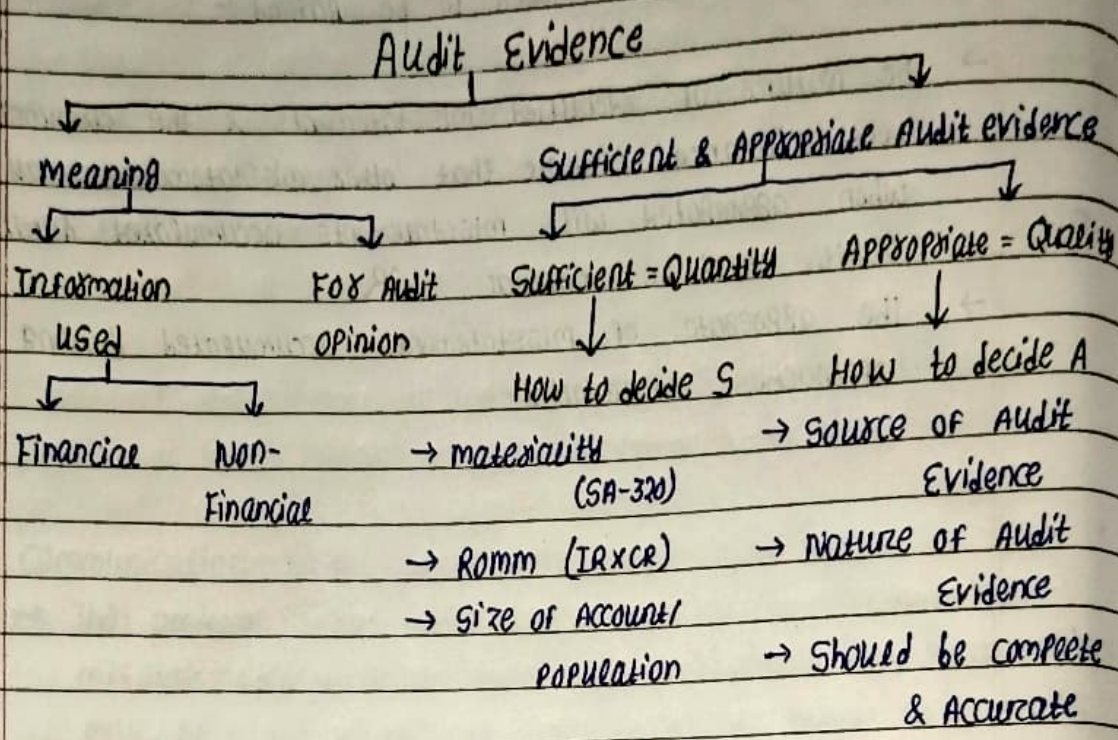
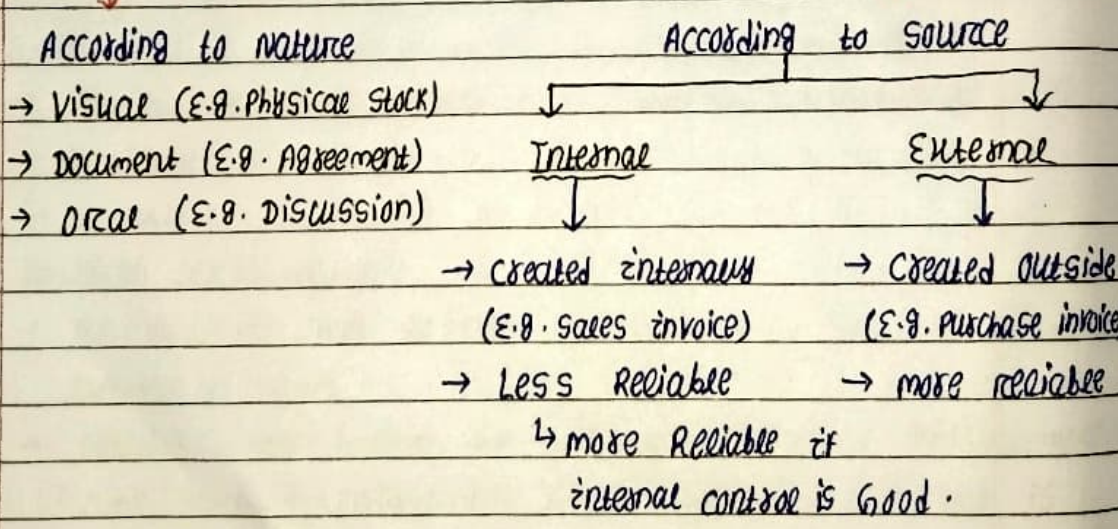


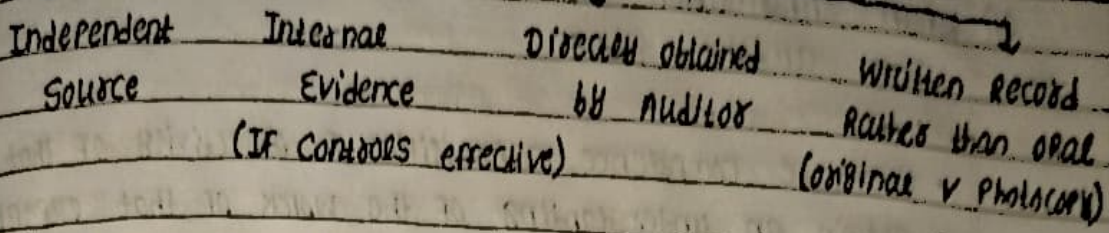
SA 500 - Audit Evidence



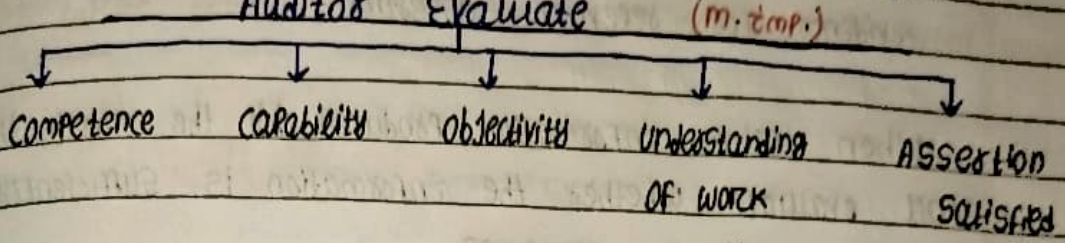
Types of Audit Evidence



Reliability of Audit Evidence (Factors)



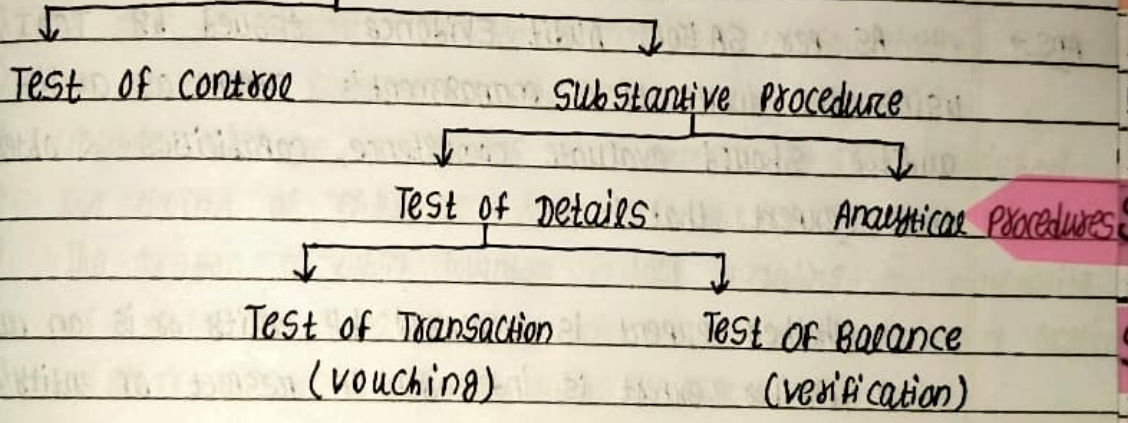
Information obtained from management Expert, Auditor Evaluate (m. imp.)



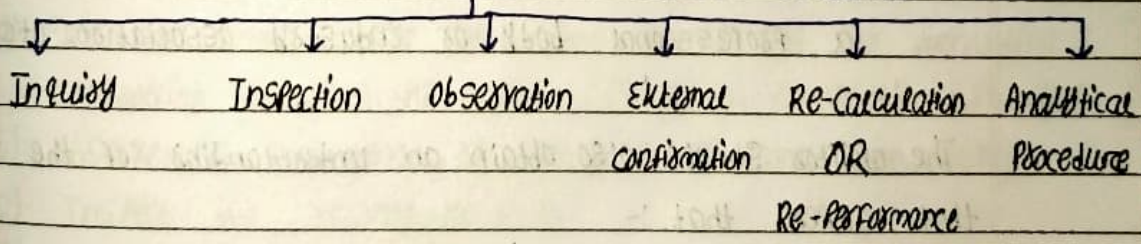
Inconsistency of Audit Evidence

↳ Perform Additional Audit Procedures

Procedures to obtain Audit Evidence



Methods to obtain Audit Evidence



Using The Work Of Management Expert

Q1) When information to be used as audit evidence?

Ans → The auditor shall

- Evaluate competence, capabilities & objectivity of that expert
- Obtain an understanding of the work of that expert &
- Evaluate appropriateness of that expert's work as audit evidence for relevant assertion.

When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes.

Q2) As an auditor what will you do to evaluate competence, capabilities, objectivity & understanding of work of actual expert who has carried out actuarial valuation of gratuity?

Ans → As per SA 500, Audit Evidence, issued by ICAI, when using the work of a management's expert as audit evidence auditor should evaluate competence, capabilities & objectivity of that expert that :-

- Whether expert is employed by entity or is an outside party.
- Whether expert is independent in respect of entity.
- Auditor's previous experience of work of expert.
- Knowledge of expert, his qualification, membership of a professional body or industry association, etc.

The auditor should also obtain an understanding of the work of that expert that :-

- Whether auditor has expertise to evaluate work of expert.
- Evaluating assumptions & methods used by management.
- Evaluating nature of internal or external data used by expert.

3) The nature, timing & extent of audit procedures may be affected by matter as :-

- The nature & complexity of matter to which management's expert relates.
- The risks of material misstatement in the matter.
- The availability of alternative sources of audit evidence.
- The nature, scope & objectives of management's expert work.

SA 501 - Audit evidence - specific considerations for selected items

1) What matters should be considered when planning attendance at a physical inventory count?

- Ans →
- 1) Nature of inventory
 - 2) Stages of completion of work in progress.
 - 3) The risk of material misstatement related to inventory.
 - 4) The nature of internal control related to inventory.
 - 5) Whether adequate procedures are expected to be established.
 - 6) The timing of physical inventory counting.
 - 7) The location at which inventory is held, including the materiality of inventory & risks of material misstatement at different locations.
 - 8) Whether assistance of an auditor's expert is needed.

2) When is it considered impractical to attend a physical inventory count?

- Ans →
- a) Evaluate management's instructions procedures for recording & controlling results of entity's physical inventory counting.
 - b) Observe the performance of management's count procedures.
 - c) Inspect the inventory; &
 - d) Perform test counts.
 - e) Performing audit procedures over entity's final inventory records to determine whether they accurately reflect result.

3) What considerations arise when physical inventory counting is conducted on a date other than financial statement date?

Ans → If physical inventory counting is conducted at a date other than date of financial statement, auditor shall, in addition to procedures required above, perform audit procedures to obtain audit evidence about whether changes in inventory between count date & date of financial statements are properly recorded.

- Whether perpetual inventory records are properly recorded.
- Reliability of entity's perpetual inventory records.
- Reasons for significant difference between information obtained during physical count.

4) What should be auditor do if they are unable to attend the physical inventory count due to unforeseen circumstances?

Ans → If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or above some physical counts on an alternative date & perform audit procedures on intervening transactions.

5) What alternative audit procedures should be performed when attendance at a physical inventory count is impracticable?

- Ans →
- If attendance at physical inventory counting is impracticable, the auditor must perform alternative audit procedures.
 - These procedures are intended to obtain sufficient appropriate audit evidence about existence & condition of inventory.
 - If it is not possible to obtain such evidence through alternative procedures, auditor must modify their opinion.
 - This modification should be made in auditor's report in accordance with SA 705.

6) How should an auditor obtain evidence regarding inventory held by a third party?

Ans → When inventory is under custody & control of a third party, & is material to financial statements, the auditor must obtain sufficient appropriate audit evidence.

To do this the auditor shall perform one or both of the following :-

- Request confirmation from third party as to quantities & condition of inventory held on behalf of entity.
- Perform inspection or other audit procedures appropriate in the circumstances.
- Attending/arranging another auditor to attend third party's counting procedure.
- Inspecting documentation. (e.g.:- warehouse receipts)

SA 505: External Confirmation

Direct Response from Third Party to Auditor:

- a) Positive Confirmation: Respond in All the situation
- b) Negative Confirmation: Respond only if Balance Not Agree

External Confirmation Procedure:

- Information to be confirmed
E.g.: Bank, Debtor, Creditor, Third Party, Assets, etc.
- Determine confirming party
- Design confirmation request, Address, Return information (Address of Auditor)
- Follow up if required

Design Confirmation Requests → Factors

- Risk of material misstatement including Fraud Risk
- Nature & presentation of confirmation request
- Prior Experience of Auditor
- Assertion Addressed
- Method of communication
- Management Follow-up
- Balance vs Transaction Confirmation

Reliability of Response

- objectivity of confirming party
↳ confirming party should not be related party of client
- Knowledge of The matter
↳ whether client know about Subject matter.

→ Willingness of Third party to respond
↳ Third party may consider it time consuming & costly.

Note:-

If Auditor has Doubt on Reliability, He should perform Further Audit Procedures.

To resolve the doubts, if not possible, Fraud Risk factor & consider effect on NTE of other Audit procedures.

management refuse to send confirmation (Imp)

- Auditor should ASK → Reason & Evaluate Reasonableness.
- Implication of management Refusal.
 - Perform Alternate Audit procedures.
 - Communicate with TCWG, if required
 - Determine Implication on Audit Report as per SA-705.

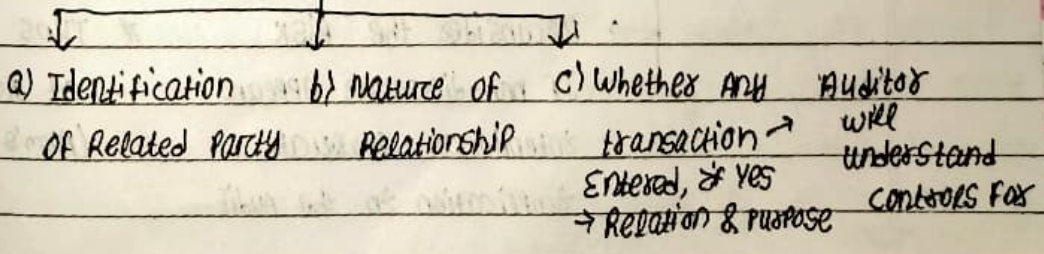
NAD - Response to positive confirmation Request:

- Perform Alternate procedure
- Effect on Audit Report.

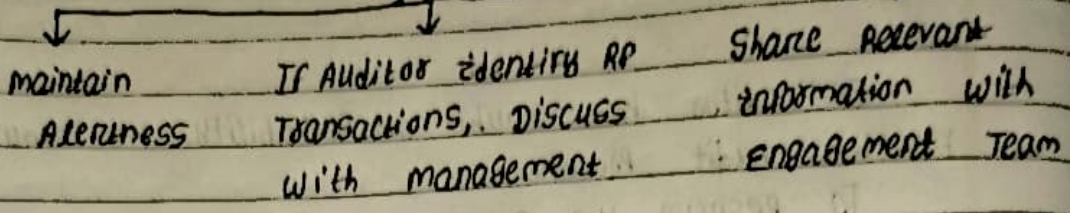
SA 550 Related Party

Step 1: Understanding the Entity's Related Party Relationship & Transactions

→ Auditor will inquire with management & understand controls regarding



↳ Auditor will maintain alertness for received party information during documents review.

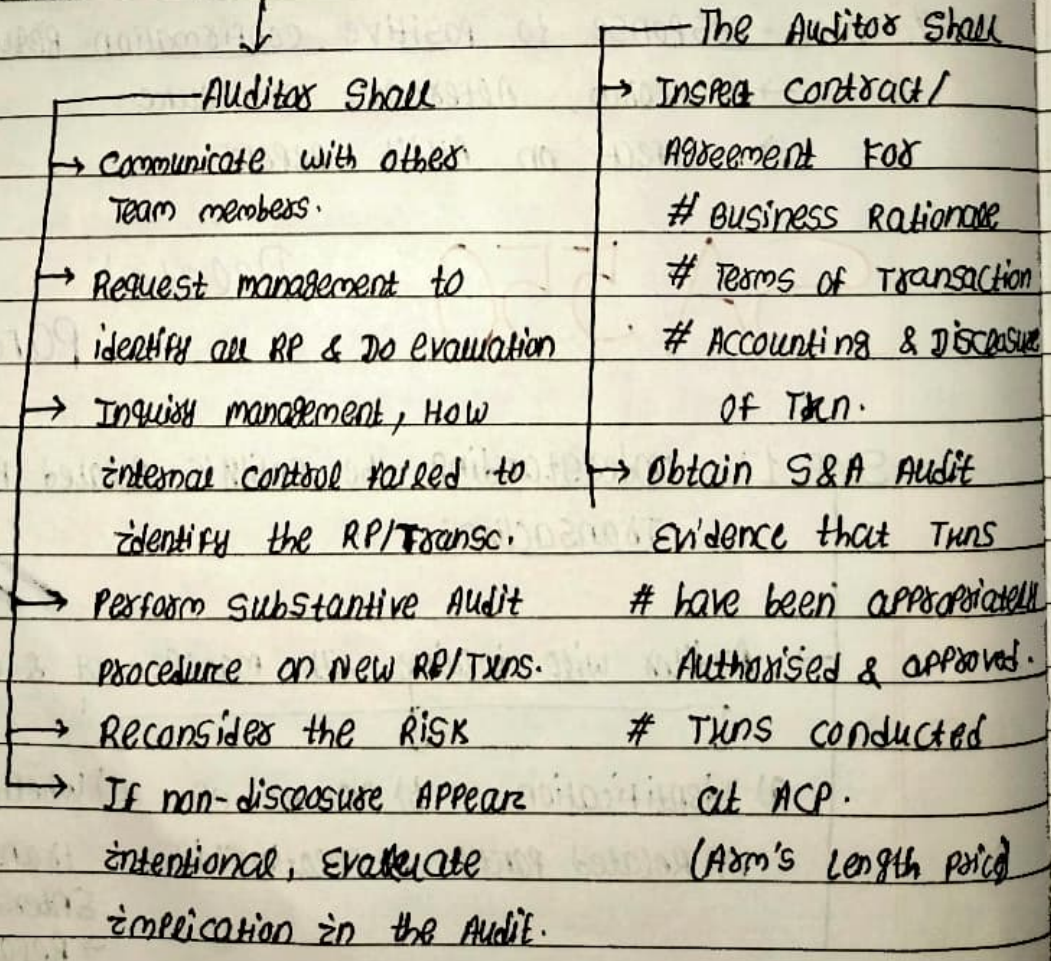


STEP 2:- Identify & Assessment of RORR → SA 315
 Response to RORR → SA 330 → Associated with RP Relationship & Transactions.

IF Auditor identify ANY significant RISK, consider SA-240 as well. (Fraud RISK Factor)

CASE 1:- Identify previously unidentified or undisclosed RP relation OR transaction.

CASE 2:- Identified significant RP txn outside the entity normal course of business.



STEP 3: Reporting stage: Framing opinion

↳ Evaluate whether

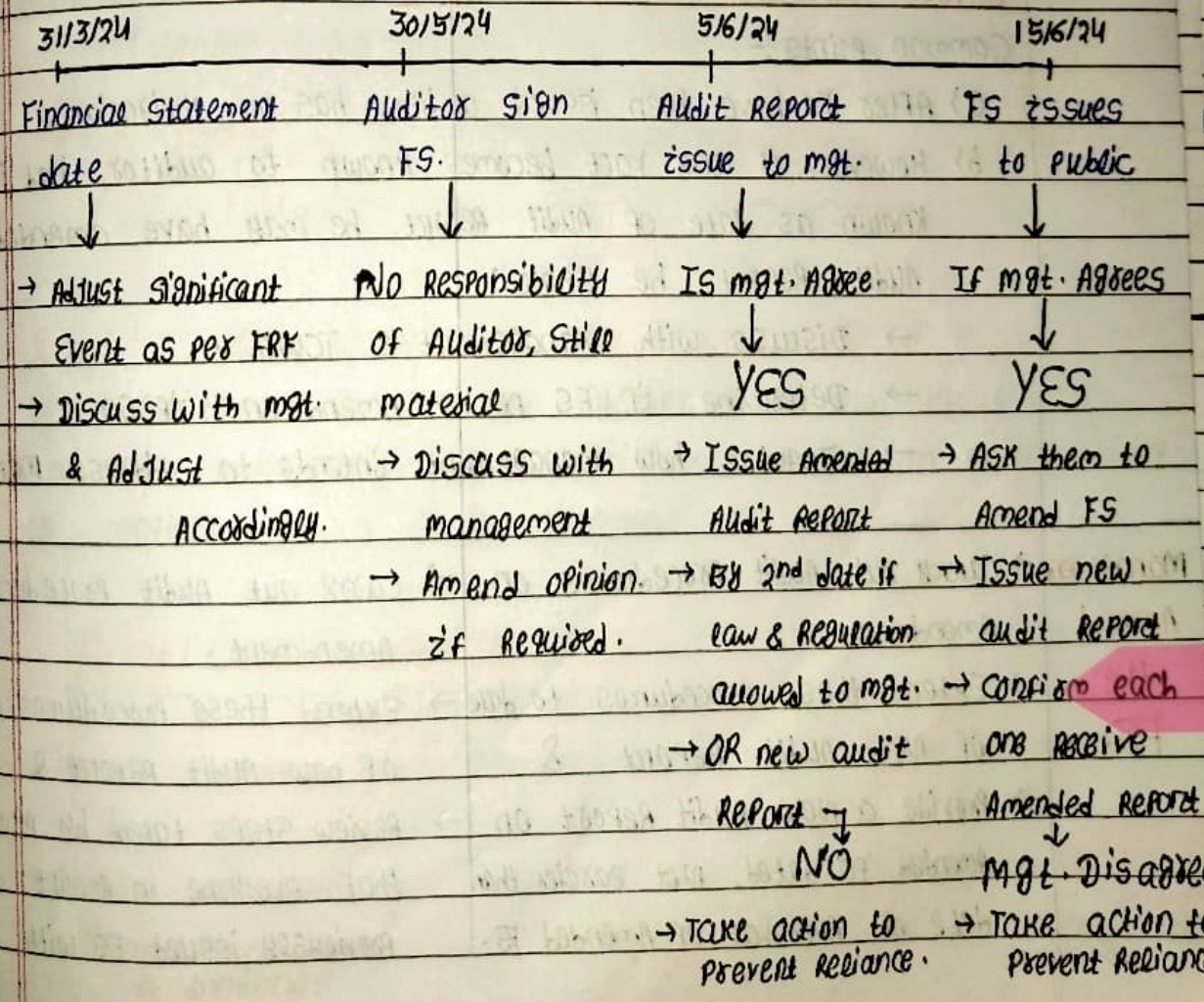
- RP Relationship/Txn are Appropriately Accounted/ Disclosed
- Effects are not preventing from True & Fair view on FS.

UN-MODIFIED OPINION
 If cause the material misstatement qualified/ Adverse as per SA-703

General points:-

- obtain MRL that management disclosed All RP Relationship/Transactions.
- Communicate with TCWG Related to all significant matters in Relation to RP
- Documentation.

SA-560: Subsequent Events



General points:-

- Obtain SAAS to ensure events which require adjustment or disclosure in FS have been identified.
- In determining NTE of audit procedures, he shall:-
 - Understand management process to identify subsequent events.
 - Inquire management of the occurrence of subsequent events which affect FS.
 - Read minutes of management meetings held after date of FS.
 - Read latest subsequent interim FS, if any.
 - If auditor identifies any subsequent event which requires adjustment or disclosure, determine whether it is appropriately disclosed or not.

Facts become known to Auditor after date of Audit Report but before FS are issued

Facts which become known to Auditor after Financial Statements are issued:

Common points:-

- a) After FS have been issued auditor has no obligation.
- b) However, if any fact becomes known to auditor, had it been known as date of Audit Report, he may have amended the Audit Report, he shall:-
 - Discuss with management & TCWG.
 - Determine, if FS needs amendment, if so
 - Inquire, how management intends to address matter.

Management Amend the FS.

- Carry out Audit procedures on Amendment.
- Extend these procedures to date of new Audit Report &
- Provide a new Audit Report on Amended FS dated, not earlier than date of approval of Amended FS.

- Carry out Audit procedures on Amendment.
- Extend these procedures to date of new Audit Report &
- Review steps taken by management that everyone in receipt of previously issued FS with AR

Amend the FS.

• Audit Report not provided to Entity
 ↳ modify opinion as per SA-705 & provide Audit Report

has been informed by situation.
 → In new amended Audit Report includes EoM para refer to note in FS discussing reasons for amendment in FS & Audit Report
 Auditor shall notify management & TCWG that auditor seeks to prevent future reliance on Audit Report.

• Audit Report provided to Entity.
 ↳ notify management & TCWG to not issue FS to 3rd parties.
 If management still issues FS, Auditor shall take action to prevent reliance on Audit Report.
 (Obtain Legal Advice)

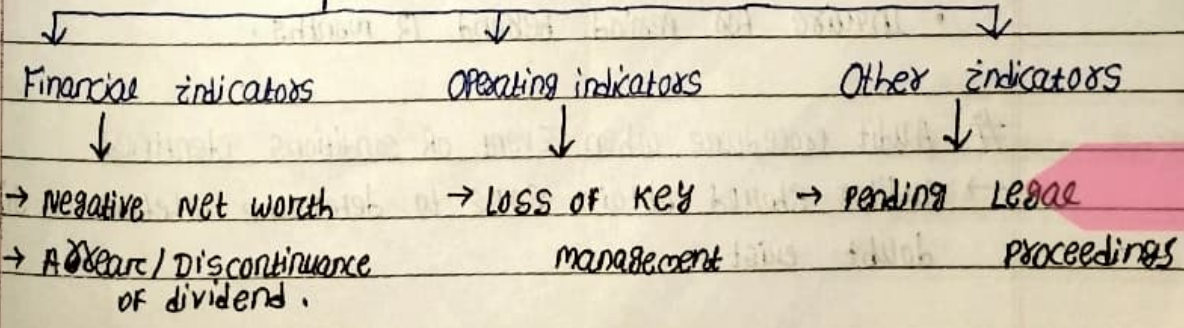
If despite such notification, management & TCWG don't take steps, auditor shall take action to prevent reliance on Audit Report.
 (Obtain Legal Advice)

SA 570 : Going Concern

Step 1: Risk Assessment Procedure & Related Activities

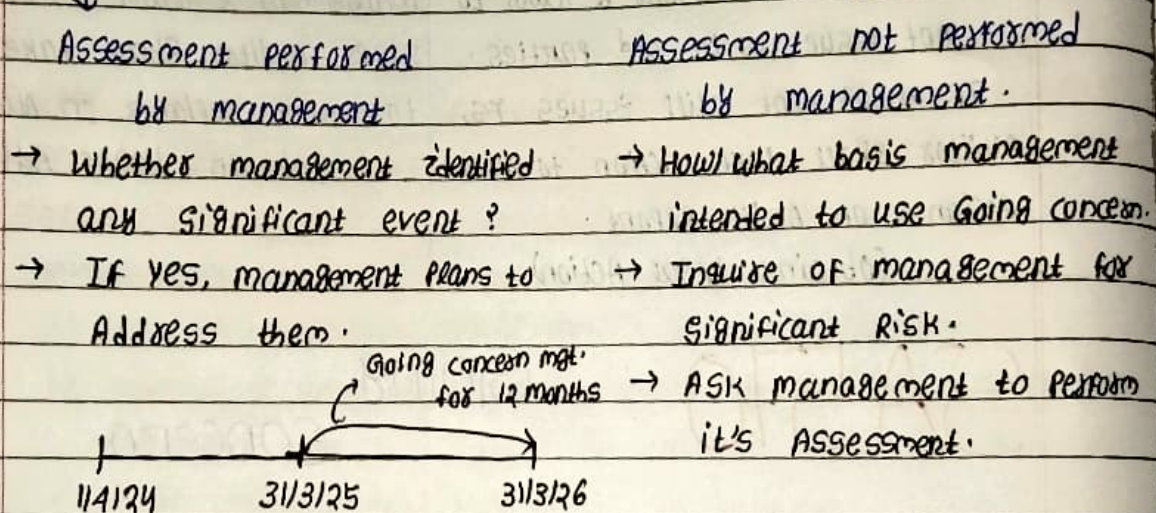
Auditor will consider whether there are event OR conditions which may cast significant doubt on entity ability to continue as a going concern.

Event / condition OR indicators



- Adverse Financial Ratios
- operating losses
- Borrowing matured but No Re-payment.
- Non-compliance with Loan Terms
- Negative cash flows
- Loss of major market/supplier.
- Labour unrest, strikes, etc.
- Loss of major license.
- Changes in Govt. Policy.
- Non-compliance with Statutory Requirements.

The Auditor should ASK management For Preliminary Assessment of Entity For Going concern



→ Auditor's Responsibility

- Evaluate management Assessment for 12 months OR if management did it for less than 12 months ask management to extend the period till 12 months.
- Inquire for period beyond 12 months.

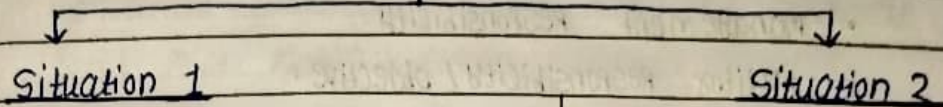
Audit procedure when Event or conditions Identified

- Auditor should obtain SAAE to determine whether a significance doubt exist.

- Consider Mitigating Factors.
- ASK Management to perform Risk Assessment.
- Evaluate Management Future Plans.
- Evaluate Assumptions, Base data for management forecast of Future Cash Flows.
- Request MR for Future Action.

Step 2: Auditor conclusion in relation to Financial Statement

- Evaluate SAAE obtained?
- Whether a material uncertainty exist?



Situation 1	Situation 2
Disclosure in FS ⇒ condition identified & material uncertainty exist.	Disclosure in FS ⇒ condition identified & No material uncertainty exist.
→ Disclosure in Financial Statement with management plans.	→ Auditor should check applicable FRF requirement & check that Financial Statement provide Adequate disclosure about Events or conditions.
→ Disclose that company may be unable to realise its assets & discharge its liabilities in the normal course of business.	

Step 3: Implication in Audit Report

Case 1: Going concern Accounting is inappropriate.

↳ Adverse opinion

Case 2: Going concern Accounting is appropriate but material uncertainty exist.

→ Adequate disclosure made in FS → # unmodified opinion # mention Going concern para in Audit Report.

↳ Adequate Disclosure → # Qualified / Adverse
Not made in FS → # Basis for Qualified / Adverse
Opinion.

Case 3:- management unwilling to make Assessment
↳ Implications on Audit Opinion

General points :-

- Communicate with TCWG.
- Significant Delay in Approving of FS.
- SA-701 Linking.
- Management Responsibility
- Auditor Responsibility / Objective.

SA 580

Written

Re-presentation

Why

- ↳ To support other Audit Evidence
- ↳ Cover all period of Financial statements

WR are from management & TCWG for matters affecting FS

- ↳ E.g.:-
- WR For Going concern
 - WR For uncorrected misstatement
 - WR For Responsibility of management.

Imp. Note:- WR does not include Financial, Supporting documents & Assesstions.

General points :-

- a) WR should be obtain before OR on the Audit Report date.
- b) It is just an additional evidence, NOT Sufficient & Appropriate Audit evidence.
- c) It should be addressed to the Auditor.
- d) For Public Statement - WR not Required

e) ONLY WR never provide sufficient & appropriate Audit evidence.
↳ case study in exam

f) If WR inconsistent - perform additional Audit procedure.

Exam ques: WR related to prior period / item / specific assertion.

1) Sometimes it may be appropriate to obtain WR about a specific assertion in FS during audit - in such case, it may be necessary to request an updated WR.

2) WRs are for all periods referred in Audit Report because management needs to re-affirm that WR it previously made w.r.t. prior periods remain appropriate.

3) Auditor & management may agree to a form of WR that updates WRs relating to prior periods by addressing whether there are any changes to such WRs & if so, what they are.

4) Situation may arise where current management were not present during all periods referred in Audit Report. Such person may assert that they are not in position to provide some or all of WRs because they were not in place during prior period.

5) This fact, however, does not diminish such persons responsibilities for FS as a whole, accordingly. Requirements for auditor to request WRs that cover all relevant periods still applies.

Auditor Responsibility if WR not provided by management

- Discuss the matter with management.
- Re-evaluate the integrity of management.
- Re-evaluate the RMM.
- Effect on other Audit areas.
- Effect on Audit Report / opinion.