

SA 501 – “Audit Evidence Specific Considerations for Selected Items”

OBJECTIVE OF AUDITOR IN RESPECT OF SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

To obtain SAAE regarding:	Existence & Condition of Inventory	Completeness of Litigation & Claims	Presentation & Disclosure of segment info. as per AFRF
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INVENTORY

1. When inventory is material to the FS, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

1. **Attendance** at physical inventory counting, unless impracticable, to:
 - **Evaluate mgt.'s instructions & procedures** for recording results of inventory counting
 - **Observe** performance of mgt.'s count procedures
 - **Inspect** inventory (for identifying obsolete or damaged inventory); and
 - Perform **Test counts**.
2. **Performing audit procedures** over entity's **final inventory records** to determine whether they accurately reflect actual inventory count results.

Attendance at physical inventory counting involves	Matters relevant in planning attendance at physical inventory counting
<ol style="list-style-type: none"> 1. Inspecting inventory to evaluate its condition, & performing test counts 2. Observing compliance with mgt.'s instructions 3. Obtaining evidence as to reliability of mgt.'s count procedures. 	<ul style="list-style-type: none"> ▪ Nature of inventory. ▪ Stages of completion of WIP ▪ ROMM related to inventory. ▪ Internal control related to inventory. ▪ Whether proper instructions issued for physical inventory counting. ▪ Timing of physical inventory counting. ▪ Whether a perpetual inventory system. ▪ Materiality & ROMM at locations ▪ Whether assistance of an auditor's expert is needed.

2. Physical inventory count conducted other than the date of F.s

- If counting is done **other than date of F.S**, he shall, additionally, perform procedures to **obtain evidence** whether **changes in inventory b/w count date & date of F.S** are properly recorded.
1. Whether perpetual inventory **records are properly adjusted**.
 2. **Reliability** of entity's perpetual inventory records.
 3. **Reasons for significant differences** b/w info. obtained during physical count & perpetual inventory records.

3. Auditor unable to attend physical inventory counting due to unforeseen circumstances

- Make or observe some physical counts on an **alternative date**,
- Perform audit procedures on **intervening transactions**.



4. Attendance at physical inventory counting becomes impractical

- In some cases, attendance at physical inventory counting may be **impracticable**, due to factors such as nature & location of inventory that may pose **threats to safety** of auditor. Then he shall **perform alternative procedures**. (Ex: Inspection of documentation of subsequent sale of specific inventory items acquired or purchased prior to physical inventory counting)

- If it is **not possible** to do so, auditor shall ---> **modify opinion** in auditor's report in accordance with **SA 705**.
- **Matter of general inconvenience** is **not sufficient** to support a decision by the auditor that attendance is impracticable. (**matter of Difficulty, Time, or Cost** is **not** in itself a **valid basis** to omit a procedure for which no alternative or to be satisfied less than persuasive evidence.)



5. When inventory under custody & control of a 3rd party

1. **Request confirmation** from 3rd party as to quantities & condition of inventory.
2. Perform **inspection or other audit procedures** appropriate in circumstances.

If information obtained raises doubt about integrity of third party, Perform other procedures.

- **Inspecting documentation** regarding inventory held by 3rd parties, E.g., warehouse receipts.
- Attending, **3rd party's physical counting of inventory**, if practicable.
- **Obtaining another auditor's report**, or service auditor's report for ensuring that inventory is properly counted & adequately safeguarded.

LITIGATION AND CLAIMS

1. Audit Procedures

Perform procedures to identify litigation & claims which may give rise to ROMM, including:

- **Inquiry of mgt.** & others within entity, including **in-house legal counsel**
- **Reviewing minutes of meetings** of TCWG & **correspondence** with **external legal counsel**
- **Reviewing legal expense accounts**.

2. If Auditor Assess ROMM

Communication with external legal counsel	Meeting the legal counsel
<ul style="list-style-type: none"> ▪ If auditor assesses ROMM he shall, seek direct communication with entity's external legal counsel through a letter of inquiry prepared by mgt. & sent by auditor, requesting counsel to communicate directly with auditor. ▪ If law, regulation prohibits legal counsel from communicating directly with auditor, perform alternative audit procedures. ▪ If unlikely that counsel will respond appropriately to a letter of general inquiry, may seek communication through letter of specific inquiry. ▪ <u>Letter of specific inquiry includes:</u> <ol style="list-style-type: none"> 1. A list of litigation & claims; 2. Mgt.'s assessment of outcome of each & its estimate of financial implications 3. A request to counsel to confirm reasonableness of mgt.'s assessments and provide further info. if list is incomplete 	<p>In certain circumstances, auditor also may judge it necessary to meet with entity's external legal counsel to discuss likely outcome of the litigation or claims. E.g., where:</p> <ol style="list-style-type: none"> 1. Matter is a significant risk. 2. Matter is complex. 3. Disagreement b/w mgt. & legal counsel. <p>Such meetings require mgt.'s permission & are held with representative of mgt. in attendance. If, mgt. refuses to give auditor permission to meet with external legal counsel OR Entity's legal counsel refuses to respond appropriately to letter of enquiry</p> <p style="text-align: center;">AND</p> <p>Auditor is unable to obtain SAAE by alternative audit procedures. He shall modify opinion in auditor's report as per SA 705</p>

3. Written Representation

Request WR that **all known actual or Possible Litigations & Claims** have been disclosed to auditor.

SEGMENT INFORMATION

Auditor shall obtain SAAE regarding presentation & disclosure of segment information as per AFRF by:

1. Obtaining an **understanding of methods** used by mgt. in determining segment information, and:

E.g. of matters that may be relevant when obtaining an understanding of methods used by mgt.

1. **Sales, transfers & charges** b/w segments, & elimination of intersegment amounts.
2. **Comparisons** with budgets & other expected results
3. **Allocation** of assets & costs among segments.
4. **Consistency with prior periods**, & adequacy of disclosures with respect to inconsistencies.

2. Performing **analytical procedures** or other audit procedures.

28. Segment Reporting						
	2023			2022		
	External	Inter Segment	Total	External	Inter Segment	Total
(₹ in Crores)						
1. Segment Revenue - Gross						
FMCG - Cigarettes	28206.83	–	28206.83	23451.39	–	23451.39
FMCG - Others	19081.48	41.02	19122.50	15964.75	29.74	15994.49
FMCG - Total	47288.31	41.02	47329.33	39416.14	29.74	39445.88
Hotels	2573.22	11.81	2585.03	1279.33	5.67	1285.00
Agri Business	12314.86	5857.48	18172.34	12126.05	4070.02	16196.07
Paperboards, Paper and Packaging	7304.50	1776.85	9081.35	6279.57	1362.05	7641.62
Segment Total	69480.89	7687.16	77168.05	59101.09	5467.48	64568.57
Eliminations			(7687.16)			(5467.48)
Gross Revenue from sale of products and services			69480.89			59101.09