

Audit Evidence.Meaning

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

Examples :- NOV 23

MCQs

- Accounting records underlying FS includes + invoices, contracts, agreements, internal worksheets / spread sheets for computation, accounting entries, journal entries, ledgers (General & subsidiary) etc.
- Other info (not authentication the accounting records & support auditor's opinion, rational about true or fair.) includes - minutes of meeting, written confirmation letters, representations (SA 580), I.C manual etc.

* Objective of Auditor :-

is to design & perform AP in such a way as to enable the auditor to obtain SAE to draw reasonable conclusions on which to base the auditor.

* Relationship betwⁿ AE & opinion of auditor.

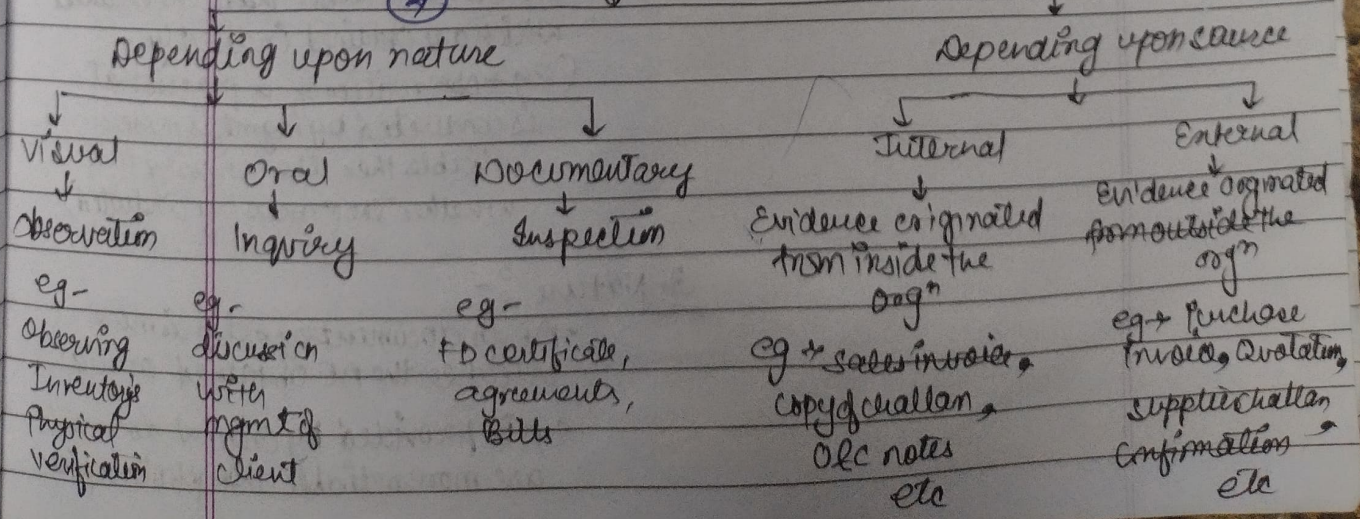
* About Internal & External AE

- (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 are not interested in manipulation, in case of doubt over Independent party, auditor shall be vigilant → attent
- (iii) Auditor shall match external with internal evidence. If external evidence are not available, auditor shall divide extent of reliance of internal evidence.

* Introduction of SA

- (i) Auditing is a logical process — helps to we assess the actualities of situation, review of S & give an expert opinion on truthness & fairness of a/c.
- (ii) Objective → critical examination, scrutiny of a/c.
- (iii) If examination of a/c done in reckless or negligently manner, then legal consequence & potential loss of professional standard & prestige.
- (iv) He needs evidence to obtain info for arriving at his judgement

* Types of Audit Evidence



Companies
Sec 143

Auditor has to obtain SAE to draw reasonable conclusion
SAE (Sufficient & Appropriate)

Appropriateness of AE

- measures the Quality of AE

Relevance of AE

deals with logical connection with

- Purpose of AP +
- Assertion under consideration

- A given set of AE may provide AE that is relevant to certain assertion but not others.
 (eg - inspection of documents related to the collection of receivables after the period may provide AE regarding existence evaluation, 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 different nature may often be relevant to the same assertion.

Purpose: overstated - payable AE
 under stated - receivable AE
 (subsequent disbursement, unpaid invoices relevant)

Assertion:

- Debit -> inspection documents related to collection of receivable after period end.
 (eg - Bank of 10 months ago)
 - AE -> relevant -> existence valuation
 - AE -> not relevant -> cut-off
- Inventory - valuation
 - relevant -> valuation
 - not relevant -> existence

Reliability of AE

Reliability of AE

AE should be more reliable if it is obtained from an independent source outside the business.

(i) The reliability of AE is influenced by its source, nature & circumstances under which is obtained including relevance.

(ii) following are general assumptions about the reliability of AE

1. Sources:

- AE should be considered more reliable when it is obtained from an independent source outside the business.
- Reliability of AE that is generated internally (internal AE) increases when related ICs 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 than the inquiry that whether the process is conducted)

Nature:

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

on PS

Audit Evidence -> Inter related

Sufficiency of AE

- measures the Quantity of AE
- Affected by RMM & Quality of AE (RMM up, Quality down)

Am 25

Matters affecting Sufficiency of AE

Materiality
SA 320

RMM
SA 315

Size & characteristics of Popl
[not items selected in population]

Definition

Definition

- Components
- IC & CR

If assertions are material to users

If assertions have RMM

If the population contains

more material
AE ↑ required

less material
AE ↓ required

High
AE ↑ required

Low
AE ↓ required

Small
Homogeneous
AE ↓ required

Large
Heterogeneous
AE ↑ required

therefore general assumption about reliability of 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.

SA 500

SA 501

SA 50

* Inconsistency in or doubts over reliability of AE

- ② If the (i) AE obtained from one source is inconsistent with ~~another~~ that obtained from another (or)
(ii) Auditor has doubts over reliability of info to be used as AE.

③ The auditor shall determine the modifications or addition to AE are necessary to resolve the matter.

④ Auditor should enquire with the mgmt to understand the reason for such inconsistency.

eg → checking reconciled items, making further inquiries etc.

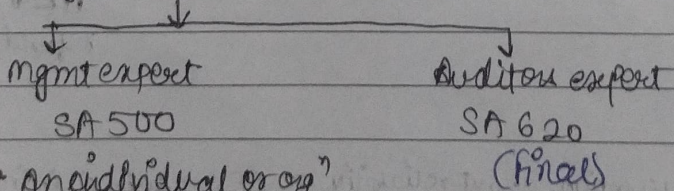
⑤ If auditor conclude that there is a MNS or a possible mis which can be material then he should consider its effect on his report as per 705.

Examples of Inconsistency.

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

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

Types of Expert



mgmt Expert = an individual or orgⁿ possessing expertise in field other than accounting & auditing, whose work in that field is used by the entity to assist entity in preparing FS.

As per CASO, auditor can use the work of mgmt expert of

Using the works of Management Expert

(CAE is prepared using the work of management expert)

Before ^{or relying on} using the work of ~~the~~ Management Expert, Auditor should consider the following aspects:-

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

Objectivity
Competence
Capabilities

(i) Whether the expert is employed or engaged by entity

(ii) Extent of mgmt influence or control over the mgmt expert

(iii) Expert's Qualification, membership of professional body or industry association

(iv) Auditor's 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) ~~Check~~ 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 it 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

Info to be used as AE

when info to be used as AE

→ has been prepared during work of

mgmt expert, (NTE & AP)

may be affected by such matters

auditor will design

NTE & AP after considering mgmt work.

when using info produced by entity the auditor shall evaluate:-

- ① whether info is sufficiently reliable for the purpose of audit
- ② Obtain AE about accuracy & completeness of info
- ③ Whether the info is sufficiently precise & detailed for the purpose of audit.

- 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]

- Auditors may decide to examine entire poplⁿ of items
 - ① To be unlikely
 - ② To be more common

• 100% examination is appropriate when:-

- (i) poplⁿ 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 system

Selecting specific items

① Auditor may decide to select specific items from a poplⁿ

② Relevant factors:-

- ① Auditor understanding entity
- ② Assessed Rmm
- ③ characteristic of the poplⁿ

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

(eg) items to obtain infoⁿ

(eg - infoⁿ about nature of entity, nature of txn)

Audit sampling
SA 530

Obtaining & Evaluating AE

- ① Auditor will design & perform AP to obtain BAE.
- ② AE is necessary to support auditor's opinion & report.
- ③ Absence of info is also an AE.
- ④ Auditor uses work of previous audits.
- ⑤ Auditor perform diffⁿ 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 SMT has ^{been} obtained to reduce audit risk to an acceptably low level.

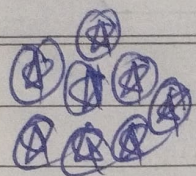
Audit Trail ^{edit} (सूची) NOV 22 (3 Mark)

- ① It is a documented flow of Txⁿ.
- ② It is used to investigate how a source document was translated into a log entry & then it was inserted into FS of entity.
- ③ It is used as AE to establish authentication & integrity of txⁿ.
- 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 error & misappropriate 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 Txⁿ by automated tools.
- ⑩ It involves cost (cost of system + cost of time).
- ⑪ It is used to verify & track many types of txⁿ including financial & accounting.
- ⑫ It helps in fixing responsibility, accountability, rebuilding events & in thorough analysis of problem areas.

The same has been operated through the year to all txⁿ recorded in the software.

- Audit trail feature has not been found in.
- Preserved by co as per statutory requirement to record retention.

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



Q. Nature timing of AP may be affected by fact that some "data/info" may be

(i) Available in electronic form (C)

(ii) Only at "Certain Point of Time" Explain with example

Ans → Electronic Form → Source documents (Purchase orders & Invoices) may exist in electronic form, when entity uses e-commerce or may be disclosed after scanning.

(2) Electronic images not retrievable (access) after a period of time. If files are changed & backup files does not exist because entity data retention policy.

Auditor shall → Request entity to retain some info (C)

→ Perform procedures at the time when info is available.

Assertion → are the representations made by mgmt that are embodied in FS to consider diff types of potential mis Included

Assertion Types

Positive / Explicit

eg → PPE & LOU (disclosed)

Sometimes it can be misleading

Dissected loan = H10th

↓
disclosure → creates ambiguity

named lender
name of security
Interest rate
duration
↓
not disclosed

Negative / Implicit

Express

eg → There is no Contingent lia (disclosed in notes)

Implied

eg → Debt or absent [not disclosed]

↓
Implied → There are no debtors

Jan 25

Assertion

↓
discount Balance
(Balance sheet)

ERCV

↓
classes of txⁿ
(P&L)

OCACC

↓
Presentation & Disclosure
(outside the B/S)

OCAC

Existence → physical verification

Asset, lia, Equity it
exists (Fictitious X)

~~Inventory~~ ~~own~~ ~~entity~~

Rights & Obligations →

• Rights on assets (Right to recover) *related documents*

• Obligation in lia (lia to pay off)
Inventory *own control*

Completeness →

(A, L, A, E are recorded)

Valuation → AS principle

A, L, E recorded at correct value. *depreciation amortisation valuation*

(Cost or NRH ✓)

Occurrence →

txⁿ occurred (+) it
Pertains to Entity
(Income or Expense) *Hughai Entity ka hai*

Completeness →

All txⁿ has been recorded

Accuracy / measurement →

Txⁿ recorded at correct value *Correct Amount*

(eg + Receivable
- Trade receivable
net)

• Occurrence rights & obligation

• Completeness

• Accuracy & valuation

• Classification & understandability

Cutoff → *Correct Period*

Txⁿ are recorded only of *Inventory*
current a/c period
(PY 24.25)

Classification → *Correct Account*

Txⁿ recorded in proper a/c.

(eg - wages paid for installation of PPE)
~~wages~~ a/c PPE ⊕ a/c

Methods or AP

AEIOUS

Obtaining SAAE by Auditor AP to obtain AE include Methods

Subsection

(1) Examination of records/documents through paper/scan

Internal/external

Physical examination of asset

(2) Dependence on nature & source

(External/Internal) also on effectiveness of FCs

(3) Examination of documents it can provide direct evidence of existence

(eg → Share certificate, FD certificate etc)

(4) Bank may provide evidence of value/ownership

(5) Tangible Asset item poss. evidence w/o existence

(eg. attesting Physical verification of inventory)

But not for rights/valuation

Observation

- It consists 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) SAs 505

- Evidence is limited to the point in time that it is being performed & observed.

- Further, more the fact that that is being observed may affect the performance of the procedure.

External Confirmation

SAs 505

Analytical Procedures

SAs 520

(Audit procedure to obtain AE - Relevance)

NOTE

Sin Exom?

AP includes

RAP

EAP

FOCs

SAP

Substantive Audit Procedures

Vouching

Text of the

TOD

+ Test of Balance (verification)

SAP

Substantive Analytical Procedures

not for AP → RAP TO a SAP

to collect Evidence.

Recalculation (Recomputation)

- Mathematical accuracy
- Can be done manually or 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

- Provide info not previously processed
- Unaware about info.

Supporting corroborative AE

- Responses that significantly differ from info already obtained by auditor

Auditors shall modify or perform additional AP

eg → Override of control by mgmt employees or 1st

MTP may is

oral

Seeking confirmation from knowledgeable person

Written/Outside

Financial/Non-F

Oral/Written

Formal/Informal

- Although inquiry may provide important AE

But alone ordinarily does not provide SAAE to detect potential mis

in the FS.

- It is used extensively throughout the audit

Evaluating response of inquiries is an integral part of inquiry process

NOV 22