

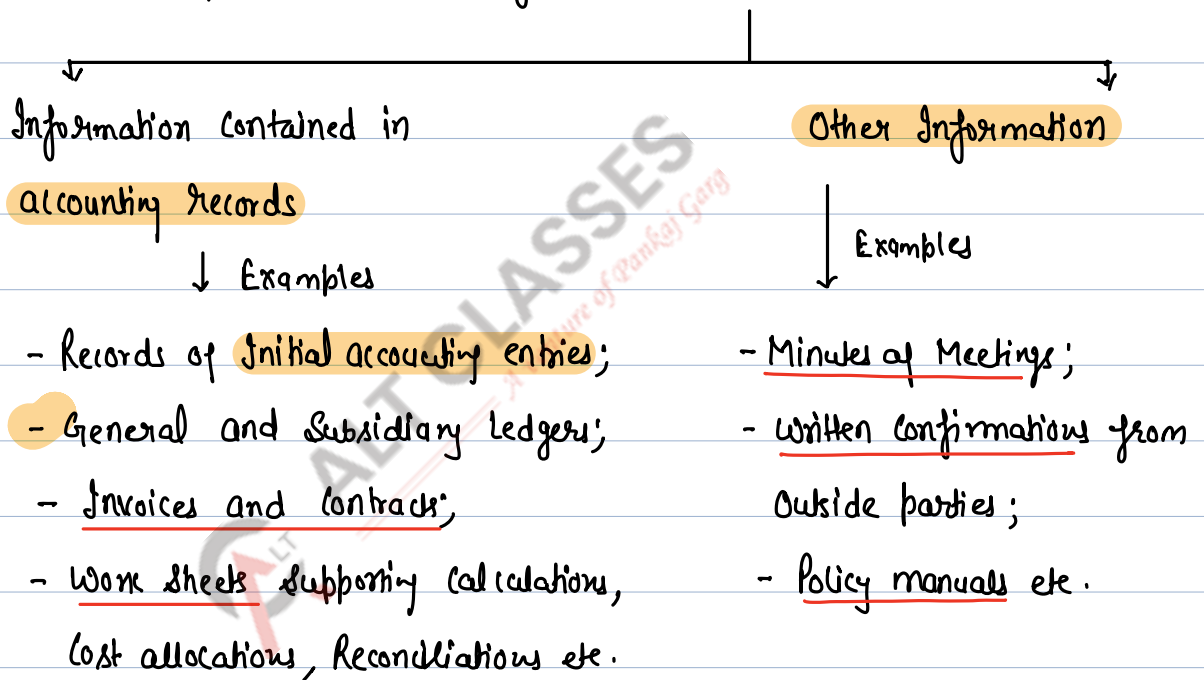
Chapter - 4 "Audit Evidence"

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

Chapter - 7

(i) SA-500 "Audit Evidence":

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



(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 Challan, 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 Stmt
⊗ = 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:

- Audit Evidences Obtained from Independent sources outside the Entity are considered more reliable.
- Reliability of internal evidences is increased when related controls are robust, strong and effective.
- Audit Evidences obtained directly by the auditor are considered more reliable than evidences obtained indirectly.
- Audit evidences in documentary form are more reliable than oral evidences.
- 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 Evidence 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 Evidences, lower can be the sufficiency of audit Evidences.

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

(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)

(A) Tests of Controls (TOC)

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

(A) Tests of details (TOD)

- ↓ of
- drawal occurred during the year (i.e. Vouching of drawal)
 - and
 - account balances that exist at year end (i.e. Verification of assets and liabilities)

(B) Further Audit Procedures (FAP) ; or

Response to Assessed Risk

(SA-330)

(B) Substantive Procedures

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

(b) Substantive Analytical Procedures (SAP)

(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 affected 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 confirmations: 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's 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: Analyzing 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