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Audit Evidence.

Meaning

- Any info^n used by auditor in arriving at the conclusions on which auditors opinion is based.
- It includes both info^n contained in accounting records underlying in FS & other info^n.

Examples :- NOV23

MCQs

(i) a/c ing records underlying FS includes → invoices, Contracts, agreements, internal worksheets / spreadsheets for computation, a/c ing enteries, Journal entries, Ledger (General & Subsidiary) etc.

(ii) Other info^n [~~ct~~ authorization the a/c ing records & support auditors opinion, rational about true or fair.)
includes → minutes of meeting, written confirmation letters, representations (SA580), I.C manual etc.

* **Objective of Auditor :-**
is to design & perform AP in such a way as to enable the auditor to obtain SAAE to draw reasonable conclusions on which to base the auditors.

* **Relationship betw^n AE & opinion of auditor.**

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* About Internal & External AE

(i) auditor will not suspect on Internal Evidence but he should be alive to possibilities of manipulation & misleading evidence.

(ii) External Evidence → more reliable as 3rd party and not interested in manipulation, in case of doubt over independence party, auditor shall be vigilant: सावधान

(iii) Auditor shall match external with internal evidence. If external evidence are not avilable, auditor shall decide extent of reliance of internal evidence.

* Introduction of SA

(i) Auditing is a logical process — helps से we assess the actualities of situation, review FS & give an expert opinion on truthness & fairness of a/cs.

(ii) Objective → critical examination, scrutiny of a/cs.

(iii) If examination of a/cs done in reckless or negligently manner, then legal consequaction & potential loss of professional standards & prestiage.

(iv) He needs evidence to obtain infoⁿ for arriving at his judgement

* MCQs Types of Audit Evidence

Depending upon nature

- Visual → Observation
  - eg- Observing Inventory's Physical verification
- Oral → Inquiry
  - eg- discussion with mgmt of client
- Documentary → Inspection
  - eg- FD certificate, agreements, Bills

Depending upon source

- Internal → Evidence originated from inside the orgⁿ
  - eg → sales invoice, copy of challan, C/C notes etc
- External → Evidence originated from outside the orgⁿ
  - eg → Purchase invoice, Quotation, supplier challan, confirmation etc

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Auditor has to obtain SAAE to draw reasonable conclusion on FS.

SAAE (Sufficient & Appropriate Audit Evidence) → inter related

Appropriatness of AE

- measures the Quality of AE

Relevance of AE

deals with Logical connection with

(i) Purpose of AP +

(ii) Assertion under consideration

- A given set of AP may provide AE that is relevent to certain assertions, but not others.
  (eg → inspection of documents related to the collection of receivables after the period may provide AE regarding existence & valuation, but not necessarily cut-off.)
- Similarly, obtaining AE regarding a particular assertion,
  (eg – the existence of inventory, is not a substitute for obtaining AE regarding another assertion, eg – the valuation of that inventory)
- On the other hand, AE from sources or of a diffⁿ nature may often be relevent to the same assertion.

Purpose:

- a/c payable
  - overstated – a/c payable → Relevent AE
  - understated – recorded a/c payable – Not Relevant AE

(subsequent disburshment, unpaid invoices are relevant)

Assertion:

- Debtor → inspection documents related to collection of a/c receivable after period end.
  (eg – Bank st for month of april).
  AE → Relevent → existence, valuation
  AE → Not Relevent → cutoff
- Inventory – valuation
  - Relevent → valuation
  - Not Relevent → existence

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** Reliability of AE

(i) AE should more reliable ~~when it is obtained from an independent source outside~~

(ii) The reliability of infoⁿ is influenced by its source, nature & circumstances under which is obtained including relevent IC.

(iii) following are General Assumptions about the reliability of AE :→

1. Sources :-

- AE should be consider more reliable when it is obtained from an independent source outside the business.
- Reliability of AE that are generated internally (internal AE) increases when related IC's implemented by entity are effective.

2. Circumstances :-

- AE obtained directly by auditor are more reliable than the evidence which are obtained indirectly.
  (eg → observation of a process that is conducted by mgmt is more reliable then the enquiry that whether the process by conducted)

Nature :-

- AE in documentary form is more reliable the AE obtained orally.
- AE provided by original documents are more reliable than photocopies.

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Sufficiency of AE

- measures the Quantity of AE
- Affected by RMM & Quality of AE
  (RMM↑ Qty↑, Quality low Qty↑)

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Matters affecting Sufficiency of AE

Materiality	RMM	Size & characteristics of popⁿ
SA320	SA 315	[no of items included in population]
• Definitation	• Definitation • Components • IR & • CR	
• If assertions are material to users	• If assertions have RMM.	• If the population contains
more material → AE↑ required	High → AE↑ required	Small & Homogenous → AE↓ required
Less material → AE↓ required	Low → AE↓ required	Large & Heterogenous → AE↑ required

** therefore General assumption about reliability or AE are subject to important

- Exceptions :- (eg → independent external sources may not provide reliable AE if the source is not knowledgeable, sometimes mgmt expert may lack objectivity)
- Inconsistency in or doubt over reliability of AE.

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SA 500 SA 501 SA 50 SA 210

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(*) Inconsistency in or Doubts over reliability of AE

(a) If the (i) AE obtained from one source is inconsistent with ~~auditor~~ that obtained from another; (or)
(ii) Auditor has doubts over reliability of info^n to be used as AE.

(c) The auditor shall determine the modification or addition to AP are necessary to resolve the matter.

(b) Auditor should enquire with the mgmt to understand the reason for such inconsistency.

eg → Checking reconciled items, making further inquiries etc

(d) If auditor conclude that there is a MMS or a possible MS which can be material then he should consider its effect on his report as per 705.

Examples: of Inconsistency.

(i) 3 way match in case of a purchase tx^n that is comparing PO, GRN & Purchase invoice.

(ii) difference betw^n balance as per client records & bal confirmed by a 3rd party (Refer SA 505).

Types of Expert

mgmt expert	Auditors expert
SA 500	SA 620 (Final)

mgmt Expert → An individual or org^n possessing expertise in field other than accounting or auditing, whose work in that field is used by the entity to assist entity in preparing FS.

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As per SA 500, Auditor can use the work of mgmt. expert

Using the works of Management Expert

CAE is prepared using the work of management expert)

Before using, or relying on the work of ~~...~~ Management Expert, Auditor should consider the following ~~aspects~~ aspects:→

(a) Evaluate the Competence, Capabilities & objectivity of the mgmt expert.

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objectivity
(i) Whether the expert is employed or engaged by entity
(ii) Extent of mgmt influence or control over the mgmt expert

Competence & capabilities
(iii) Expert's Qualification, membership of professional body or industry association.
(iv) Auditors prior experience with work of experts.

(b) Obtain understanding of the work of mgmt expert.
(i) whether auditor has expertise to evaluate work of expert.
(ii) ~~Any~~ whether any professional std, other standard & legal or regulatory requirements.
(iii) whether any assumption & methods are used by expert.
(iv) Base data either internal or external data used by expert.

(c) Evaluate whether work of expert is appropriate which used as AE for assertions
(i) Consider the reasonableness & relevance of experts findings or conclusions.

(Note): After considering the above aspects auditor may either rely on the report of mgmt expert or he should consider alternative procedures such as performing independent calculations using his own expert etc

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Info^n to be used as AE

When info to be used as AE
→ has been prepared using work of mgmt expert, NTE of AP may be affected by such matters

Auditor will design NTE of AP after considering mgmt work.

When using info^n produced by entity the auditor shall evaluate:-
① whether info^n is sufficiently reliable for the purpose of auditor
② Obtain AE about accuracy & completeness of info^n
③ whether the info^n sufficiently precise & detailed for the purpose of auditor.

① nature & complexity of matter to which mgmt expert relates
② RMM in matter
③ Alternative source of evidence available
④ Nature, scope & objective of work of mgmt expert
⑤ Nature & extent of controls within entity over work of mgmt expert

Selecting Items for Testing to Obtain AE

Selecting all items [100% examination], Selecting specific items & Audit sampling SA 530

Selecting all items [100% examination]

• Auditors may decide to examine entire popl^n of items
ⓐ TOC → unlikely
ⓑ TOD → more common

• 100% examination is appropriate when:-
(i) popl^n constitutes small no. of large value items.
(ii) There is significant risk other means will not provide SAAE.
(iii) Repetitive nature of calculation automatically run by info^n system.

Selecting specific items

① Auditor may decide to select specific items from a popl^n
② Relevant factors:-
ⓐ Auditor understanding entity
ⓑ Assessed RMM
ⓒ characteristic of the popl^n
③ Judgement selection of specific items is subject to non-sampling
④ Specific items may include:-
(a) Amount is the criteria
(i) High value / key items
(ii) all items over a certain amount
(b) Nature is the criteria
(i) Items to obtain info^n (eg- info^n about nature of entity, nature of tx^n)

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Obtaining & Evaluating AE

1. Auditor will design & perform AP to obtain SAAE.
2. AE is necessary to support auditors opinion & report.
3. Absence of info^n is also an AE.
4. Auditor uses work of Previous audits.
5. Auditor perform diff^n AP to collect AE.
6. Most of the auditor work in forming audit opinion consist of obtaining & evaluation of AE
7. AE comprise of both assertions — support & contradicts
8. Auditor has to conclude whether SAAE has been obtained to reduce audit risk to an acceptably low level.

Audit Trail (edit log) (पुराना) Nov 22 (3 Mark)

1. It is a documented flow of Tx^n.
2. It is used to investigate how a source document was translated into a/c ing entry & then it was inserted into FS of entity.
3. It is used as AE to established authentication & integrity of tx^n.
4. It helps in maintaining record of system & user activity.
5. It is acting as records keeper that document evidence of event to reduce fraud or errors & unauthorise use.
6. It inspires confidence of auditors.
7. Auditor can check whether controls are operating effectively.
8. It also increases reliability of over AE.
9. It helps in analysing high volume of Tx^n by automated tools.
10. It involves cost (cost of system + cost of time).
11. It is used to verify & track many types of tx^n including financial & accounting
12. It helps in fixing responsibility, accountability, rebuilding events & in thorough analysis of problem areas.

Q → Reporting Requirement under rule 11(g) Nov 22.

- The same has been operated throughout the year for all tx^n recorded in the software.
- Audit trail feature has not been tampered with.
- Preserved by co as per statutory requirement for record retention.

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Q. Nature & timing of AP may be affected by fact that some acing data/infoⁿ may be
(i) Available in electronic form (or)
(ii) Only at "Certain Point of Time" Explain with example

Ans → (1) Electronic Form :- Source documents (Purchase orders & invoices) may exist in electronic form, when entity uses ecommerce or may be disclosed after scanning.
(2) Electronic images not retreievable (access ✗) after a period of time. If files are changed & backup files doesnot exist because entity data retention policy.

Auditor shall → • Request entity to retain some infoⁿ
(or)
→ • Perform procedures at the time when infoⁿ is available.

Assertion :- are the representations made by mgmt that are embodied in FS to consider diff types of potential MS
embodied ↓ Included

Assertion Types.

Positive / Explicit
eg → PPE £10cr (disclosed)
Sometimes it can be misleading
I. Sectored loan = 41ath
↓
disclosure → creates ambiguity
↓
name of lender
name of security
Interest rate
duration
} not disclosed

Negative / Implicit
→ Express
eg → There is no Contigent lia (disclosed in notes)
→ Implied
eg → Debtors absent [not disclosed]
↓
Implied :- There are no debtors

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Assertion

Account Balance (Balance sheet)	Classes of tx^n (P&L)	Presentation & Disclosure (outside the B/S)
$\boxed{\text{ERCV}}$	$\boxed{\text{OCACC}}$	$\boxed{\text{OCAC}}$

Existence :- physical verification

Asset, lia, Equity it exists (Fictitious X)

~~Inventory own control~~

Rights & Obligation :-

- Rights on assets (Right to recover) titled documents
- Obligation on lia (lia to pay off)

Inventory < own, control

Completeness :-

All L, A, E are recorded

Valuation :- AS principle, depreciation, amortisation, valuation

A, L, E recorded at correct value.

(Cost or NRV ↓)

~~cutoff~~

Occurence :-

Tx^n occured (+) it pertains to entity.

(Income or Expense → Hugha hai Entity ka hai)

Completeness :-

All tx^n has been recorded

Accuracy/Measurement :-

Tx^n recorded at correct value $\boxed{\text{Correct Amount}}$

(eg → Receivable (−) Trade receivable → Net)

Cutoff :- $\boxed{\text{Correct Period}}$

Tx^n are recorded only of current a/c ing Period (PY 24.25) Inventory

Classification :- $\boxed{\text{Correct Account}}$

Tx^n recorded in proper a/cs.

(eg – wages paid for Installation of PPE ~~wage a/c~~ PPE (+) a/c)

- Occurence & rights & obligation
- Completeness
- Accuracy & valuation
- Classification & understandability

Techniques or means कि कैसे हम AE obtain करेंगे for AP ← RAP TOCs SAP

methods or AP

documentary

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Obtaining SAAE by auditor | AP to obtain AE include | Methods to collect Evidence.

oral

Inspection (Dec 21)

1. Examination of (Records/Documentation) through (Paper/E-form) Internal/External
+
- Physical examine of Asset

2. Depends upon nature & source (External/Internal) also on effectiveness of IC's

3. Examination of documents, it can provide direct evidence of existence (eg→ share certificate, FD certificate etc)
But cannot provide evidence of value/ownership

6. Tangible Asset it can provide evidence wrt existence (eg - Attending Physical verification of inventory)
But not for rights/valuation

Observation

- It consist of witnessing or looking at a process that is being performed by others. (eg→ Physical verification of inventory is performed by mgmt & auditor is expected to observe the process) SA 501
- Evidence is limited to the point till the time the act is being performed is observed. &
- further more the fact that that is being observed may affect the performance of the procedure.

External Confirmation
SA 505

Analytical Procedure
SA 520

Recalculation (Recomputation)
- Mathematical accuracy
- can be done manually / electronically.
eg → Dep
- can be performed independently to check the reasonableness of mgmt's calculation.

Reperformance
- Auditor's independent execution of procedure or control that were originally performed by entity
eg → Bank Reconciliation Statement

Inquiry

I. (i) Seeking info from a knowledgeable person.
[within/outside]
[Financial/Non-F]
[oral/written]
[formal/informal]

(ii) Although inquiry may provide important AE but alone ordinarily does not provide SAAE to detect potential MMS in the FS.
[inquiry + obser + inspect]

(iii) It is used extensively throught the audit

II. Evaluating response of inquiries is an integral part of inquiry process

a) New
Provide info not previously processed
or unaware about info.

or

b) Supporting
Corroborative AE

or

c) Contradicting
Responses that significantly differ from info already obtained by auditor
↓
Auditor shall modify or perform additional AP
eg → Override of control by mgmt employees से पूछो

NOV 22

(Audit Procedure to obtain AE - Relevancy)

NOTE (in exam?)

AP includes
RAP
3→AP
TOCs
FAP
SAP [Substantive Audit Procedures]

TOD
(vouching) Test of tx^n
+
Test of Balances (verification)

SAP [Substantive Analytical Procedures]