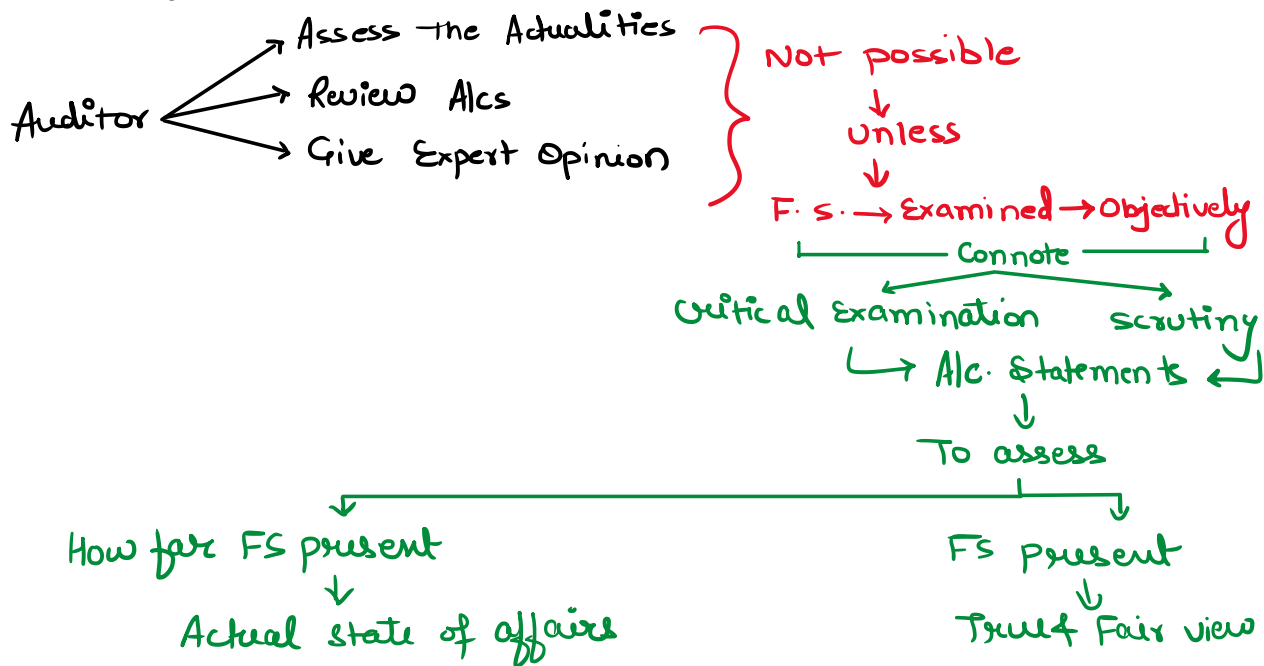


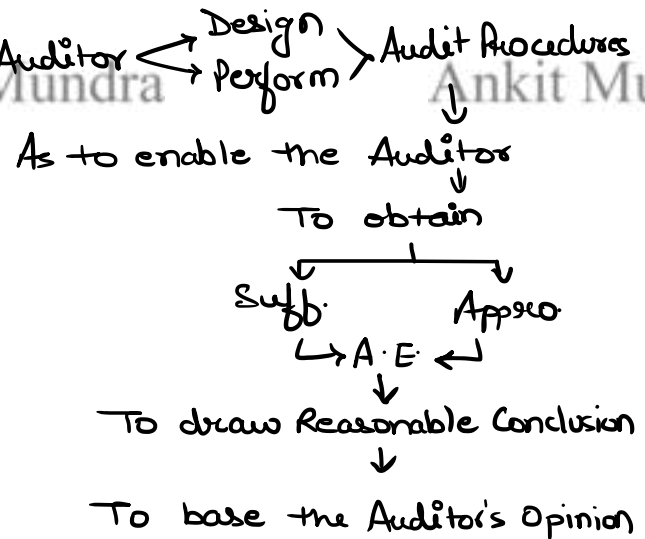
1 - Audit Evidence

* 1.1 - Introduction

Auditing → Logical Process



* SA 500 → Objective of the Auditor



1.2 - Meaning of Audit Evidence as per SA 500

Audit Evidence (A.E.)

Info. Used by the Auditor → In arriving at conclusion → on which → Auditor's opinion is based

Contained in the Records

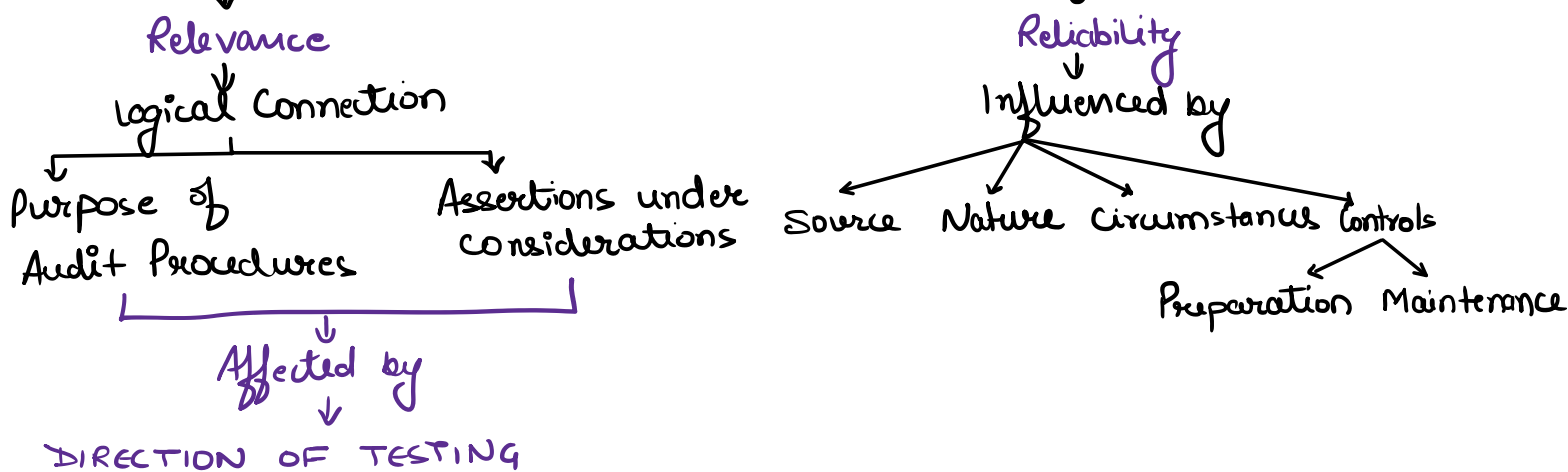
Other Info.
(Member of Meetings.
Written Confirmation, etc.)

1.3 - Types of Audit Evidence

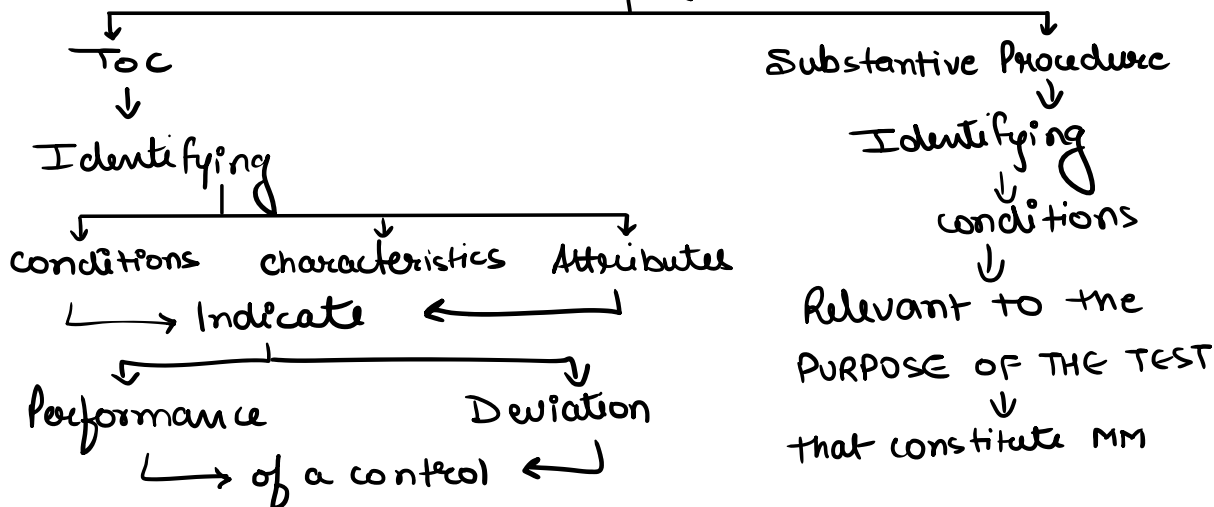


1.4 - Relevance and Reliability of audit evidence

Quality of an Audit → Affected by

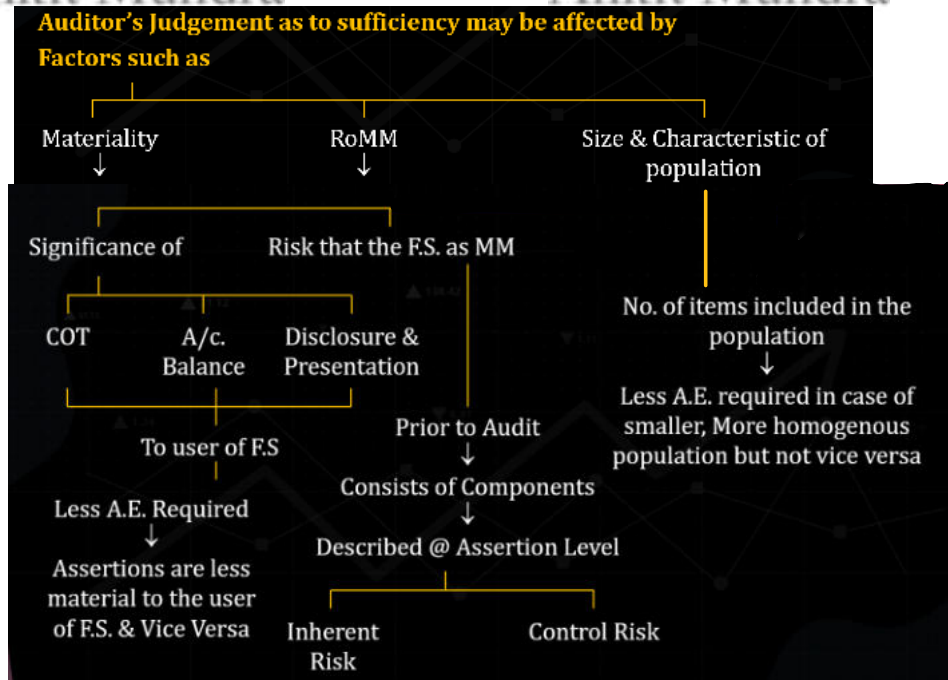


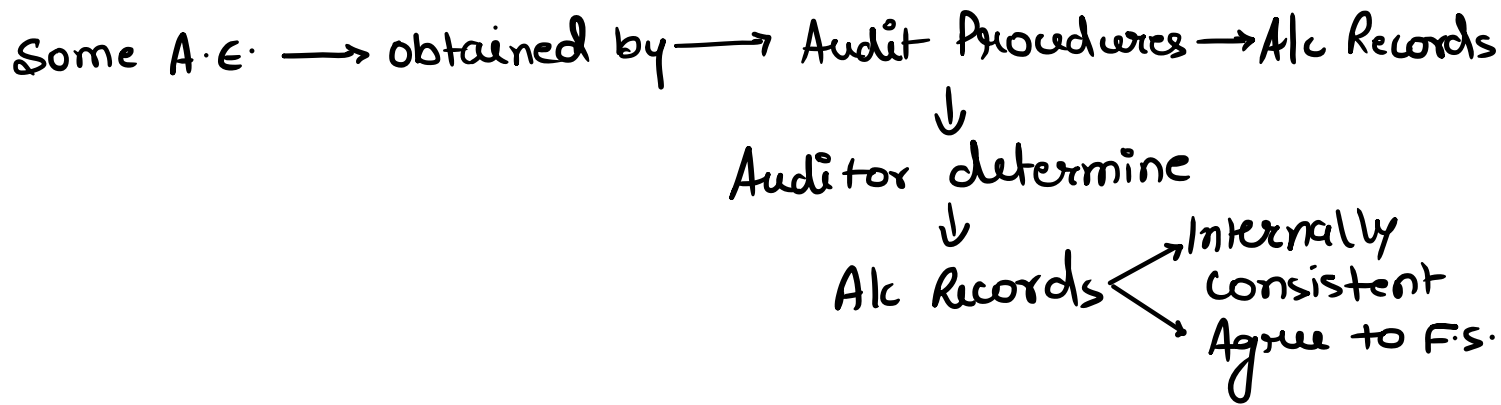
* Relevant A.E. in Designing



1.5.1 - Sufficiency and Appropriateness are interrelated

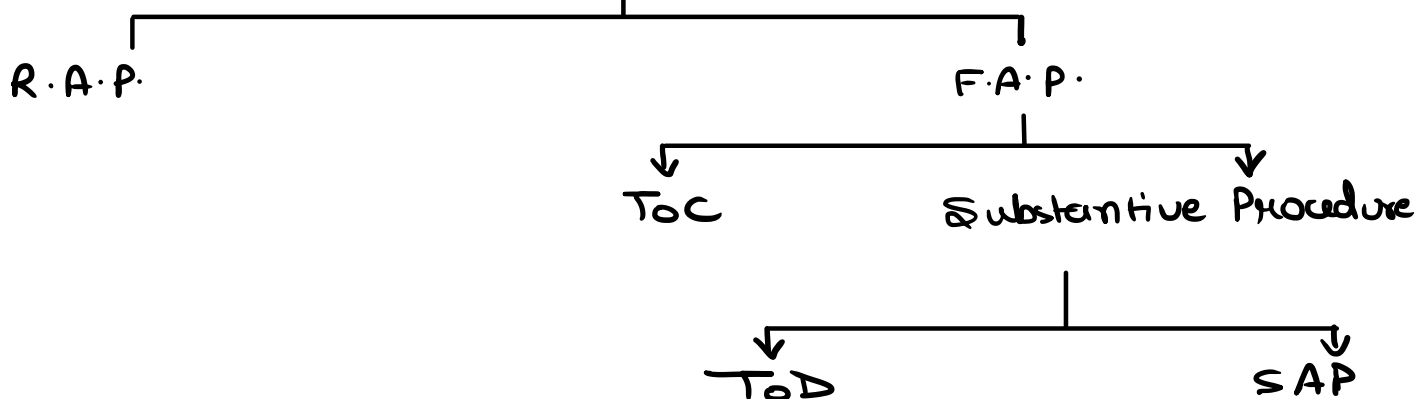






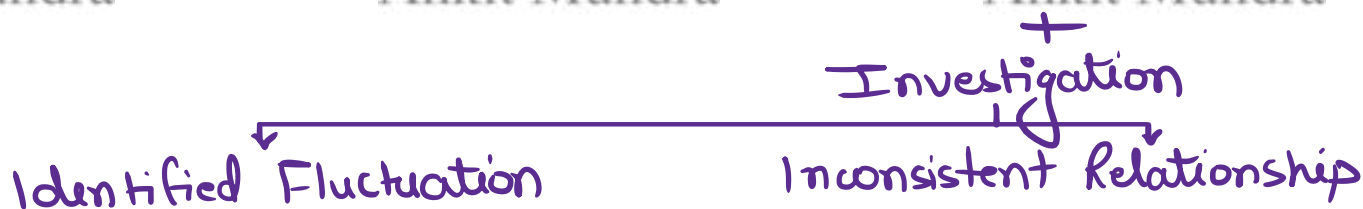
1.7 - Audit procedures for obtaining audit evidence

A.E. → obtained by performing



1.7.1 - Audit procedures to obtain audit evidence can include:

- i) Inquiry → seeking info. → knowledgeable person
 - Inside
 - Outside
- ii) Inspection → Examining → Records Docs.
- iii) Observation → Looking at → Process procedure
- iv) Recalculation → Mathematical accuracy
- v) Reperformance → Independent execution → procedures controls
- vi) External Confirmation → Direct written Response
 - ↓
 - To Auditor → from 3rd Party
- vii) Analytical Procedure → Evaluation → Financial info.
 - ↓
 - Study of plausible relationship
 - Financial Non financial
 - ↔ Data ↔



1.7.3 - Nature and Timing of the Audit Procedures

→ Some A/c. Date & Other info. → may be available only in Electronic form

↓
The Auditor can Request retention of some info.

↓
Depends up on Entity's Data Retention Policy

1.7a - Risk assessment procedures:

R.A.P. → Audit Procedure Performed → to obtain understanding of the

↓
To Identify & Assess

↓
RoMM

↓
Whether due to F/E

↓
At the → Assertion
→ F.S. → Level

Entity

+
I.C.

Environment

1.7.b(i) - Tests of controls

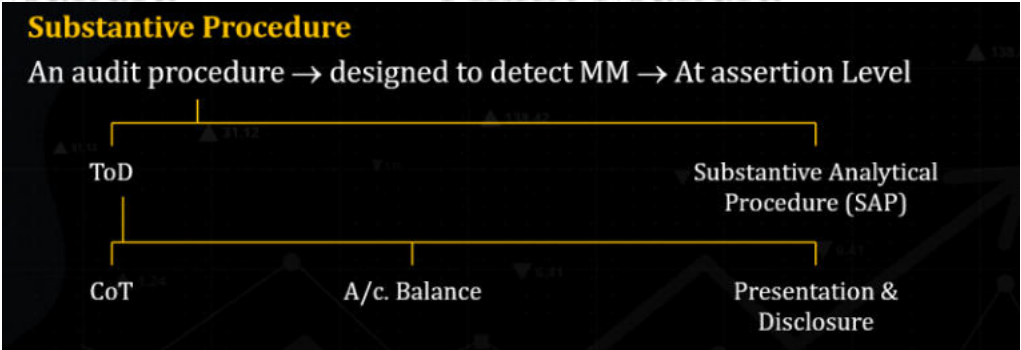
Test of Controls (ToC)

An Audit procedure → Designed to evaluate → operating effectiveness of controls

Detecting(D)

MM @ Assertion Level

1.7.b(ii) Substantive Procedures- Tests of details and Substantive analytical procedures



Assertion → Representation by Mgt → Explicit → Implicit

↓
that are embodied in F.S

↓
As used by Auditor to consider different types of

↓
Potential Misstatement that may occur

Use of Assertions (Refer Ch.9)

(1) F.S. are in accordance with F.R.F.

↓
As per Mgt. → Explicit → Implicit ← Make Assertion

Disclosure

Recognition

Measurement

Presentation

Of Various elements of → F.S. → Related Disclosures

(2) Categories of Assertions about

COT & Events

- Occurrence
- Completeness
- Classification
- Accuracy
- Cut-off

A/c. Balance

- Existence
- Rights & Obligations
- Completeness
- Valuation & Allocation

Presentation & Disclosures

- Occurrence, Rights & Obligations
- Completeness
- Classification & Understandability
- Accuracy & Valuation

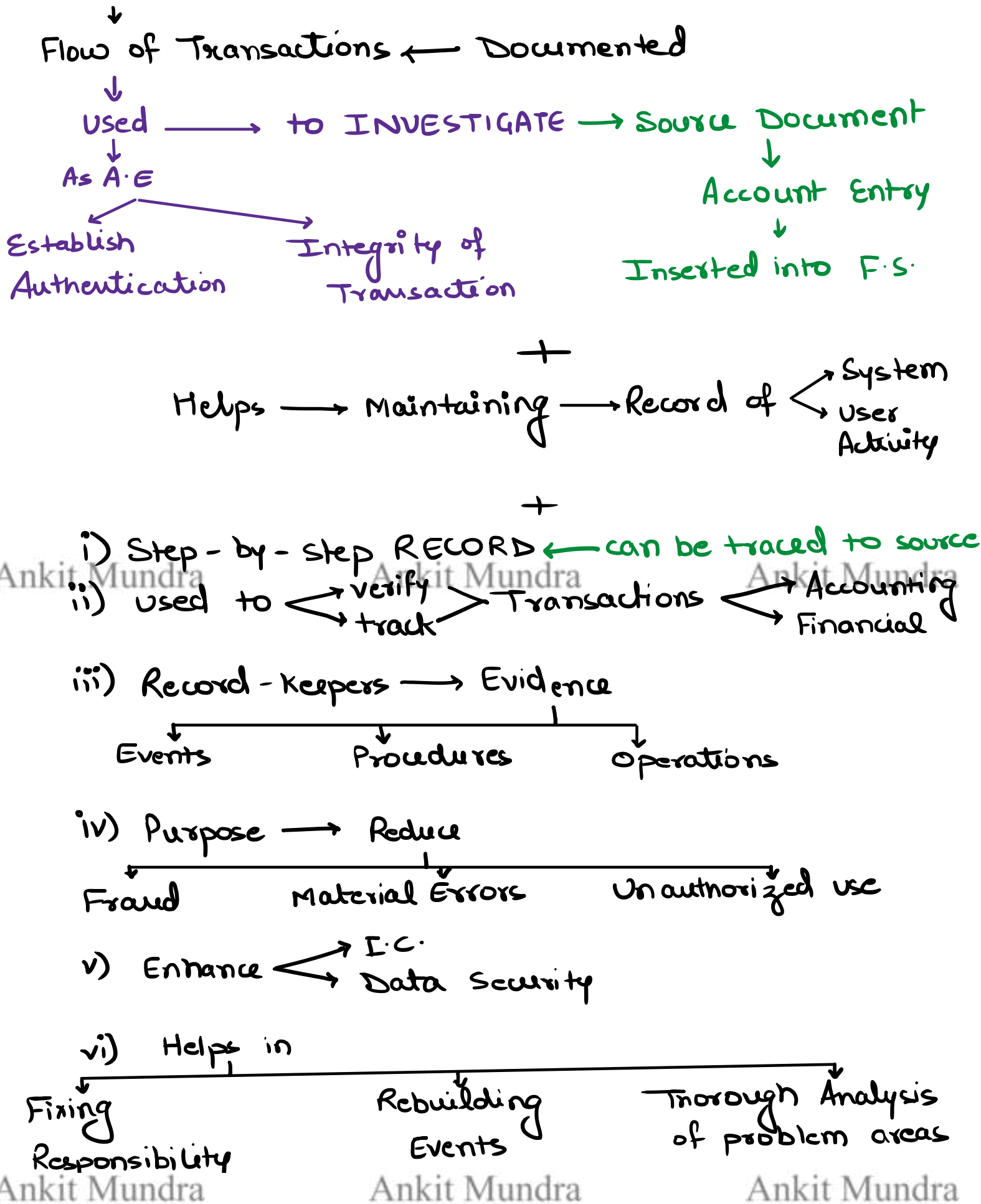
(3) If all aspects are covered → Auditor may describe them differently

(4) Additional Assertions → In Special Entities → Laws & Regulation

↓
Eg.: Govt.

→ Negative Assertions

- Express → NO Contingent Liability
- Implied → NO mention in F.S.



Responsibility

Events

of problem areas

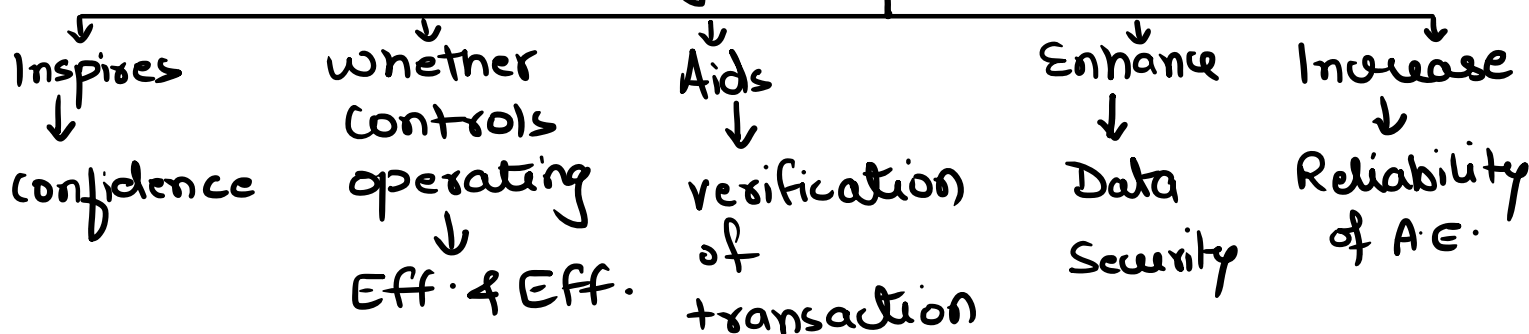
vii) Involves → COST

System expenditure
Time for analysing data

↑

'Automated Tools' can reduce this demerit

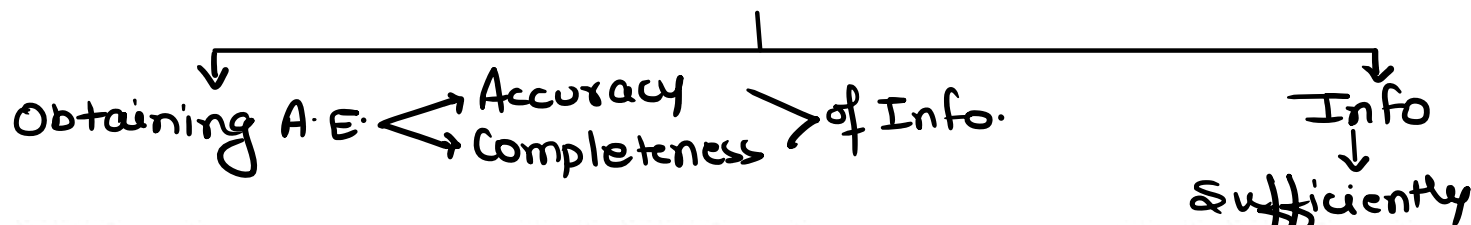
viii) Systems → having Audit Trails



1.10.1 - When information to be used as audit evidence has been prepared **using the work of a management's expert**, the NET of audit procedures may be affected by such matters;

- i) Nature complexity > Matter
- ii) ROMM
- iii) Alternative source → A.E → Available?
- iv) Nature
Scope
Objective → Mgt's Expert's Work
- v) Mgt's Expert → Employed → by Entity
Service Provider
- vi) Extent → Mgt. → Exercise control
Influence → Expert's Work
- vii) Expert → subject to → Technical → Standards
Professional → Requirements
Industry
- viii) Nature
Extent > Entity's I.C. ← OVER Expert's work
- ix) Auditor's → Knowledge
Experience > Expert's field of work
- x) Auditor's → previous experience → Expert's work

1.10.2 - When using information produced by the entity, the **auditor shall evaluate** whether the **information is sufficiently reliable** for the auditor's purposes, including as necessary in the circumstances:



→ Completeness

Sufficiently

Precise Detailed

When designing $\begin{matrix} \nearrow \text{ToC} \\ \searrow \text{ToD} \end{matrix} > \text{Auditor shall determine}$

MEANS OF **SELECTING ITEMS** FOR TESTING

Based on Auditor's Judgement

Selecting ALL Items
(100% Examination)

Selecting Specific
Items

Audit
Sampling
↓
Discussed Later

Auditor MAY decide

Most Appxo.

Examine

Auditor's
understanding
of Entity

Factors

Assessed
RMM

Characteristic
of
Population

Entire
Population

CoT

Alc
Bal.

Stratum

NON SAMPLING RISK

Examples

100% Examination

→ Unlikely → ToC

→ Appxo. → ToD

Population

Large
VALUE
Items

Significant
RISK

Process

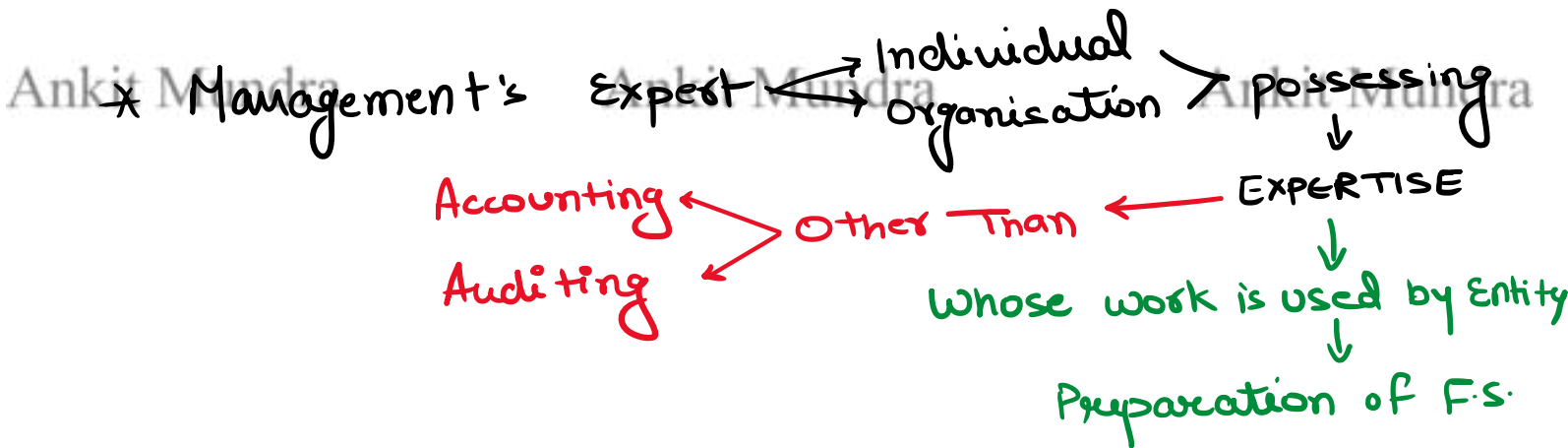
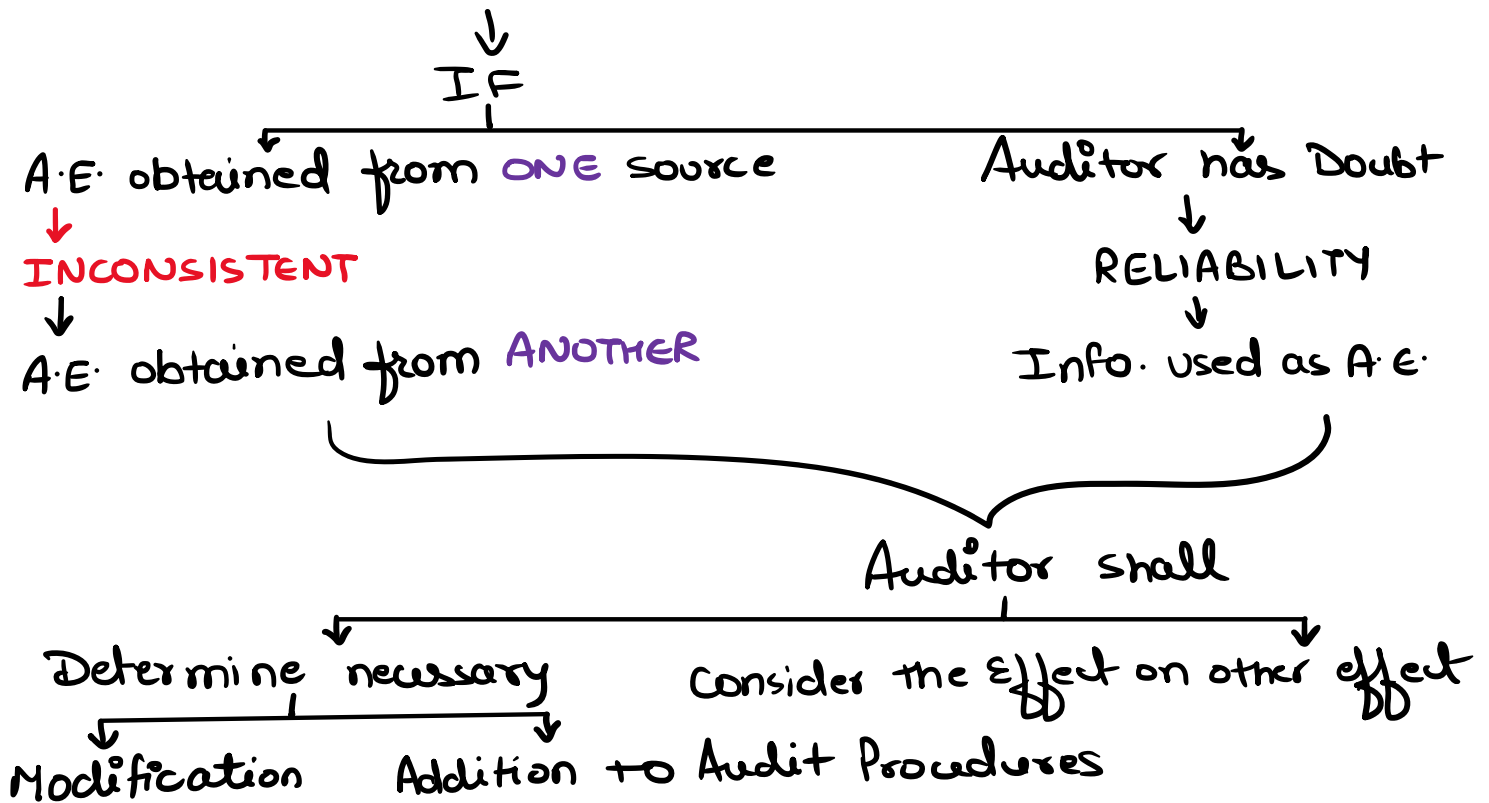
REPETITIVE AUTOMATIC

① High VALUE items

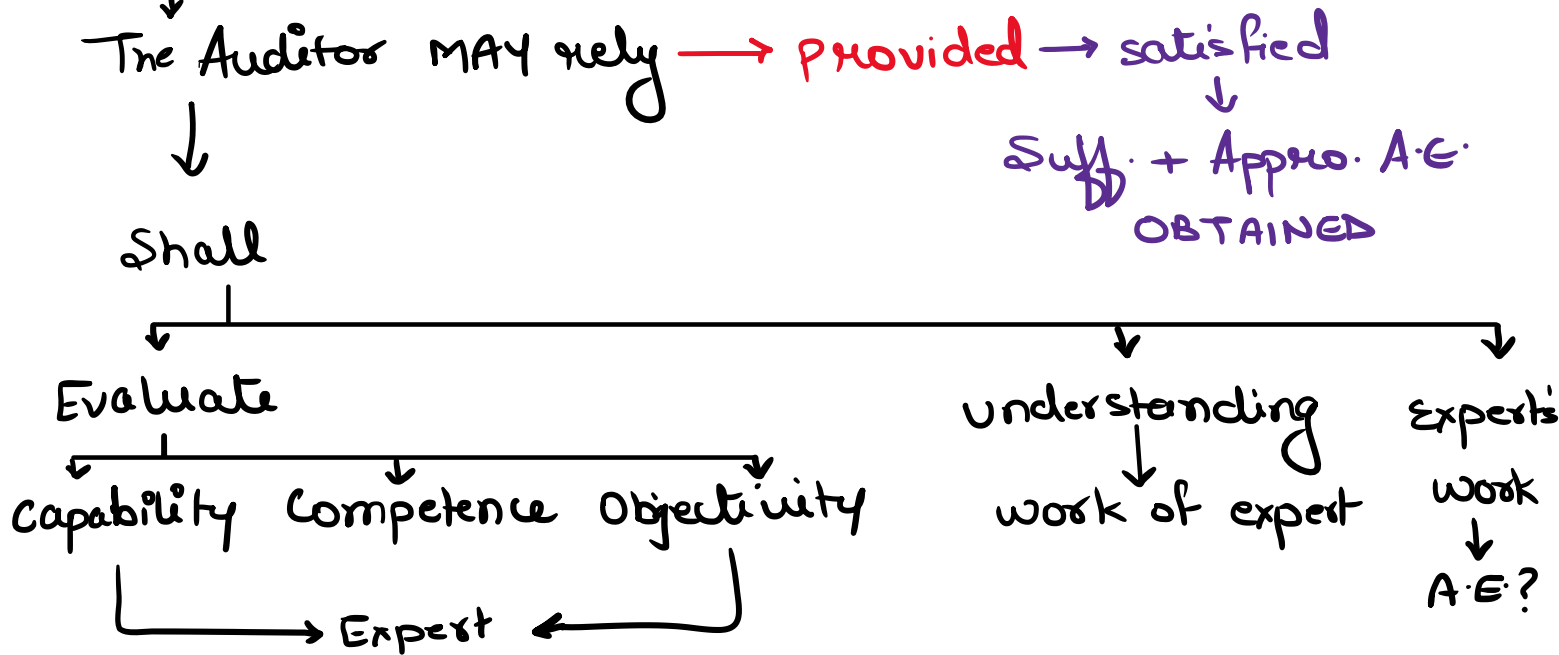
② > certain amounts

③ To obtain info.

1.12 - Inconsistency in or Doubts over Reliability of Audit Evidence



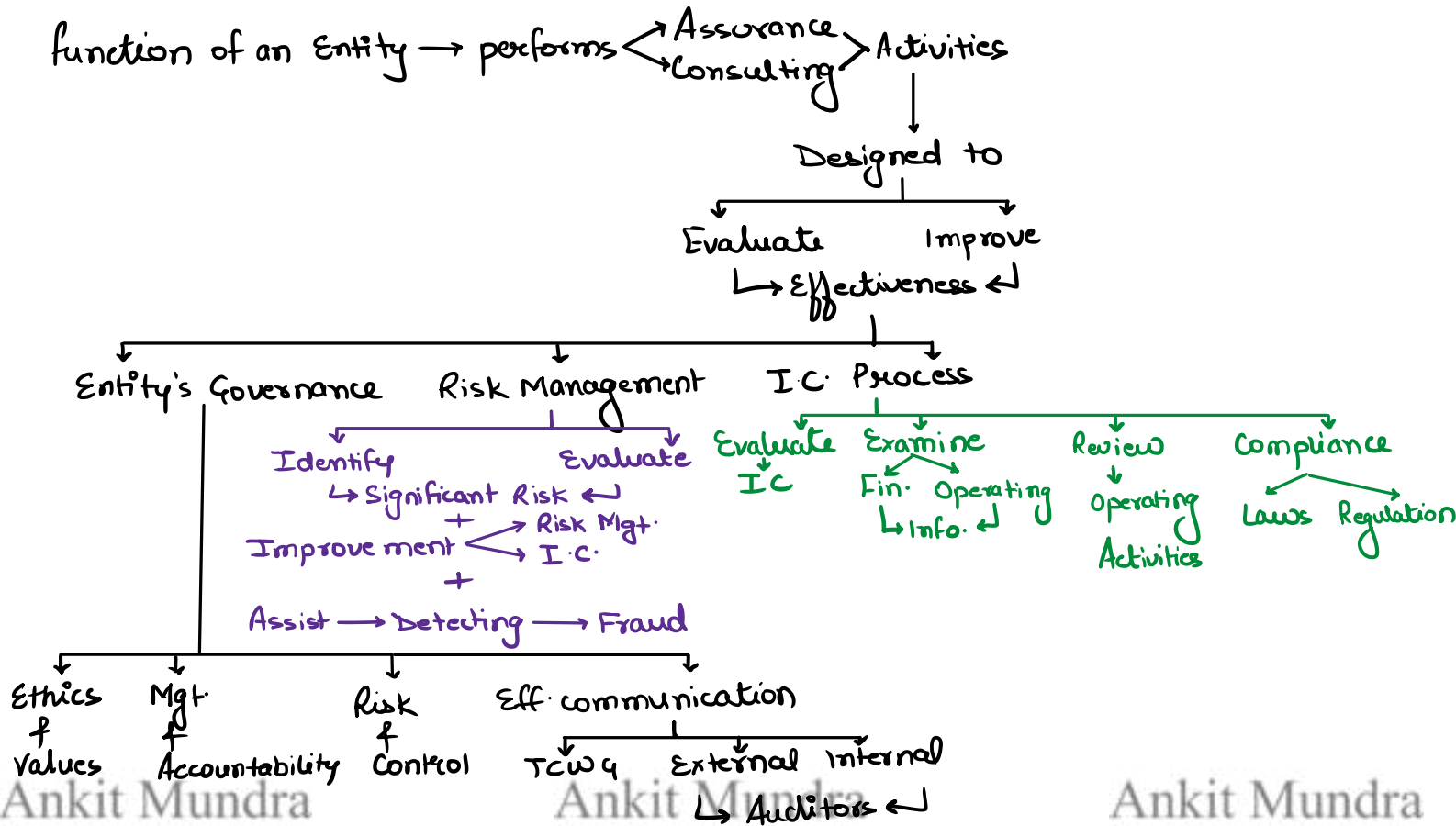
1.13 Relying on the work of a management's expert



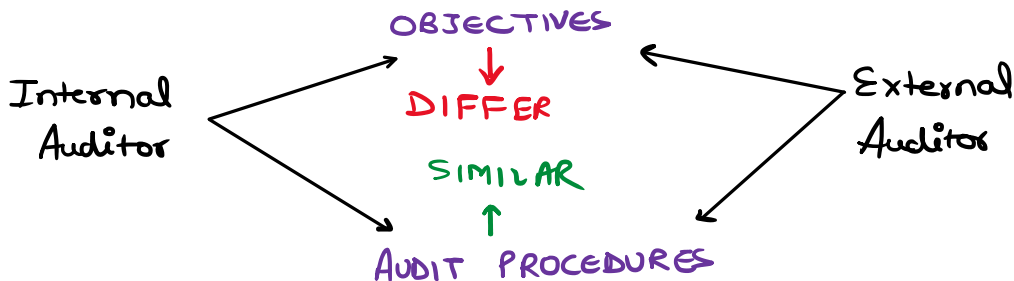
SA 500 "Audit Evidence" → applicable to all A.E.
↓
obtained during the course of Audit
↓
Enable Auditor to draw
↓
REASONABLE CONCLUSION
↑
on which to base Auditor's Opinion

→ Auditor → conclude → Suff. + Appro. A.E. obtained
↓
Reduce the Audit Risk to Acceptably Low level
↓
Enable the Auditor to draw Reasonable conclusion
↓
To base Auditor's Opinion
↓
MATTER OF PROFESSIONAL JUDGEMENT

2.1 - Definition of Internal Audit Function

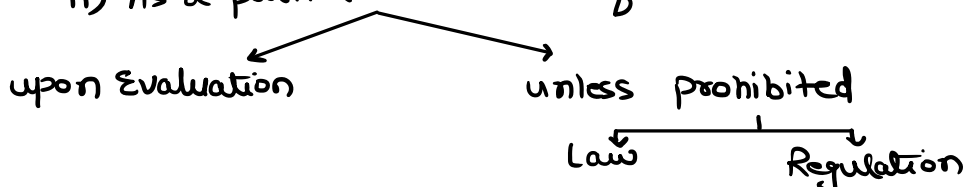


2.2 - Ways in which the external auditor may make use of the function for purposes of the audit.

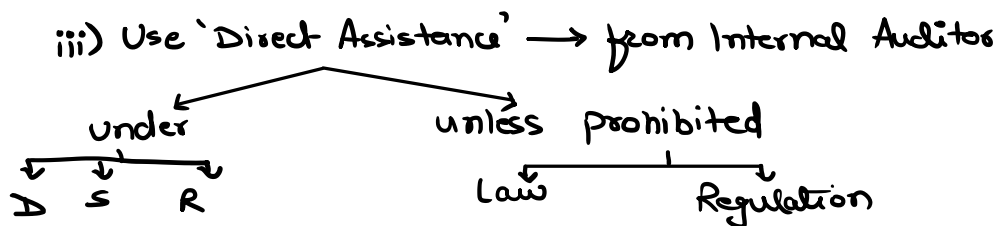


→ External Auditor → MAY make use of function:

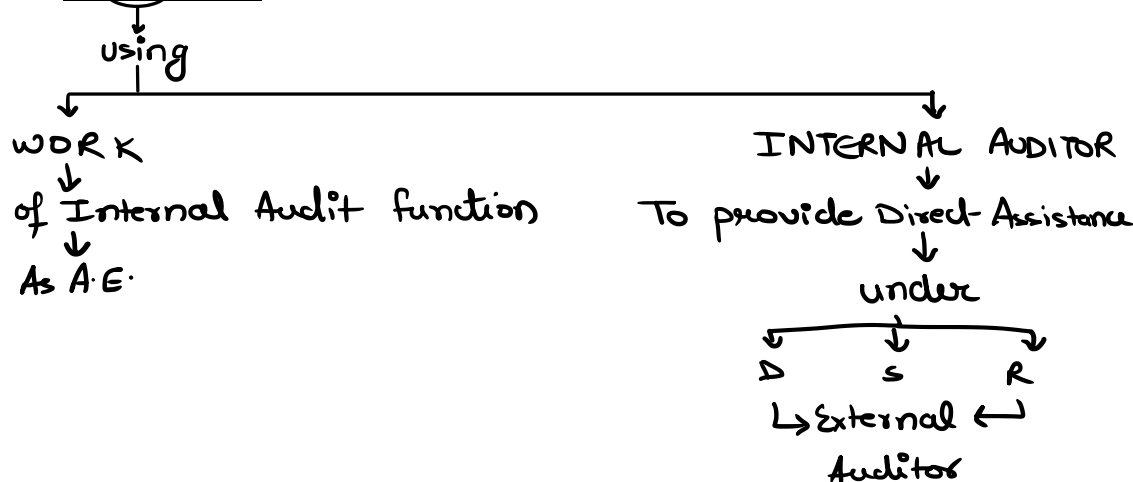
- i) To obtain Info → Relevant for assessing ROMM
- ii) As a partial substitution for A.E. to be obtained



iii) Use 'Direct Assistance' → from Internal Auditors



2.3 (Scope of SA 610)



→ External Auditor

Not required to MODIFY

NE] → Audit Procedures

Establish

D.A.S.

2.4 - External Auditor's Responsibility for the audit

i) Sole Responsibility → External Auditor

NOT REDUCED → by use of work

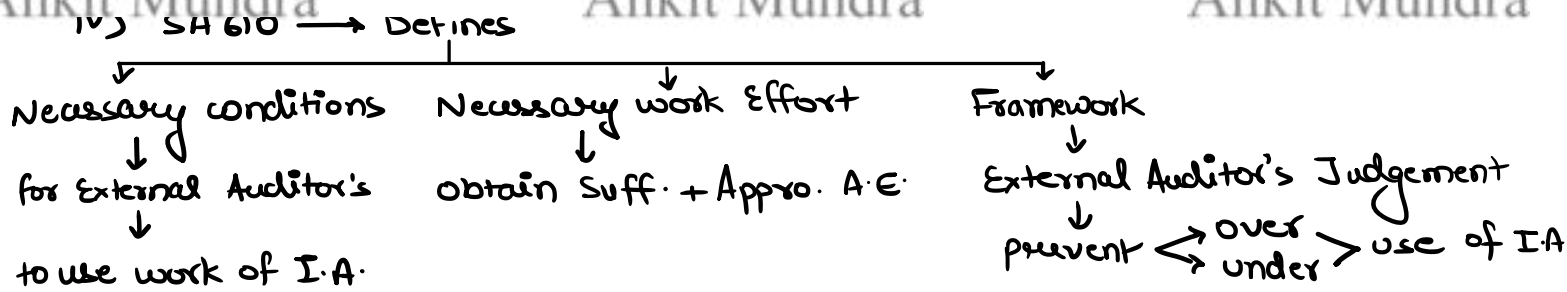
Internal Audit function Internal Auditor

ii) May perform → similar → Audit Procedures

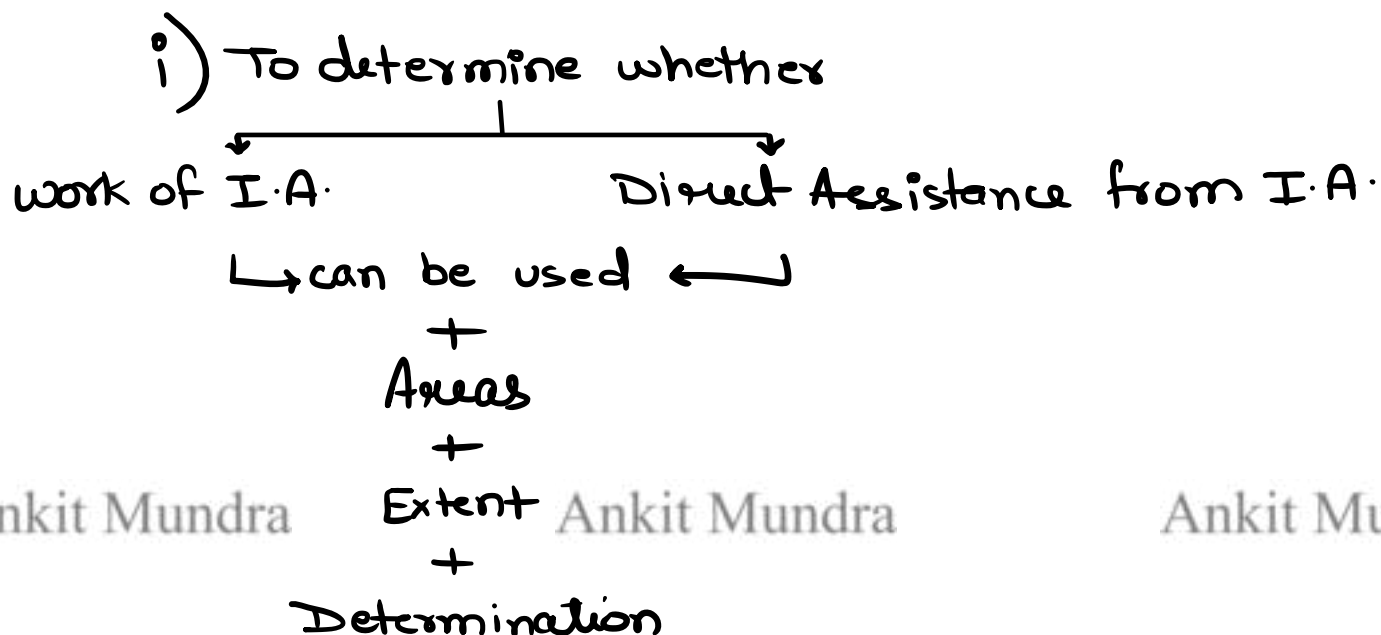
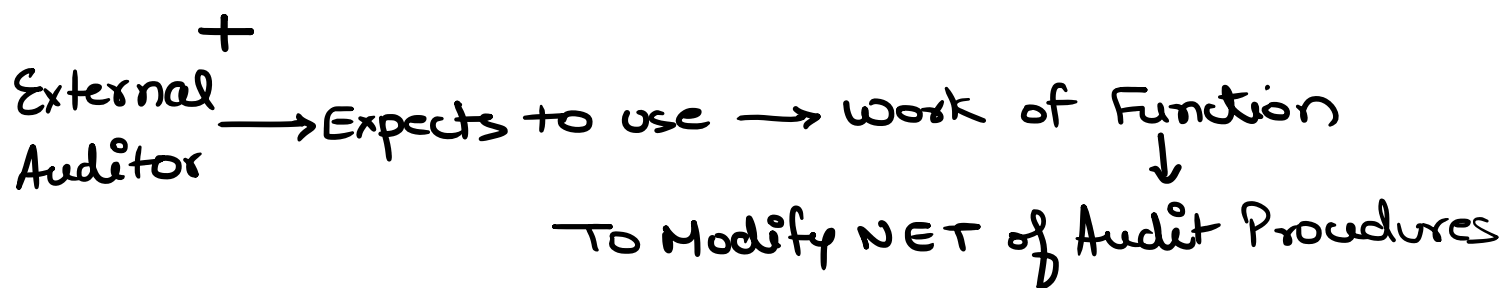
iii) Internal Audit Function Internal Auditor > NOT INDEPENDENT
As per SA 200

iv) SA 610 → Defines

necessary conditions Necessary work Effort Framework

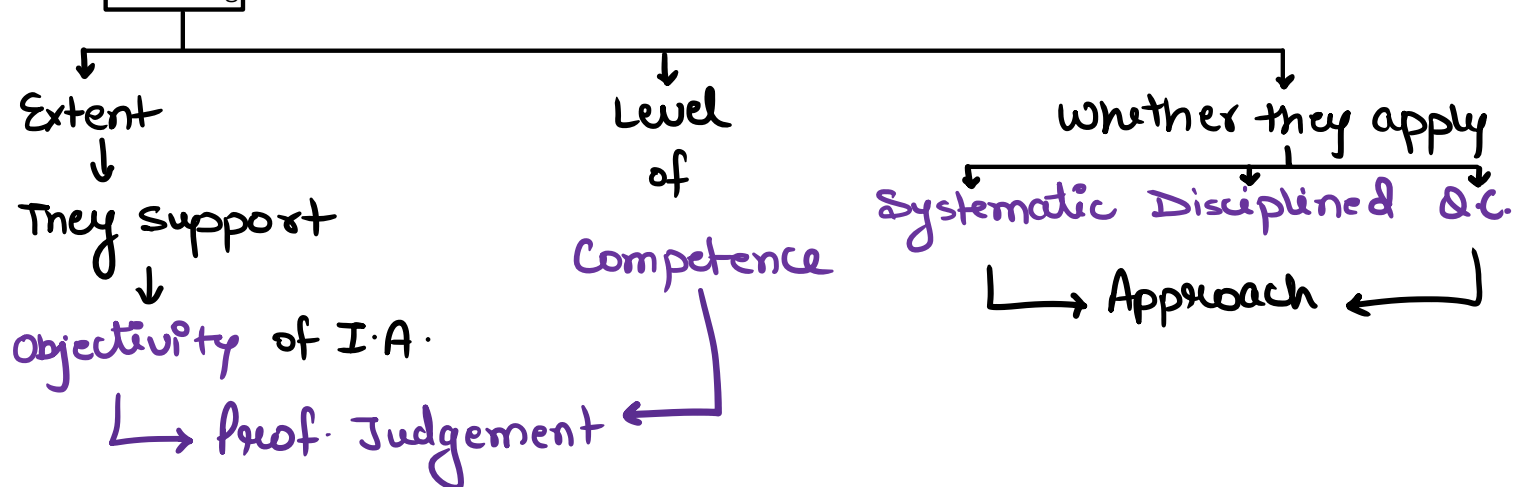


2.5 - Objectives of the external auditor, where the entity has an internal audit function



- ii) To determine whether $\rightarrow$ work is Adequate
- iii) To Appropriately $\left\{ \begin{matrix} \rightarrow \\ \rightarrow \\ \rightarrow \end{matrix} \right\}$ in Direct Assistance

2.6 - Evaluating the Internal Audit Function



A) Objectivity → Ability to perform → Tasks

Factors → Affected Evaluation

without being affected by

Bias Conflict of Interest Undue Influence

To override
↓
Prof. Judgement

i) Status of I.A. function

Supports

Ability to function FREE from

Bias Conflict of Interest Undue Influence

To override
↓
Prof. Judgement

ii) TCWG → oversee → Employment Decisions

iii) Constraints
Restrictions > By < Mgt.
TCWG > on → I.A. Functions

iv) I.A. Functions → Free From → Conflicting Responsibility

b) Competence < Attainment
Maintenance > Knowledge + skills

Factors → Affected Evaluation

At a level to enable

i) I.A.F. < Adequately
Appro. > Resourced

Assigned tasks performed

Diligently Prof. Standards

ii) Established policies for

Hiring Training Assigning
→ I.A.

I.A. Assignments

Technical

iii) I.A. → Adequate < Training
proficiency > in Auditing

iv) I.A. → possess → Knowledge relating to → Entity's
F.R. F.R.F.

Objectivity and competence may be viewed as a continuum → continuous series

More → I.A. Function's < Organisational Status
Relevant P & P > Adequately
↓
Support Objectivity



Higher the level of Competence

More likely E.A. use I.A.F.

Objectivity: CANNOT compensate for lack of Suff. Competence
↓
of I.A.F.

Competence: CANNOT compensate for Org? status
P & P } That do not support OBJECTIVITY of I.A.

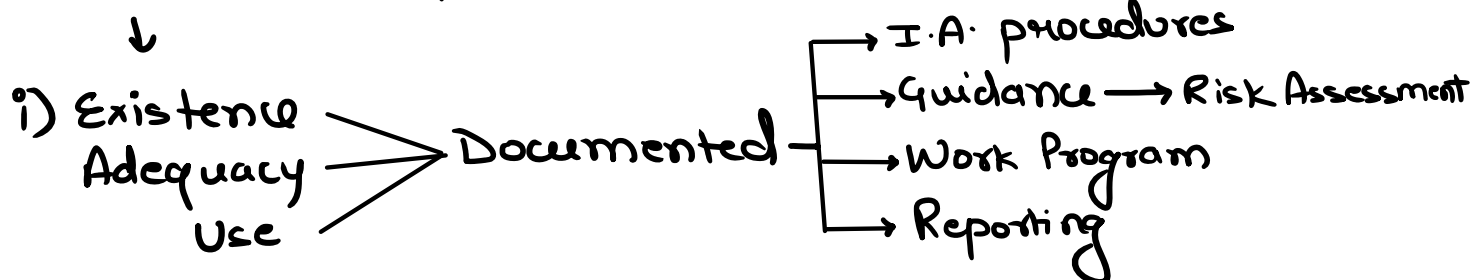
c) Systematic & Disciplined Approach → To

Planning Performing Supervising Reviewing Documenting
↓
its activities

Distinguishes the Activities of I.A.F.

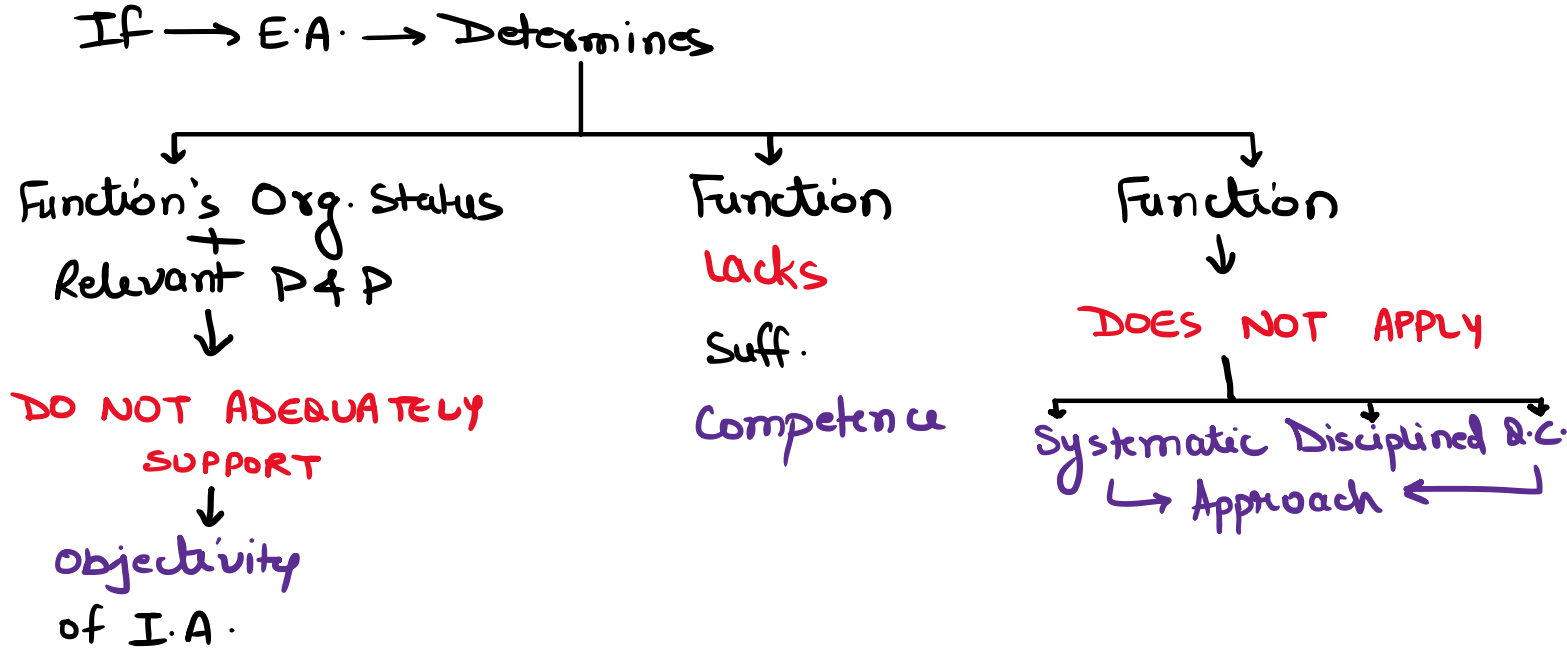
↓
from other Monitoring Control Activities

Factors → Affect Evaluation



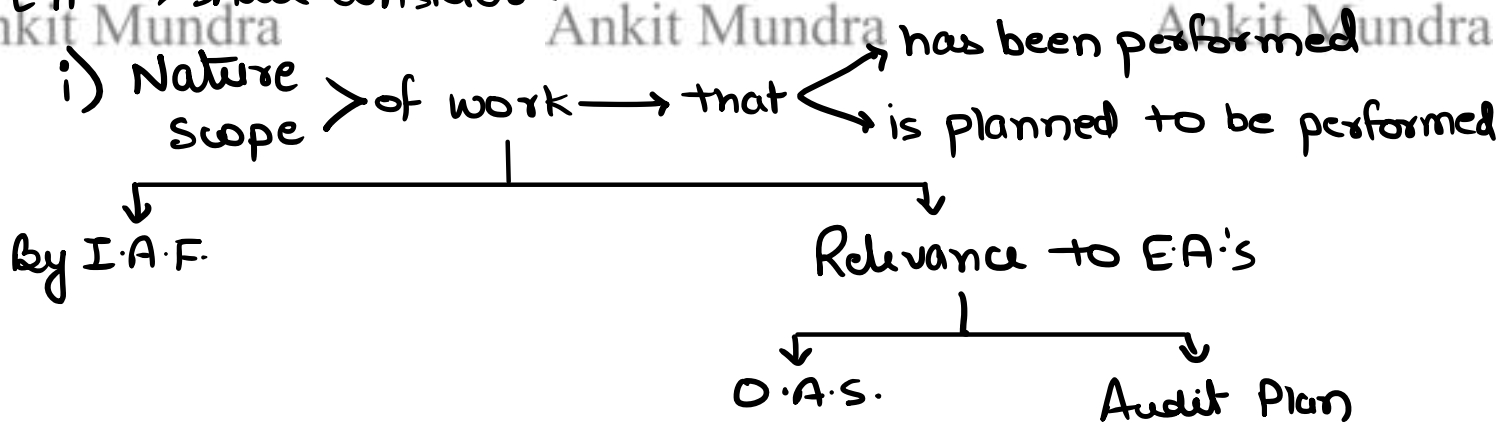
ii) I.A.F. → Appxo. → D.C. → P P P

2.7 - Circumstances When Work of the Internal Audit Function Cannot Be Used



2.8 - Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

E.A. → shall consider :



* Examples

To C

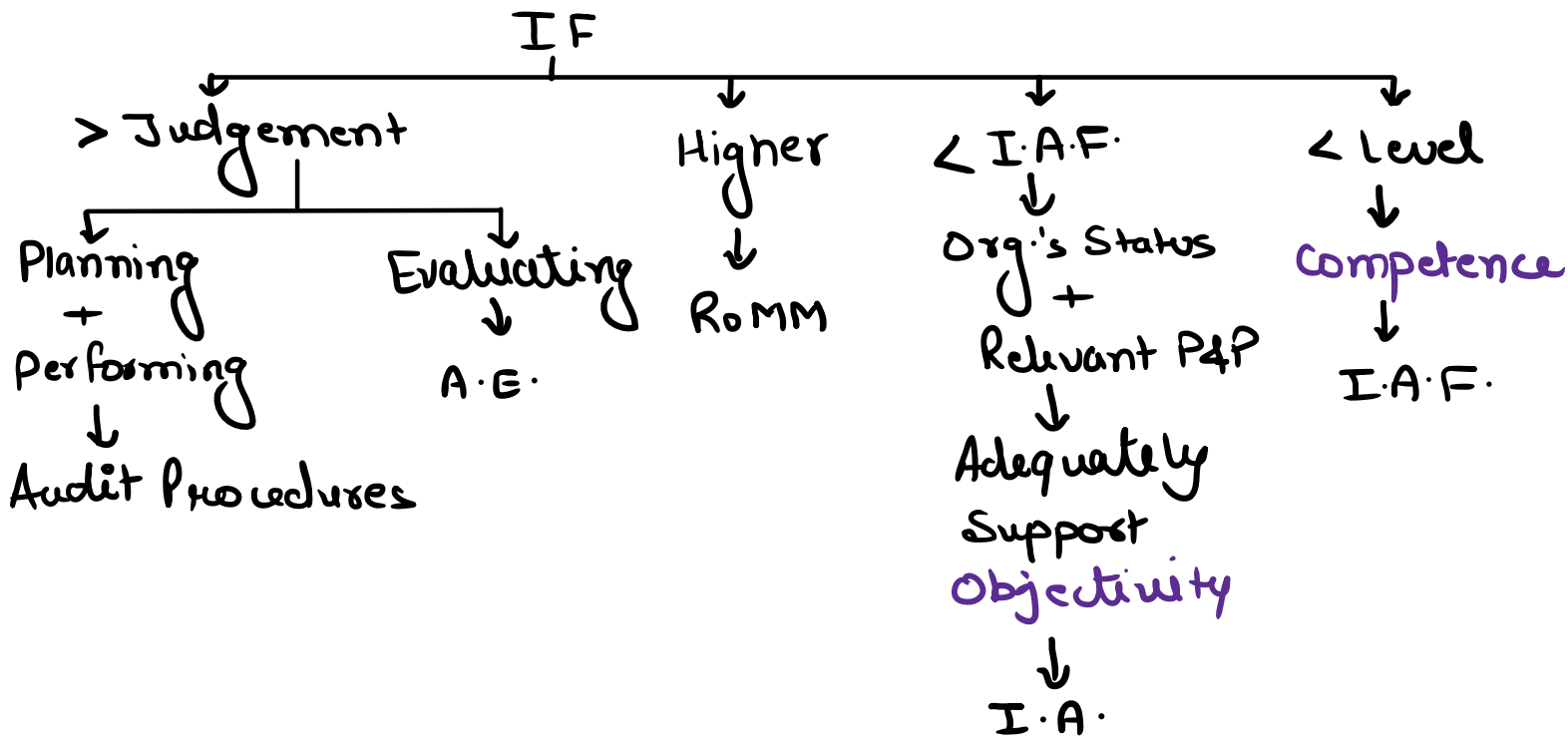
Substantive Procedures

Observation → Inventory Count

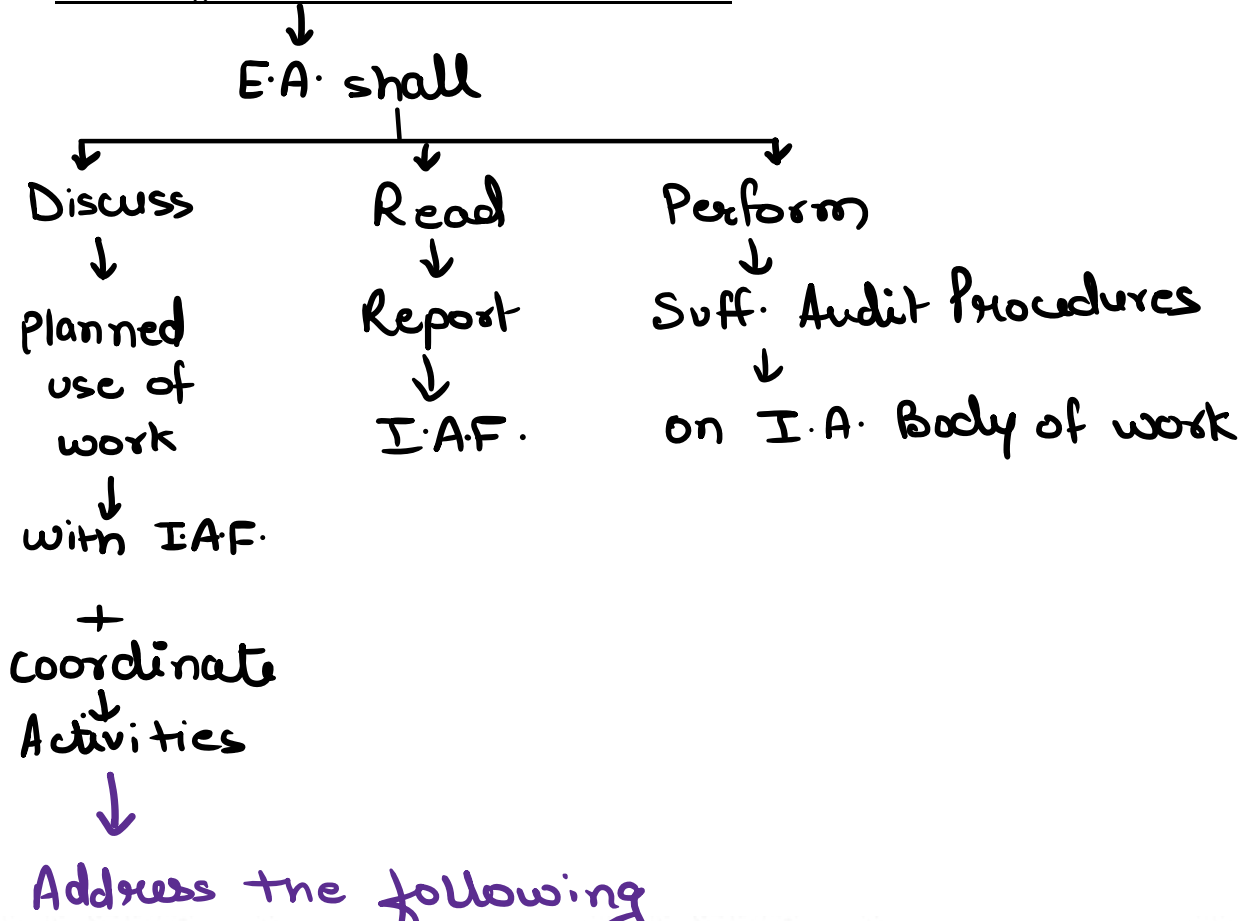
Tracing → I.S.

Testing → Compliance → Legal Regulatory → Req.

2.9 - Circumstances in which the external auditor shall plan to use less of the work of the Internal audit function and perform more of the work directly



2.10 - Using the Work of the Internal Audit Function

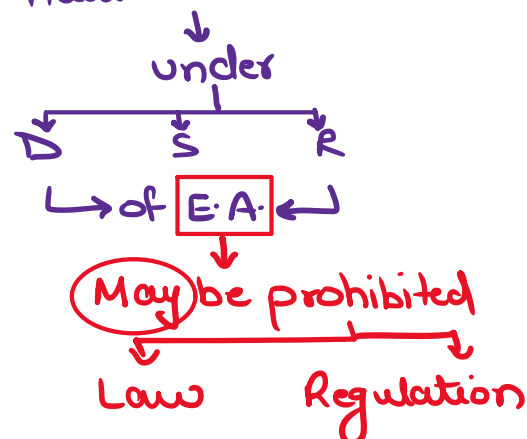


Address the following

- i) N
 - ii) E
 - iii) T
- of Audit work
- iv) DM + PM
 - v) Methods of Item Selection + sample size
 - vi) Documentation
 - vii) Review > Reporting Procedures

2.11 Determining **Whether**, in **Which Areas**, and to **What Extent** Internal Auditors Can Be Used to Provide Direct Assistance

I.A. → perform → Audit Procedures



IF NOT PROHIBITED → E.A. shall → Evaluate

Existence + Significance > of THREAT

Level of

Competence

To I.A. Objectivity

Include

Inquiry of I.A.

Interest Relationship

↳ MAY create Threat ◀

The external auditor shall not use an internal auditor to provide direct assistance if:

Significant Threat

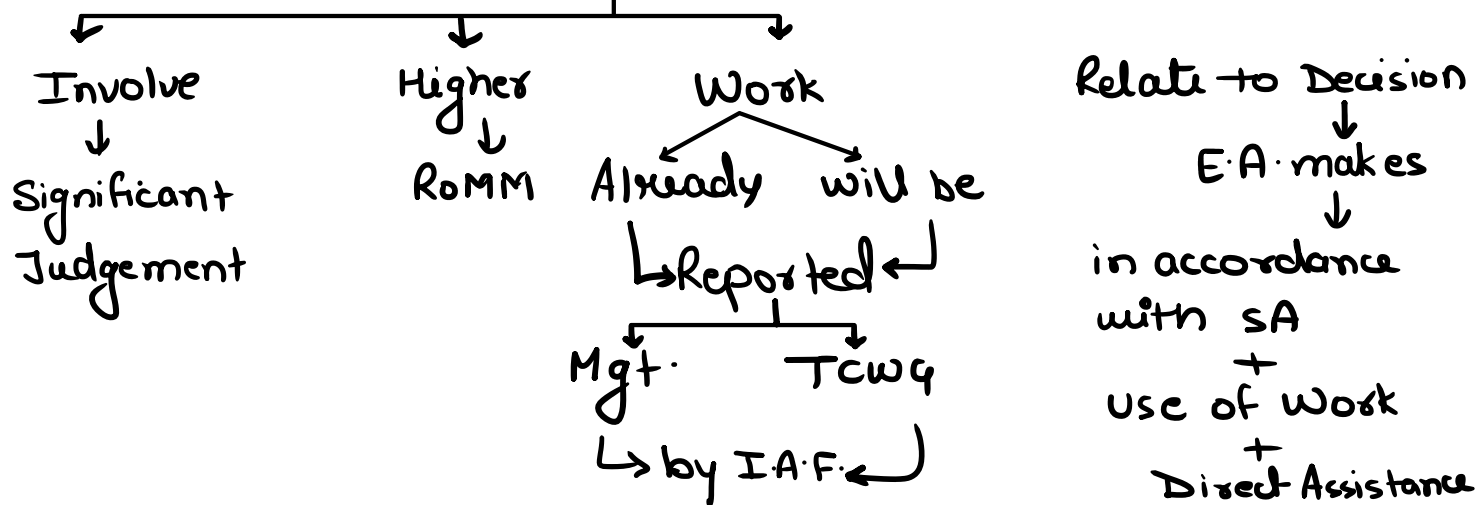
I.A. Lacks

Objectivity

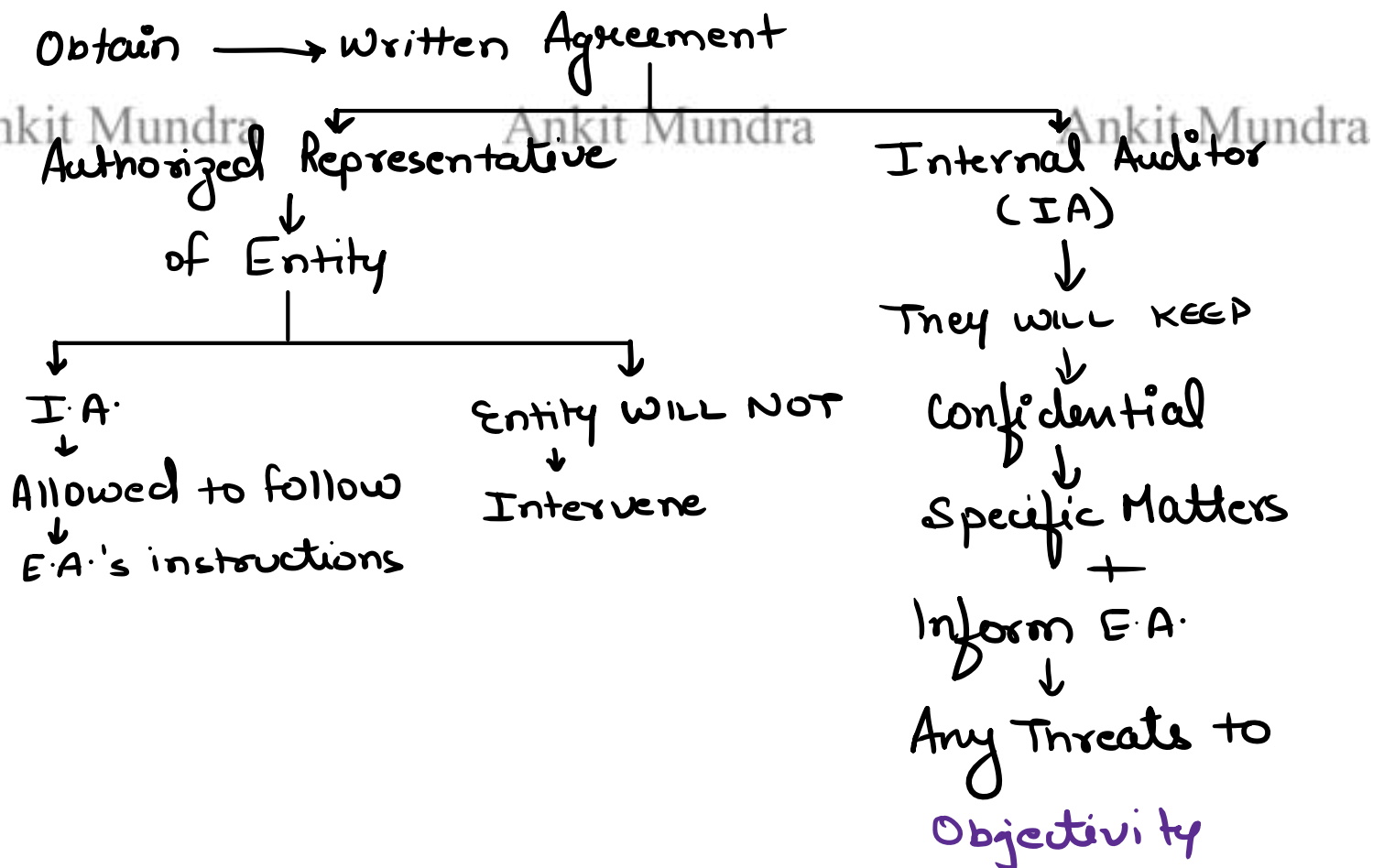
suff. Competence

The external auditor shall not use internal auditors to provide direct assistance to perform procedures

The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:



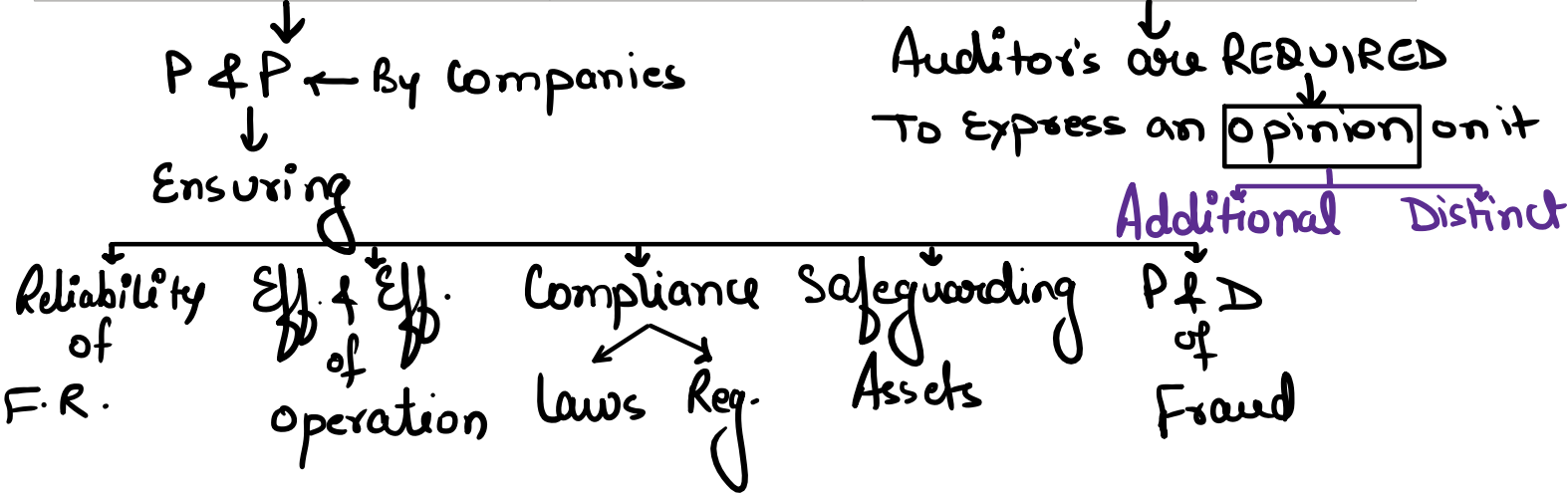
Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:



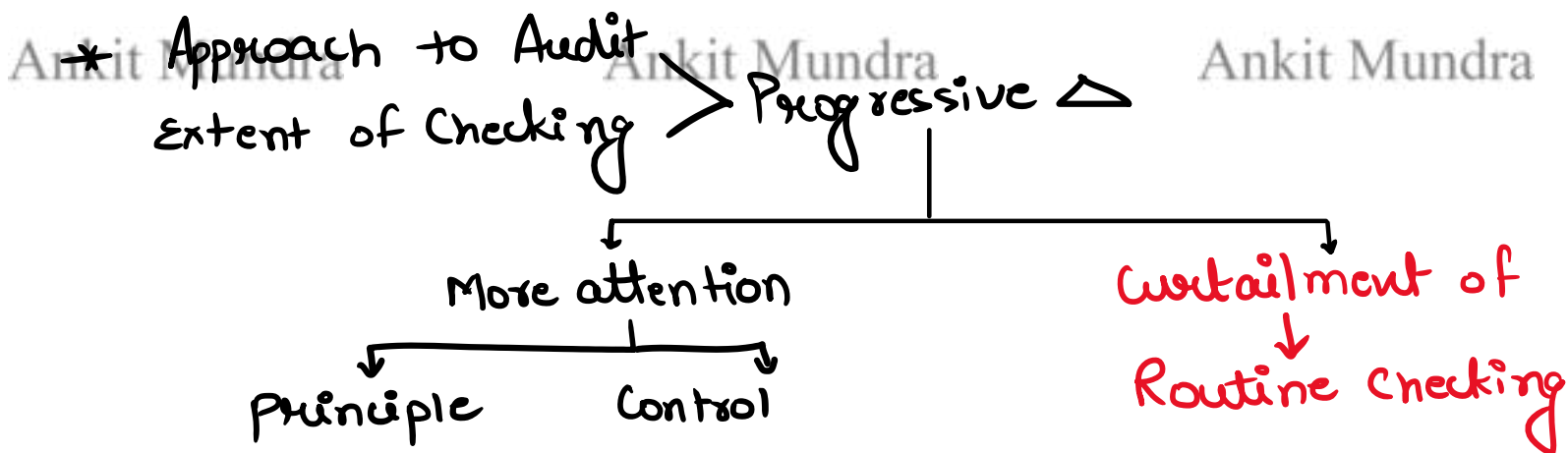
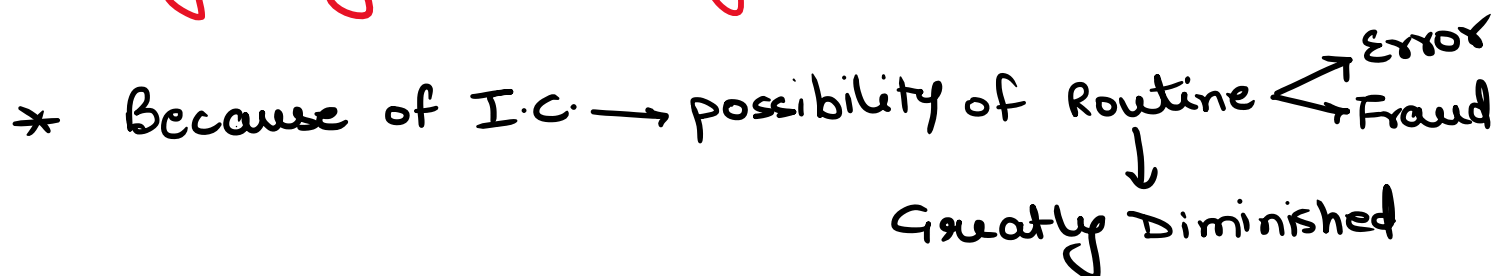
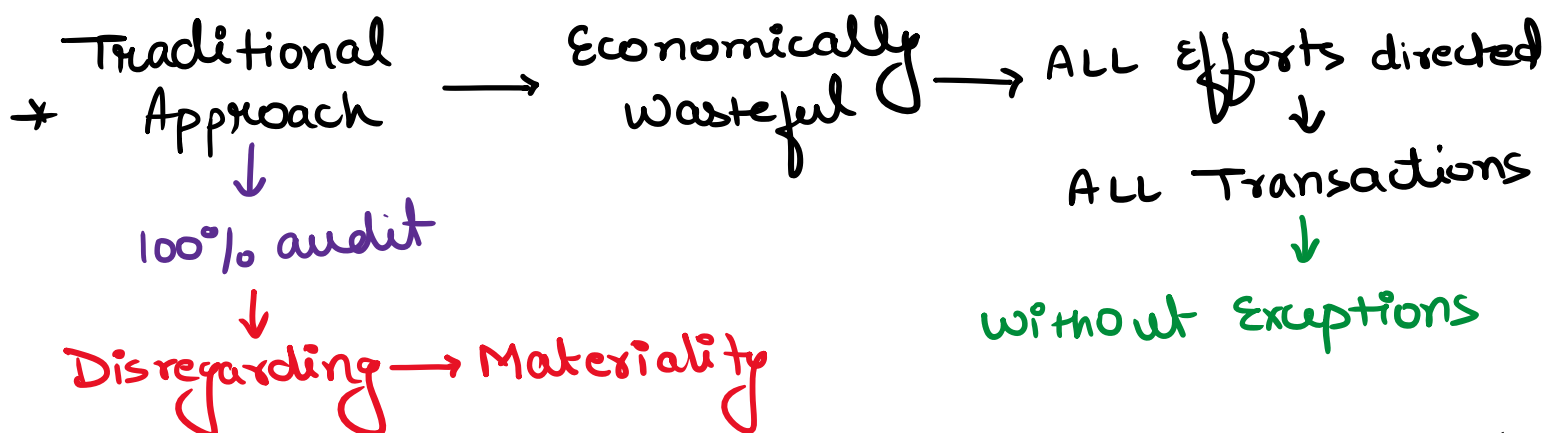
2.12 - Basics of Internal Financial Control and Reporting Requirements

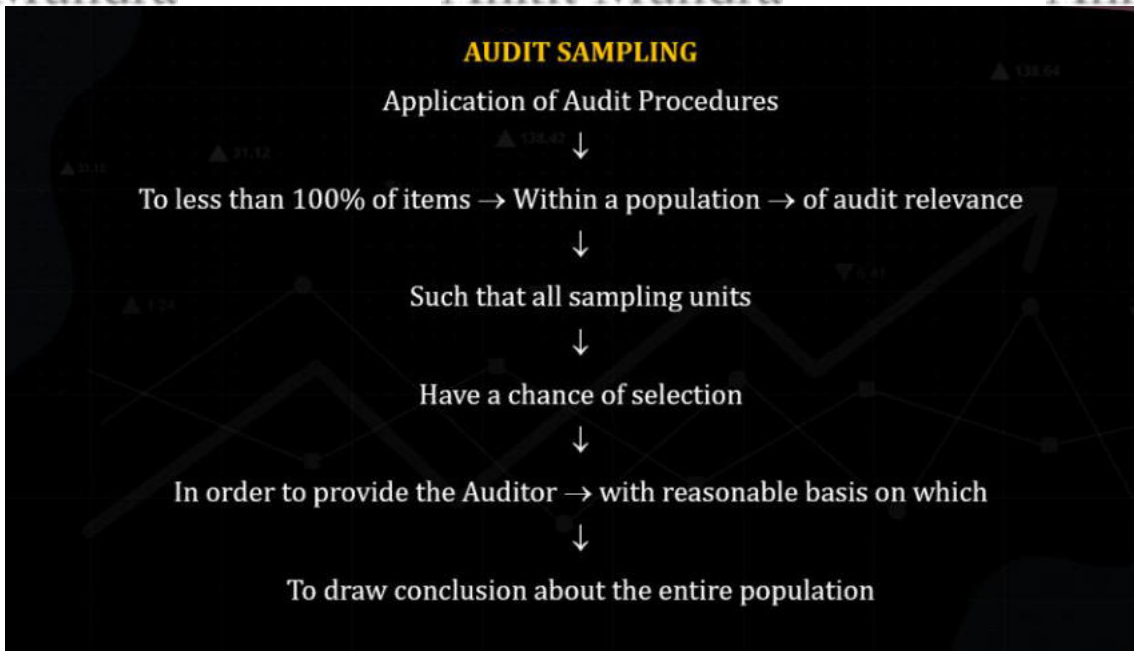
(Already discussed in Ch. 3)

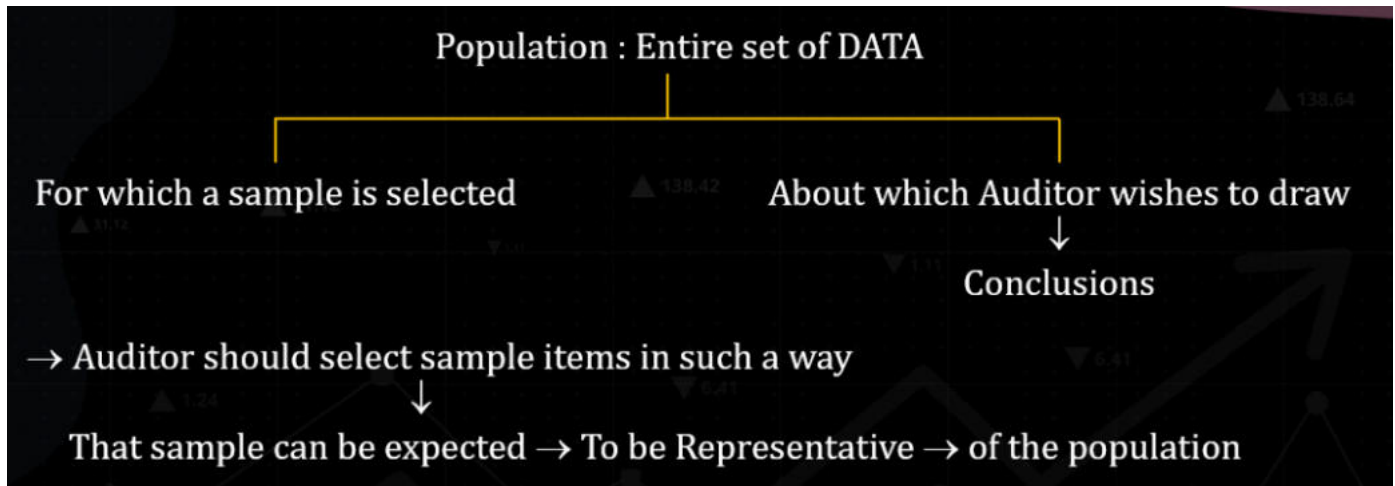
<u>Internal Financial Control</u> Wider Term	Distinction b/w	<u>Internal Control over financial reporting</u> Narrower Term
---	-----------------	---



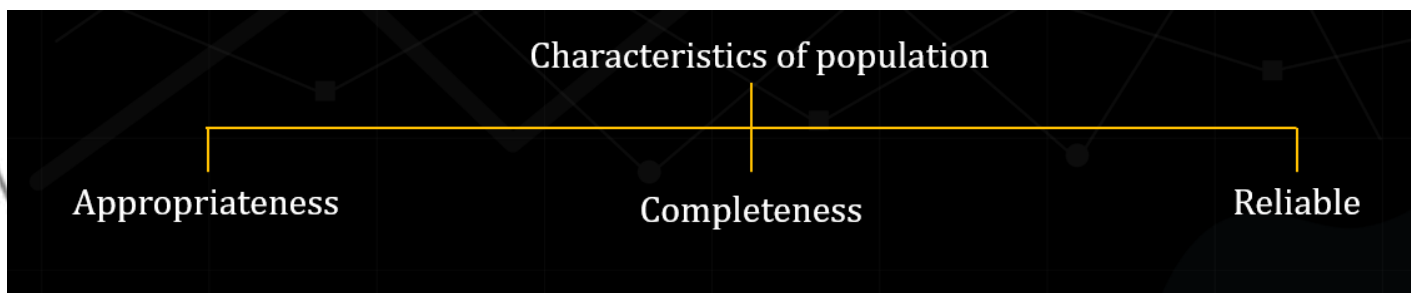
3.1 - Sampling: An Audit Procedure

3.2 Meaning of Audit Sampling

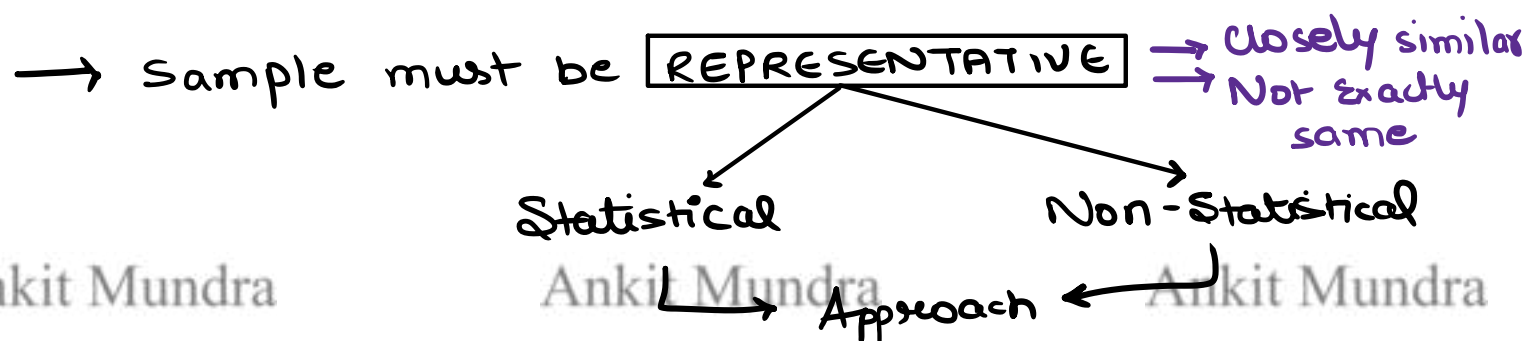
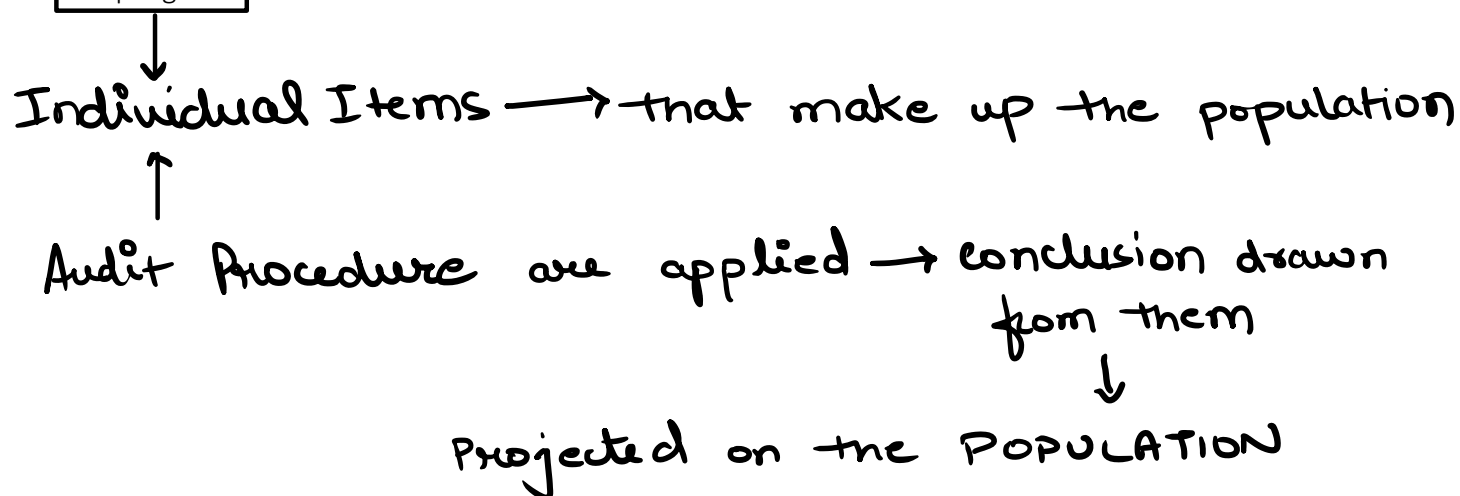




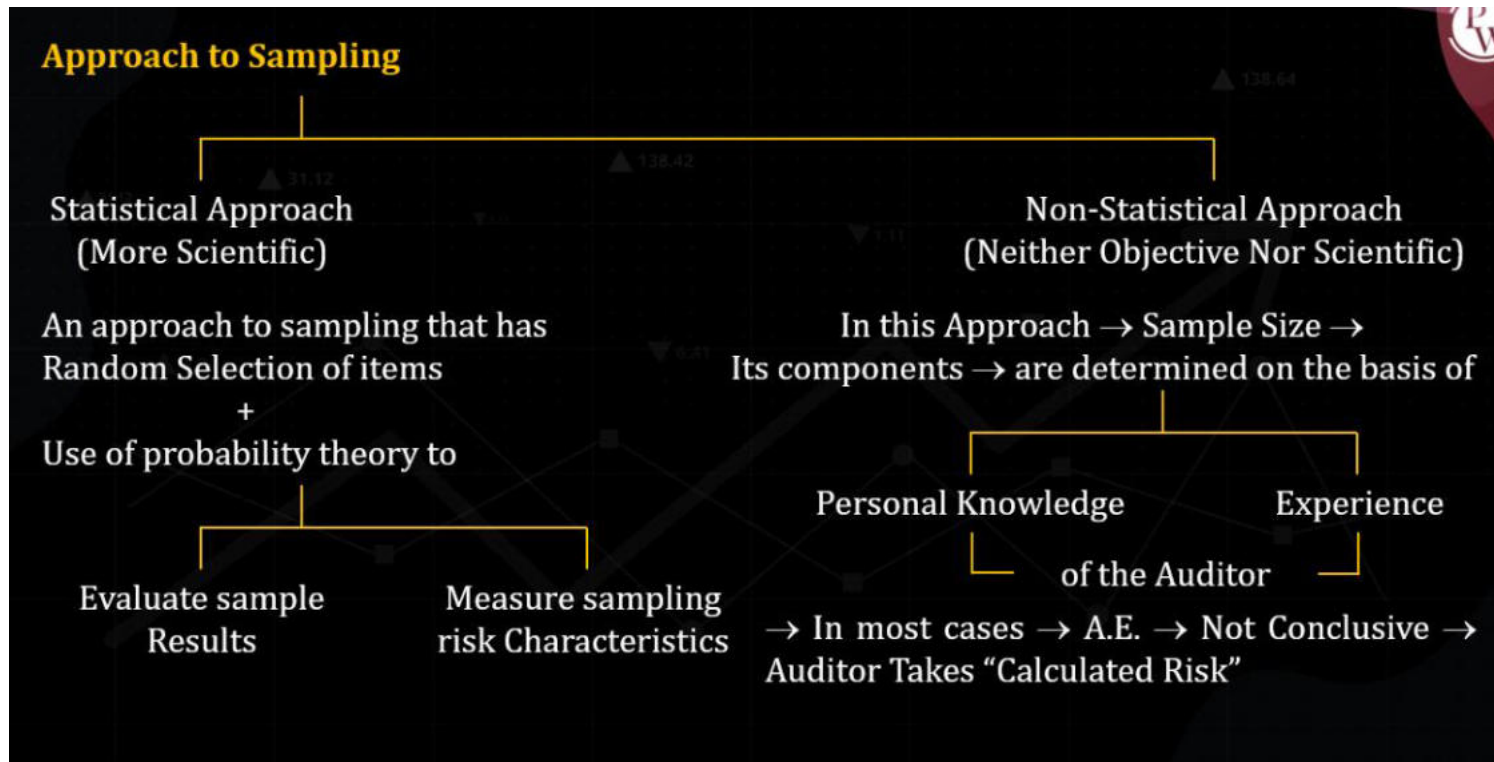
3.3.1 - Characteristics of Population



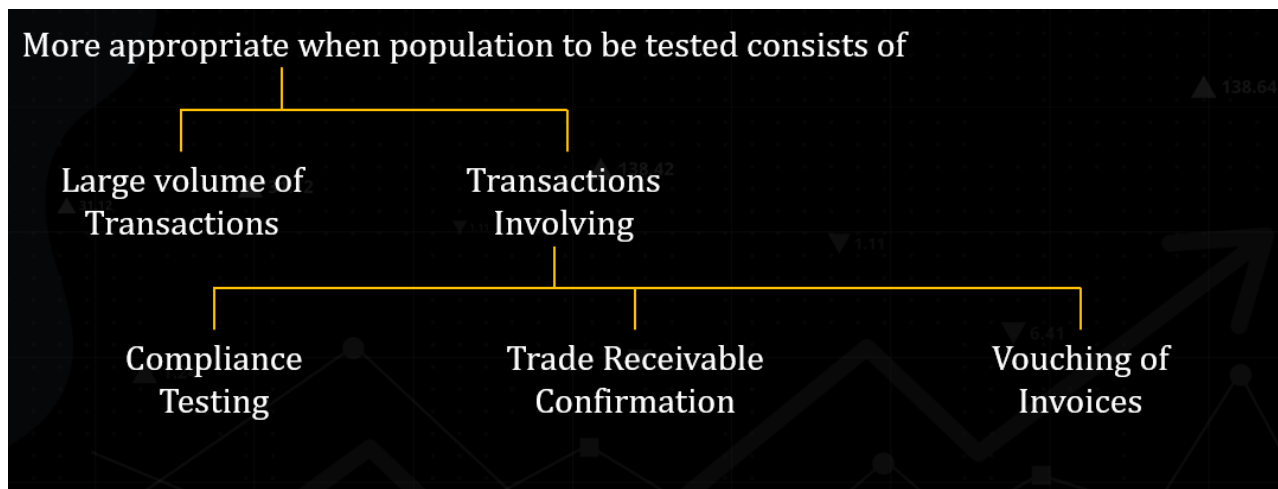
3.4 - Sampling Unit



3.5 Approaches to Sampling (Types of Sampling)



3.5A - Statistical Sampling-More Scientific



3.6 Sampling Vs Traditional method of Auditing

Factors to be considered

- (1) Size of the organization under Audit
- (2) State of I.C.
- (3) Adequacy → Reliability → of → Books → Records
- (4) Tolerable error range
- (5) Degree of desired confidence

Cannot be
100%
Reliable

Cannot give precisely
accurate results

It is a process of
estimation

May have
some errors

3.7 - Appropriateness of Sampling Approaches

Appropriateness of Sampling Approach**Advantage of statistical Sampling**

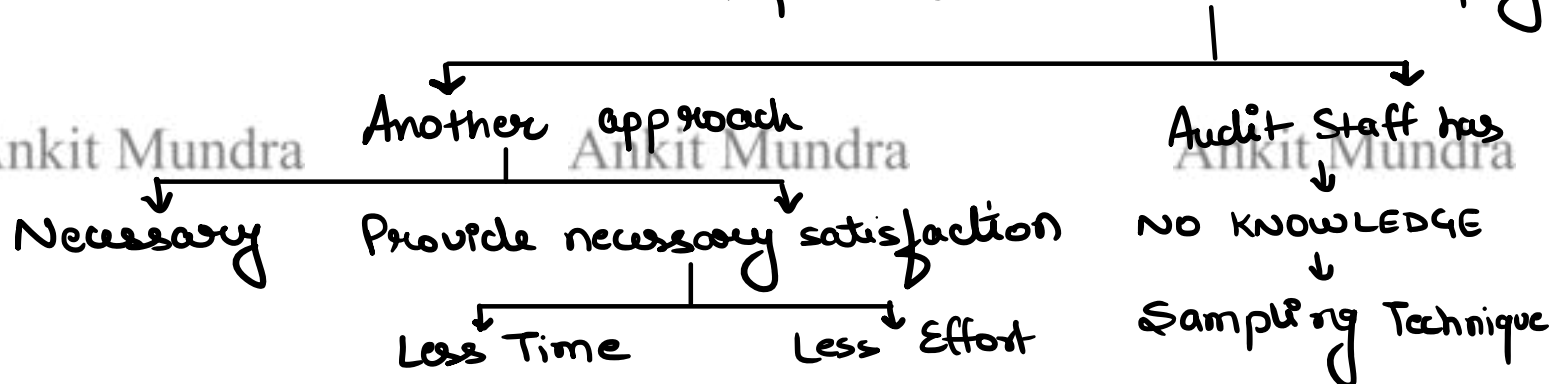
- (i) The amount of testing (Sample Size) does not increase in proportion



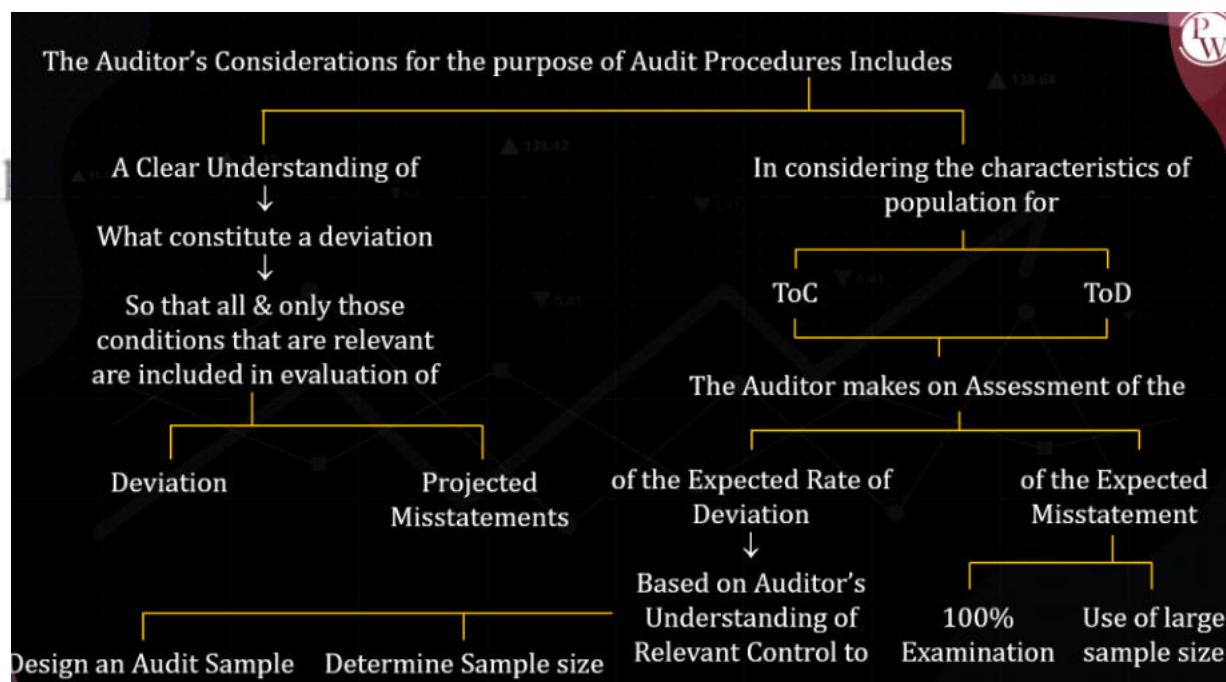
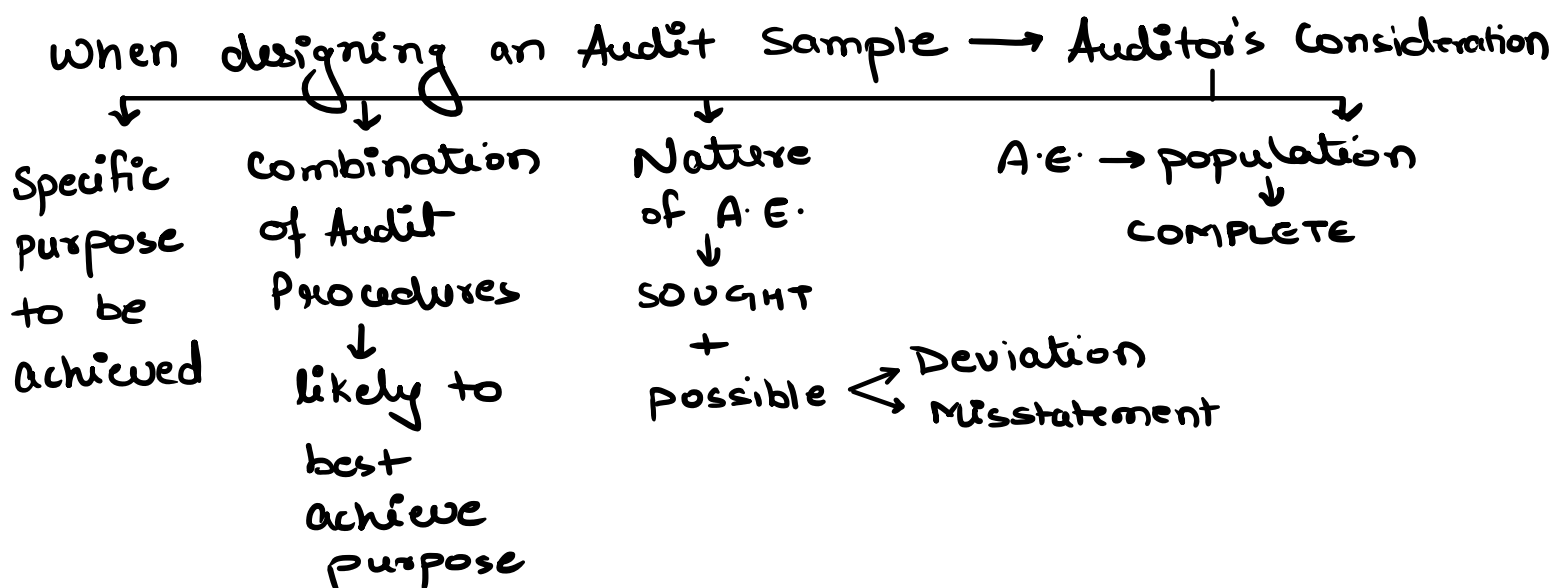
To the increase in size of area (universe) to be tested

- (ii) The sample selection is more objective & thereby more defensible
- (iii) The method provides a means of estimating a minimum sample size → Associated with a specific → Risk → Precision
- (iv) It provides a means of deriving a i.e. probable difference in result due to use of sample in lieu of examining All the records in the group (Universe) → Using the same Audit Procedure → Calculated Risk → Corresponding Precision (Sampling Error)
- (v) It may provide a better description of large mass of data than a complete examination of all the data, since non-sampling errors such as → Processing → Clerical Mistakes → Are not as large

Auditor should **NOT** attempt to use STATISTICAL Sampling



* Sample Design



3.9.1A - Stratification and Value-Weighted Selection

Stratification & Value Weighted Selection

SA-530 provides guidance to the Auditor on the use of :

(A) Stratification (Division of Something into Group)

- (i) Audit efficiency May Improve → If Auditor Stratifies a population → by dividing it into → Discrete Sub-Population → Which has an identifying characteristics
- (ii) Objective of stratification → To reduce variability of items → within each stratum group
∴ Allows sample size to be reduced → without increasing sample risk
- (iii) If → CoT → A/c. Balance → Has been divided into station
Projected misstatements from each station → Are Combined when considering the possible effect of Misstatement on Total → CoT → A/c. Bal.

(B) Value Weighted Selection

- When Performing ToD → It may be efficient to identify sampling units as Individual Monetary units → That makes up the population
- Benefits : Sampling units Audit efforts is directed

↓
To Larger Volume Items

↓
Because

They have a greater chance
of selection

They can be in smaller sample size

Sample Size

- (1) The level of Sampling Risk → That Auditor is willing to accept
↓
Affects the sample size Required
Lower Risk ↔ Greater Sample Size & Vice - Versa
- (2) Sample size can be determined by → Statistically based formulae → Exercise of professional Judgement
- (3) When circumstances are similar → The effect on sample size of factors → which have an effect on determination of sample size → will be similar in → Statistical → Non-Statistical → Approach
- (4) Factors Affecting sample size for → ToC → ToD

ToC

- 1) Greater RELIANCE → Greater extent of ToC on I.C.
- 2) ↑ Tolerable Rate of DEVIATION → ↓ in sample size
- 3) ↑ Expected Rate of Deviation → ↑ Sample size
- 4) ↑ Desired level of Assurance → ↑ in sample size
- 5) ↑ Homogenous sampling units → NO EFFECT

ToD

- 1) ↑ ROMM → ↑ Sample size

- 2) ↑ Substantive Procedures $\begin{matrix} \nearrow \text{ToD} \\ \searrow \text{SP} \end{matrix}$ $\longrightarrow$ ↓ Sample Size
- 3) ↑ Desired Assurance $\longrightarrow$ ↑ Sample Size
- 4) ↑ Tolerable Misstatement $\longrightarrow$ ↓ Sample Size
- 5) Stratification of Population $\longrightarrow$ ↓ Sample Size
- 6) No. of sampling units $\longrightarrow$ NEGLIGIBLE EFFECT

3.9.3 - Selection of Items for Testing

Selection of Items for testing

→ Statistical Sampling → items are selected in such a way

→ That each sampling unit has a known probability of being selected

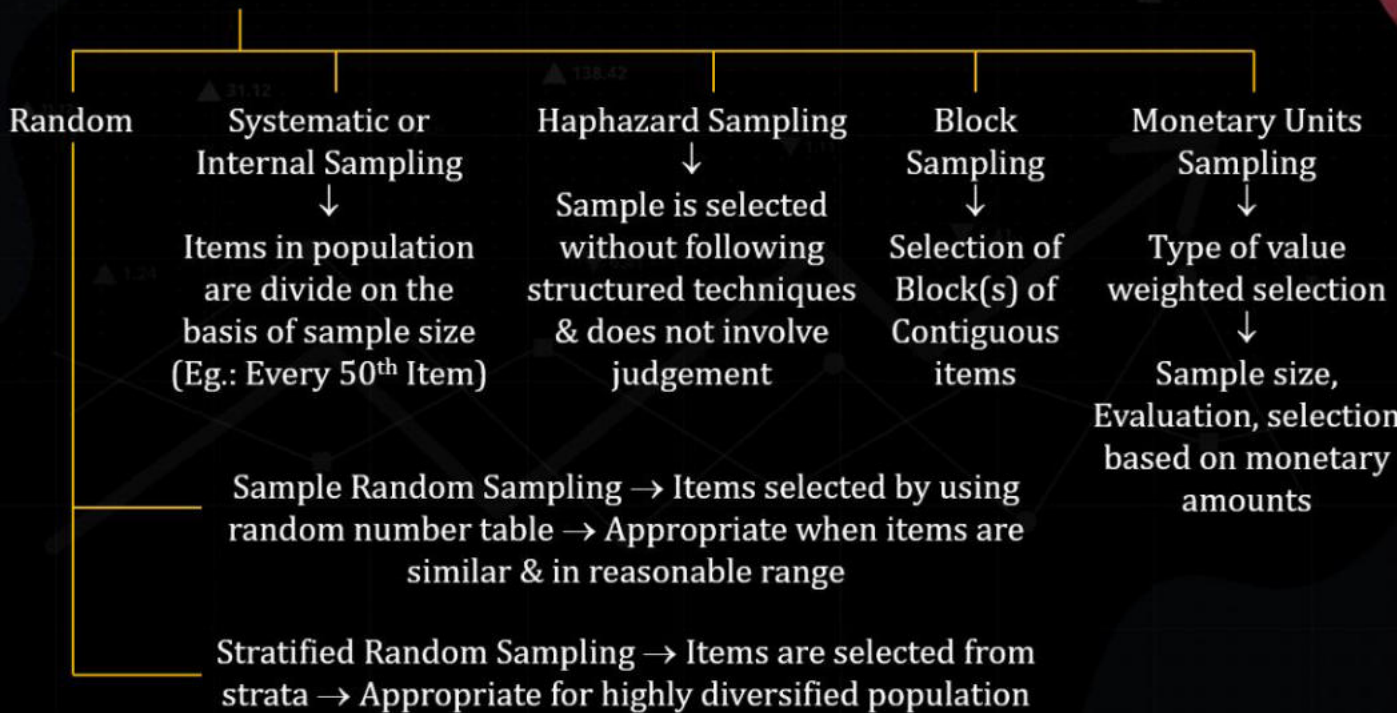
→ Non-Statistical Sampling → Judgement is used to select sample

→ It is important that Auditor Selects

Representative Sample

to avoid bias

3.9.3A - Sample Selection Methods

Method of Selecting Sample

3.10 - Performing Audit Procedures

Performing Audit procedures

- (1) Auditor should perform Audit procedures → Appropriate to the purpose → on each item selected
 - (2) If Audit procedure is → Not Applicable → Audit procedure is not be performed on → replacement Item
 - (3) If Auditor is unable to apply
↓
On Selected items
↓
The Auditor shall treat that item as
↓
'Deviation from prescribed control'
- Designed Audit procedure (Point-1)
Suitable alternative procedure (Point-2)

3.11 - Nature and Cause of Deviations and Misstatements

Nature & Cause of → Deviation & Misstatement

In analyzing the → Deviations → Misstatements → identified



The Auditor may observe that → many have common features → then Auditor may

Identify all items in
population



That possesses that
common feature

Extended Audit
Procedures



To those items

May indicate the
possibility of Fraud

∴ Auditor should

Investigate → Nature & Causes of Deviations

Possible effects on Audit

If Anomaly is discoursed → Obtain Certainty → Deviation → MM → not representative of population

May be excluded in projecting MM → However → Effects are to be considered → If uncorrected

3.12 - Projecting Misstatements

Projecting Misstatements

- The auditor is required to 'Project Misstatements → for the population



But this projection May not be sufficient

- When a misstatement has been established as an 'Anomaly'



It may be excluded when projecting misstatements



However its effects still needs to be considered



- For ToC



Auditor shall → Project Misstatements

ToD



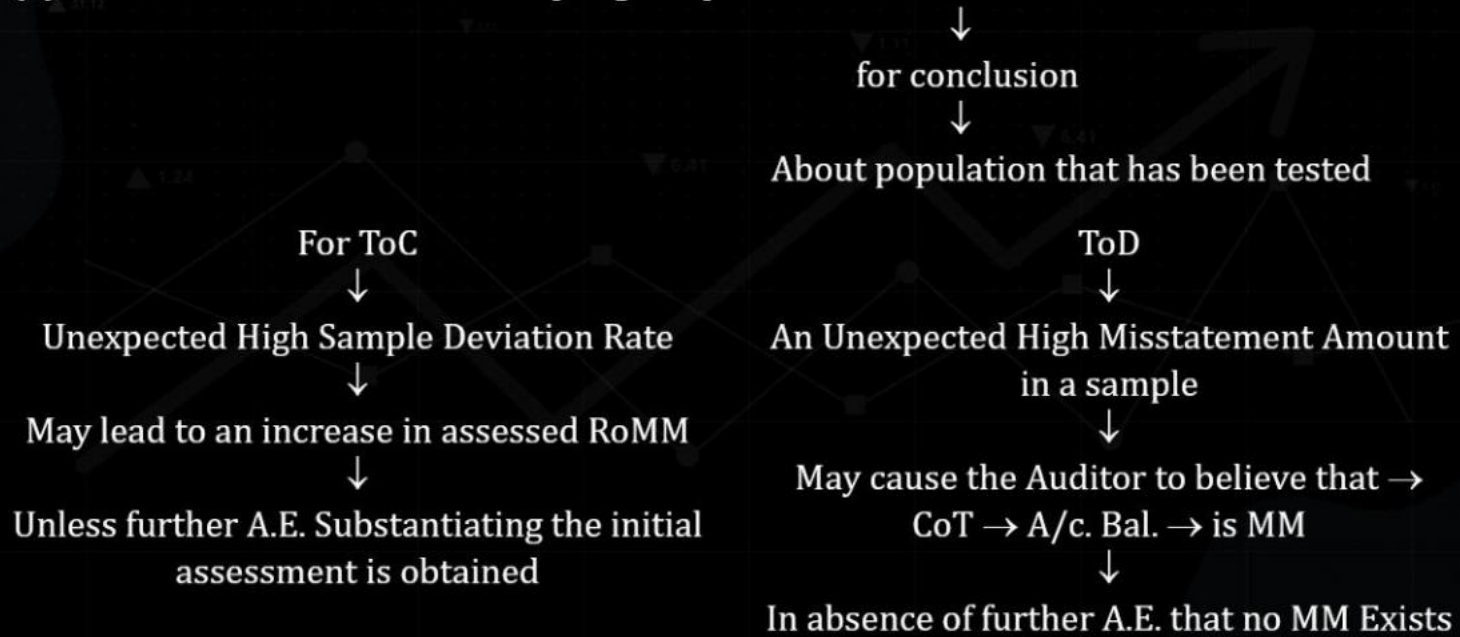
No Explicit projection of Deviation

3.13 - Evaluating Results of Audit Sampling

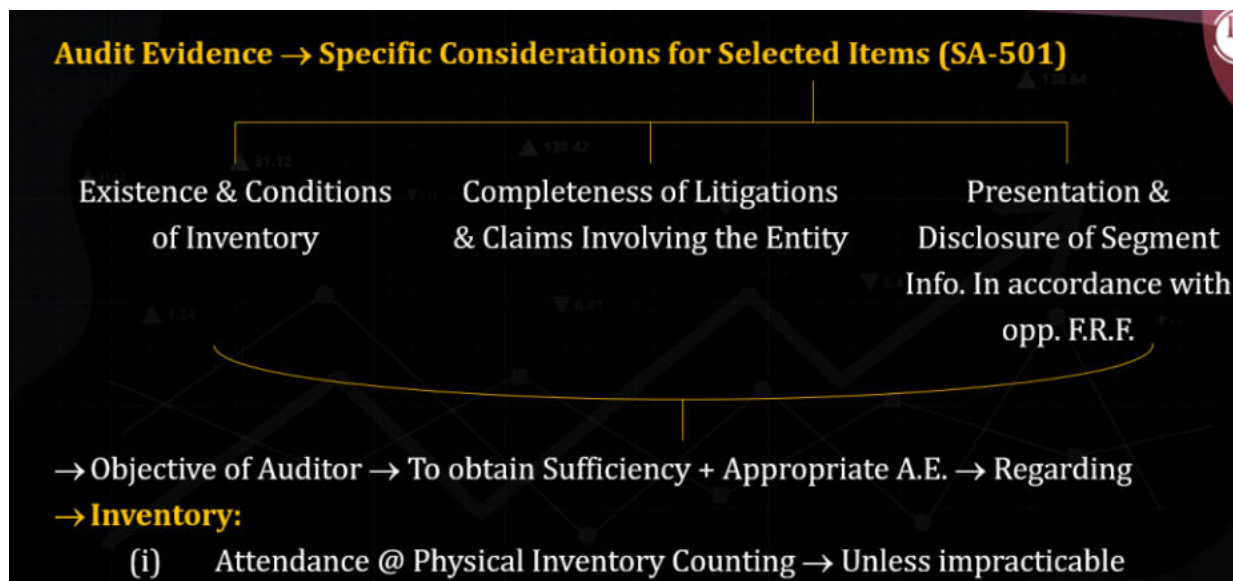
Evaluating Result Audit Sampling

The Auditor shall Evaluate:

- (a) Result of Sample
- (b) Whether the use of Audit Sampling has provided a Reasonable Basis



4. - AUDIT EVIDENCE-SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS
(SA 501)



↳ Evaluate → Mgt.'s Instruction

↳ Observe → performance

↳ Inspect → Inventory

↳ perform → Test Count

(ii) Performing Audit Procedures → Over Entity's Final Inventory Records

Attendance at Physical Inventory Counting Involves:

i) Inspecting → Existence
→ Conditions
→ perform → Test Count

ii) Observing → compliance → Mgt. Instructions

iii) Obtaining → A.E. → Mgt. count procedure

4.5 - Matters Relevant in Planning Attendance at Physical Inventory Counting

Matters Relevant to Planning Attendance @ Physical Inventory Counting

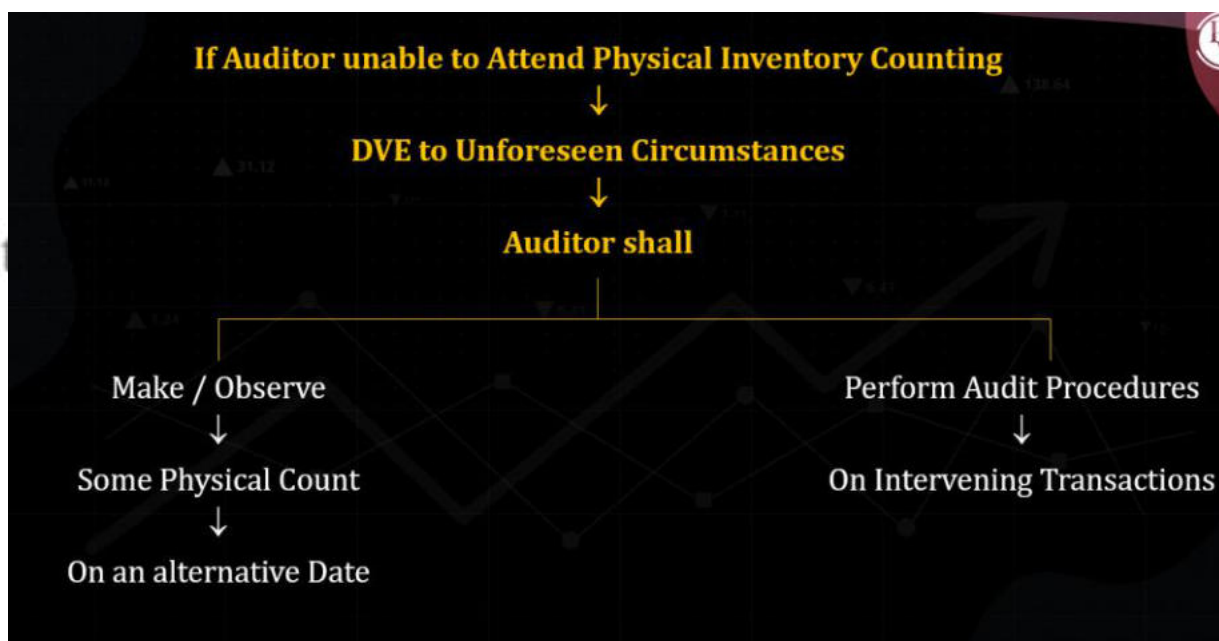
- Nature of Inventory
- Stages of W/P
- RoMM of Inventory
- Nature of IC
- Timing of Counting
- Entity Maintains → Perpetual Inventory System?

4.6 Physical Inventory Counting Conducted other than at the Date of the Financial Statements

Physical Inv. Counting → Other than the date of F.S

Auditor Shall → Perform → Above Mentioned Audit Procedure + Additional Audit procedures to obtain Sufficiency + Appropriate A.E. about Δ in Inventory

4.7 If the auditor unable to Attend Physical Inventory Counting due to Unforeseen Circumstances



4.8 Attendance at Physical Inventory Counting becomes impractical

Attendance of Physical Inventory is Impracticable

Auditor Shall:

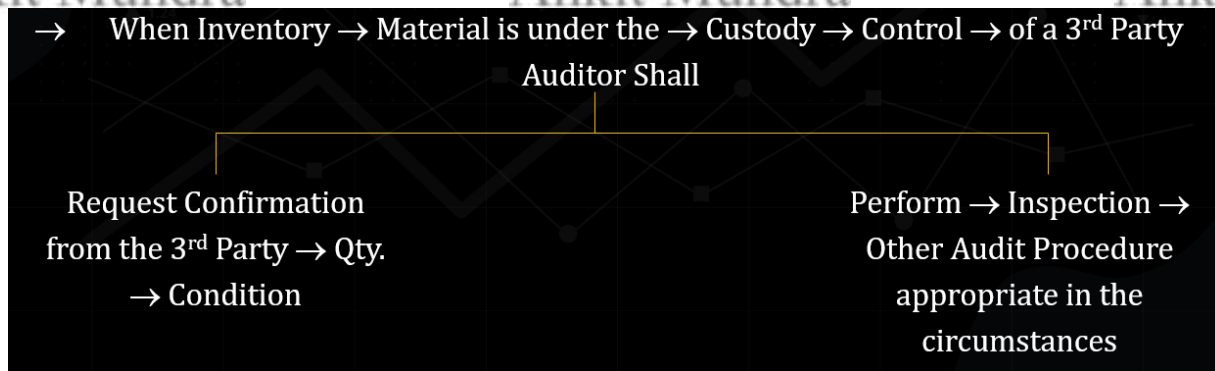
- (i) Perform → Alternative Audit Procedure



If not possible → Modify as per SA 705

- (ii) General Inconvenience to Auditor → Not sufficient Reason

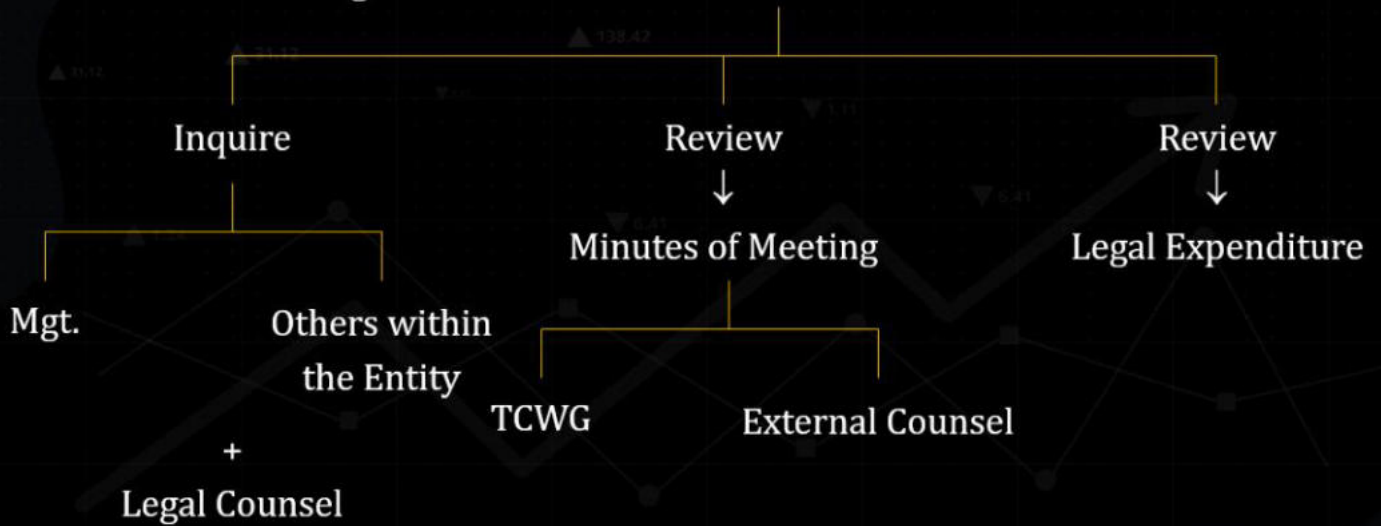
4.9 - When inventory under the custody and control of a third party- What will the auditor do?



4.10 - Litigation and Claims

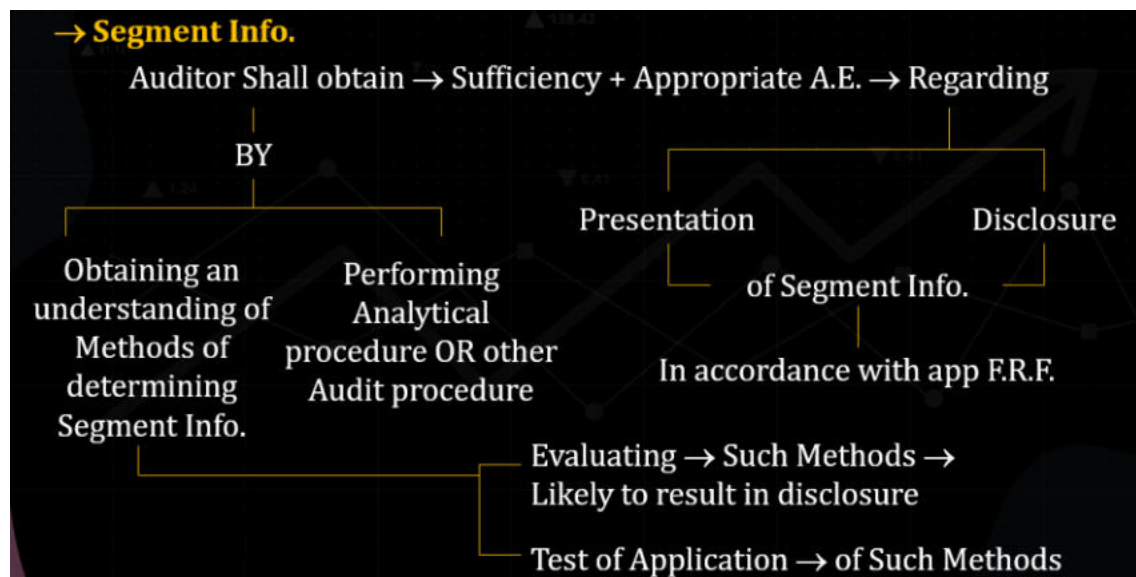
Litigation & Claims

Auditor shall → Design → Perform ← Audit Procedures

**If Auditor assess a RoMM → Regarding Litigation / Claim**

→ Request W.R. → Mgt. → TCWG → that all → Known → Possible → Litigation have been disclosed

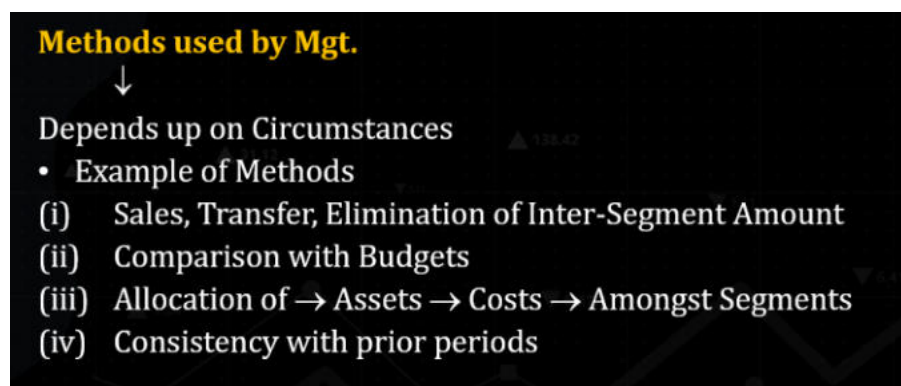
4.12 - Segment Information



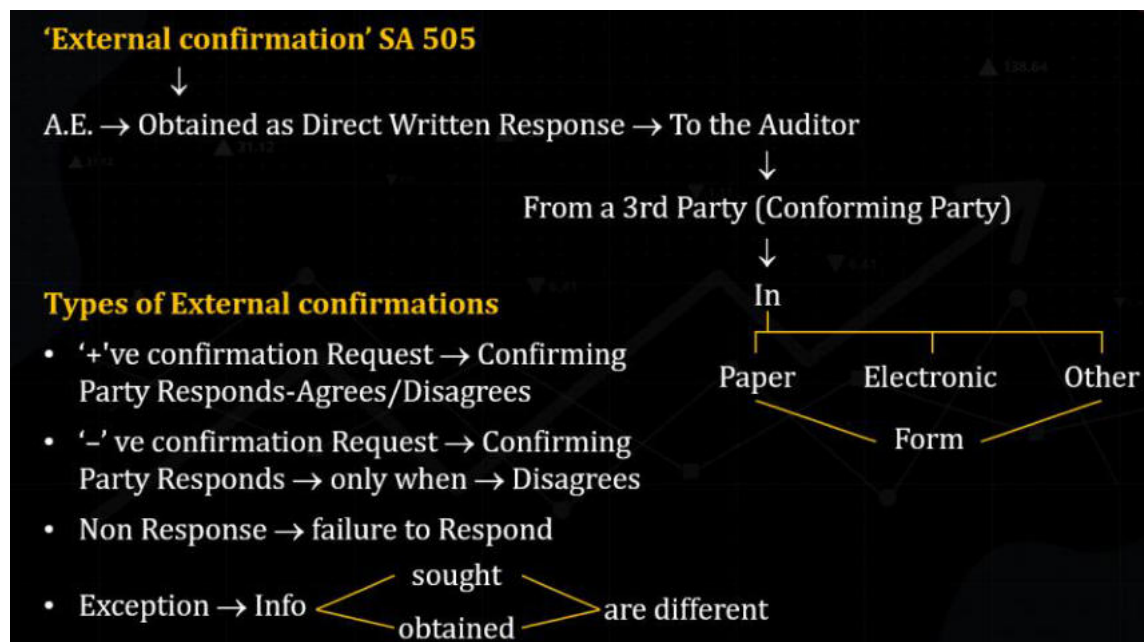
4.14 - Auditor's responsibility regarding the presentation and disclosure of segment information

↓
 Not required → to perform → Audit Procedures
 ↓
 on STAND ALONE Basis

4.15 Understanding of the Methods Used by Management



5. - EXTERNAL CONFIRMATIONS (SA 505)



5.5 - External Confirmation Procedures adopted by the Auditor to Obtain Audit Evidence

- i) Determine → Info. → to be $\begin{cases} \text{Confirmed} \\ \text{Requested} \end{cases}$
- ii) selecting → Appro. confirming party
- iii) Designing → confirmation request
- properly addressed contain Return Info.

Designing Confirmation Request : Factors to be considered

- Specified Identified RoMM → Including Fraud Risk
- The Layout & Presentation of Confirmation Request
- Prior Experience of Audit & Similar Engagements
- Mgt. → Authorization → Encouragement → to Confirming Party
- The method of communication
- Ability of intended confirming Party → to confirm

- iv) Sending the request + follow up

Mgt's Refusal to allow the auditor to send a confirmation Request

The Auditor shall :

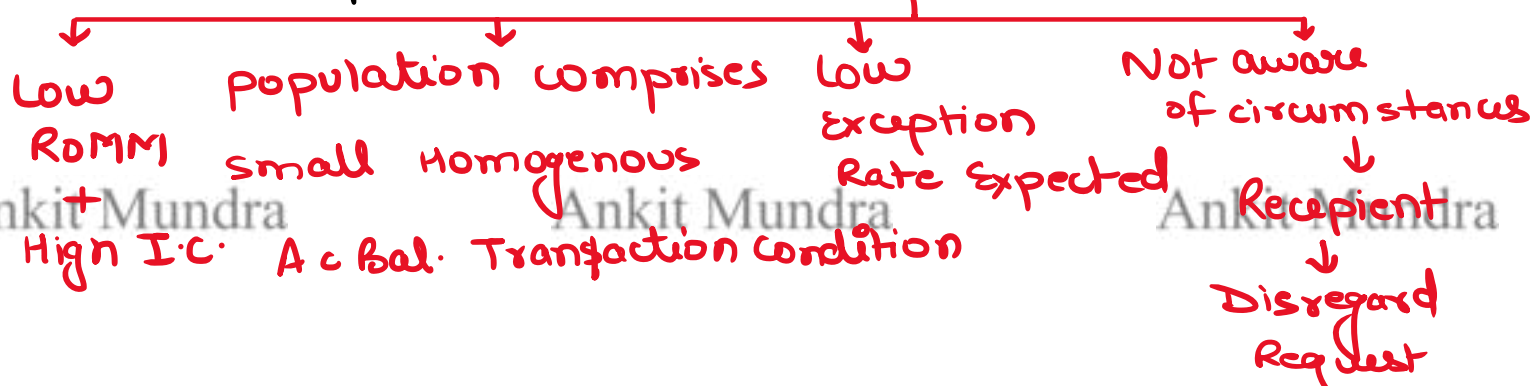
- (1) Inquire as to Mgt's → Reasons for Refusal + Seek A.E. → Validity → Reasonableness
- (2) Evaluate the implications → of Mgt's refused
- (3) Perform → Additional Audit Procedure

If Auditor concludes → Refusal → Unreasonable → Unable to obtain → Reliable → Relevant → A.E.

Communication with TCWG → as per SA 260

*** Negative Confirmations**

↳ Less persuasive than '+ve' confirmation

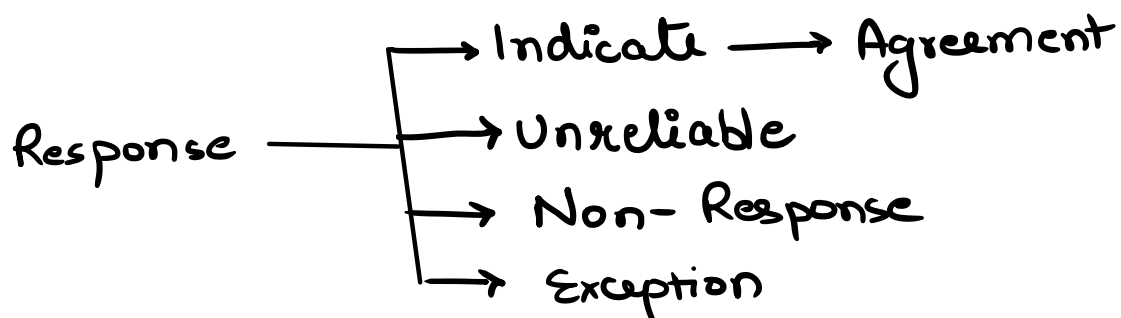
↳ Auditor SHALL NOT use as SOLE substantive procedure → **UNLESS:**

5.8 - Evaluating the Evidence Obtained

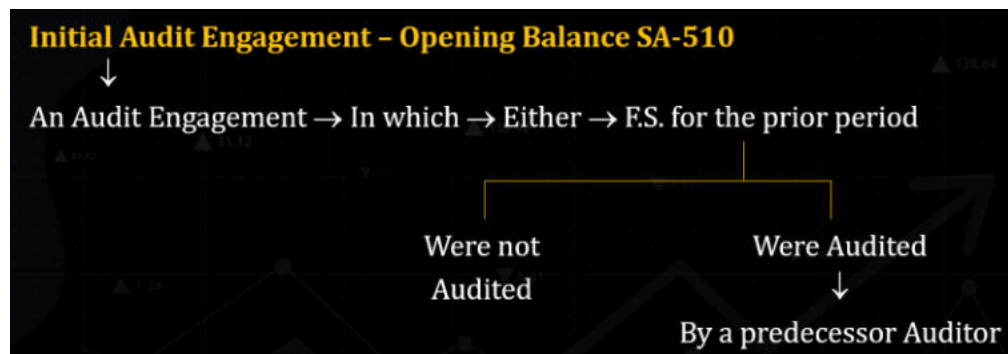
Auditor → Evaluate → Result

↓

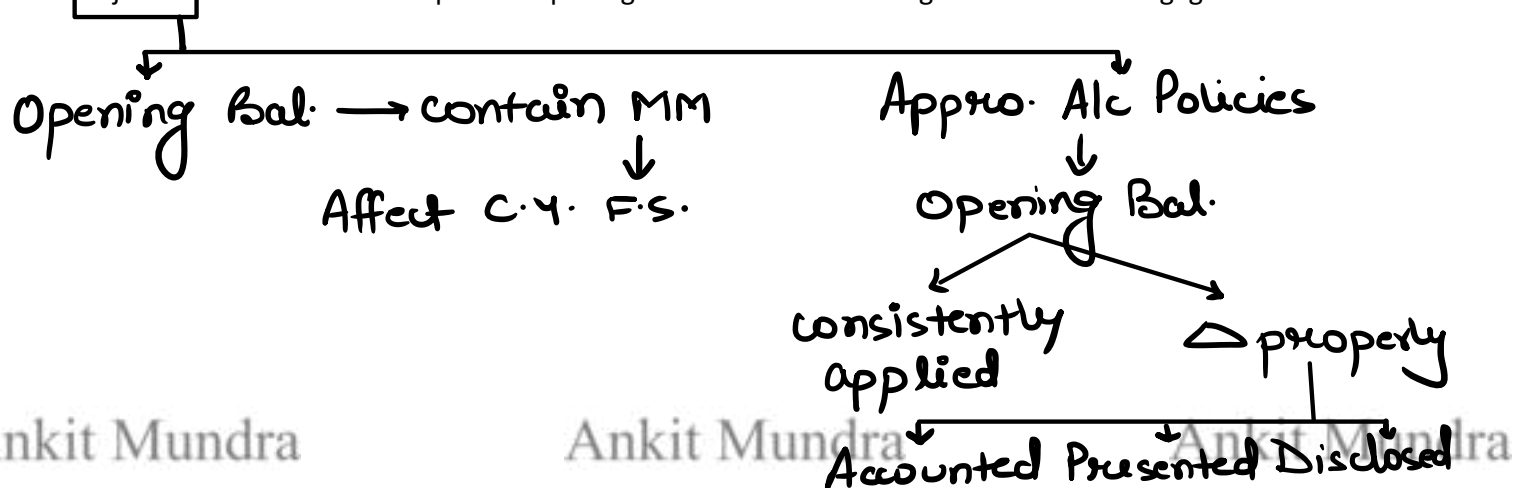
may categorise as follows



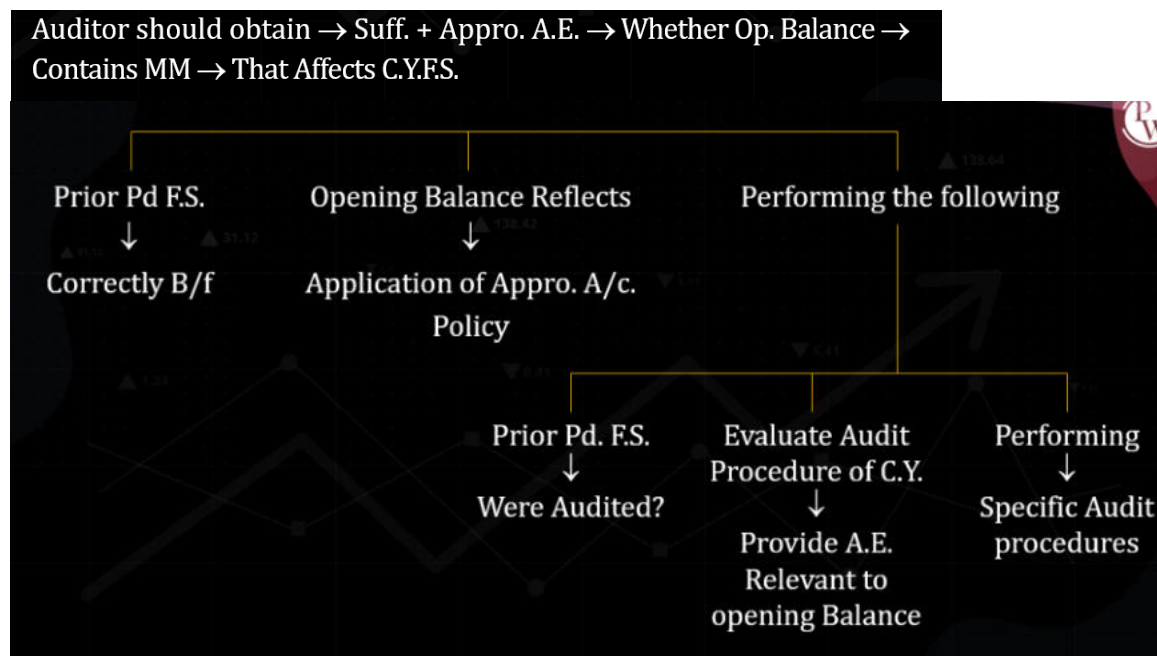
6. - INITIAL AUDIT ENGAGEMENTS - OPENING BALANCES (SA 510)



6.3 Objective of Auditor with respect to Opening Balances—in conducting an Initial Audit Engagement



6.4 Obtaining sufficient appropriate Audit evidence about opening balances by the Auditor



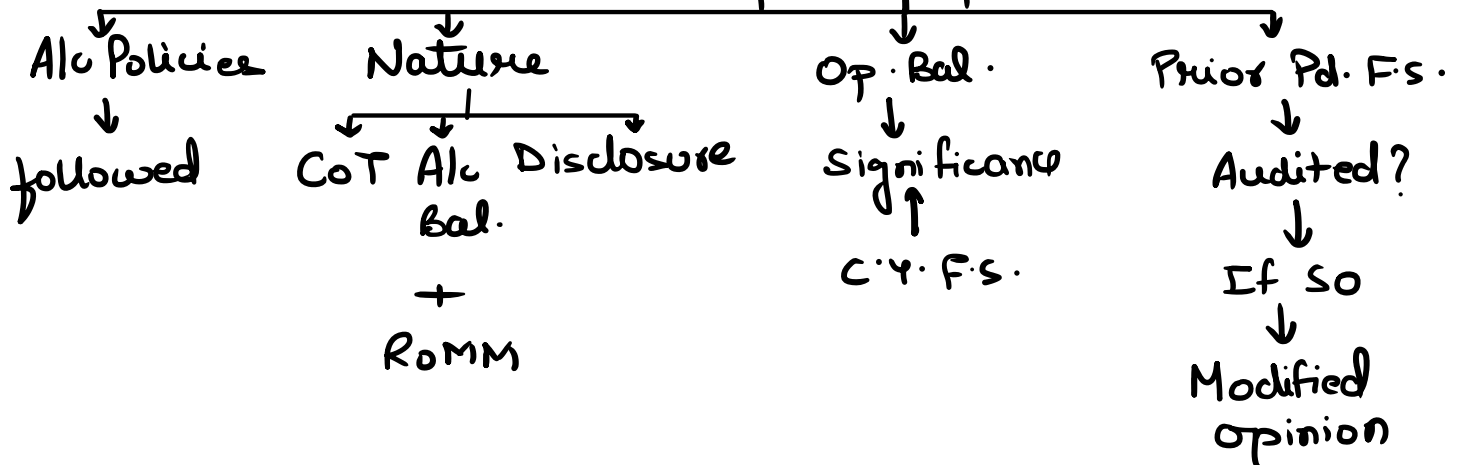
If misstatements are found → Communicate to Mgt./TCWG



As per SA 450 'Evaluating the Misstatement Identified during the Audit'

6.5 - Procedures adopted by the Auditor to Obtain Audit Evidence regarding opening balances:

6.5.1 Nature and extent of Audit Procedures → Depends upon



6.5.2 - If the prior period's financial statements were audited by a predecessor auditor



C.Y. Auditor → To obtain → Suff. + Appro. A.E.

perusing the copies

Audited Fs. Other Relevant Docs.

* Ordinarily → C.Y. Auditor → place reliance

Except

possibility of MM

* Current → Assets
→ Liabilities

Non-current → Assets
→ Liabilities

→ Some A.E. May be obtained



→ PPE
Investment

Examine

→ Some A.E. May be obtained

↓
C.Y. Audit Procedures

→ C.Y. Audit Procedures

↓
provide little A.E.
↓

Op. Inventory

→ Additional Audit Procedure

↳ Observe → physical count
↳ Reconciliation

↳ valuation

↳ Audit Procedure ↔ G.P. cut-off

→ PPE

Investment
Long-Term
Debt

→ Examine

Alc Records
Other Info.

→ Certain cases

↓
Through confirmation

↓
Third Parties

6.6 - Consistency of Accounting Policies relating to opening balances

Appro. Alc Policies

↓
Opening Bal.

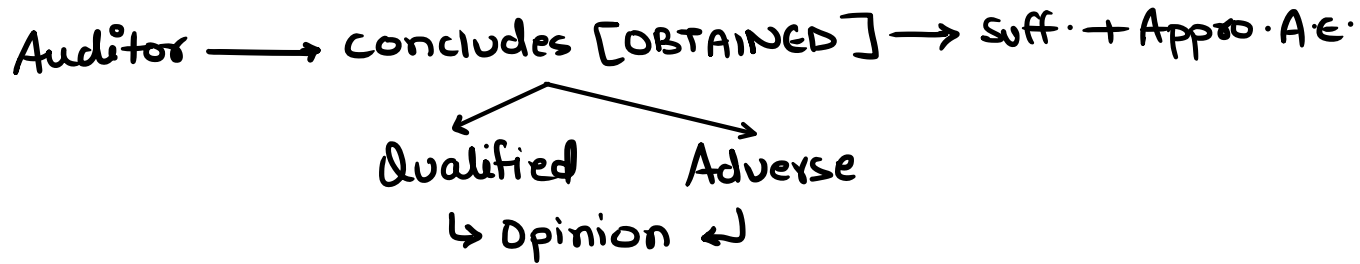
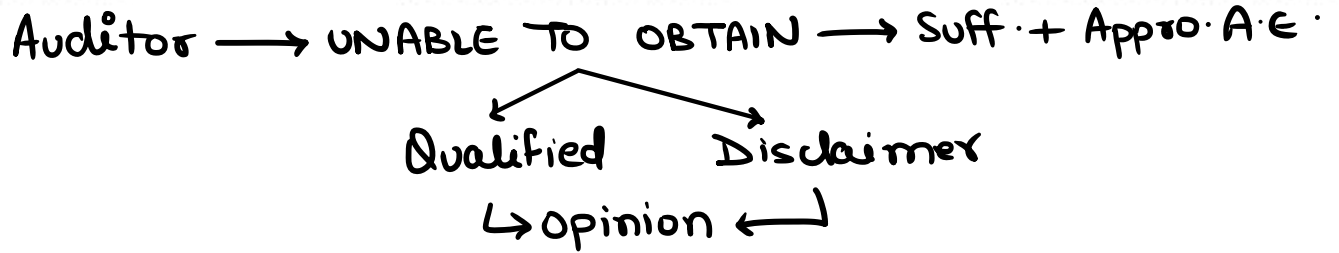
consistently
applied

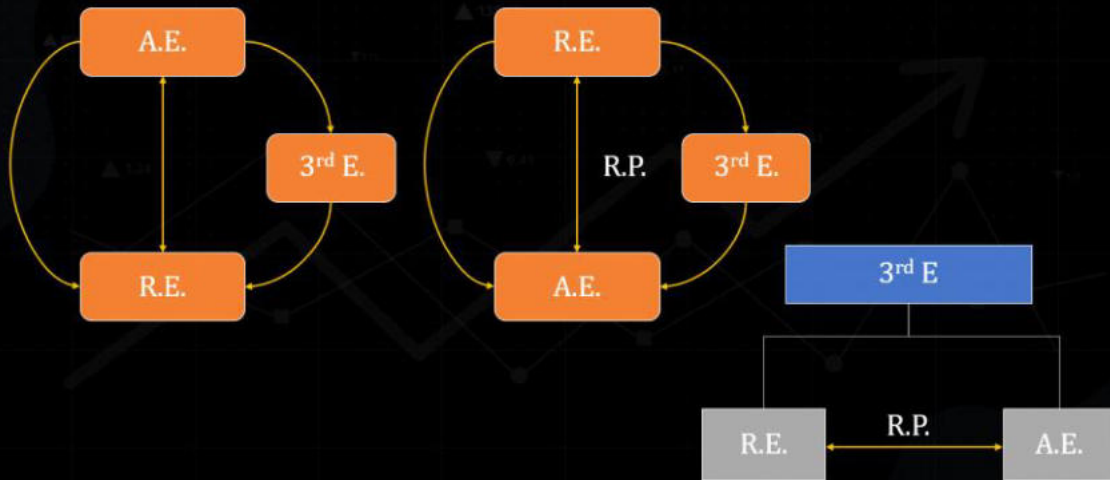
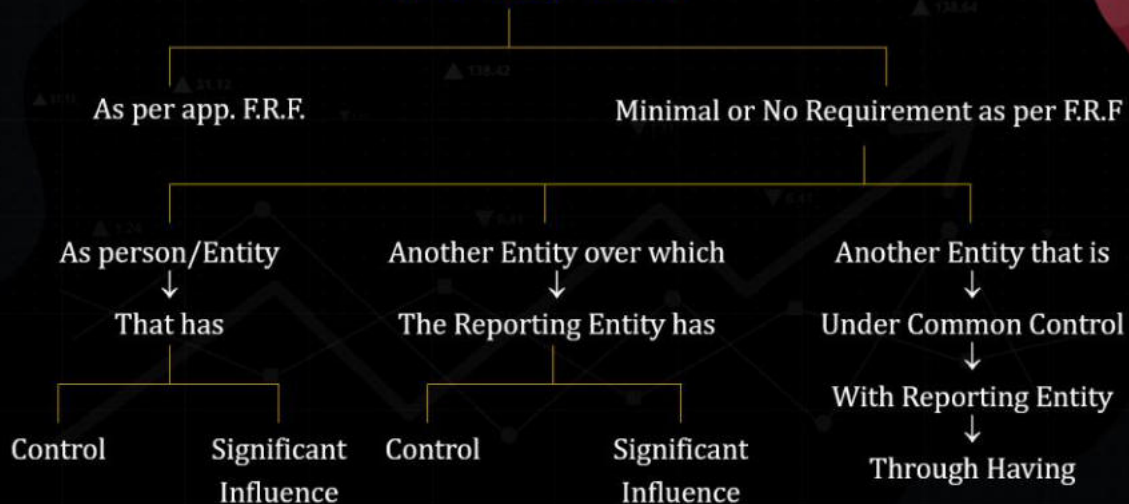
△ properly

↓
Accounted Presented Disclosed

→ Auditor concludes → policies **NOT CONSISTENTLY APPLIED**
↓
Qualifed / Adverse → Opinion → SA 705
→ Δ in policies **NOT PROPERLY ACCOUNTED**

6.7 Reporting by the auditor with regard to opening balances



Meaning of Related Party (SA-550)**Related Party - SA 550**



7.3 Meaning of control and significant influence in reference to related party

Control → power to govern $\begin{cases} \text{Financial} \\ \text{Operating} \end{cases}$ policies of an Entity
 ↓
 To obtain Benefits from activities

Significant Influence → Gained by $\begin{cases} \text{Ownership} \\ \text{Statute} \\ \text{Agreement} \end{cases}$
 ↓
 power to participate $\begin{cases} \text{financial} \\ \text{operating} \end{cases}$ policies of an Entity

But NOT Control over those policies

* Existence → of following Relationship → Indicate

Control Significant Influence

i) Direct > Equity Holding + Other Fin. Interest
Indirect

ii) Being part of $\begin{cases} \text{TCWG} \\ \text{KMP} \end{cases}$

iii) Close Family Members

iv) Significant Business Relationship

7.4 Meaning of Related Parties with Dominant Influence (D.I.)

↓
may be in a position → to exert D.I. $\begin{cases} \text{Mgt.} \\ \text{Entity} \end{cases}$

↓
should be considered → R.A.P. (SA 315)

7.5 Meaning of Special-Purpose Entities as Related Parties

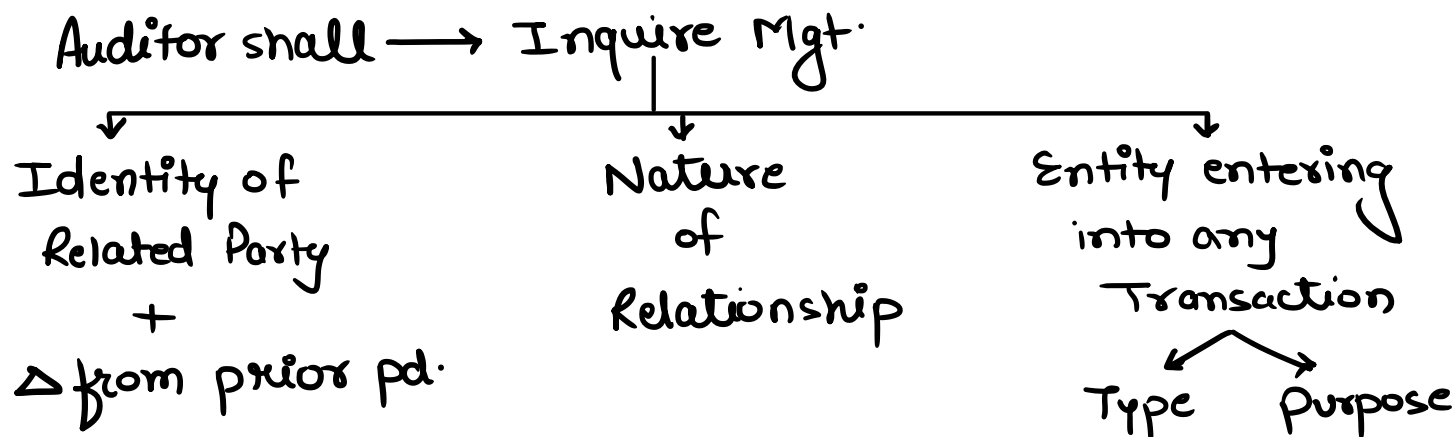
↓
certain circumstances → may be Related Party
Because the entity may → 'IN-SUBSTANCE' control it
Even if owns $\begin{cases} \text{Little} \\ \text{None} \end{cases} > \text{Equity}$

7.6 Nature of Related Party Relationships and Transactions

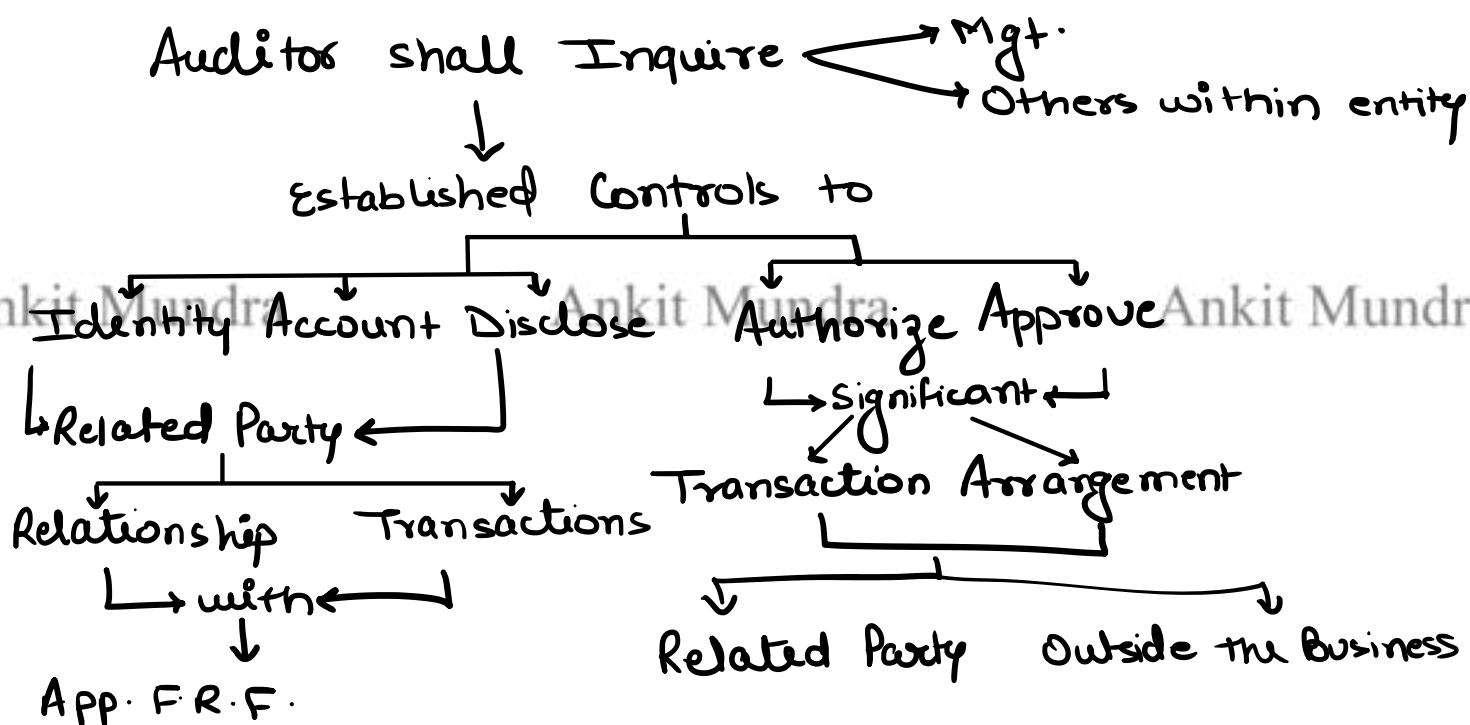
Many Related Party Transactions → Normal Course of Business
↓
May carry NO HIGHER RISK OF MM

7.7 Understanding the Entity's Related Party Relationships & Transactions

Auditor shall → Inquire Mgt.



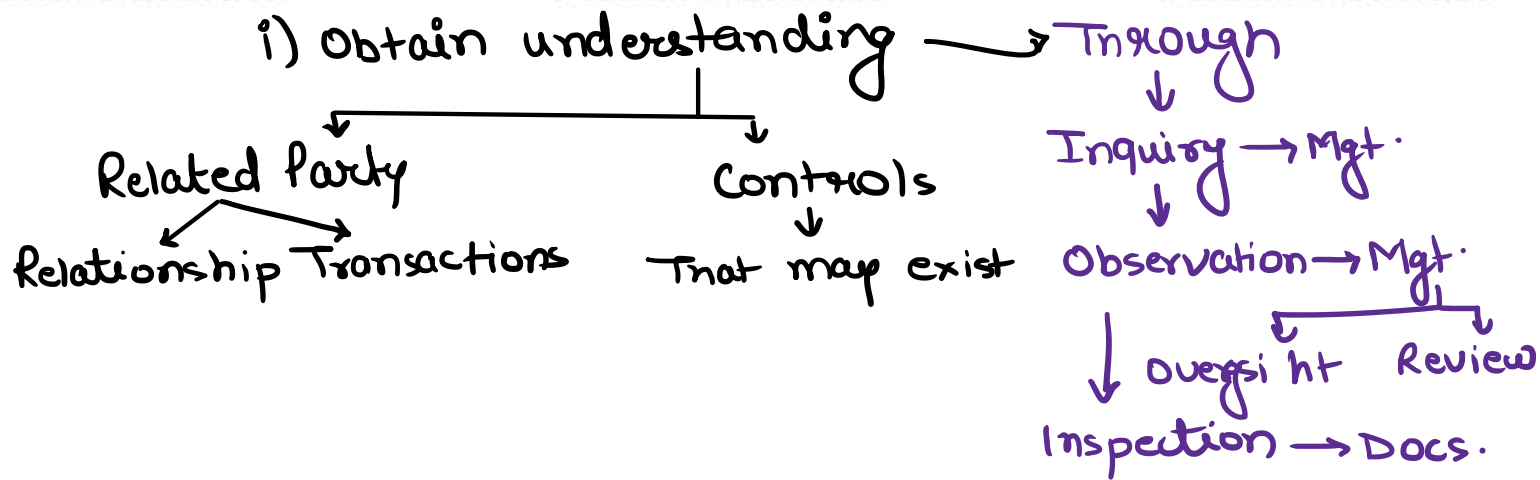
* Controls → for Related Party Transactions



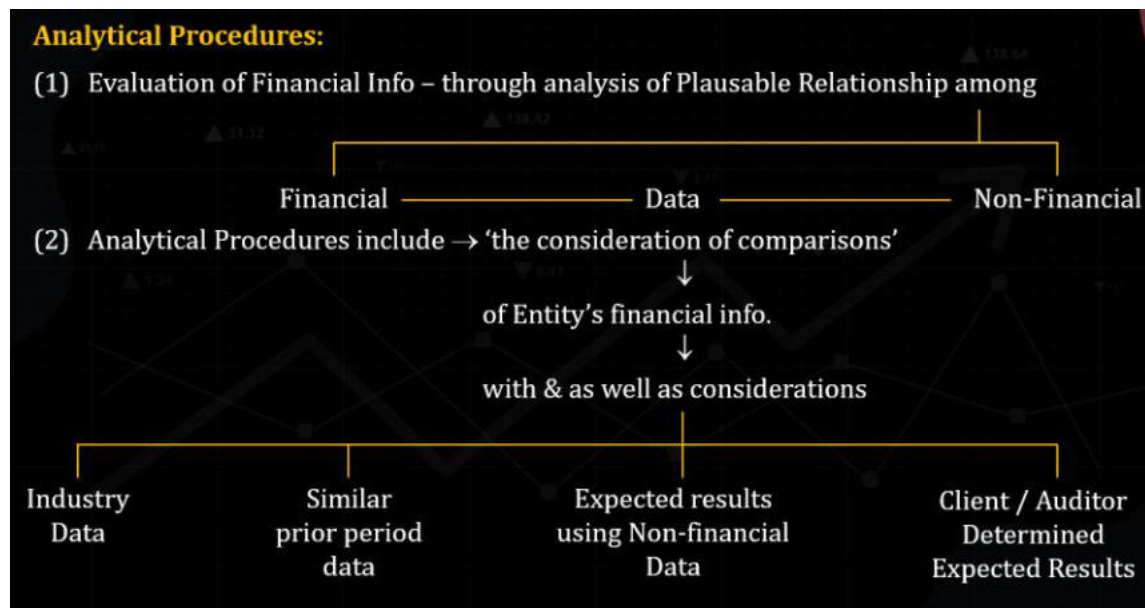
7.8 Considerations specific to smaller entities by the auditor

↓
 Controls → Less Formal
 +
 No Documented Process
 +
 Increased Risk

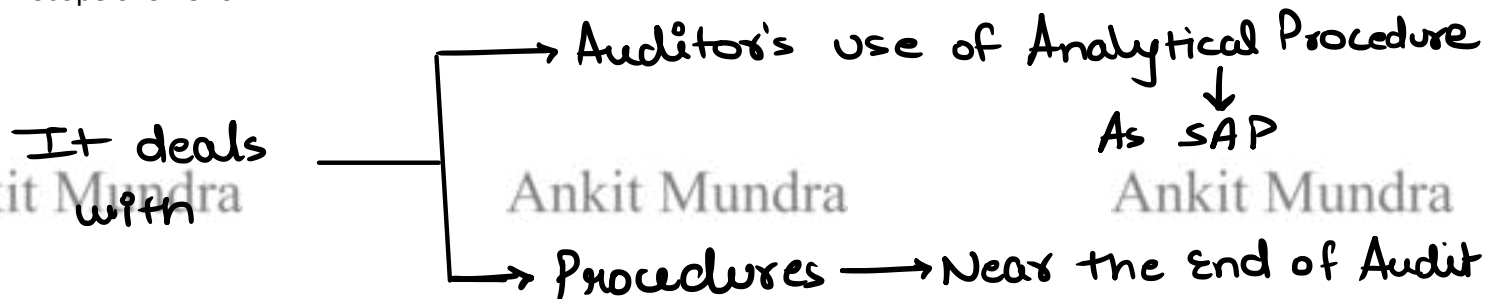
→ Auditor may



8. - ANALYTICAL PROCEDURES (SA520)



8.2 Scope of SA 520

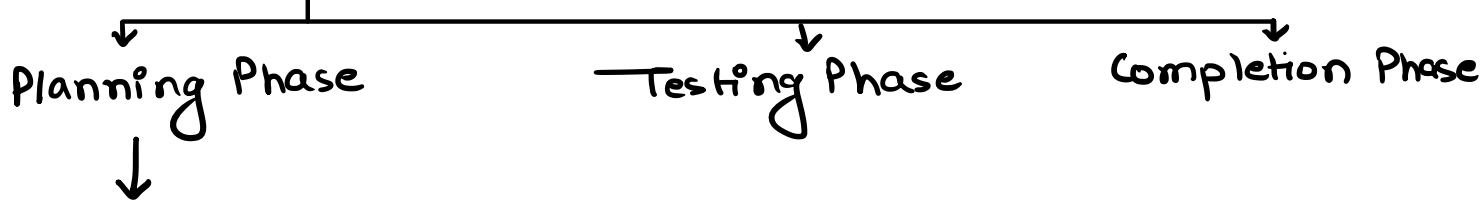
**Objectives of SA-520**

- (1) To Obtain → Relevant → Reliable → A.E. → when using SAP
- (2) To → Design → Perform → Analytical Procedures → Near the end of Audit → to assist → in forming overall Audit Conclusion

Purpose & Timing of Analytical Procedures

- (1) It was → Comparisons → Relationships → to assess → Reasonableness of Data
A/c. Bal. Other
- (2) These are helpful → in detection of
Unusual State of affairs Mistakes in A/c.
- (3) The overall test can be extended for making → Inter → Infra → Firm Comparison
→ of trading result
- (4) If MM are found → Auditor would
Ascertain the reasons Assess whether A/c. has been manipulated

Timing of Analytical Procedures



① understand
↳ client Business

② Identify
↳ potential Risk

③ Determine
↳ N, E, T of other
Audit Procedures

④ use
↳ Fin. DATA
↳ Non Fin INFO.

8.4 Substantive Analytical Procedures

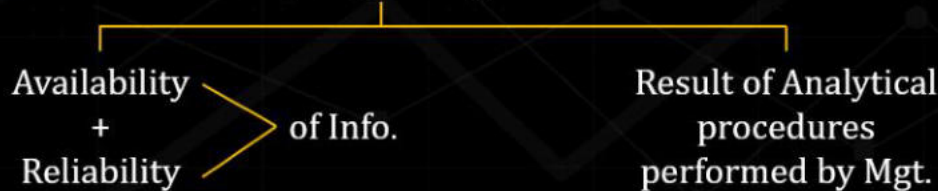
Substantive Analytical Procedure (SAP)

➤ Substantive Procedures @ Assertion Level



➤ Which procedure to perform → is based on Auditor's Judgement of Eff. & Eff. of → Available Audit procedures → to reduce risk @ acceptably low level

➤ Auditor may Inquire Mgt.



➤ Factors to be considered

(1) Availability of Data → Relevant & Reliable

(2) Disaggregation Breaking Down of Data → Degree of Disaggregation in available data

(3) A/c. Type — Income St. → Predictable → as gives accumulated transactions
 — B/s. → Net of transactions → at a point of time → Subjected to Mgt. Judgement

(4) Source → Some Sources (Routine) are better than others (Non-Routine) & SCoTs

(5) Predictability → Better

(6) Nature of Assertion → More evidence for assertions

(7) Inherent Risk or WCGW → Consider nature of RoMM in order to determine. If SAP can be used to obtain A.E.

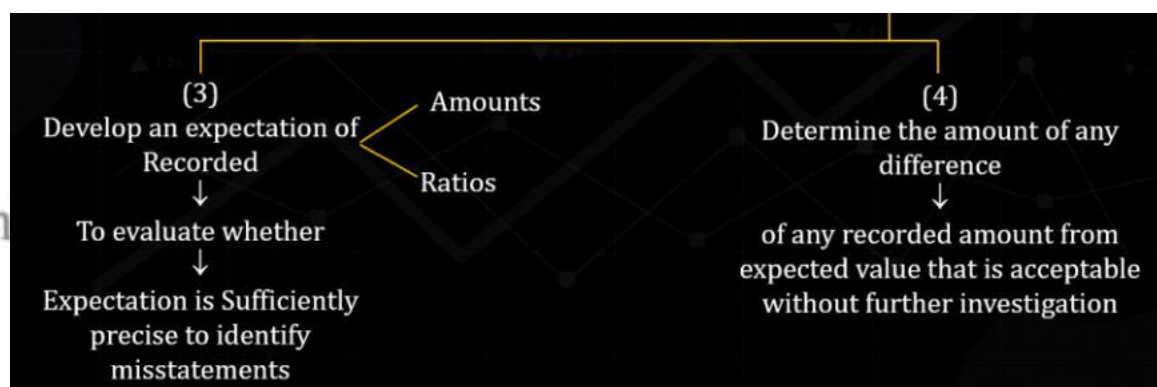
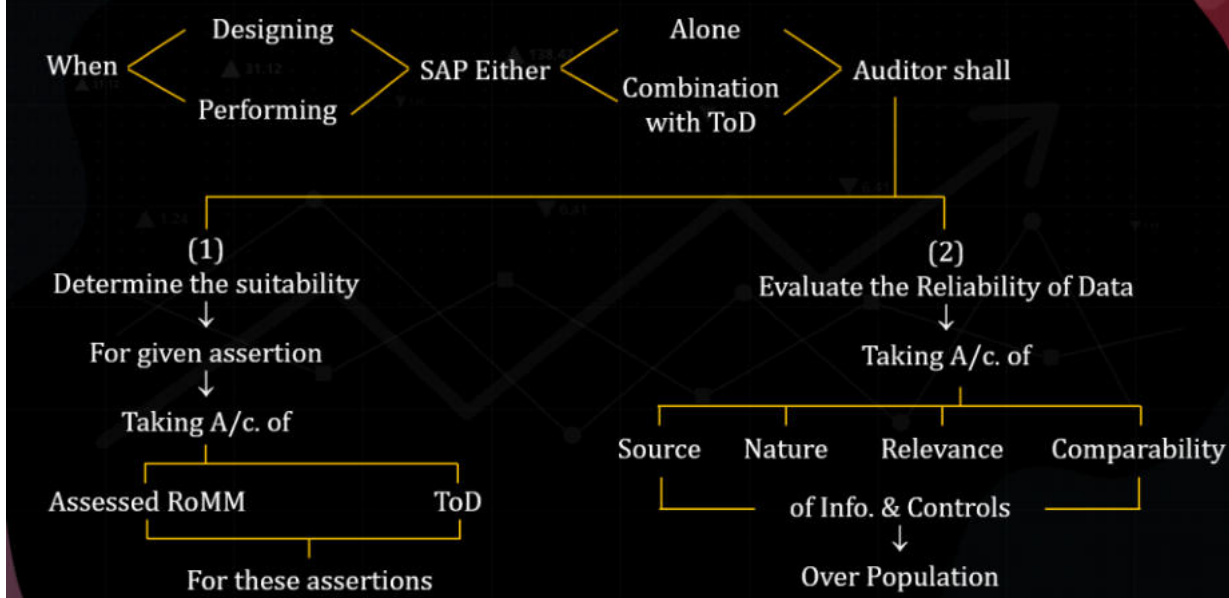
➤ When inherent Risk is Higher → ToD is to be designed

➤ When Significant Risk has been identified → A.E. from SAP unlikely to be sufficient

Techniques available as SAP

- (1) Trend Analysis → **commonly used technique**
- (2) Ratio Analysis
- (3) Reasonableness Test (Rely on Non-financial Data like interest rates to estimate interest incomes, etc.) → **unlike Trend Analysis**
- (4) Structural Modeling (Constructs a statistical Model from financial & Non-financial data of prior A/c. period to predict current A/c. Bal.)
(Eg. Linear Regression)

8.7 - Analytical Procedures used as Substantive Tests

Analytical Procedures used as substantive Test:**1) Suitability of SAP for given assertion**

→ SAP → generally more applicable to large volume of transaction → that tend to be predictable over time

→ Applicability of SAP → is based on expectation that

Relationship among Data
Exists

Continue in absence of known
conditions to the contrary

→ Suitability of SAP → depends upon Auditor's Judgement

→ Sometimes 'unsophisticated predictive Model's → may be effective (No. of Employers × Rate / Employee = Total Payroll Cost)

→ Different SAP provides different levels of Assurance → some provide

More persuasive A.E.
(Rental Income of
Building = No. of
Apartments × Rental
Rates × Vacancy Rates)

Less Persuasive A.E.
But may provide useful corroboration

↓
If used in combination with other
Audit procedures
(Gross Margin % as the means for
confirming Revenue figure)

→ The determination of Suitability → Depends upon

Nature of Assertion

Auditor's Assessment of RoMM

2) Extent of Reliance on Analytical Procedure

Following points are relevant for determining whether data is reliable for the purpose of designing SAP :

- (1) Source of Info. Available (more reliable if from Independent Source)
- (2) Comparability of Info. Available (Industry data may need to be supplemental to be comparable with Entity that sells Specialised products)
- (3) Nature & Relevance of Info. Available (Budgets have been established as a result to be expected rather than goals to be achieved)
- (4) Control over preparation of Info. → that are designed to ensure

Completeness

Accuracy

Validity

(3) Evaluation of whether the expectation is sufficiently Precise

RoMM Includes

The Accuracy with which
the expected result of
SAP can be predicted

The degree to which
Info. Can be
disaggregated

The Availability of Info.

Financial

Non-Financial

(4) Amount of difference of Recorded Amounts → from → Expected Values

That is acceptable → without further investigation

In influenced by

Materiality

Consistency

With the desired level of assurance →
Taking A/c. of possibility that a
misstatement → May Cause F.S. to be MM

Individually

Aggregate

- SA 330 requires Auditor → to obtain → More persuasive A.E..



If the Auditor's assessment of Risk is Higher

- Accordingly → As assessed Risk Increases



The amount of difference considered acceptable → without investigation



Decreases



In order to achieve the desired level of persuasive A.E.

Investigating results of Analytical Procedure

- (1) Its fluctuations
- (2) Relationships that are in consistent with other relevant Info.
- (3) That differ from expected values by significant amount

Auditor shall

Inquire Mgt. + Obtain Appro A.E.

Performing other Audit Procedures

Relevant to Mgt.'s Response

As necessary in the circumstances

By Auditor's Understanding of →
Entity → Its Environment

If Mgt. Is unable to provide an
explanation OR A.E. obtained for
explanation is not adequate

With other A.E. obtained during
the course of Audit

8.13 Analytical procedures that assist when forming an overall conclusion

① **Conclusions** drawn from Analytical Procedures



Intended to corroborate



conclusions formed → during audit of Individual
Component Element

② This assist Auditor → to draw → Reasonable Conclusion
↓
on which to base Auditor's Opinion

③ The result of Analytical Procedure → may identify
↓
previously unrecognised RoMM

④ In such circumstances → Auditor

```
graph TD; A[Auditor] --> B[REVISE RoMM]; A --> C[MODIFY]; B --> D[SA 315]; C --> E[F.A.P.]
```