

Chapter - 5 "Audit Evidence"

(1) SA-500 "Audit Evidence"

(2) SA-501 "Audit Evidence - Specific Consideration for Selected Items"

(A) Audit Procedures w.r.t. Inventory - Existence and Condition - Special Cases

(a) To attend Inventory Count is impractical! (e.g. Security concerns)

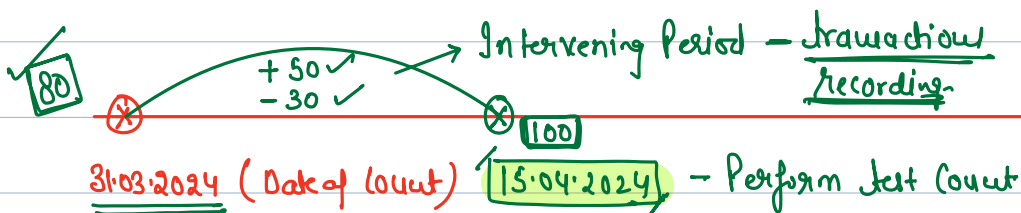


- Perform Alternate Audit Procedure to collect SAAE w.r.t. Existence and Condition of Inventory -
- If auditor not able to collect SAAE from alternate audit procedure, auditor need to modify the audit opinion. (Qualified / Disclaimer)

* Inspection of documentary records (Sale Invoice / Purchase Invoice)

External Confirmation from Suppliers.

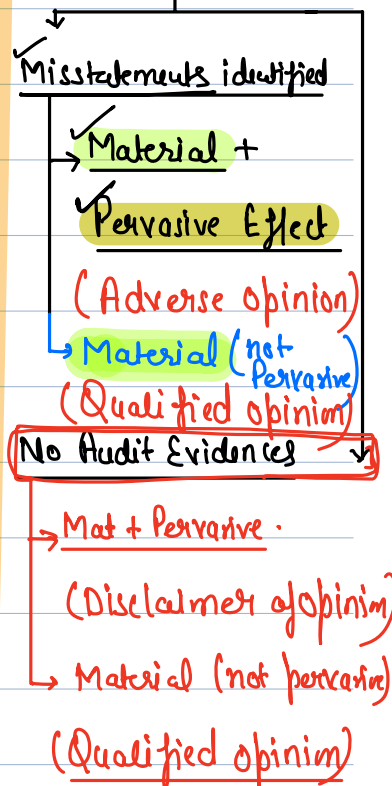
(b) Auditor not able to attend inventory count due to any reason (other than Impractical):



Make or observe some physical count on an alternate date and perform procedures on drawactions that occurred during intervening period to ensure their appropriate recording.

* Vouching of Invoices (Sale/Purchase); Reconciliation etc.

Reporting Aspects



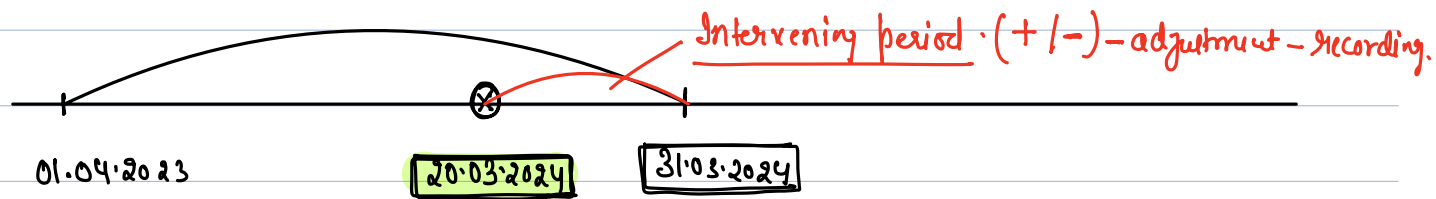
Qualified (Material + Not Pervasive) → Misstatement / No A. Evidence

Adverse → Misstatements (Mat + Pervasive)

Disclaimer - No Evidences (Material + Pervasive)

Q Q / (A) / (D)

(c) Inventory count on a date other than B/s date:



- Perform audit procedures to obtain audit evidence whether the transactions during the intervening period are recorded appropriately.
- while designing audit procedures for this purpose, consider the following matters:
 - (a) whether perpetual inventory records are properly adjusted.
 - (b) Reliability of perpetual inventory records.
 - (c) Reasons for significant differences between info. obtained during the physical count and perpetual inventory records.

(d) Audit procedures if inventory lying with 3rd parties (warehouse; job workers; consignee)

- Obtain External confirmation from third parties.
- Perform inspection and other procedures as appropriate.

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- (a) Inspection of documentation e.g. warehouse receipts
 - (b) Attending or arranging another auditor to attend 3rd party
Physical Counting of Inventory.
 - (c) Obtaining another auditor report on adequacy of 3rd party
Internal Control for ensuring that inventory is properly counted and adequately safeguarded.

(B) Audit Procedures w.r.t. Litigation and Claims: - Completeness

(i) To ensure completeness of litigation and claims, auditor is required to design and perform audit procedures, including:

- (IRR)
- (1) Inquiry of Mngt. and Others within the Entity, including in-house legal counsel.
 - (2) Review Legal Expenses account.
 - (3) Review the minutes of meetings of TCG and Correspondance between Entity and External legal counsel.

(ii) If auditor assesses higher ROMM regarding litigation and claims, he shall seek direct communication with Entity's External legal counsel, through a letter of inquiry.

* Such communication requires management permission and Meeting, if any held with a representative of management in attendance.

(iii) If Entity External legal counsel is prohibited to communicate, Auditor shall perform alternate audit procedure.

(iv) If Management refuses to permit auditor to communicate; or External legal counsel refuses to respond; or Auditor unable to collect SAAE from alternate audit procedures, modify the opinion (Qualified/disclaimer) in accordance with SA 705.

Note: Use of Specific Letter of Inquiry:

If auditor considers that it is unlikely that external legal counsel respond appropriately to a letter of general inquiry, auditor may seek direct communication through a specific letter of inquiry, which shall include:

- (a) List of litigation and claims;
- (b) Management assessment on outcome of each litigation and claim.

and Estimate of financial Implications.

- (c) Request that External legal Counsel confirm the reasonableness of Mngt. Assessment and provide the Auditor with further information, if list is considered to be incomplete or incorrect.

Circumstances requiring meeting with External Legal Counsel:

- (a) Auditor determines that matter is a significant risk.
 - (b) Matter involved is complex.
 - (c) There is disagreement between mngt. and Entity External legal counsel.
- * Meetings require Management permission and are held with a mngt. representative in attendance.

(c) Audit procedures w.r.t. Segment Information - Presentation and Disclosure:

Auditor is required to obtain SAAE regarding presentation and disclosure of segment information in accordance with applicable FRF (AS-17/Sch-II)

by: (i) Obtaining an understanding of methods used by mngt. in determining segment information;

(ii) Evaluate whether such methods are likely to result in disclosure as per applicable FRF.

(iii) Test the application of such methods.

(iv) Performing analytical procedures or other procedures as appropriate.

Examples of matters that are relevant when obtaining an understanding of the methods used by Mngt. (Learning and noting - How)

(C) Effects of +ve and -ve Request:

- Response to a +ve request is expected to provide reliable audit evidence. But there is a risk that confirming party may reply without verifying correctness of information; such risk may be reduced by using blank confirmation request.
- Use of "Blank confirmation request" may result in lower response rate.
- Negative requests provide a less persuasive audit evidence as compared to +ve requests. Hence limited use of -ve request is recommended. -ve requests should be used only when the following conditions are satisfied:
 - (a) Lower ROMM;
 - (b) Population comprises a large no. of transactions of homogenous nature of small amount.
 - (c) Expected exception rate is low.
 - (d) Auditor is not aware of the circumstances that 3rd party may disregard the request.

Exception: A response that indicates a difference between { Info. requested and Info. provided by confirming party.

(D) External Confirmation Procedure:

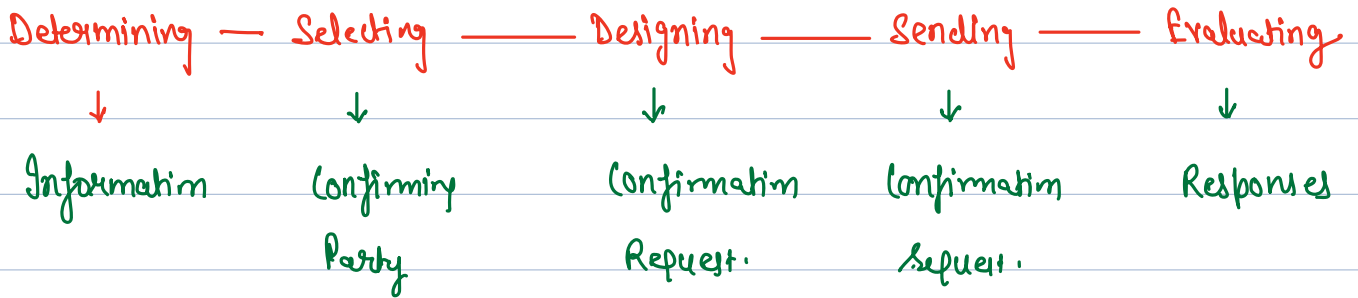
When using EC requests, auditor shall maintain control over EC requests, including:

- (i) Determining the information to be confirmed.
- (ii) Selecting the appropriate party from whom information is to be confirmed.
(confirming party - knowledgeable, ability, willingness; objectivity)
- (iii) Designing the confirmation request including determining that request are properly addressed. (-ve request; +ve { with info } without info.)

(iv) Sending the confirmation request, including follow-up.

(v) Evaluate the responses

- Third Party Agree (No doubt - SAAE)
- " " disagree (Exception)
- Non-response (no reply recd.)
- Response deemed unreliable



V. Imp:-

(E) Factors to be considered while designing EC Requests:

V.V. Imp:-

(F) Management refusal to allow auditor to send confirmation request:

(Learning and Noting - H.W.)