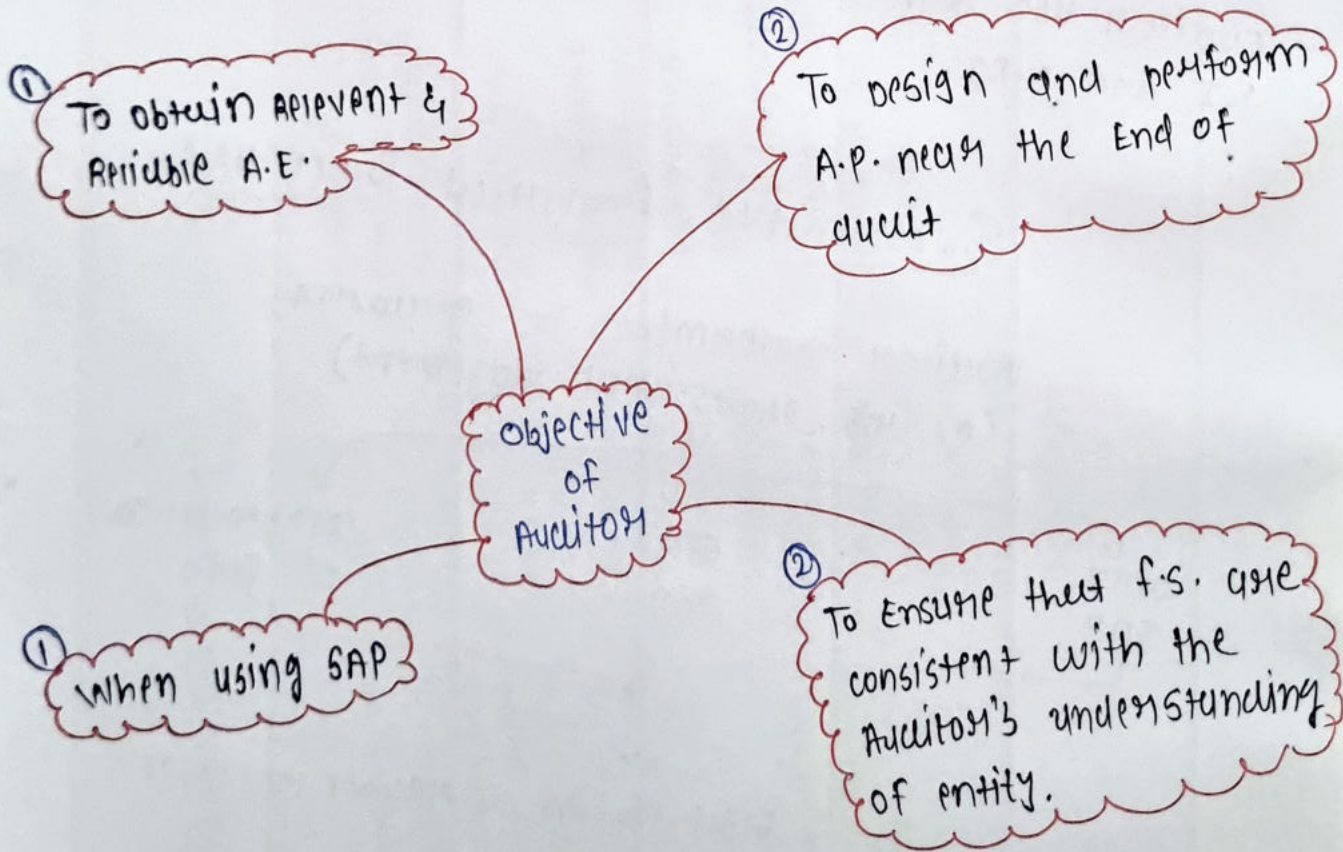
various other procedure

(=)

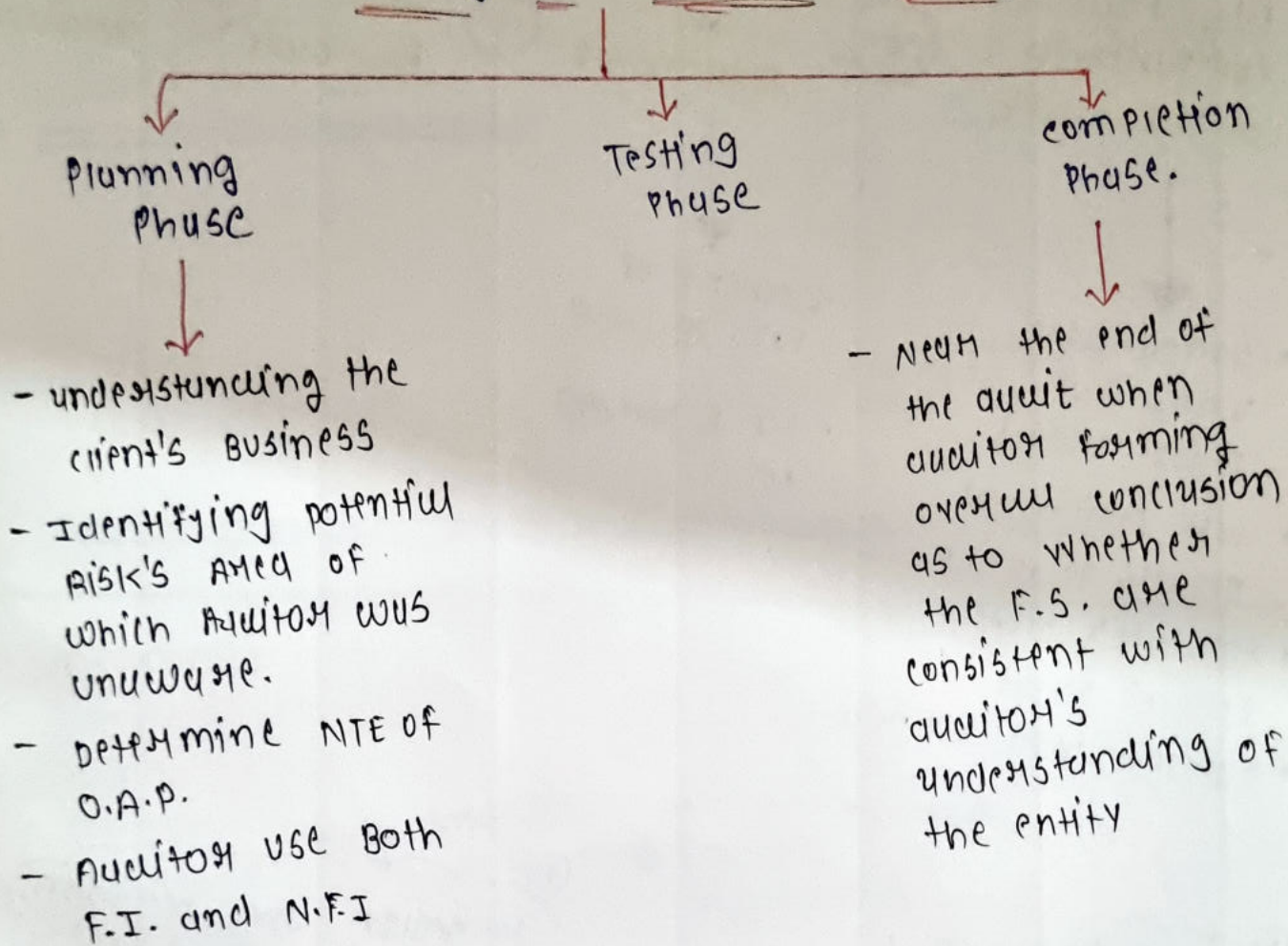
Analytic Procedure

- comparable info. for prior period.
- with anticipated results of entity
- Auditor's determine expected result
- similar industry info.

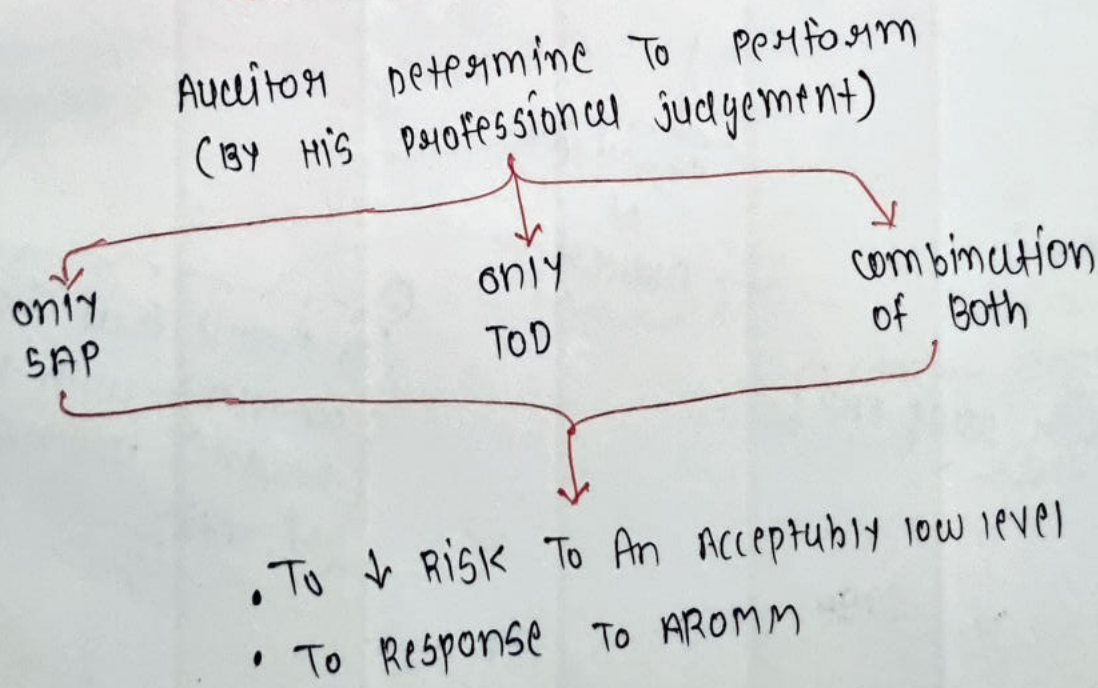
- Element of F.I. eg. GMP
- F.I. & relevant N.F.I.



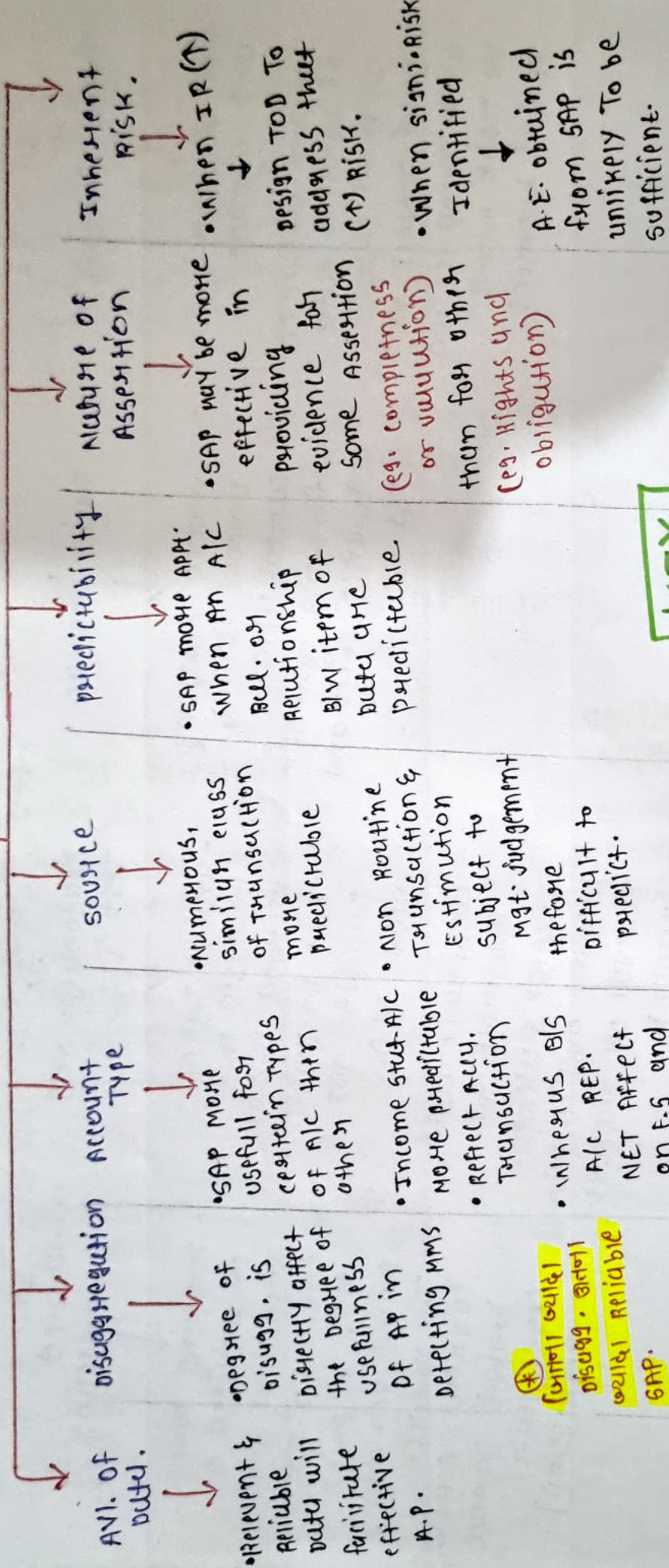
Timing of Analytical Procedure.



Substantive Analytical Procedure.



Factors To be considered for SAP



KEY
→
I PANDAS

Techniques of SAP

Trend Analysis

- most commonly used technique
- Involve comparison of current data with or prior period balance or with Trend in two or more prior period balances

Ratio Analysis

- Involve Analysing revenue item & capital item forming part of Balance sheet and P/L

Reasonableness Test

- Unlike Trend Analysis this method is not rely on prior periods but upon MFD.
- Generally more applicable for Income statement Account and certain Accounts or prepay Account

Statistical modelling

- modelling tool constructed a statistical model from F.I and/or NFI of prior period accounting To predict Account current balance [eg. linear regression]

Determine suitability of Analytical (N-1) procedure.

- For given assertion
- Taking Account ROMM and T.O.D.

Evaluate Reliability of DATA (N-2)

- Taking Account the nature and source of info. AVI. and control over preparation.

SA 330 while designing and performing SAP either alone or with combination of T.O.D. the auditor's Skill.

Development of Expectation (N-3)

- of Recorded Amount/ratio and Evaluate whether expectation is sufficiently precise to identify MMS.

Determine Acceptable Differences

- of Recorded Amount with expected result values that is acceptable w/o further investigation.

N-1

Determination of suitability of,

Particular SAP

Influenced by,

Nature of Assertion

Auditor's Assessment of ROMMS

N-2 Reliability of data:-

Source of Information

FOR EG.

Info may be more reliable when obtain from IND. source of the entity

completeness of Information

FOR EG

Broad industry data may need to be supplemented to be completed to that produce and sell specialised product.

Nature & Relevance of info.

FOR EG.

Whether budget have been established as results to be expected whether their goals to be achieved.

control over the prep. of info.

FOR EG.

control over the prep. & control review and maintenance of budgets.

The Auditor may consider testing the operating effectiveness of control if any,

over the entity's preparation of information

used by Auditor in performing SAP in response to assessed risk.

(N-3) Evaluation of whether the Expectation sufficiently precise.

To identify MMS that when Aggt. with other MMS

may cause f.s. materially misstated

The Accuracy with which the expected results of SAP can be predicted.

The degree of disaggregation.

The Avl. of Info. Both the F.I. and N.F.I.

SA-550

Related Parties

Definition :-

A Related parties that is either,

AS defined in AFRF

where AFRF established minimum or NO R.P. Requirement (N-1)

(N-1)
A person or other entity that HAS

Another entity over which R.E HAS

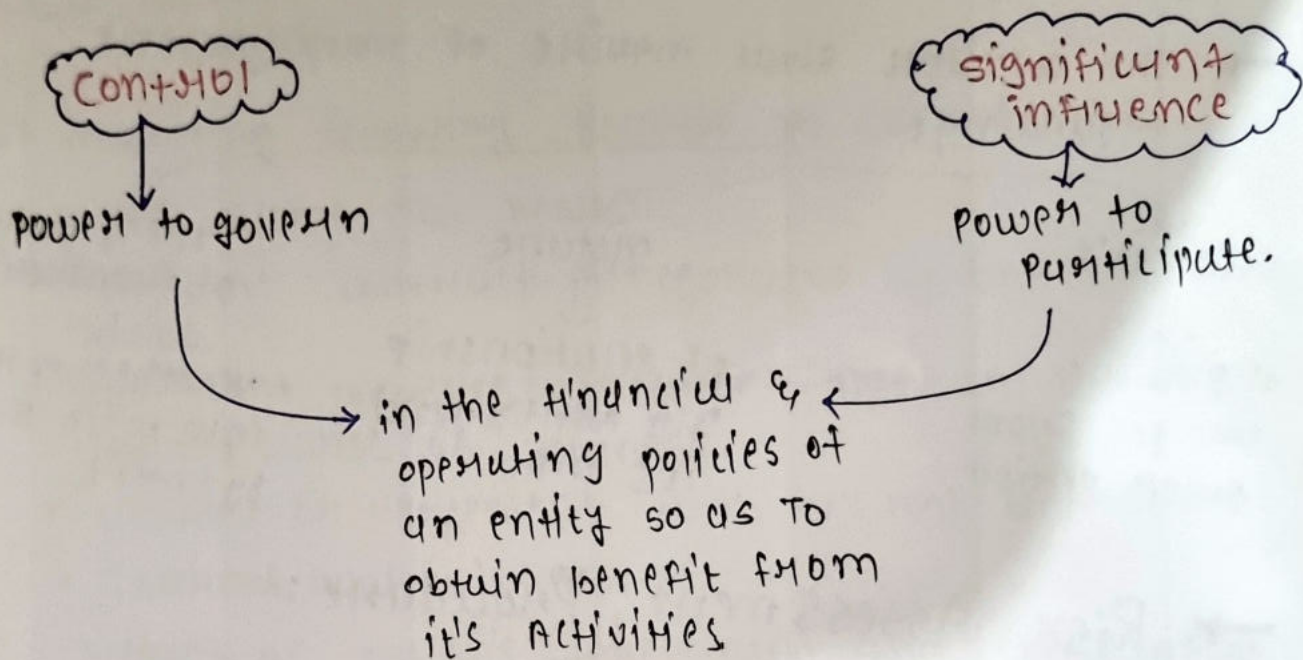
c/SI direct through one or more intermediaries

(or)
Another entity that is under common control with RE through,

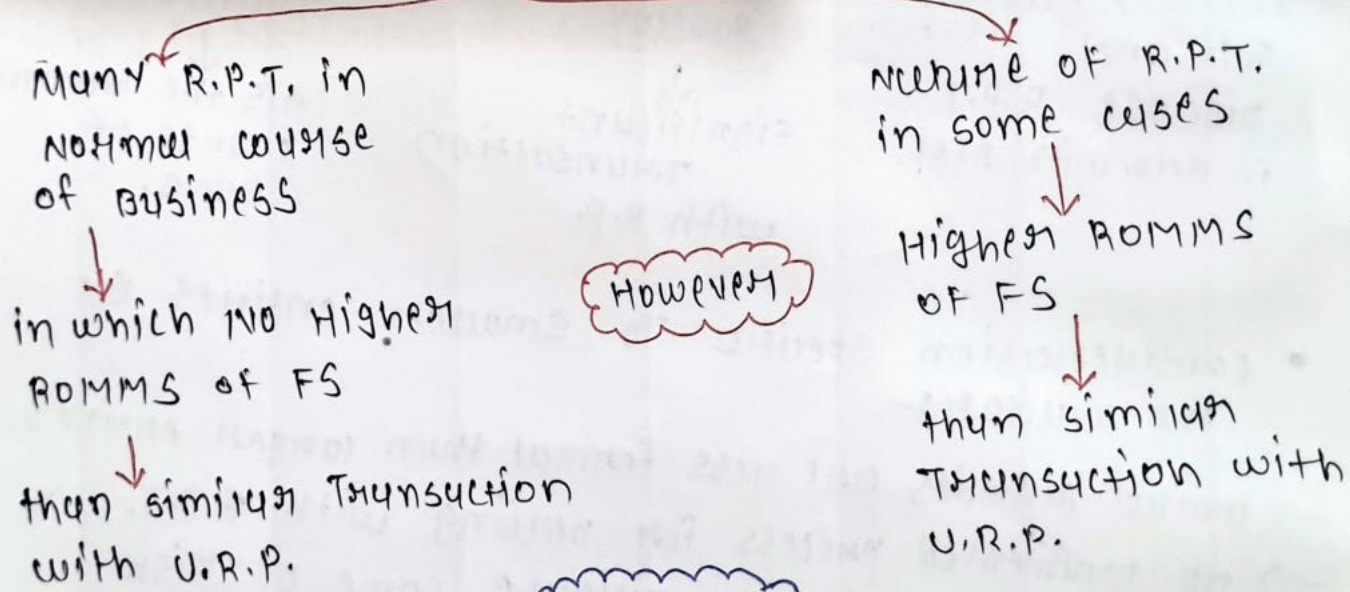
over the Reporting entity. (RE)

- common control ownership
- owners who are close family members
- common key mgt.

• meaning of control/significant influence (C/SI):-



• Nature of Related parties Transaction:-

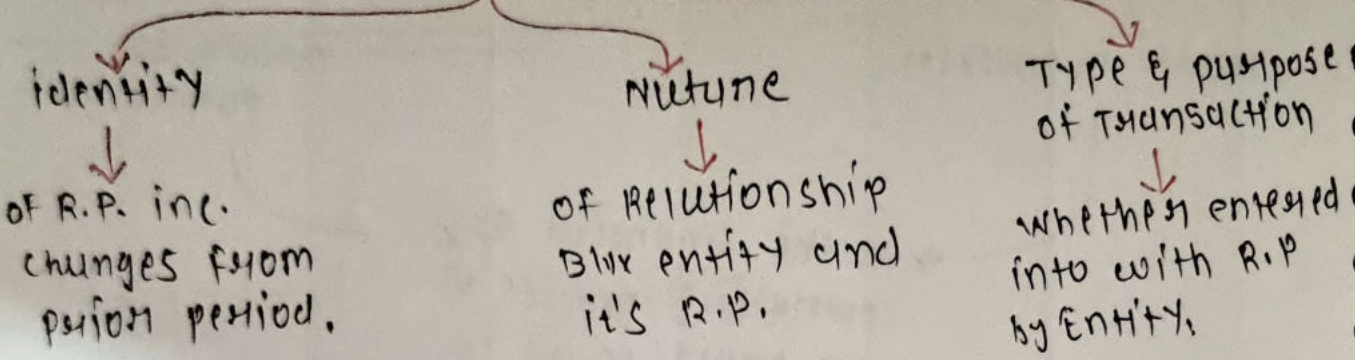


Example

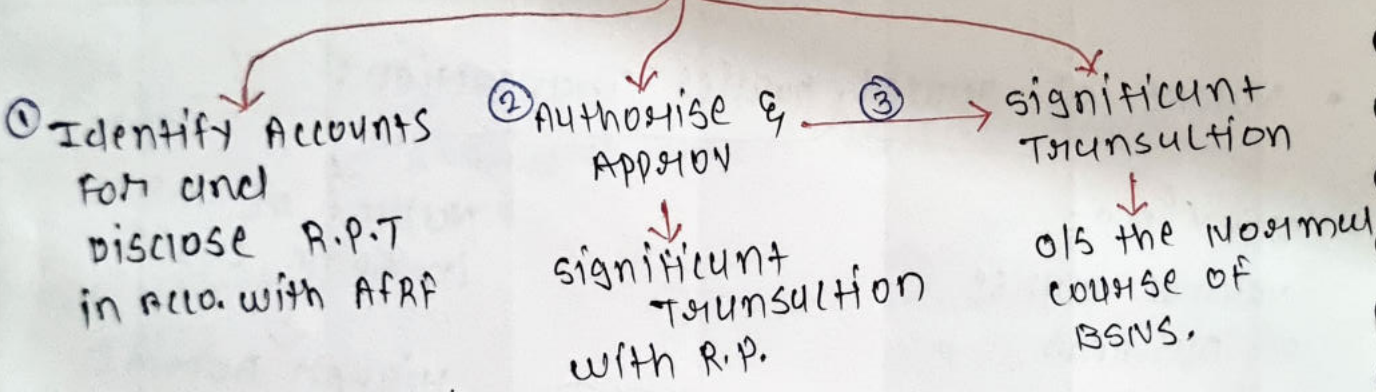
- R.P. operate through an extensive and complex range of relationship with increased in complexity of R.P.T.
- Information system may be ineffective to identify and summarising transaction of R.P.
- R.P.T. may not be conducted at normal market T&C
eg. R.P.T. w/o exchange of consideration.

• Understanding The Entity's R.P.T :-

→ The auditor shall inquire of management Regarding:



→ Risk Assessment Procedure :-



• Consideration specific to smaller entities by the auditor :-

- control activities are less formal than larger entity's.
- no documented process for dealing with R.P.T.
- owner/management may mitigate some of risk arising from R.P.T.

→ Auditor's procedure :-

- understanding of R.P.T & control exist over these.
- Inquiry ⊕ observation ⊕ inspection.
 - ↓ of mgt.
 - ↓ mgt's oversight & review activities
 - ↓ Relevant documents.

N-2 How can an auditor verify existence of R.P.T?

By inspecting following Records or documents.

- Entity's income Tax Return.
- significant contract renegotiated by Entity during period.
- significant contract/agreement not in Entity's normal course of business.
- contract or agreement with key mgt. and TCWA.
- Internal auditor's Report
- Records of entity's investment and those of it's pension.

NOTE :- For detailed Elaboration Refer M₁ Pg. 10.71 (RJ Sir)

SA-610

• Reference
- RJ 518

Using The Work Of

Internal Auditor

Overview:-

① Internal audit :-

→ Internal Audit function (IAF) refers to an function of an entity that performs assurance and consulting activities design to evaluate and improve,

- effectiveness of entity's governance.
- entity's risk management process.
- Internal control process.

→ objective and scope of I.A.F :-

Activities relating to governance.

Activities relating to Risk mgt.

Activities relating to Internal control.

(Design of the process)

(checking financial & operation related data.)

(checking effectiveness efficiency, Economies of operating activities.)

• Evaluation of IC.

• Examination of financial and operating info.

• Review of operating activities.

• Review of compliance with L&R.

Now we enter into SA 610

NOTE:-

3.] scope of SA 610:-

- if External auditor (EA) is using Internal Auditor (IA) then his responsibility SA 610. it may include the

- When E.A. is using the work
- When E.A. is using I.A. to assist (DA) under the

→ Nothing in the SA 610 requires E.A. to use the work of I.A.F.

→ it remains a decision of the External auditor in establishing the overall audit strategy.

4.] Evaluating The I.A.F. :- (Imp) (50)

- Before deciding whether to use the work of IA, EA should evaluate I.A.F. on the basis of following criteria,

- the level of competence of I.A.F.
- objectivity i.e. the extent to which function (IAF) organisational status and relevant policies and procedure support the objectivity of function.
- whether the function applies a systematic and disciplined approach toward their work inc. quality control policies and procedure.

5.] circumstances when the work of IAF cannot be used :- (MCOs)

i.] function lacks sufficient competence.

ii.] function doesn't apply systematic and disciplined approach.

iii.] functions orgn, status and policies & procedure do not adequately support their objectivity.

NOW WE ENTER INTO SAGIO :-

3.] scope of SAGIO :-

- if External auditor (EA) is used the work of Internal Auditor (IA) then his responsibility are given under SAGIO. it may includes the following circumstances,

- when E.A. is using the work of I.A.F. to obtain AE
- when E.A. is using I.A. to provide direct assistance (DA) under the DRS of E.A.

4.] Evaluating The I.A.F. :- (Imp) (SQ)

- Before deciding whether to use the work of IA, EA should evaluate I.A.F. on the basis of following criteria,

- the level of **competence** of I.A.F.
- **objectivity** i.e. the extent to which function (IAF) organisational status and relevant policies and procedure support the objectivity of function.
- whether the **function applies a systematic and disciplined approach** toward their work inc. quality control policies and procedure.

5.] circumstances when the work of IAF cannot be used :- (MCQs)

i.] function **lacks** sufficient **competence**.

ii.] function **doesn't** apply **systematic and disciplined approach**.

iii.] functions **orgn, status and policies & procedure** do not adequately support their **objectivity**.

6.] Using The WORK OF I.A.F :- (SQ.)

- if E.A. plans To use the work of function then EA shall,

A.] **discuss** the planned use of its work **with** the **function** as a basis for co-ordinating their respective activities.

B.] **Read** the **reports** of **function** **relating** to the **work** which E.A. **wants** to use To understand the **nature** and **extent** of **audit procedure** performed by function and functions finding.

C.] **perform** **sufficient** **A.P.** around the work of function to **determine** whether it is **adequate** for the purpose of stat. audit.

*** NOTE** : discussion and coordination with the function - **appt. discussion & coordination** with the function about respective activities will help in addressing the following :-

A.] **Timing** of work.

B.] **Extent** of work.

C.] **Nature** of work.

D.] **proposed** **method** of **sample** **selection**.

E.] **determination** of **materiality**.

F.] **Docs.** of work.

G.] **Review** and **Reporting**.

IMP
7.] **determining** whether / in which areas and To what extent E.A. can use direct assistance of I.A. :- **(IMP) (SQ)**

SQ.
A.] the E.A. may be prohibited by L&R from obtaining D.A. from I.A.

B.] if it is not prohibited by L&R then E.A. can use D.A. of IA To perform A.P. under the DRS of E.A. (same as scope-2)

Distinction b/w

IFC

- Refers to policies and procedure put in place by companies
- To ensure reliability of F.R.
- compliance with applicable L&R
- safeguarding asset and ppc of fund.
- effectiveness & efficiency of operation.

• Broad term.

ICFR

- it is required when auditor requires to express an opinion on entity's internal control effectiveness over FR

- such opinion is distinct from opinion expressed by auditor on FS

• Narrow term