Chapter = 4.

+ Audit Evidence +

SA - 500 - Audit Evidence.

Audit Evidence

Meaning
- Information used
  - Financial
  - Non-financial
- For Audit Opinion

Sufficient & Appropriate Audit evidence
- Sufficient = Quality
  - How to decide S
    - → Materiality (SA-320)
    - → ROMM (IR x CR)
    - → Size of A/c / population
- Appropriate = Quality
  - How to decide A
    - → Source of audit evidence
    - → Nature of audit evidence
    - → Should be complete & Accurate.

Types of Audit Evidence

According to Nature
- → Visual (E.g Physical stock)
- → Document (E.g Agreement)
- → ORal (E.g Discussion)

According to Source.
- Internal
  - → Created Internally (e.g. Sales invoice)
  - → less Reliable
    - ↳ more Reliable if Internal control is Good
- External
  - → Created outside (E.g) Purchase invoice.
  - → More Reliable

Reliability of Audit Evidence (factors)

- Independent Source
- Internal Evidence
- Directly obtained by auditor
- Written record rather than ORAL (original v photocopy)

Information obtained from mgmt expert, Auditor evaluate (M.I.P)

- Competence
- Capability
- Objectivity
- Understanding ~~of~~ work
- Assertion Satisfied

Inconsistency ~~obtained~~ from of Audit Evidence & perform Additional Audit procedures.

Procedures to obtain audit Evidence

- Test of Control
- Substantive procedure.
  - Test of Transaction (vouching)
  - Analytical Procedures. (verification)

Methods to obtain audit Evidence

- Inquiry
- Inspection
- observation
- External Confirmation
- Re-calculation or Re-performance
- Analytical Procedures

Auditor's responsibility when Relying on Audit Evidence prepared using Mgmt Expert's work.

→ Evaluate competence, capabilities and objectives of mgmt Expert may come from a variety of source or

- Personal Experience with previous work of Expert.
- Discussion with that Expert.
- Discussion with other who are familiar with that Expert's work
- Knowledge of that Experts qualifications, membership of professional Body or industry association, licence to practice other External Recognition
- published papers or books written by that Expert
- Auditor's Expert, if any, who assists auditor in obtaining SAAE, w.r.t info produced by mgmt.

The Auditor may also consider the following While Evaluating the appropriateness of the mgmt Experts work as audit Evidance for the Relevant Assertion.

- If the expert's work involves significant Source of data, the Relevance completeness & Accuracy of that Source data.
- If that expert's work involves use of Significant assumption and method, the Relevance & Responsibility of those Assumption & Methods.
- The Relevance & reasonableness of that experts findings or Conclusions their consistency with other audit Evidance and whether they have been appropriately reflected in financial Statement.

Matters affecting NTE of audit procedures in case of information being produced using work of Mgmt Expert.

- The Nature and complexity of matter to which mgmt Expert Relates.
- The ROMM in the matter.
- The availibility of Alternative Source of audit Evidance
- Whether the mgmt Expert is employed by Entity or a party engaged by it to provide Relevant Services.
- The Extent to which mgmt can exercise control or influence over the work of mgmt Expert
- The auditors previous Experiene of the work of Expert.

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Inconsistency in, or doubts over Reliability of Audit Evidence

The audit evidance obtained through different sources or of different nature should be constitutes. If there is inconsistency among different evidence relating to a single item, auditor should perform additional procedures to resolve inconsistency if :-

a) Auditor evidence obtained from one source is inconsistent with that obtained from another, or:
b) The Auditor has doubts over the Reliability of information to be used as audit evidance

The auditor shall determine what modification or additions to audit procedures are necessary to Resolve the matter, & shall consider the effect of the matter if any on other aspects of the Audit.

Evaluating objectivity of Mgmt Expert

1. A Range of circumstances may threaten ~~Expert~~ objectivity. for e.g. Self interest threat, advocacy threat, familiarity threats, Self Review threat & intimidation threats.

2. Safeguard may Reduce such threat and may be created either by.
   - → External Structure
   - → Mgmt Expert's work Environment.

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(3) Safeguard can't eliminate all threats, threats such as intimidation threat may be of less significant to an Expert engaged by the entity than to an Expert employed by entity & Effectiveness of safeguard such as quality control policies and procedures may be greater.

(4) Because threat to objectivity created by Being an employee of entity will always presented, Expert employed by entity can't ordinarily be Regarded as being more likely to be objective than other Employees of entity.

SA 501 Special Consideration for Specific items.

- Inventory
- Litigation and claim
- Segment Reporting

Inventory

Planning
- Nature of inventory
- Stage of completion
- Risk
- Control
- Materiality
- location
- timing
- Assistance of Expert.

Attendance of inventory Counting.
- mgmt + instruction and procedures.
- observe the performance
  Inspect the inventory
- perform test count
- perform procedure for final Inventory count
- Sheet to floor/floor to sheet *

Inventory held by 3rd party.
- Confirmation (SA-505)
- Inspection
- Service audit for Report.
- Inspect Documents.

Physical inventory count

Unable the attend physical inventory count.

↓

Inventory count on some other Day

31st march ———————— 2nd April.

- Perform count on any other day
- perform additional audit procedures
- obtain S/A audit Evidence

Not Possible to Attend.

↓

perform Alternate procedure

(Eg)

a) Bank Receipt.

b) Material Receiving.

{ If not possible than modify the Report }

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b) Litigation & claims.

→ Listing / Schedules
→ BOD Minutes
→ Inquiry.

Found Significant Risks
Confirmation
Obtain WR / MRL
If restruction Apply by mgmt
→ modify the Report.

c) Segment Reporting.

Check presentation and disclosure

Consistency of FRF

Perform Analytical Procedure - if required.

Risk is low

IC effective

Low amount

+ SA 505 → External Confirmation +

Direct Response from third party to auditor.

a) Positive Confirmation :- Respond in all the Situation

b) Negative Confirmation :- Respond only if Balance not Agree.

External Confirmation procedure.

→ Information to be confirmed Eg :- Bank, Debtor, Creditor, 3rd P. Asset etc.
→ Determine confirming party.
→ Design confirmation Request, Address, Return information (Address of Auditor)
→ Follow up if Required

Design Confirmation Request → Factors.

→ Risk of material misstatement including fraud risk.
→ layout and presentation of Confirmation Request.
→ prior Experience of Auditor.
→ Assersion Addressed.
→ Method of Communication
→ Mgmt follow up.
→ Balance v/s transaction Confirmation.

Reliability of Response.

→ objectivity of confirming party :- Confirming party should not be Related party of client.

Knowledge of the matter :- Whether client know about subject matter.

willingness of third party to Respond = Third party may Consider it time Consuming & Costly.

Note: If Auditor has doubt on Reliability, He should perform further Audit procedures,
To Resolve the doubt, if not possible Consider Fraud Risk factor & Consider effect on NTE of other Audit procedure.

Management Refuse to Send Confirmation (imp).

→ Auditor Should Ask = Reason and Evaluate Reasonableness
→ Implication of mgmt Refusal
→ Perform Alternate audit procedures.
→ Communicate with TCWG, if Required.
→ Determine implication on Audit Report as per SA 705

Non Response to positive Confirmation Request,
→ Perform Alternate procedure.
→ Effect on Audit Report.

SA 510: Initial Audit Engagement - opening Balances.
SA 710: Comparative information corresponding figures and Comparative financial information.

Audit procedures Regarding opening Balances	Audit procedures Regarding Comparative info
The auditor shall obtain SAAE about whether the opening Balances contain Misstatements that Materially affect the current period FS by:-	1. Basic procedures.
① Determine whether the prior period closing Balances have been correctly Brought forward.	ⓐ Auditor shall evaluate whether comparative info. agree with amts and other disclosures in prior period.
② Determine whether the opening Balances Reflect the application of appropriate Accounting policies.	ⓑ Accounting policies Reflected in comparative info are consistant with current period or, if there have been changes have been properly Accounted presented and Disclosed.
* performing one or more of the following.	2) Material Misstatement
③ Whether prior period FS, were audited persuing the copies of audited F.S	i) If auditor becomes aware of possible material Misstatement in comparative info. While performing current period audit, perform additional Audit procedures to obtain SAAE to determine when material Misstatement exist.
④ evaluating whether Audit procedures performed in the current period provide evidance Relevant to the OP. Balance : OR	
⑤ performing Specific Audit procedure to obtain Audit evidance Regarding opening Balances.	ii) If Auditor audited prior period of FS, auditor shall also follow Requirement of SA. 560

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(6) If the auditor obtain audit evidance that opening Balance contains Misstatement that could Materially affect current period's FS then Perform additional audit procedures to determined effect on current periods FS.

If auditor concludes Misstatement exist in current period's FS, communicate Misstatement with Mgmt & those charged with Governance as per SA-450

(3) Written Representations:

(1) Request WR for all periods Refered to in auditor's opinion

(2) Auditor shall also obtain specific WR Regarding any prior period item separately Disclosed in current year P/L

Objective as per SA-510:- To obtain SAAE about whether,

(1) opening Balance contains Misstatement that Material affect the current period's F.S &

(2) Appropriate Accounting policies Reflected in the opening Balances have been consistently applied in the current period F.S or,

changes thereto are properly accounted for & adequately presented or disclosed in accordance with the applicable FRF.

SA 520 :- Analytical Procedures :-

Evaluation of financial information through Analysis of Relationship both Among financial & non-financial data.

Objective of Auditor → obtain S & A Audit evidence by Substantive Analytical procedure.

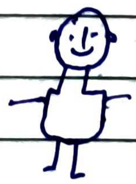
When to perform Analytical procedure = Planning | Execution | Reporting.

Auditor Should Consider following factor When using Substantive Analytical procedure (IMP)

→ Suitability of Substantive Analytical procedure.
→ Reliability of data to be compared i.e input.
→ Development of Expectation.
→ Difference Evaluation.

Relationship Exist → Yes → look for the Reliable input → Develop Expectation → perform AP → compare Result with Expectation.

↓ Difference? → Yes → Discuss with mgmt → Resolved
- No ← perform additional audit procedure to Resolve the issue
- Yes



SA-550 : Related party :-

Step 1) understanding the Entity's Related party Relationship and transaction.

→ Auditor will inquire with mgmt and understand control Regarding

a) identification of Related party.

b) Nature of Relationship

c) Whether any transac entered, if yes → Related and purpose

Auditor will understand controls for → Disclosure as per FRF; Authorise and Approval controls for transaction & Arrangement.

→ Auditor will Maintain Alertness for Related Party information During Document Review.

- Maintain Alertness
- If auditor identify RP Transaction, Discuss with mgmt.
- Share Relevant information with engagement team.

Step. Identify & Assessment of ROMM (→ SA-315) → Associated with RP relationship and transaction

Response to ROMM. (→ SA-330) →

If Auditor identify any Significant Risk, consider SA-240 as well, (fraud Risk factor)

case 1) Identified previously unidentified or undisclosed RP Relation or transaction

↓ Auditor shall

- Communicate with other team member's Request mgmt to identify all RP and Do evolution
- Inquiry mgmt, How internal controls failed to identify the RP/Txn.
- Perform Substantive Audit procedure New RP/TXNS
- Reconsider the risk
- If non-Disclosure Appear intentional evaluate implication in the Audit.

lesser Danger situation for auditor.

Identified Significant RP Txn outside the Entity normal course of B/s

The Auditor shall

→ Inspect contract / Agreement For

B/s Rationale

Terms of transaction

Accounting and disclosure of TXN

Obtain SA Audit at TXNS

Have been appro. Authorised and Approved

TXNS conducted at ALP (Arm's length price)

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Stage 3- Reporting Stage :- Framing opinion.

↳ Evaluate whether.

- ↳ RP Relationship / TXN are Appropriately Accounted / Disclosed
- effects are not Preventing from ↳ True and fair view of FS.

UN-MODIFIED OPINION.

If cause the Material Misstatement Qualified / Adverse as per SA-705

General points :-

→ obtain MRL that mgmt Disclosed All RP Relationship / Transaction.

→ Communicate with TCWG Related to all Significant Matters in Relation to RP.

→ Documentation.

SA 560 : Subsequent Events.

31/3/24	30/5/24	5/6/24	15/6/24.
Financial Statement Date.	Auditor sign FS.	Audit Report issue to mgmt	FS issue to Public.
↓	↓	↓	↓
→ Adjust Significant Event as per FRF → Discuss with mgmt & Adjust Accordingly	No Responsibility of auditor, still Material → Discuss with mgmt → Amend opinion if Reqt	Is mgmt Agrees ↓ yes → Issue Amended Audit Report → By 2nd date if law & Regulation allowed to mgmt → OR New Audit Report ↓ NO ↓ → Take Action to Prevent Reliance.	If mgmt Agrees ↓ yes. → Ask them to Amend FS → issue New Audit Report. → confirm each one Receive Amended Report. ↓ mgmt Disagree ↓ Take action to prevent Reliance.

General points.

→ Obtain SAAE to ensure Events which Require Adjustment OR Disclosure in FS have been identified.

→ In determining NTE of Audit procedures, he shall.

- understand mgmt process to identify Subsequent Event.
- Inquire mgmt of the occurance of Subsequent Event which Effect F.S.
- Read minutes of mgmt meeting held after the Date of FS
- Read latest Subsequent interim F.S, if any.
- If auditor identifies any Subsequent Event which Require adjustment or disclosure determine whether it is appropriately Disclosed OR Not.

Facts become known to auditor after Date of Audit Report but Before Financial statement are issued.	Facts which become known to Auditor after financial statement are issued

Common points :- a) After FS have been issued auditor has no obligation.

b) However, if any fact becomes known to auditor, had it been known at date of Audit Report, he may have amended the Audit Report, he shall.

→ Discuss with mgmt & TCWG.

→ Determine, if FS needs Amendment, if so.

→ Inquire, how mgmt intends to address the matter.

Management Amend the FS.	→ carry out audit procedure on Amendment. → Extend these procedures to date of New audit Report. → provide a New audit Report on Amended FS dated, not earlier than date of Approval of F.S. Audit Report not provided to entity modify opinion as per 705 and provide Audit Report.	→ Carry out audit procedure on Amendment. → Extend these procedures to date of New Audit Report. → Review step taken by mgmt that everyone is Receipt of previously issued FS with AR. has been informed by the situation. → In New Amended Audit Report includes EOM/OM Para Refer to Note in FS discussing Reasons for Amendment in FS & Audit Report.
Mgmt doesn't Amend the FS.	Audit Report provided to Entity. ↳ Notify mgmt and TCWG to not issue FS to 3rd parties If mgmt still issue FS, auditor shall take action to prevent Reliance on Audit Report (obtain legal Action)	Auditor shall notify mgmt & TCWG that auditor seek to prevent future Reliance on Audit Report If Despite such notification, mgmt & TCWG don't take step. auditor shall take action to prevent Reliance on Audit Report (obtain legal Advice)

SA-570 : Going Concern.

Step 1. Risk Assessment procedure and Related activities.

Auditor will consider whether there are Event OR Conditions which may case Significance Doubt on Entity ability to Continue as a going concern.

Event / condition OR indicators.

Financial indicators

- → Negative Networth.
- → Arrear / Discontinuance of Dividend.
- → Adverse financial Ratio
- → operating losses.
- → Borrowing Matured but No- Re-payment.
- → Non-Compliance with Loan terms.
- → Negative cash flows.

operating indicators

- → loss of Key mgmt
- → loss of major market / Supplier
- → labour unrest, strikes etc
- → loss of major License.

other indicators.

- → pending legal procedings.
- → changes in Govt Policy.
- → Non-compliance with Statutory Requirement

The Auditor should ask mgmt for preliminary Assessment of Entity for Going Concern.

Assessment performed by mgmt

- → Whether mgmt identified any significant Event?
- → If yes, mgmt plans to Address them

Assessment not performed by mgmt.

- → How / what basis mgmt intended to use Going concern.
- → Inquire of mgmt for Signi. Risk.
- → Ask mgmt to Perform it's Assessment.

Going concern measure for 12 mts.

1/4/24 — 31/3/25 — 31/3/26

Auditor's Responsibility.

- Evalute mgmt Assessment for 12 months OR if mgmt did it for less than 12 months ask mgmt to Extend the period till 12 months.
- Inquire for period beyond 12 mths.

Audit procedure when Event OR conditions identified.

→ Auditor should obtain SAAE to Determine whether a Significant doubt Exist.
→ Consider mitigating factors.
→ Ask mgmt to perform Risk Assessment.
→ Evalute mgmt future plans.
→ Evalute Assumption, Base data for mgmt forecast of future Cash flows.
→ Request WR for future Action.

Step 2 Auditor Conclusion in relation to Financial statement.
→ Evalute SAAE obtained?
→ Whether a material uncertainty exist?

Situation 1

Disclosure in FS ← Condition identified & material uncertainty exist.

Situation 2

Disclosure in F.S. ← Condition identified & no material uncertainty exist.

→ Disclosure in financial statement with mgmt plans.
→ Disclose that Company may be unable to Realise its Assets & discharge its liabilities in the Normal course of B/s.

Auditor should check Applicable FRF Requirement & check that F.S. provide Adequate Disclosure about Event or Conditions.

Step ③ Implications in Audit Report

case 1) Going Concern Accounting is inappropriate → Adverse opinion.

case 2) Going Concern Accounting is appropriate but Material uncertainity Exist
- → Adequate Disclosure made in FS. → # un modified opinion #mention Going concern para in Audit Report.
- Adequate Disclosure not made in FS. → # Qualified / Adverse # Basis for Qualified / Adverse opinion.

Case 3) Mgmt unwilling to make Assessment → Implication on Audit opinion.

General points →
- Communicate with TCWG.
- Significant Delay in approving of FS.
- SA. 701 Linking.
- Mgmt Responsibility.
- Auditor Responsibility / objectives.

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SA-580 Written Representation :-

Why? → To support other Audit evidence
→ cover all period of F.S.

WR are from mgmt & TCWG. for matters affecting F.S
↳ e.g. WR For Going Concern.
WR For Uncorrected Misstatement.
WR For Responsibility of management.

Imp Note ⇒ WR Does not include financial, Supporting Document & Assertions.

General points ⇒ a) WR should be obtain before OR on the Audit Report Date.
b) It is just an additional evidence, not sufficent & Appropriate Audit evidence.
c) It should be addressed to the Auditor.
d) For Public statement → WR not Required.
case study in exam e) only WR never provide sufficent & Appropriate Audit evidence
f) If WR inconsistent → perform additional Audit procedure.

Exam Question ⇒ WR Related to prior period item / specific Assertion.
⇒ R.P / GC / I.E

Ans 1) Sometimes it may be Appropriate to obtain WR about a specific Assertion in F.S during Audit. In such case, it may be necessary to Request an updated W.R.

2) WRs are for all periods referred in Audit Report because Mgmt needs to Reaffirm that WR it previously made wrt periods Remain Appropriate.

3) Auditor & mgmt may agree to a form of WR that update WRS Relating to prior Periods by addressing whether there are any Changes to such WRS & if so, what they are

4) Situation may arise where current mgmt were not present during all periods Referred in Audit Report. Such person may assert that they are not in position to provide some or all of WRs because they were not in place during prior period.

5) This fact, however, does not diminish such person Responsibilites for FS as a whole., Accordingly, Requirement for auditor to Request WRs that cover all Relevant periods still applies.

Auditor Responsibility if WR not provided by mgmt

→ Discuss the matter with mgmt.
→ Re-evalute the integrity of mgmt.
→ Re. evalute the Romm.
→ Affect on other Audit areas.
→ Affect on Audit /opinion.