# Chapter - 4 "Audit Evidence"

Topics to be covered: SA 500, 501, 505, 510, 520, 530, ~~540~~, 550, $\boxed{560, 570, 580}$ + SA 610

Chapter - 7

## (1) SA-500 "Audit Evidence":

(i) Meaning: Information used by auditor in arriving at the conclusion on which auditor's opinion is based. Information includes

- Information contained in accounting records
  - Examples
    - Records of initial accounting entries;
    - General and Subsidiary ledgers;
    - Invoices and Contracts;
    - Work sheets supporting calculations, cost allocations, Reconciliations etc.
- Other Information
  - Examples
    - Minutes of Meetings;
    - Written confirmations from outside parties;
    - Policy manuals etc.

(ii) Types of Audit Evidence:

(A) Depending upon Nature:
- Documentary: Written documents like loan Agreement; FDR
- Visual: in the form of observations like observing physical verification of Inventories.
- Oral: No Physical Evidence. For Ex: Discussion with Mngt.

(B) Depending upon Source:
- Internal: Originates within the Entity. For Ex. Sales Invoice; GRN; Debit Note or Credit Note issued, etc.
- External: Originates outside the Entity. For Ex. Purchase Invoice; Supplier's Challans, Bank Statement, etc.

## (iii) Relevance and Reliability of audit Evidences:

**Relevance:** deals with logical connection with purpose of audit procedure and assertion under consideration.

Note: A given set of audit procedure may provide audit evidence that is relevant to certain assertions, but not others.

For Ex: Inspection of documents as to collection of trade receivables after period-end may provide evidences regarding Existence and Valuation; but not necessarily of Cut-off.

April - Bank Stm
$\boxed{X}$ = 5,50,600
20.04 (final settlement)

Imp.

**Reliability:** Following generalisations may be useful for consideration of reliability of Information to be used as audit evidences:

(a) Audit Evidences obtained from Independent sources outside the Entity are considered more reliable.

(b) Reliability of internal evidences is increased when related controls are robust, strong and effective.

(c) Audit Evidences obtained directly by the auditor are considered more reliable than Evidences obtained indirectly.

(d) Audit evidences in documentary form are more reliable than oral evidences.

(e) Audit Evidences provided by original documents are more reliable than evidences provided by photocopies.

## (iv) Sufficiency and Appropriateness of audit Evidences:

(A) Sufficiency: It is measurement of Quantity of audit Evidences and may be affected by following factors:

(1) Materiality of Subject Matter: More evidences will be required for material items / assertions to be evaluated and vice versa (i.e. less evidences will be needed for immaterial items).

(2) RoMM: More evidences will be required for assertions having higher RoMM and vice versa.

(3) Size of Population: More Evidences will be required in case of large size of population and vice versa.

(4) Nature of Population: More Evidences will be required for heterogenous population; less evidences will be required for homogenous population.

(B) Appropriateness: It is a measurement of quality of audit evidences and is influenced by the source and nature.

For Ex: External evidences are considered more appropriate than Internal evidences.

Documentary evidences are considered more appropriate than Oral Evidences.

Note: Higher is the relevancy / Appropriateness of audit Evidence, lower can be the sufficiency of audit Evidences.

(v) Audit Procedures to be performed to collect audit Evidences:

(A) Risk Assessment Procedure (RAP)

↓

Procedures performed to obtain understanding of the Entity, its Environment including Internal Control

↓

to identify and assess RoMM.

(Details of RAP already covered in SA 315)

(B) Further Audit Procedures (FAP); or Responses to Assessed Risks

(SA-330)

(A) Tests of Controls (ToC)

↓

Procedures performed to Evaluate Existence, Effectiveness and Continuity of Internal Controls

(B) Substantive Procedures

↓

Procedures performed to examine Accuracy, validity and completeness of accounting data and financial information

(A) Tests of details (ToD)

↓ of

- transactions occurred during the year (i.e. Vouching of transactions)

and

- account balances that Exist at year end (i.e. Verification of assets and liabilities)

(b) Substantive Analytical Procedures (SAP)

involves consideration of

(a) comparison; and

(b) relationships

among financial and non-financial data.

(Details of SAP will be covered in SA 520).

**Note:** Nature and timing of audit procedures are effected by:

(a) Availability of audit evidences in electronic form only.

(b) " " " " at certain point of time only.

(vi) **Methods to obtain audit Evidences:** Methods and means to be used for the purpose of collection of audit Evidences are:

(a) **Inquiry:** Seeking information from knowledgeable persons, of both financial and non-financial matters, within the Entity or outside the entity.

(b) **Inspection:** i.e. Examination of records, documents etc.

(c) **Observation:** Looking at a process or procedure being performed by others. e.g. Observing physical count of inventory conducted by Mngt.

(d) **External Confirmation:** Audit Evidence obtained by auditor as a direct written response to the auditor from a third party in paper form or electronic medium.

For Ex: Auditor sends a letter to a trade receivable to confirm the year end balance as at B/s date.

(e) **Re-calculation:** Checking mathematical accuracy of documents, records or financial items.

For Ex: Calculating Interest payable to debenture-holders; Calculating liabilities for Income-tax.

(f) **Re-performance:** Independent execution of procedures or controls by auditor that were originally performed as part of Entity I.C.

For Ex: Auditor evaluates the existence and effectiveness of Internal Control by performing control activities.

(g) **Analytical Procedures:** Evaluation of financial information made by a study of relationship among financial and non-financial data.

For Ex: Analysing debtor T/o ratio of last 5 years to find reasonableness of year end balances of trade receivables.

(vii) Assertions : Representation by management that are embodied in the financial statements, as used by auditor to consider the different types of potential misstatements that may occur.

**For transactions occurred during the year**

(a) Occurrence

(b) Completeness

(c) Accuracy

(d) Cut-off

(e) Classification

**For Account Balances at Period end**

(Assets and liabilities)

(a) Existence

(b) Rights and Obligations

(c) Completeness

(d) Valuation and Allocation

**For Presentation and Disclosure**

(a) Occurrence

(b) Rights and obligations

(c) Completeness

(d) Classification and Understandability

(e) Accuracy and Valuation

# Chapter - 4 "Audit Evidence"

## (1) SA-500 "Audit Evidence":

(i) Meaning
(ii) Types of Audit Evidence
(iii) Relevance and Reliability
(iv) Sufficiency and Appropriateness
(v) Audit Procedures to be performed
(vi) Methods to obtain audit Evidences
(vii) Assertions

ALREADY COVERED

(viii) Auditor's duties when an information is to be used as audit evidence:

**(A) Info. produced by the Entity**

(e.g. BRS, Rent Agreement)

Evaluate whether info. is sufficiently reliable for his purpose, including:

(a) Obtaining audit evidence as to accuracy and completeness of Info.

and

(b) Evaluating whether Info. is sufficiently precise and detailed.

**(B) Info. produced by the Entity using work of Mngt. Expert**

(e.g. Actuary, Architect, Advocate)

(i) Evaluate Competency, capability and Objectivity of Mngt. Expert.

(ii) Obtain an understanding of work of that Expert.

(iii) Evaluate appropriateness of Expert's work as audit Evidence

**Management Expert:** An Individual or Organisation possessing expertise in a field Other than accounting or auditing

↓

whose work is used by the entity to assist the Entity in preparing F.S.

## Matters affecting NTE of audit procedures when Information to be used as audit evidence has been prepared using work of management expert:

– Learning and Noting – H.W. –

## (ix) Auditor's duties if doubt arises over reliability of audit evidence:

✓ If audit evidences obtained from one source is Inconsistent with that obtained from another; or auditor has doubt over the reliability of information to be used as audit evidence

↓

Auditor shall determine what modifications or addition to audit procedures are necessary to resolve the matter

and

shall consider the effects of the matter, if any, on other aspects of audit.

## (x) Selecting Items for testing to obtain Audit Evidences:

### (A) Selecting All Items (100%)

↓ Appropriate, if

- Population constitutes a small no. of large value items.
- There is a significant risk and other means do not provide SAAE.
- Process performed automatically by an Info. System makes 100% examination cost effectively.

### (B) Selecting Specific Items (Judgement Selection)

Appropriate for
- High value Items;
- Suspicious Items;
- Unusual Items;
- All Items over a certain amount

Selection depends on:
(a) Auditor's understanding of the Entity;
(b) Assessed ROMM;
(c) Characteristics of population being tested.

### (C) Sampling.

↓

Details will be covered in SA-530

**Note:** 100% Examination is unlikely in case of ToC; however it is more common for ToD.

(xi) Misc. Topics: (a) Need for Audit Evidence
(b) Sources of audit Evidence
(c) Nature and timing of audit procedures
(d) Audit Trail (Learning + Noting)
(e) Evaluation of Audit Evidences

From Book

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(a) SA-501 "Audit Evidence – Specific Consideration for Selected Items":

(A) Inventory → Existence and Condition

(B) Litigation and claims → Completeness

(C) Segment Information (AS-17) → Presentation and Disclosure as per FRF (AS-17)

(A) Audit Procedures w.r.t. Inventory:

- Auditor is required to obtain SAAE w.r.t. Existence and Condition of Inventory, if material.
- For this purpose, auditor is required to perform following procedures:
  (a) Attend Physical Inventory Count (unless impractical) so as to:
    (i) Evaluate Management instructions and procedures for recording the results of inventory count;
    (ii) Observe the performance of management count procedures;
    (iii) Perform test count;
    (iv) Inspect the Inventory.

(b) Perform procedures over the inventory records to determine whether the records accurately reflects the results of Inventory count.

* Inspection of records;
  Vouching;
  Reconciliation for Inventory.

**Bin card**

| Date | In | Out | Balance. |
|---|---|---|---|
| – | ✓ | | ✓ |
| – | | ✓ | ✓ |
| – | ✓ | ✓ | ✓ |

Qty

Perpetual Inv. records

**Stores ledger**

| Date | In | | | Issues | | | Bal |
|---|---|---|---|---|---|---|---|
| | Q | R | A | Q | R | A | |
| | | | | | | | |

## Matters relevant in planning the attendance of Physical Inventory Counting:

(i) Nature of Inventory;

(ii) Stages of Completion of WIP;

(iii) RoMM related to inventory;

(iv) Nature of I.C. related to inventory;

(v) whether adequate procedures are established and proper instructions are issued for Physical count.

(vi) Timing of Physical Count.

(vii) Need for Assistance of Auditor's expert.

(viii) Maintenance of Perpetual Inventory System.

(ix) Locations at which inventory is held.

# Chapter - 5 "Audit Evidence"

(1) SA - 500 "Audit Evidence"

(2) SA - 501 "Audit Evidence - Specific Consideration for Selected Items"

(A) Audit Procedures w.r.t. Inventory — Existence and Condition - Special Cases

(a) To attend Inventory Count is impractical: (e.g. Security concerns)

↓

- Perform Alternate Audit Procedure to Collect SAAE w.r.t. Existence and condition of Inventory -
- If auditor not able to collect SAAE from alternate audit procedures, auditor need to modify the audit opinion. (Qualified / Disclaimer)

★ Inspection of documentary Records (Sale Invoice / Purchase Invoice)

External Confirmation from suppliers.

Reporting Aspects

- Misstatements identified
  - → Material + Pervasive Effect (Adverse opinion)
  - → Material (not Pervasive) (Qualified opinion)
- No Audit Evidences
  - → Mat + Pervasive. (Disclaimer of opinion)
  - → Material (not pervasive) (Qualified opinion)

(b) Auditor not able to attend inventory count due to any reason (other than Impractical):

80

+ 50 ✓
− 30 ✓

100

Intervening Period — Transactions recording

31.03.2024 (Date of count) 15.04.2024 — Perform Test Count

Qualified (Material + Not Pervasive) → Misstatement / → No A. Evidence

Make or observe some physical count on an alternate date and perform procedures on transactions that occurred during intervening period to ensure their appropriate recording.

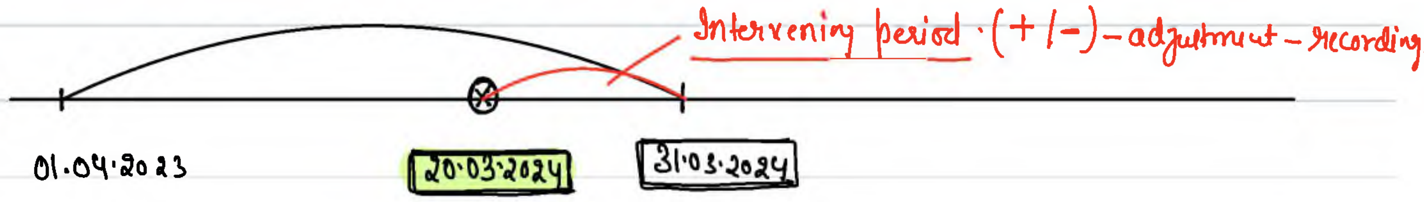
★ Vouching of Invoices (Sale / Purchase); Reconciliation etc.

Adverse → Misstatements (Mat + Pervasive)

Disclaimer - No Evidences (Material + Pervasive)

Q Q / (A) / (D)

## (c) Inventory count on a date other than B/s date:




- Perform audit procedures to obtain audit Evidences whether the transactions during the intervening period are recorded appropriately.
- while designing audit procedures for this purpose, consider the following matters:
  - (a) whether perpetual inventory records are properly adjusted.
  - (b) Reliability of perpetual inventory records.
  - (c) Reasons for significant differences between info. obtained during the physical count and perpetual inventory records.

## (d) Audit procedures if Inventory lying with 3rd parties (warehouse; Job worker; Consignee)

- Obtain External confirmation from third parties.
- Perform Inspection and other procedures as appropriate.
  - (a) Inspection of documentation e.g. warehouse receipts
  - (b) Attending or arranging another auditor to attend 3rd party Physical Counting of Inventory.
  - (c) Obtaining another auditor report on adequacy of 3rd party Internal Control for ensuring that Inventory is properly counted and adequately safeguarded.

## (B) Audit Procedures w.r.t. Litigation and Claims: - Completeness

(i) To ensure completeness of litigation and claims, auditor is required to design and perform audit procedures, including:

(IRR)

(1) Inquiry of Mngt. and others within the Entity, including in-house legal counsel.

(2) Review Legal Expenses account.

(3) Review the minutes of meetings of TCWG and correspondance between Entity and External legal counsel.

(ii) If auditor assesses higher RoMM regarding litigation and claims, he shall seek direct communication with Entity's External legal Counsel*, through a letter of Inquiry.

*Such communication requires management permission and Meeting, if any held with a representative of management in attendance.

(iii) If Entity External legal counsel is prohibited to communicate, auditor shall perform alternate audit procedure.

(iv) If Management refuses to permit auditor to communicate; or External legal counsel refuses to respond; or auditor unable to collect SAAE from alternate audit procedures, modify the opinion (Qualified / disclaimer) in accordance with SA 705.

**Note: Use of specific Letter of Inquiry:**

If auditor considers that it is unlikely that external legal counsel respond appropriately to a letter of general inquiry, auditor may seek direct communication through a specific letter of inquiry, which shall include: (a) list of litigation and claims;

(b) Management assessment on outcome of each litigation and claims and Estimate of financial Implications.

(c) Request that External legal Counsel Confirms the reasonableness of Mngt. Assessment and provide the auditor with further information, if list is considered to be Incomplete or incorrect.

**Circumstances requiring meeting* with External legal counsel:**

(a) Auditor determines that matter is a significant risk.

(b) Matter Involved is complex.

(c) There is disagreement between mngt. and Entity External legal counsel.

* Meetings require Management permission and are held with a mngt. representative in attendance.

## (C) Audit procedures w.r.t. Segment Information – Presentation and Disclosure:

Auditor is required to obtain SAAE regarding presentation and disclosure of segment information in accordance with applicable FRF (AS-17 / Sch-III) by:

(i) Obtaining an understanding of methods used by mngt. in determining segment information;

(ii) Evaluate whether such methods are likely to result in disclosure as per applicable FRF.

(iii) Test the application of such methods.

(iv) Performing analytical procedures or other procedures as appropriate.

**Examples of Matters that are relevant when obtaining an understanding of the methods used by Mngt:** (Learning and noting – H.W.)

## (3) External Confirmations (SA 505):

### (A) Meaning and Types of Confirmation Requests:

- Audit Evidence obtained as a direct written response from a third party in paper form or electronic form.
- Confirmations are of two types:

**(A) Positive (+ve) Confirmation Request**

Request that the confirming party respond directly to the auditor, indicating whether the confirming party agree or disagree with the info. provided in the request;

or

provided the required information.

**(B) Negative (-ve) Request**

Request that the confirming party respond to auditor only when it disagree with the information provided in the request.

### (B) Areas where External Confirmations may be used:

(i) Inventories held by third parties.

(ii) Property title deeds held by lawyers or financers for safe custody or as security.

(iii) Investments held for safe keeping by third parties.

(iv) Amount due to lenders.

(v) Trade Receivables and Payables - o/s Balances

(vi) Long outstanding share application money.

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Trade Receivables - $\boxed{50,00,000}$
(150 Items)

Info. to be confirmed - O/s Bal as on 31.03.

↓

From whom
150 —— 20 parties — (Confirming Parties)

↓

Request letter - designing

+ve request
- with Info.
- without Info.

-ve request.

(a) Mr. X. Letter - $\boxed{\text{O/s Bal - 31.03.2024} \quad ₹\ 6,50,000}$
Agree/disagree → Pls. Confirm.
(+ve)

Mr. X - Letter - O/s Bal - 31.03.2024
Pls. confirm the Balance -
(+ve)

(b) Mr. X - Letter - O/s Bal - 31/03/2024
₹ 60,400
If disagree - pls. respond.
(-ve)

↓ Result

(a) No-Response → Addl. Audit Procedure.

(b) Exception → Investigate - for inconsistencies

(c) Confirmation → SAAE (If no doubt on reliability)

## (C) Effects of +ve and -ve Request:

- Response to a +ve request is expected to provide reliable audit evidence. But there is a risk that confirming party may reply without verifying correctness of information; such risk may be reduced by using blank confirmation request.
- Use of "Blank confirmation request" may result in lower response rate.
- Negative requests provide a less persuasive audit evidence as compared to +ve requests. Hence limited use of -ve request is recommended. -ve requests should be used only when the following conditions are satisfied:
  (a) Lower RoMM;
  (b) Population comprises of large no. of transactions of homogenous nature of small amount.
  (c) Expected exception rate is low.
  (d) Auditor is not aware of the circumstances that 3rd party may disregard the request.

Exception: A response that indicates a difference between
- Info. requested and
- Info. provided by confirming party.

## (D) External Confirmation Procedure:

When using EC requests, auditor shall maintain control over EC requests, including:

(i) Determining the information to be confirmed.

(ii) Selecting the appropriate party from whom information is to be confirmed.
(confirming party – Knowledgeable, Ability, Willingness; objectivity)

(iii) Designing the confirmation request including determining that requests are properly addressed. (-ve request; +ve – with info. / without info.)

(iv) Sending the confirmation request, including follow-up.

(v) Evaluate the responses — Third Party Agree (No doubt - SAAE)
- " " disagree (Exception)
- Non-response (no reply recd.)
- Response deemed unreliable

Determining — Selecting — Designing — Sending — Evaluating

↓ Information — ↓ Confirming Party — ↓ Confirmation Request. — ↓ Confirmation Request. — ↓ Responses

V. Imp.

(E) Factors to be considered while designing EC Requests:

V.V. Imp.

(F) Management refusal to allow auditor to send confirmation request:

(Learning and Noting - H.W.)

# Chapter - 4 "Audit Evidence"

① SA 500 – Audit Evidence

② SA 501 – Audit Evidence – Specific consideration for selected Items

③ SA 505 – External Confirmations

④ SA 510 – Initial Audit Engagement – opening Balances

Examples – applicability :

| | FY 22-23 | FY 23-24 | SA 510 - Applicable / N.A. |
|---|---|---|---|
| A Ltd. | Auditor - Mr. X | Auditor - Mr. X | No |
| B Ltd. | Auditor Mr. X | Auditor - Mr. A | YES |
| C Ltd. (New Co.) (Inc. on 01.05.23) | XXX | Auditor - Mr. M | No |
| XY and Sons (Partnership firm) | Audit not required as T/o < threshold limit | Audit required T/o > Threshold Mr. R.M. - Auditor. | YES. |

① Meaning of Initial Audit Engagement and opening Balances :

(a) Initial Audit Engagement : An audit Engagement in which financial statement for the prior period are either:

(i) Unaudited ;

(ii) audited by predecessor auditor.

(b) Opening Balances :- Account Balances that exist at begining of the period.

- These are based upon the closing balances of prior period and reflect the effects of transactions and events of prior period and accounting policies applied in the prior period.

- They also include the matters requiring disclosures that exist at begining of the period e.g. Contingencies.

(2) Objectives of the auditor: Auditor objective in relation to examination of opening balances of Initial audit engagement is to Obtain SAAE as to:

(a) whether op. balances do not contain any material misstatements; and

(b) whether accounting policies reflected in opening balances have been consistently applied; and changes, if any are appropriately accounted for; and disclosed in the f.s. in accordance with applicable FRF.

v. imp.

(3) Audit Procedures w.r.t. Opening Balances:

(i) Obtain SAAE as to opening balances to ensure that they does not contain any material misstatement that may affect the current period f.s. For this purpose:

(a) Ensure that closing balances of prior period have been correctly brought forward; Adjustment, if any, are disclosed as $\boxed{\text{prior period item}}$ in the current year stm. of P&L.

(b) Determine that op. bal. reflect application of appropriate A/cing Policies.

(c) Perform any of the followings:

(a) Perusing the copies of latest audited f.s., along with audit report; or

(b) Evaluate whether audit procedures performed in current Period provide relevant Evidences w.r.t. op. balances; or

(c) Perform specific audit procedures to obtain evidences regarding op. Balances.

(ii) If auditor obtain audit evidences as to misstatements in op. balances that could affect current period f.s.; perform additional procedures as appropriate to determine the effect on current period f.s.

(iii) If auditor concludes that such misstatements exist in current period f.s, auditor shall communicate the misstatement with appropriate level of Mngt. and TCWG.

④ Reporting w.r.t. opening Balances:

(a) If auditor unable to obtain SAAE regarding the opening Balances, he shall express a Qualified opinion or disclaimer of opinion, as appropriate.
(Matter - Material but not pervasive) (Matter - Material as well as Pervasive)

(b) If auditor conclude that opening balances contain a misstatement that could affect the current period f.s. and effect of such misstatement is not properly accounted for or not adequately disclosed, auditor shall express a qualified opinion or adverse opinion, as appropriate.
(Misstatement - Material but not Pervasive) (Misstatement - Material + Pervasive)

⑤ Misc. Topic:

(i) Matters on which nature and extent of procedures depends
(Acctg Policies; Nature of F. Items, RoMM; Sig. of Op. Bal.; Audited)

(ii) Prior period f.s. audited by predecessor auditor:

(iii) Specific audit procedures for CA/CL:

(iv) Specific audit procedures for Non CA/Non CL:

(v) Consistency of Acctg Policies:

Heading from - book -

## (5) SA-520 "Analytical Procedures":

### (i) Meaning and Nature of Analytical Procedures:

SA-520 "Analytical Procedures" defines the term "Analytical Procedures" as follow:

"Evaluation of financial information through analysis of plausible relationship among financial and non-financial data; and also includes → necessary investigation of identified fluctuations or relationships that differ from relevant information.

Example: Hotel – Room Rental Income → Analytical Procedures (Predictive Model)

$$= \left(\frac{\text{Avg. room rent}}{\text{Per day}}\right) \times \left(\frac{\text{No. of Rooms}}{\text{in a category}}\right) \times \left(\frac{\text{Occupancy}}{\text{Ratio}}\right) \times 365 \text{ days}$$

$= ₹\,10{,}000 \times 120 \times 80\% \times 365$

$= ₹\,35.04$ Crore.

Actual Room rent recorded in Stm. of P&L : ₹ 40.05 Crore

Difference : ₹ 5.01 Crore [14.29% of Prediction]

Tolerable Range of Misstatement : $\boxed{\pm 4\%}$

Auditor need to investigate the fluctuation.

(a) Inquiry of Mngt.

(b) Other Audit Procedure (If Mngt. unable to provide explanation or Explanation provided are inadequate)

Nature of Analytical Procedures: Analytical Procedures comprises of:

(A) Consideration of Relationships
- Among financial Items (e.g. Gross Margin %age)
- Among financial and Non-financial Items (e.g. Payroll cost to No. of Employee)

and

(b) Consideration of $\boxed{\text{Comparisons}}$
- with prior period information
- with anticipated results (e.g. Budgeted data or Auditor's prediction or expectation)
- with Industry similar information.

(ii) Need and Purpose of A.P.: (H.W. — Learning + Noting)

(iii) Application of Analytical Procedures:

Analytical procedures may be applied during different phases of Audit:

(a) Planning Phase
- To understand the client's business.
- To Identify and Assess RoMM.
- To determine NTE of Procedures to be performed.

(b) Execution Phase
- To collect Audit Evidences for specific assertions.
- To Obtain reasonable assurance as to financial items.

(c) Conclusion Phase
- For Overall Review.
- To determine whether F.S. are consistent with Auditor's understanding.

[Note: Use of AP during Initial Phase of audit is dealt by SA 300 and SA 315]

Note: SA-520 provides the requirement related to use of AP as SAP- Sub. Analytical Procedures]

# Chapter - 4 "Audit Evidence"

**Topics Covered:**
(1) SA - 500 "Audit Evidence"
(2) SA - 501 "Audit Evidence - Specific Consideration for Selected Items"
(3) SA - 505 "External Confirmations"
(4) SA - 510 "Initial Audit Engagements - Opening Balances"

## (5) SA - 520 "Analytical Procedures":

(i) Meaning and Nature:
(ii) Need and Purpose:
(iii) Application of AP:
(iv) Steps while performing Substantive Analytical Procedures:

SAP Suitability (Step-1) → Reliability of data (Step-2) → Develop an Expectation of Recorded Item (Step-3) → Tolerable range of Misstatement (Step-4) → Investigate the Fluctuations (Step-5)

**Step-1: To determine suitability of Substantive AP (SAP):**

- Auditor is required to determine nature of audit procedures to be performed over the accounting data, to reduce the audit risk to an acceptable low level. (ToD / SAP / Combination of ToD and SAP).
- While determining use of analytical procedures, as SAP, auditor should consider certain factors like:

(a) Availability of relevant and reliable data.

(b) Degree of disaggregation (classification) of available data.

(c) Type of accounting Information - SAP are more useful for certain type of accounts than for others. e.g. for B/s Items, subject to management Judgements, SAPs may not be effective.

(d) Source of Information

(e) Predictability of Information: SAPs are more suitable to large volume of transactions that tend to be predictable over time.

(f) Nature of Assertion: SAPs are more effective more some assertions (like Completeness, valuation etc.) than for Others (like Existence, Rights and obligations).

(g) Nature of RoMM.

Note: Different SAPs will provide different levels of assurance.

Step-2: Evaluate Reliability of data:

- Auditor should evaluate the reliability of data over which SAPs are to be performed.
- Reliability of data is effected by following factors:
  (a) Source of Information available.
  (b) Comparability of Information available.
  (c) Nature and relevance of Information.
  (d) Internal Controls exercised over the preparation of information.

SC-NRI

Step-3: Develop an Expectation of recorded amount or ratio and Evaluate whether the expectation is sufficiently precise to identify the material misstatement:

While developing the expectation and evaluating the expectation, auditor should consider the following:

(a) Accuracy with which the expected results can be predicted;

(b) Extent to which data can be disaggregated;

(c) Availability of the Information.

**Step-4:** Determine the tolerable range of differences that can be accepted without further investigation.

Tolerable range depends on professional judgement of auditor and based on desired levels of assurance.

**Step-5:** Investigating the difference beyond tolerable range:

If as a result of SAP, auditor identify any fluctuation or relationship that is inconsistent with the relevant information by a significant amount, auditor shall investigate the difference by:

(a) Inquiring the management and Obtaining evidences relevant to management response; or

(b) Performing other audit procedures as deems appropriate in the circumstances.

**Note:** Need to perform other audit procedures arises when:

(a) Mngt. is unable to provide explanation;

OR

(b) Explanation provided by Mngt. is Inadequate.

**Example:** AP → for Payroll Salary − No. of Employees × Avg. Sal. p.M. × 12 Months.

= 750 × 25650 × 12 M

= 23,08,50,000

Recorded Amount = ₹ 30,10,70,650 $\boxed{-6,50,00,000}$ = 23,60,70,650

Difference = ₹ 7,02,20,650

Tolerable range = ± 5%

Fluctuation = 30.42%

↓

Requires Investigation

↓

Inquiry with Management — Response

↓ Pending Court Case as to revision of Salary of last 5 years.

(2017-2022)

↓

Decision — against

₹6.50 Crores - Prior Period

Ask - Court Judgement

↓

Certified Copy.

Imp:

(V) Techniques while using SAP:

(a) Trend Analysis: Most commonly used technique. Involves comparison of data of current period with data of one or more prior periods.

(b) Ratio Analysis: To establish relationship among financial and non-financial items.

Also involves comparison of significant ratio of current period with that of prior periods or anticipated ratio or industry averages.

(C) Reasonable Tests: Such tests are applicable over income statement items, through which financial items are tested using non-financial data.

For Ex:- Sales discount and commission against Volume of Sales (No. of Items Sold);

- Rental Income based on occupancy of premises.
- Raw Material consumption to production.

- Interest Expense against interest bearing obligations;
- %age of waste/scrap produced in a production process.

(d) Structural Modelling : A modelling tool that construct a statistical model from financial and/or non-financial data of prior periods so as to predict the current period Balances

| | $I_1$ | $I_2$ | $I_3$ |
|---|---|---|---|
| 19-20 | X | Y | $Z_1$ |
| 20-21 | $X_1$ | Y | $Z_2$ |
| 21-22 | $X_2$ | Y | $Z_4$ |
| 22-23 | $X_3$ | Y | $Z_8$ |
| 23-24 | $X_4$ | Y | $Z_{16}$ |

(6) Audit Sampling (SA-530) : - Recorded class of last Batch.

# Chapter - 7 "Audit Sampling"

**Overview:**

Traditional approach → Risk Based Audit

Traditional approach
↓
Routine checking
↓
Books of Accounts + related records
↓
detail checking
↓
regular basis

Modern approach
↓
Risk Based Audit
↓
Risk Assess
↓
ToC – I.C – effectiveness
↓
$\boxed{\text{ToD – Samples}}$
↓
No. of samples – professional judgement

No. of samples → Selected scientifically
↓
Sample - representative of entire population
↓
results of sampling — to be applied over entire population ?

No. of samples → Standards | Guidelines | Norms
↓
$\boxed{\text{SA - 530}}$

SA - 530 → Types of Sampling; Sampling Techniques; Methods.
→ Sampling Risk
→ Sample design, size, selection etc.

## (1) Introduction to Sampling:

(i) Limitations of traditional approach
(ii) Adoption of Standards while using Sampling

- to be Covered from book -

## (2) Meaning and types of sampling:

- SA-530 "Audit Sampling" deals with the auditor's responsibilities while applying test checking in an audit of financial statements.
- SA 530 defines the term "Sampling" as - "Application of audit procedures to less than 100% of items within a population ①, in a manner that all sampling units ② has equal chances of selection so as to provide the auditor a reasonable basis to draw a conclusion on the entire population".

① **Population:** Entire set of data from which samples are selected.

② **Sampling Unit:** Individual transactions forming a population.

**Samples:** Sampling units selected for audit purposes.

**Example:** Sales of ABC Ltd. Consists of 1000 transactions amounting for ₹ 100 Crores.

Population: 1000 transactions. (100 Crores)
Sampling unit: Each transaction.
Samples: 1000 transactions:

| | | | | Approx |
|---|---|---|---|---|
| Upto 1 lakh. | (10 Cr.) | 800 | 80 | 1 Cr. |
| 1 lakh - 10 lakh | (10 Cr.) | 105 | 25 | 2.5 |
| 10 lakh - 1 Crore. | (40 Cr.) | 70 | 50 | 28 Cr. |
| > 1 Crore. | (40 Cr.) | 25 | 25 | 40 Cr. |
| | | 1000 | 180 | 71 Cr. |

18%

# Chapter - 7 "Audit Sampling"

(Lecture No. 2)

(1) Introduction to sampling

(2) **Meaning and types of Sampling:**

Sampling is primarily classified as –
- (A) Statistical Sampling
- (B) Non-Statistical Sampling (Judgement Sampling)

✓ **Statistical Sampling:** Sampling approach, which has the following features:

(a) Random selection

(b) Use of Probability theory

(c) Ensures equal chances of selection of sampling units

(d) Helps in determination of sampling risk.

**Examples:** Systematic Sampling; Random Sampling.

**Characteristics:** (a) More Scientific

(b) widely accepted and applied

(c) No Personal biasness.

**Advantages:**

(i) More objective and defensible selection.

(ii) Provide means of deriving a calculated risk for a particular $\boxed{\text{sample size}}$ - - 10% | 20% | 30% | 40%

(iii) Provide means for determination of a sample size for a $\boxed{\text{specific risk}}$ – 5%

(iv) Better presentation of Entire population, particularly in case of $\boxed{\text{heterogenous population}}$ (through use of Stratification)

(v) Ensures $\boxed{\text{consistency in sample size}}$ irrespective of sampling units in population.

Sample size = 100 items

Population : 1000  $\frac{1000}{100}$ : Every 10th.

↳ : 1200  $\frac{1200}{100}$ : Every 12th

**Non-Statistical Sampling:** - An approach that do not have feature of (a) Random Selection (b) use of Probability theory.

- Non statistical sampling involves Judgement of auditor; hence may be considered to be subjective.

**Examples:** Haphazard Selection.

**Note:** Non-statistical sampling, if applied by the auditor with appropriate judgement with due care and skills, can also provide better results.

## ③ Sampling Risk and Non-sampling risk:

Auditor → 100% of items in a population - check. → Opinion

Auditor → < 100% of items in a population - check → opinion

may differ

Sampling Risk → Over Reliance

- ToC → Sample - Purchase - P.R, P.O., Q.C, Invoice.
  - 100 purchases → 40 → O.K.
  - Remaining 60
- ToD → Sample - 35 - recording - ✓
  - 100 Sales - Recording - Voucher, S.Book, Ledger, TB, F.S.
  - Remaining 65

→ Audit Effective - X

Sampling Risk → Under Reliance.

- ToC (100) → 40 → 10 - I.C. weak. - P.R. - Stores Mngr. (IM) - Not Signed - Jan. 2023
- ToD

Remaining txn. → Sample. → Checking

Initial Samples → I.C. weak, Misstatements. → Addl. Samples. / Reporting.

Audit Efficiency - ✓

**Sampling Risk:** Risk that the auditor's conclusion based on examination of samples may be different from the conclusion, if the entire population was subjected to same audit procedures.

Sampling risk can be classified as:

| | Risk of over Reliance | Risk of under-reliance |
|---|---|---|
| (a) w.r.t. TOC → | Auditor may consider that Internal controls are more effective when actually they are not. | Auditor may consider that I.C. are less effective when actually they are more effective. |
| (b) w.r.t. TOD → | Auditor may consider that material misstatements does not exist, when actually they exist | Auditor may consider that material misstatements exists, when actually they does not exist |
| Impact | It leads to erroneous conclusion which affects audit effectiveness (Inappropriate opinion). | It affect audit efficiency that requires more efforts to conclude that initial conclusions were wrong. |



**Non-Sampling Risk:** Risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

Main causes of non-sampling risk:

(i) Human Mistakes

(ii) Misinterpretation of sampling results.

(iii) Inappropriate procedures used.

(iv) Relying on erroneous confirmations, doubtful written representations.

(4) Sample design, size and selection:

(A) Sample design: Auditor should design the population so as to ensure that samples represent the Entire population.

While designing the population, auditor need to consider the following:

(a) Purpose of audit procedures; and

(b) Characteristics of the population from where samples are to be drawn. [Appropriateness; completeness; Reliable and accurate]

- For designing purposes, auditor may use the concept of (A) Stratification ; and (b) Value weighted selection

Stratification: - Concept of stratification generally applies in case of heterogenous population.

- Stratification involves conversion of heterogenous population into homogenous groups, known as 'Strata'.

- Samples are selected from each 'Strata' and hence represent the entire population.

For Example: In case of a large entity, having sales value ranging from low amount to high amounts, sales may be classified as:

(a) Sales upto ₹ 1 lakh

(b) Sales ranging above 1 lakh but upto ₹ 10 lakh

(c) " " above ₹ 10 lakh but upto ₹ 1 Cr.

(d) " " above ₹ 1 Cr.

From each group samples are selected based on assessed risk.

Stratification helps in determination of samples in a manner that represent Entire population.

**Value weighted Selection:** In case of value weighted selection approach, population is being designed in a manner that more consideration is given to high value transactions; and less consideration is given to low value transactions.

- Individual transactions of highest value are considered by the auditor while designing the population.

**Benefit:** More efforts are directed to the larger value items. and hence can result in smaller sample size.

**For Ex:** In XYZ Ltd, purchases ranges from ₹ 10000 to ₹ 5 Cr.

Total Purchases = ₹ 90 Crores.

Auditor consider all purchases above ₹ 50 lakh. Total of such transaction amounts to ₹ 80 Crores

**Note:** This approach may be used in conjunction with Systematic method of selection and is most efficient when selecting items using random selection

(B) **Sample Size:** Auditor should determine the sample size in rational manner so as to reduce the sampling risk to an appropriate low level.

while determining the sample size, auditor need to consider the following:

(i) Size of the Organisation (Bigger is the size, larger no of items to be selected)

(ii) State of Internal Control. (In case of weak I.C, sample size for substantive tests to be increased).

(iii) Adequacy and reliability of books and records. (In case of adequate and reliable records, sample size may be lower)

(iv) Tolerable error Range. — (In case of High tolerable rate of deviation, sample size for ToC can be lower)
(In case of High tolerable mis-statement, sample size for ToD can be lower)

(v) Degree of desired confidence or assurance. — In case of Higher desired assurance, sample size to be increased. And vice versa.

## Factors affecting Sample Size in case of ToC and ToD: - from book -

| | | Sample size. |
|---|---|---|
| ToC - Increase | Extent to which auditor's risk assessment takes into account $\boxed{\text{relevant controls}}$ | Increase. |
| | Expected $\boxed{\text{rate of deviation}}$ | " |
| | Tolerable $\boxed{\text{" " "}}$ | Decrease |
| | Desired $\boxed{\text{level of Assurance}}$ | Increase |
| ToD - Increase | Auditor Assessment of $\boxed{\text{Material Misstatement}}$ | Increase. |
| | Desired $\boxed{\text{level of Assurance}}$ | " |
| | Tolerable $\boxed{\text{Range of Misstatement}}$ | decrease. |
| | Expected $\boxed{\text{number of misstatements}}$ | Increase. |
| | Use of stratification | decrease |
| | Applying more procedures to evaluate a assertion | decrease |

(C) Sample Selection: Auditor should select the samples from the population in such a manner that no biasness enter into selection and every transaction has equal chances of selection.

Methods of sample selection:
(i) Random number selection
(ii) Systematic selection
(iii) Monetary unit selection
(iv) Block Selection
(v) Haphazard Selection.

to be learned from book

Example: Population comprises of 100 transactions of credit purchases
Sample size: 25 Items

① $\frac{\text{Population}}{\text{Sample Size}} : \frac{100}{25}$ : Every 4th transaction (Sampling Interval) — Systematic

Voucher | transaction: 4 | 8 | 12 | 16 | 20 | 24 | 28 | 32 | 36 | 40 | - - - - - - - -

3 | 7 | 11 | 15 | 19 | 23

2 | 6 | 10 | 14 | 18 | 22 | 26 | 30 | 34

1 | 5 | 9 | 13 | 17

② Random No. Table: 25 out of 100

$\boxed{10, 11, 12, 18, 19, 51, 61, 71, 74, 75, 76, 77, 91, 92, 98, - - - -}$

✓ 3, 4, 5, 6, 11, 12, 13, 19, 21, 23, 41, 42, 46, 51

③ 100 transaction – data analytical tool – Arrange Monetary wise.
High value transaction – (First 25) – (Value Weighted Selection)

④ $\boxed{\text{Judgement Based}}$ → Highly Risky [R.P.] Complex | Haphazard Selection

No Systematic basis | no scientific base

⑤ Auditor – 25 transaction. Sequence. gap. uniform ✗

5 Block — 5 transaction each

$\frac{100}{5} = 20$ (Block size)

| | |
|---|---|
| 01 - 20 | 06, 07, 08, 09, 10 |
| 21 - 40 | 23, 24, 25, 26, 27 |
| 41 - 60 | 54, 55, 56, 57, 58 |
| 61 - 80 | 61, 62, 63, 64, 65 |
| 81 - 100 | 92, 93, 94, 95, 96 |

# Chapter - 7 "Audit Sampling"

(Part - III)

**Topics Covered:**
(i) Introduction to Sampling
(ii) Meaning and types of sampling
(iii) Sampling Risk and Non Sampling Risk
(iv) Sample Design, Size and Selection

- Design:
  - (a) Stratification
  - (b) Value weighted Selection
- Size: appropriate → sampling risk low level
- Selection:
  - (a) - Random Selection
  - (b) - Systematic "
  - (c) - Block "
  - (d) - Haphazard "
  - (e) - Monetary unit "

**Example:** Population - Sales = >1000 Transactions (Heterogenous Nature)
Amount : Approx 100 Crores

Sales → 2022-23 → Trade Receivables as at 31.03.2023 : 50 parties | Amount : 35 Cr
↓
Year End Balances Confirm
↓
Procedures : External Confirmation

| | | Related parties | Export Sale | Govt. Sale | Whole Sale |
|---|---|---|---|---|---|
| (i) Sample design : 50 Parties (Stratification) | | 5 | 10 | 5 | 30 |
| (ii) Sample size | 25 | 5 | 5 | 5 | 10 |
| (iii) Sample selection | | 5 - $R_1$ | Systematic Sampling - Every 2nd | 5 | Random Selection |

$S_1$ $S_2$
X Y Z A B C D E F G

(iv) Designed audit Procedure.

E.C.

SA 505

Mngt. refuse — $R_1$ ↓ Alternate audit Procedure. – $R_1$

Mngt. Refuse. — X … X

$\boxed{23}$ + 2 (Replacement samples)

- Original sample : 25 —— Audit Procedures (E.C.) – $\boxed{23}$
  —— Alternate Audit procedure – 2
- Replacement sample : 2 —— Audit procedures (E.C.)

↓

Audit Evidences – collected

↓

Audit conclusion ⟶ Sample ⟶ Population.



## (v) Performing audit procedures and Evaluating result of audit sampling:

- Auditor should perform designed audit procedures over the selected items (original samples).
- However, if designed audit procedure cannot be performed over the selected items (original samples), auditor shall consider the following:

(a) Perform $\boxed{\text{Alternate audit procedure}}$ over the original samples on which the designed audit procedures cannot be performed.

(b) Select replacement samples and perform designed audit procedures over them

↓

If auditor is not able to collect audit evidences by performing alternate audit procedures over the original samples, auditor shall treat it as:

(a) deviation w.r.t. Internal control; (in case of ToC)

(b) Misstatement w.r.t. accounting data. (in case of ToD)

↓

- Auditor shall investigate the nature and causes of deviations and $\boxed{\text{misstatements}}$ identified and evaluate their possible effect on audit opinion.

↓

- Auditor shall project misstatements found in the samples to the population so as to obtain a broad view of scale of misstatements.
- If a misstatement has been established as an $\boxed{\text{anomaly}}$ it may be excluded while projecting misstatements to the population.

However, effect of any such anomalous misstatement, if uncorrected, still need to be considered, in addition to the projection of non-anomalous misstatements.

## Evaluating Result of audit sampling:

- Auditor shall evaluate the results of the sample and determine whether the use of audit sampling has provided a reasonable basis for conclusion for the entire population that has been tested.

- If auditor conclude that audit sampling has not provided a reasonable basis for the conclusions about the population, auditor may request the management to investigate the misstatements identified.

- While analysing deviation (in case of ToC) and misstatements (in case of ToD), auditor is also required to consider the qualitative aspects of misstatements identified by him. (For Ex: Type of transaction; timing of occurrence of transaction; processing of transaction by a person).

# Chapter - 4 "Audit Evidence"

**Topics Covered:**

(1) SA - 500 "Audit Evidence"

(2) SA - 501 "Audit Evidence - Specific Consideration for Selected Items"

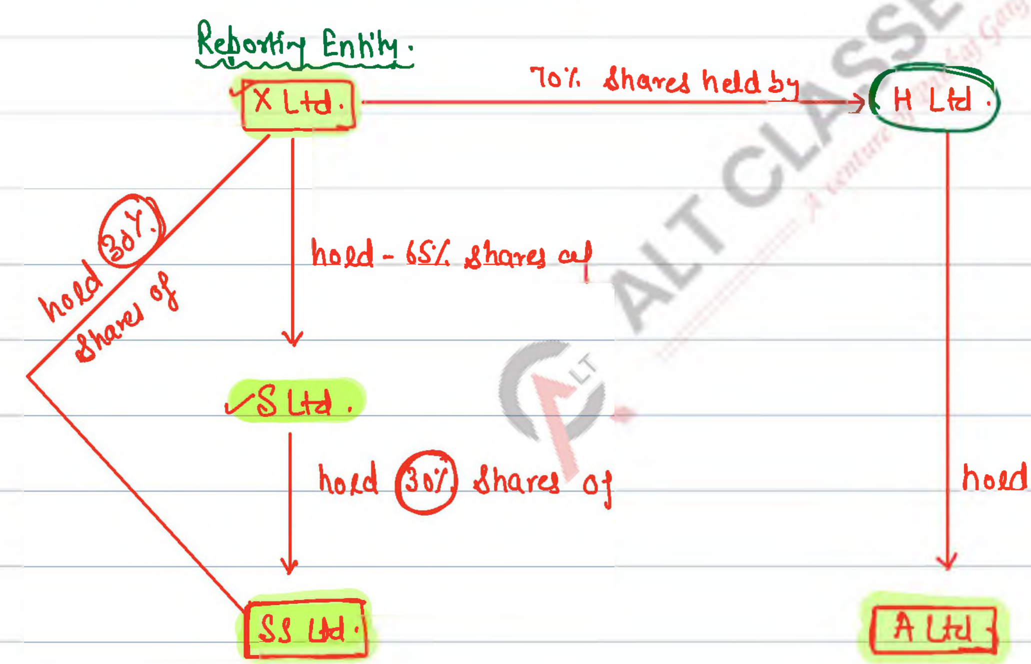
(3) SA - 505 "External Confirmations"

(4) SA - 510 "Initial Audit Engagements - Opening Balances"

(5) SA - 520 "Analytical Procedures"

(6) SA - 530 "Audit Sampling"

## (7) SA - 550 "Related Parties":




(a) Identify Existence of RP

↓ (Control / S.I. ownership, Common Mngt)

(b) Identify - Txns. entered with RP

↓

(c) Authorisation / Approval.

(BOD / A.C. / SR-GM)

↓

(d) Appropriate accounting as per Applicable FRF (AS-18)

↓

(e) Make appropriate disclosures (AS-18 / Sch-III)

**Auditor's duties.**

(a) - Inquire - undisclosed / unidentified RP (Nature, Relations)

(b) - Inquire - Txns. entered into with RP / unidentified Txn. (Nature)

(c) - RP Txns. - authorised by App. authority

(d) - App. Acctg and disclosure ⟶ applicable FRF.

RAP ⟶ Responses (ToC + Substantive)

(i) Meaning of Related Party : Only Reading

✓ (ii) Nature of RP relationships and transactions : (Learning + Noting)

✓ (iii) Understanding the Entity RP Relationships and transactions : ( L + Noting)

Inquiry - Identity, Nature of relationship, Transactions < type, purpose ; Controls < I/A/D - FRF; Autho → RP Txn.; Autho → O/S Normal

(iv) Consideration specific to smaller entities : Reading

✓ (v) Imp Records/ Documents to be inspected to Verify existence of RP relationships and transactions : - Learning + Noting -



(vi) Auditor's response in case of transactions entered into by Entity O/S normal course of business:

(a) Inspect the underlying contract to evaluate whether :

(i) Business rationale of the transaction suggest any fraudulent financial reporting or misappropriation of assets;

(ii) Terms of transactions are consistent with Management Explanations; and

(iii) Transaction have been appropriately accounted for and disclosed in accordance with applicable FRF.

(b) Obtain audit evidence that transactions have been appropriately authorised and approved.

## (8) Using the work of Internal Auditors (SA 610):

100 - 199 - x
200 - 299 - 200, 210, 220
- 230, 240, 250, 260, 265, 299

300 - 499 - 300, 315, 320, 330
- 402, 450

500 - 599 - 500, 501, 505, 510, 520, 530, 550
- 540, 560, 570, 580

600 - 699 - $\boxed{610}$
- 600, 620

### i) Meaning of Internal Audit Function:

A function of an Entity that performs assurance and consulting activities designed to

↓

evaluate and improve effectiveness of

- Entity's Governance
- Risk Management; and
- Internal Control Processes.

Imp

### (ii) Objectives and Scope of Internal Audit Function: includes the activities relating to

(GRI)

**Governance**

↓

To assess the Governance Process in accomplishment of objectives on -

(a) Ethics and Values
(b) Performance Management
(c) Accountability
(d) Communicating Risk

**Risk Management**

↓

- Identifying and evaluating significant exposures to risk
- Improvement of Risk Mngt. and Internal Control
- Detection of Fraud

**Internal Control**

↓

- Evaluation of Internal Control Processes
- Examination of financial and operating information.
- Review of operating Activities
- Review of Compliance with laws and Regulations

### (iii) Requirements of SA 610:

(A) Using the work of Internal Auditor

(B) Using direct Assistance of Internal auditor.

## (A) Using the work of Internal Auditor:

(a) Evaluate whether, in which area and to what extent, work of Internal Auditor can be used:

For this purpose, External auditor shall evaluate the following:

(i) Objectivity of the Internal Auditor;

(ii) Level of Competence of Internal auditor; and

(iii) Application of Systematic and Disciplined Approach, using Quality Control.

Note: External auditor shall not use the work of Internal Audit function, if he determines that:

(a) Organisational status of Internal Audit function do not adequately support the objectivity of Internal audit function.

(b) Internal Auditor is not sufficiently competent.

(c) Approach used by Internal Auditor is not systematic and Disciplined.

(b) Evaluate nature and scope of work of Internal Auditors - so as to determine:

- Nature and Extent of work to be used; and
- Degree of Reliance that can be placed.

Areas where statutory auditor can use the work of Internal auditor:

(i) Testing the operating effectiveness of controls;

(ii) Substantive Procedures Involving limited Judgements;

(iii) Observation of Inventory count

(iv) Tracing transactions through info. system

(v) Testing of compliance with regulatory requirements

Circumstances in which external auditor shall plan to use less work of Internal Auditor:

# Chapter - 4 " Audit Evidence "

**Topics Covered:**

(1) SA - 500 " Audit Evidence "
(2) SA - 501 " Audit Evidence - Specific Consideration for Selected Items "
(3) SA - 505 " External Confirmations "
(4) SA - 510 " Initial Audit Engagements - Opening Balances "
(5) SA - 520 " Analytical Procedures "
(6) SA - 530 " Audit Sampling "
(7) SA - 550 " Related Parties "

## (8) SA - 610 " Using the work of Internal Auditors "

(i) Meaning of Internal Audit function
(ii) Objectives and Scope of Internal Audit function
(iii) Requirements of SA-610:

(A) Using the work of Internal Auditors:

(a) Evaluate whether, in which area and to what extent, work of Internal auditor can be used.

(b) Evaluate nature and scope of work of Internal auditors.

(c) Using work of Internal auditors:

If External auditor plans to use the work of Internal auditor he shall:

i) Discuss the planned use of work of Internal auditor;

(ii) read the reports of Internal auditors to obtain understanding of nature and extent of audit procedures performed and related findings.

(iii) perform sufficient audit procedures on the work of Internal Auditors as a whole that he plans to use, to determine its adequacy for External auditor's purpose.

✓ Discussion and Coordination with Internal auditor [N, T, E, Materiality, Sampling, Documentation, Review]

- Examples where Coordination between external auditor and Internal auditor is considered effective: [Discussion; Informing of significant Matters by EA → IA, IA — EA]

(B) Using Direct Assistance of Internal Auditor:

Direct Assistance: Using Internal auditors to perform audit procedures under the direction, supervision and review of External Auditor.

I. Direct assistance from Internal auditor can be taken, if:

(a) Not prohibited by law and regulation;

(b) No significant threat as to Objectivity of Internal auditor;

(c) I.A. is sufficiently competent and Capable

II. Determine NTE of work on which direct assistance can be taken:

Direct assistance is not advisable on following matters:

(a) Matters involving significant judgements in audit;

(b) Matters on which External Auditor assesses higher RoMM;

(c) Matters on which IA is already engaged under direction of Mngt.

(d) Matters on which external auditor has to take decision under this SA regarding Internal audit function.

III. Using Direct Assistance:

- Obtain written agreement from authorised representative of the Entity that (a) IA is allowed to follow EA Instructions.
  (b) Entity will not intervene in the work of IA, performed for external auditor.
- Obtain written agreement from I.A. as to the confidentiality.
- Exercise Quality Control measures as to direction, supervision and review of Internal auditor.