

Chapter - 9

Audit Evidences

SA's	REMARK
500	BOOK (10.1)
501	NOTES
505	NOTES
510	NOTES
520	NOTES
530	BOOK (10.48)
610	NOTES
550	NOTES
260	NOTES
265	NOTES

SA-501

Audit Evidences - Specific

Consideration for Selected items

• Attendance At Physical Inventory counting (PIC) :-

When inventory is material to f.s.

Inspect the inventory

↓
To Ascertain Existence and condition of Inventory.

④
Perform Test count

observing mgt. instruction

⑤
procedure for Recording and controlling

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

INVENTORY

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

Auditor shall P.A.P
To obtain SNAE that

Blw
count date
date of F.S.
properly
Reviewed

Audit procedure.

perpetual inventory record.

properly
ADJ?
reliability

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

Attendance at PIC
is impracticable.
(N-1)

P.A.P
if not possible

To obtain SNAE for existence condition of inventory
modify opinion (SAROS)

It is also not possible.

inspection of bocs of subsequent sale of specific INV.

Acquired
refused to PIC

N-1

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

Inventory under custody / control of 3rd party.

request confirmation
quantity condition

O.A.P.
includes.

inspecting bocs
inventory held by 3rd party.
when INV. held as predged.
REQ. confirmation

attend T.P. PIC if practicable
obtain SNAE of T.P. ensure that INV. held properly.

LITIGATION & CLAIM → WAU HAN CHENG!!!

regarding L&C.

If Auditor Assess

ROMMS

then communicate with E.L.C.

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

I M L&C.

Inquire, mgt./other within entity int. L&C.

Review minutes of meeting of T&C or entity

Review legal exp. AIC.

If mgt. refuse or E.L.C. not respond apply

Auditor unable to obtain state

modify opinion (SA705)

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

disagreement b/w mgt. E.L.C.

complex matter significant risk

Note

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

Letter of general inquiry

E.L.C.

if Auditor considered that E.L.C. will not respond apply

if L&R prohibit E.L.C. to communicate

Auditor seeks direct communication through letter of specific inquiry.

It includes

Req. E.L.C. to confirm reasonableness of

list of L&C

mgt. asses. of each L&C and estimate of financial implication & its cost

provide further info. if list considered incomplete inconsistent

SEGMENT INFORMATION [SI]

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

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

Evaluate method

whether provide disclosure as per AFRF.

testing the Application of such method.

performance
A.P. (SARS20)
& O.A.P.

understanding The method used by mgt.

↓ Are the examples of meter relevant in understanding....

↓
• Sales, Transfer and changes B/w segment, elimination of intersegment Amt.

- comparison with budget and other expected result.
- Allocation of Asset and cost segment (among)
- consistencies with prior period and adequacy of the disclosure.

SA-505

External Confirmation

External Confirmation

meaning.

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

- Terms of Agreement
- Consult
- Consultation b/w entity & other parties
- confirm absence of side agreement.

determine info. to confirm / requested.

It may also used to confirm,

selecting apt. confirming party

C.P. should be knowledgeable about the info. to be confirmed.

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

sending the request inc. follow up the request.

External confirmation procedure, includes,

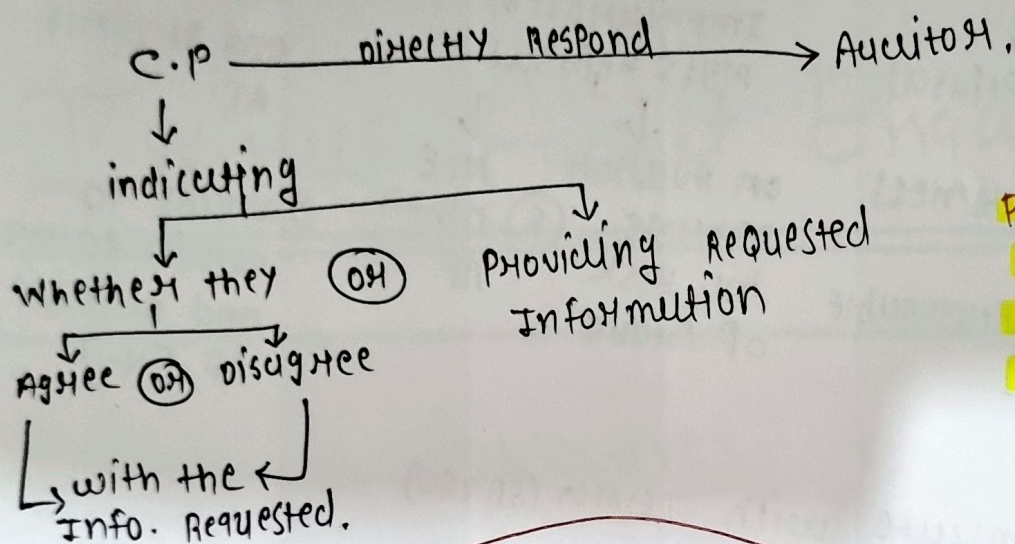
Factors to be considered includes,

- specific ITROMS inc. fraud risk.
- layout & presentation of c.req.
- assertion being addressed.
- the method of communication [i.e. paper, E-form, other]
- Ability of intended c.p. to confirm or provide req. info.

[PCR]

Positive Confirmation Request

meaning:- A Request that,



PCR में Agree
or disagree
Respond too
सही है!!!

RISK

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

SOLUTION

use PCR that

do not state the Amt. (or) Ask C.P. To fill the Amount or furnish the Info.

[NCR]

Negative Confirmation Request

meaning

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

Auditor shall not use NCR as SOLE SUBSTANTIVE PROCEDURE unless,

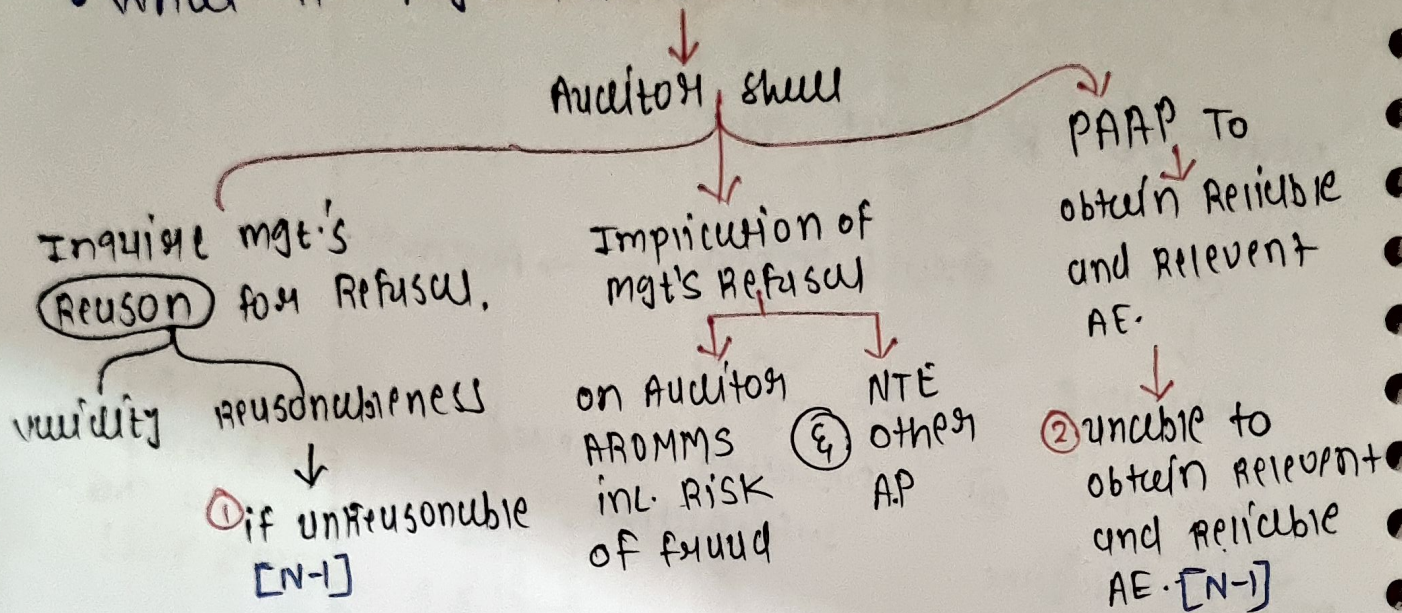
↓ Exception Rule.

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

population consists of large no. of small, homogeneous balance, transaction

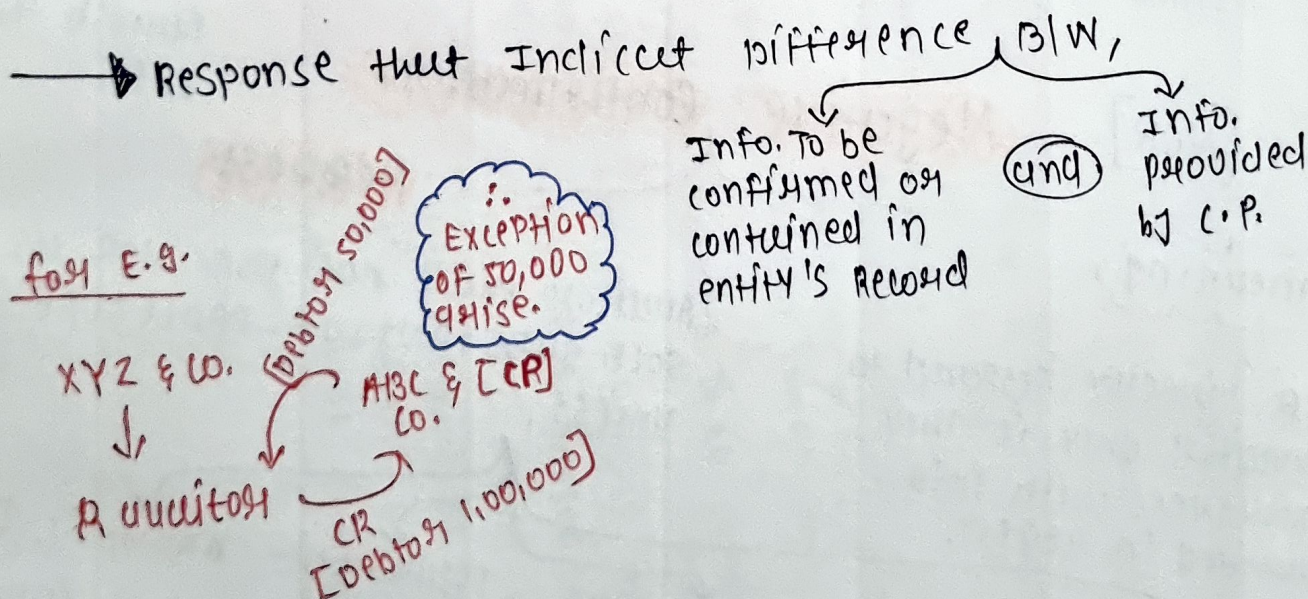
AROMM ↓ (or) obtain same regarding operative effectiveness of control

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



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

Exception → only for understanding



SA-510

Initial Audit Engagement

Objectives

obtain SAAE whether

opening Balance contain MMS that materially affect the CPFS

⑧

Appt. A.P. Affected in op. bal.

Have been consistently applied in CPFS

⑨

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

	Opening Balance	A.P. for Opening Balance	Relevant info. in A.R of predecessor Audit (CPA2)
Audit procedure.	Obtain SAE that whether op.Bal contain any mis that materially affect CPFs, BY, B.A.P. ③: prior period Balance correctly B/P to C.P. ①: op.Bal. reflect the App. of App. A/c policies. ②: perform one/more ↓:- - P.P.F.S audited then purchasing copies of that A/c Bal. B/Ls. - evaluate AP applied in C.P. provide sufficient A.E. rel. to op.Bal. - perform specific A.P. to obtain A.E. regarding op.Bal.	• obtain SAE whether A.P. reflected in op.Bal. applied consistently in CPFs • any changes is appropriately accounted and properly disclosed in acco. with AFRF.	• P.P.F.S. were audited by P.A. • and modification to opinion given. • auditor evaluate the effect of matter giving rise to mod. in assessing ROMMs in CPFs (SA 315)
Audit Reporting	- unable to obtain SAE ↳ Q/A opinion. - op.Bal. contain mis not properly accounted ↓ - Q/A opinion	- Not consistently applied - not properly accounted - rel. ↓ - Q/A opinion	- modification to opinion is relevant and material to CPFs ↓ modify opinion (SA 405 & SA 710)

→ other Important points:-

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

A.P. filed by entity

Nature of CABS and ROMMS in CPFS

significance of Op.Bal. relative to CPFS

Whether PPFs were invited by P.A.

↓
whether he modified opinion

② Audit procedure for opening balance regarding Inventory:-

→ one or more of the following may provide SAE

• observing current P.I.C. and Reconcile it to the opening Inventory Qty.

• performing A.P. on

② valuation of opening Inventory item

③ gross profit and cut off.

SA-520

Reference

- CA DIPIKA RATHI

Analytical Procedure

meaning:-

• Analytical procedure (AP) means SA 520

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graph LR; A[Analytical procedure (AP) means SA 520] --> B[Evaluation of F.I.]; B --> C[through plausible relationship]; C --> D[among F.D and NFD]
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Also Encompasses such investigation

```
graph LR; A[Also Encompasses such investigation] --> B[Identified fluctuation or relationship]; B --> C[That are inconsistent with]; C --> D[Other Relevant Info.]; C --> E[That differs from expected values by significant.]
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AP useful for comparison of F.I. with.



consideration of relationship.



various other procedure



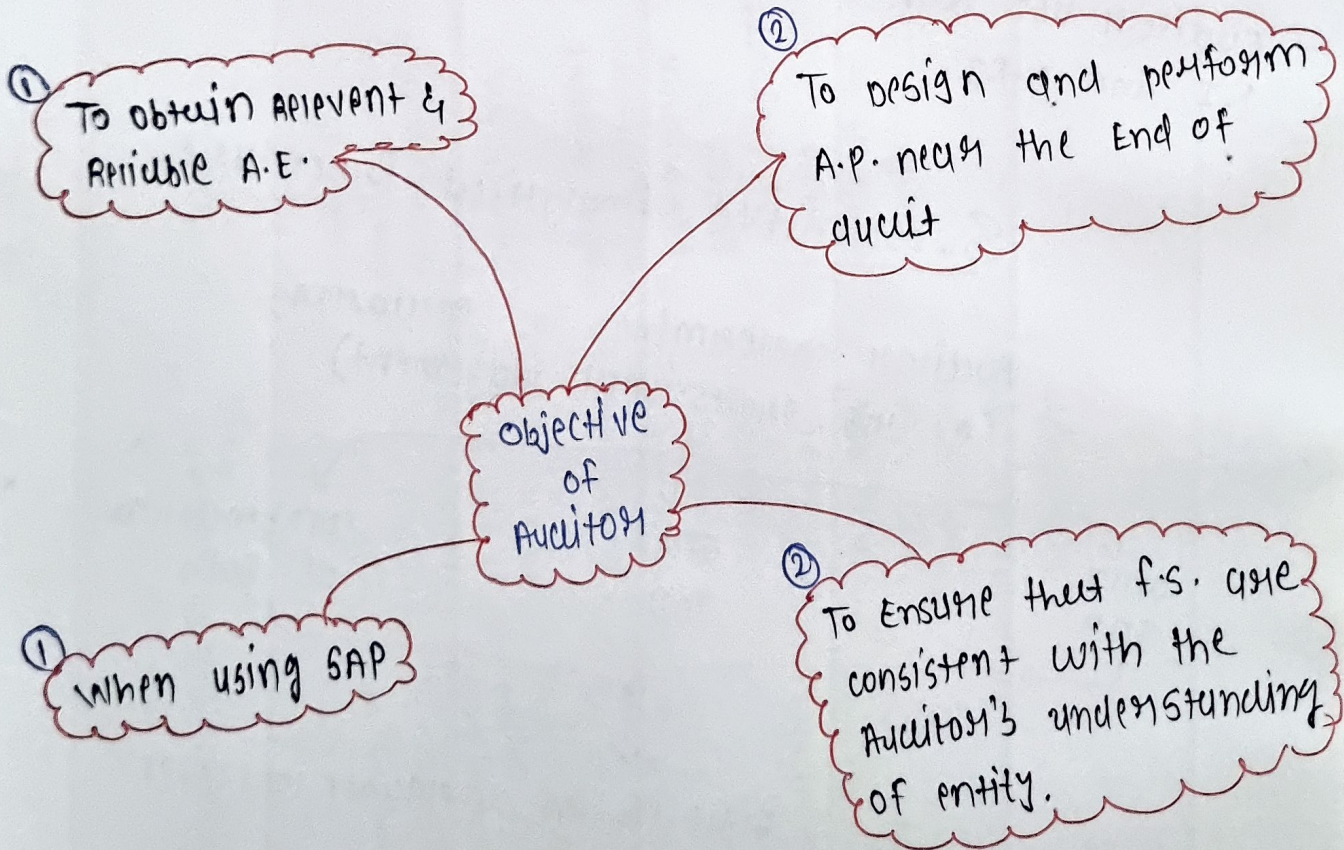
Analytic Procedure



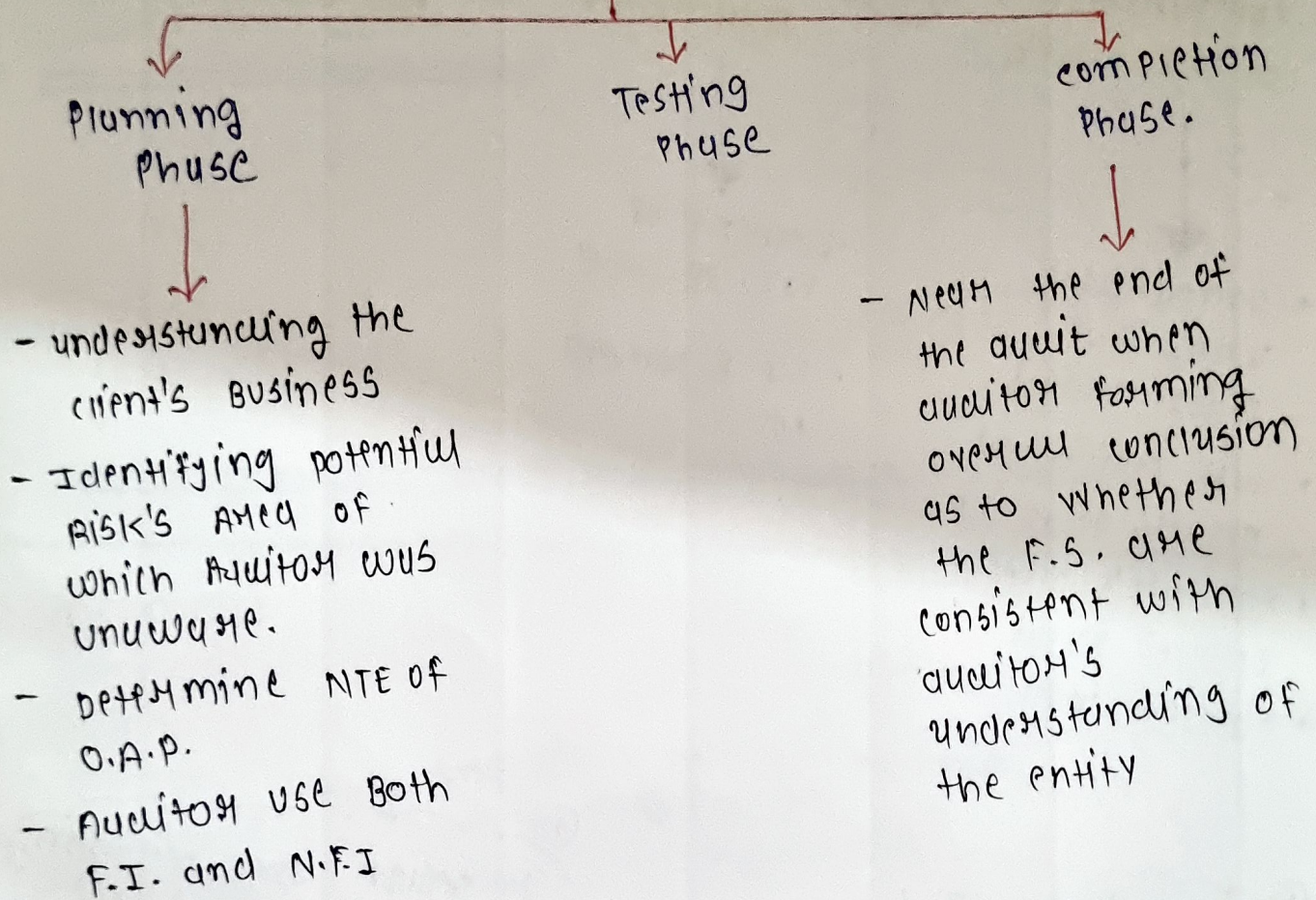
- comparable info. for prior period.
- with anticipated results of entity
- Auditor's determine expected result
- similar industry info.



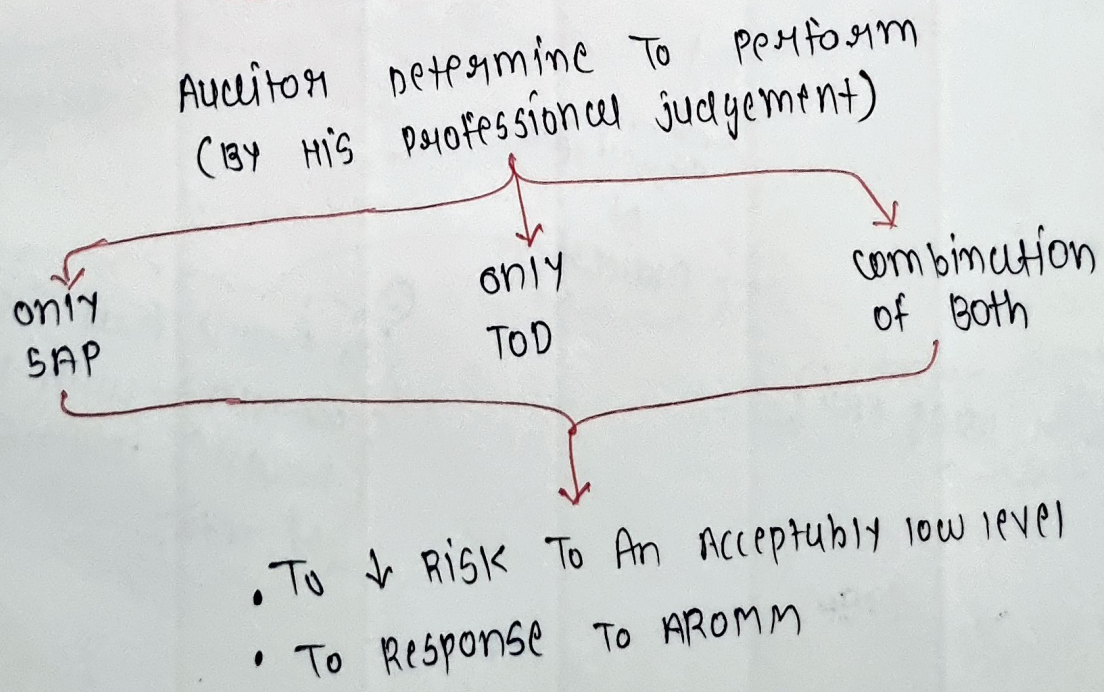
- Element of F.I. eg. GMP
- F.I. & relevant N.F.I.



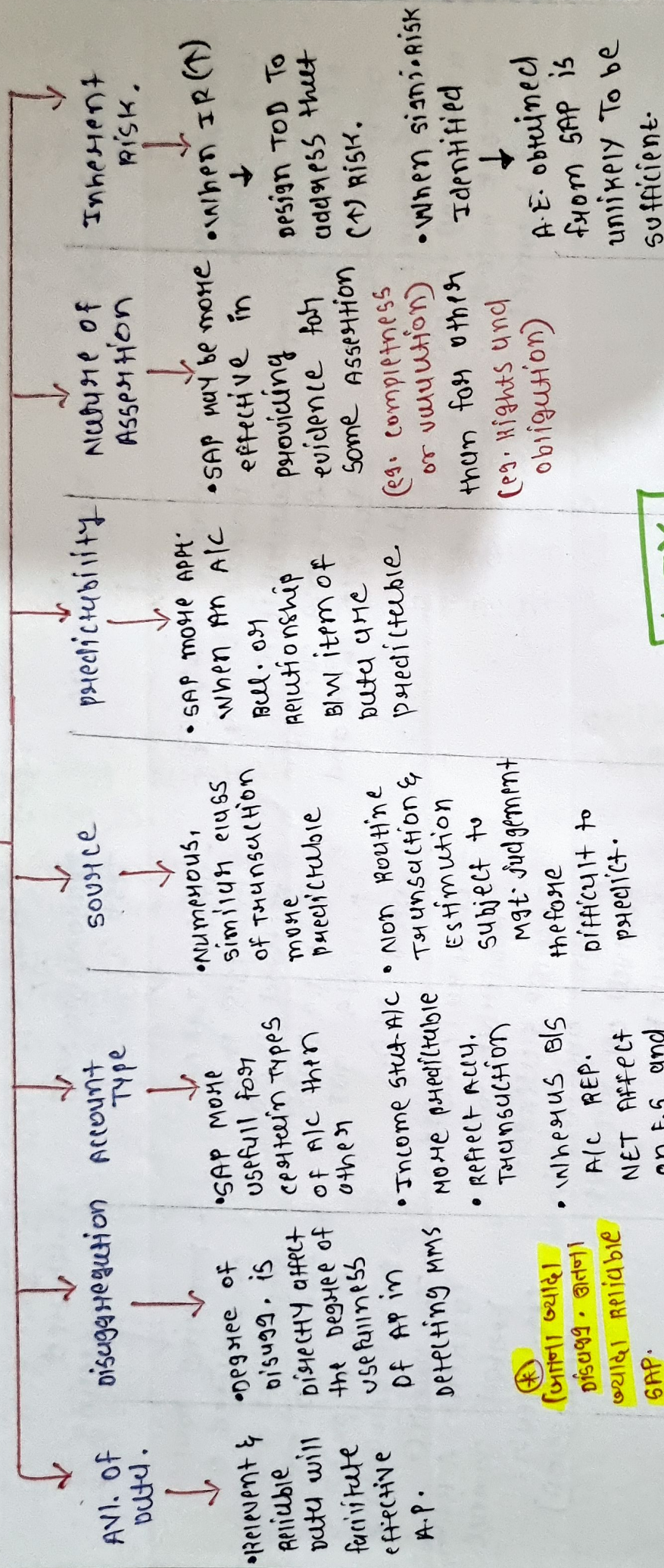
Timing of Analytical Procedure.



Substantive Analytical Procedure.



Factors To be considered for SAP



[KEY]
I PANDAS

Techniques of SAP

Trend Analysis

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

Ratio Analysis

- involve analysing revenue item & capital item forming part of balance sheet and P&L

Reasonable ness Test

- unlike Trend Analysis this method is not rely on prior periods but upon MFD.
- generally more applicable for Income statement Account and certain Account or prepayt Account

Statistical modelling

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

Determine suitability of Analytical (N-1) procedure.

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

Evaluate Reliability of DATA (N-2)

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

SA 330 while designing and performing SAP either alone or with combination of T.O.D. the auditor shall.

Development of Expectation (N-3)

- Of Recorded Amount/Ratio and Evaluate whether expectation is sufficiently precise to identify RMS.

Determine Acceptable Differences

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

N-1
determination
of suitability
of,

Particular
SAP

Influenced
By,

Nature of
Assertion

Auditor's
Assessment
of ROMMS

N-2 Reliability of data:

Source of Information

For Eg.

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

Comparability of Information

For Eg

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

Nature & Relevance of info.

For Eg.

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

Control over the prep. of info.

For Eg.

Control over the prep. & control review and maintenance of Budgets.

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

over the entity's preparation of Information

Used By Auditor in performing SAP in response to Assessed Risk.

N-3 Evaluation of whether the Expectation sufficiently precise.

↓
To identify MMS that when Aggt.
with other MMS

↓
may cause f.s. materially misstated

↓
The Accuracy with
which the
Expected Results
of SAP can be
predicted.

↓
The degree of
disaggregation.

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

SA-550

Related Parties

Definition :-

A Related parties that is either,

AS defined in
AFRF

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

(N-1)

A person or other
entity that HAS

Another entity over
which R.E HAS

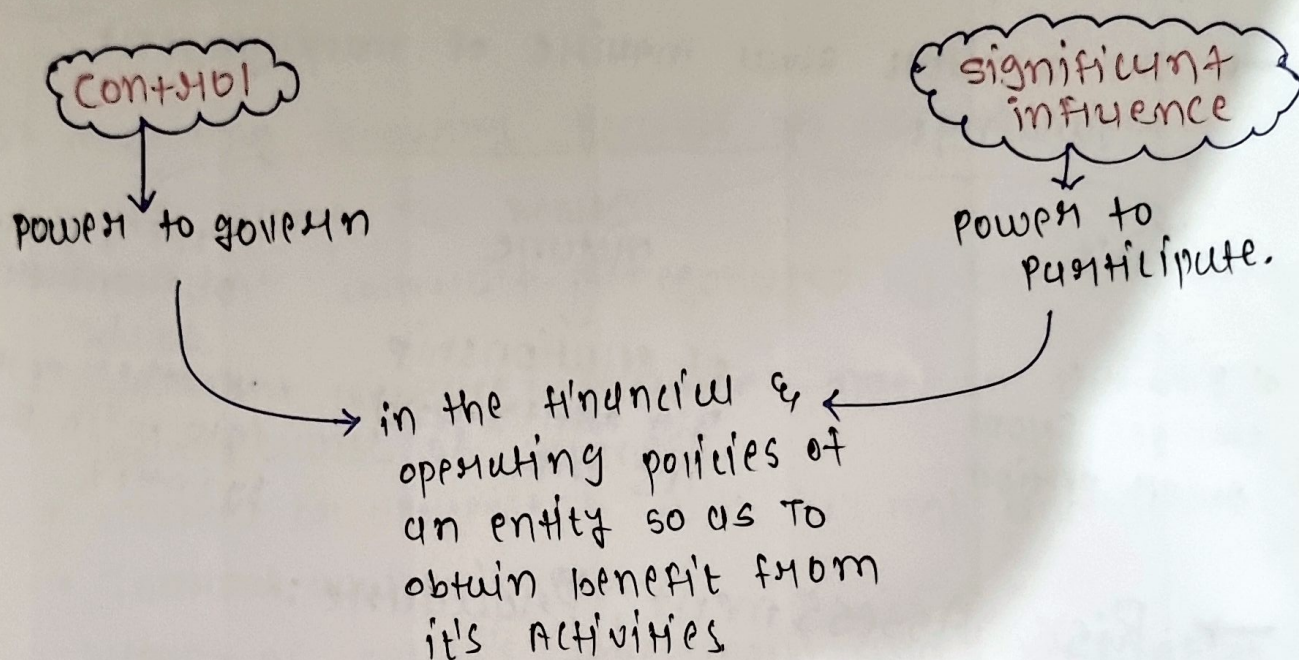
C/SI direct
through one
or more
intermediaries

over the Reporting
entity. (RE)

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

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

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



• Nature of Related parties Transaction:-

Many R.P.T. in normal course of business

↓
in which no highest ROMMS of FS

↓
then similar transaction with U.R.P.

However

Nature of R.P.T. in some cases

↓
Highest ROMMS of FS

↓
then similar transaction with U.R.P.

Example

R.P. operate through an extensive and complex range of relationship with increased in complexity of R.P.T.

Information system may be ineffective to identify and summarising transaction of R.P.

R.P.T. may not be conducted at normal market etc
eg. R.P.T. w/o exchange of consideration,

• Understanding The Entity's R.P.T :-

→ The auditor shall inquire of management Regarding:

identity

↓
of R.P. inc.
changes from
prior period.

Nature

↓
of Relationship
Btw entity and
it's R.P.

Type & purpose
of Transaction

↓
whether entered
into with R.P.
by Entity.

→ Risk Assessment Procedure :-

① Identify Accounts
for and
disclose R.P.T
in acco. with AFRP

② Authorise &
Approval

↓
significant
Transaction
with R.P.

③

significant
Transaction

↓
ols the Normal
course of
Bsns.

• Consideration Specific To Smaller entities by the auditor :-

- Control Activities are less formal than larger entity's.
- No documented process for dealing with R.P.T.
- owner/management may mitigate some of Risk arising from R.P.T.

→ Auditor's procedure :-

• understanding of R.P.T & control exist over these.

• Inquiry ⊕ observation ⊕ inspection.

↓
of mgt.

↓
mgt's
oversight &
Review
Activities

↓
Relevant
documents.
~~(A/S)~~

N-1 How can an auditor verify existence of R.P.T?

By inspecting following Records or documents.

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

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

SA-610

• Reference
— RJ Sir

Using The Work Of Internal Auditor

Overview:-

① Internal audit :-

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

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

→ objective and scope of I.A.F :-

Activities Relating To Governance.

Activities Relating To Risk mgt.

Activities Relating To Internal control.

(Design of the process)

(checking financial & operation related data.)

(checking effectiveness efficiency, economies of operating activities.)

• Evaluation of IC.

• Examination of financial and operating info.

• Review of operating Activities.

• Review of compliance with L&R.

NOW we enter into SAGIO

NOTE:-

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

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

3.] scope of SAGIO:-

- if External auditor (EA) is using auditor (IA) then his responsibility SAGIO. it may include the

- when E.A. is using the work
- when E.A. is using I.A. to assistance (OA) under the

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

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

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

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

- i.] function lacks sufficient competence.
- ii.] function doesn't apply systematic and disciplined approach.
- iii.] functions orgn, status and policies & procedure do not adequately support their objectivity.

NOW we enter into SAGIO :-

3.] scope of SAGIO :-

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

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

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

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

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

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

i.] function lacks sufficient competence.

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

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

6.] Using The Work of I.A.F :- (SQ.)

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

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

B.] **Read the Reports of function relating to the work** which E.A. wants To use To understand The **Nature** and **Extent** of Audit procedure performed by function and functions finding.

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

(*) NOTE : discussion and coordination with the function
- Appr. discussion & coordination with the function about respective activities will help in Addressing the following :-

A.] Timing of work.

B.] Extent of work.

C.] Nature of work.

D.] proposed method of sample selection.

E.] determination of materiality.

F.] Docs. of work.

G.] Review and Reporting.

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

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

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

C.] if E.A. plans to use I.A. to provide D.A. then he shall evaluate the following.

- level of competence.
- Any threat to their objectivity

D.] Before using I.A. to provide D.A. For the purpose of audit, E.A. shall

- obtain a written agreement from an authorised rep. of the entity that I.A. will ^{NOT} be allowed follow E.A. instruction and entity will intervene in the work of I.A. i.e. performed for E.A. (and)
- obtain a written agreement from I.A. that they will keep confidentiality of specific matters instructed by E.A. and they will immediately inform E.A. if there is threat to their objectivity.

E.] E.A. shall not use I.A. to provide D.A. In the following circumstances, ⊕ point no. ⊓ also applicable.

- When procedure involve making significant judgement in the audit.

- Where it relates to areas where ROMMS is High

- It relates to the work with which I.A. were involved to execute or report to mgmt./TCWG.

- It relates to the decision of E.A. which are required in accordance with this SAs such as, evaluating the IAF, functions work etc.

8.] E.A. responsibilities for Audit:-

- A.) E.A. has the sole responsibility for the audit opinion and that responsibility is not reduced even if E.A. decides use work of I.A./uses D.A. of I.A.

• IMP. points [for concept clarity]:-

- I.A./I.A.F is E.A. and is not independent and is.

- Basic IFC & requirement

- Factors affecting objectivity & competence evaluation { Read from Book pg. 1E.11 m₁ }

distinction b/w

IFC

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

• Broader term.

ICFR

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

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

• Narrower term