

## Chapter - 4 " Audit Evidence "

- ① SA 500 - Audit Evidence
- ② SA 501 - Audit Evidence - Specific Consideration for Selected Items
- ③ SA 505 - External Confirmations
- ④ SA 510 - Initial Audit Engagement - Opening Balances

Example - applicability:

	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>SA 510 - Applicable   N.A.</u>
A Ltd.	Auditor - Mr. X	Auditor - Mr. X	No
B Ltd.	Auditor - Mr. X	Auditor - Mr. A	<u>YES</u>
C Ltd. (Newly) (Inc. on 01.05.23)	XXX	Auditor - Mr. M	No
XY and Sons (Partnership firm)	<u>Audit not required as T/o &lt; threshold limit</u>	<u>Audit required T/o &gt; Threshold Mr. R.M. - Auditor.</u>	<u>YES.</u>

### ① Meaning of Initial Audit Engagement and Opening Balances:

(a) Initial Audit Engagement: An audit engagement in which financial statements for the prior period are either:

- (i) Unaudited;
- (ii) audited by predecessor auditor.

- (b) Opening Balances: - Amounts that exist at beginning of the period.
- These are based upon the closing balances of prior period and reflect the effect of transactions and events of prior period and accounting policies applied in the prior period.
  - They also include the matters requiring disclosures that exist at beginning of the period e.g. contingencies.

② Objectives of the auditor: Auditor objective in relation to examination of opening balances of initial audit engagement is to Obtain SAAF as to:

- (a) whether op. balances do not contain any material misstatements; and
- (b) whether accounting policies reflected in opening balances have been consistently applied; and changes, if any, are appropriately accounted for; and disclosed in the f.s. in accordance with applicable FRP.

v. imp:

③ Audit Procedures w.r.t. Opening Balances:

(i) Obtain SAAF as to opening balances to ensure that they do not contain any material misstatement that may affect the current period f.s. For this purpose:

~~(a)~~ Ensure that closing balances of prior period have been correctly brought forward; Adjustment, if any, are disclosed as prior period item in the current year sth. of P&L.

~~(b)~~ Determine that op. bal. reflect application of appropriate Accounting Policies.

~~(c)~~ Perform any of the following:

(a) Perusing the copies of latest audited f.s., along with audit report; or

(b) Evaluate whether audit procedures performed in current period provide relevant evidence w.r.t. op. balances; or

(c) Perform specific audit procedures to obtain evidence regarding op. balances.

(ii) If auditor obtain audit evidence as to misstatements in op. balances that could affect current period f.s.; perform additional procedures

as appropriate to determine the effect on current period f.s.

- (iii) If auditor concludes that such misstatements exist in current period f.s., auditor shall communicate the misstatement with appropriate level of Mngt. and Tmbr.

#### ④ Reporting w.r.t. Opening Balances:

(a) If auditor unable to obtain SAE regarding the opening balances, he shall express a Qualified Opinion or disclaimer of opinion, as appropriate.

(Matter - Material but not pervasive)

(Matter - Material as well as Pervasive)

(b) If auditor concludes that opening balances contain a misstatement that could affect the current period f.s. and effect of such misstatement is not properly accounted for or not adequately disclosed, auditor shall express a qualified opinion or adverse opinion, as appropriate.

(Misstatement - Material but not Pervasive)

(Misstatement - Material + Pervasive)

#### ⑤ Misc. Topics:

(i) Matters on which nature and extent of procedures depends  
(Aging Policies; Nature of f. items, ROMM; Sig. of Op. Bal.; Audited)

(ii) Prior period f.s. audited by predecessor auditor:

(iii) Specific audit procedures for CA/CL:

(iv) Specific audit procedures for Non CA/Non CL:

(v) Consistency of Aging Policies:

Heading from  
- book -

(5) SA-520 "Analytical Procedures"

(i) Meaning and Nature of Analytical Procedures:

SA-520 "Analytical Procedures" defines the term "Analytical Procedures" as follow:

" Evaluation of financial information through analysis of plausible relationships among financial and non-financial data; and also includes → necessary investigation of identified fluctuations or relationships that differ from relevant information."

Example: Hotel - Room Rental Income → Analytical Procedures (Predictive Model)

$$\begin{aligned} & \downarrow \\ & = \left( \frac{\text{Avg. Room Rent}}{\text{Per day}} \right) \times \left( \frac{\text{No. of Rooms}}{\text{in a category}} \right) \times \left( \frac{\text{Occupancy}}{\text{Ratio}} \right) \times 365 \text{ days} \\ & = ₹ 10,000 \times 120 \times 80\% \times 365 \\ & = ₹ 35.04 \text{ Crore.} \end{aligned}$$

Actual Room rent recorded in statn. of Per = ₹ 40.05 Crore

Difference

= ₹ 5.01 Crore [14.29% of Prediction]

Tolerable Range of Misstatement =  $\pm 4\%$

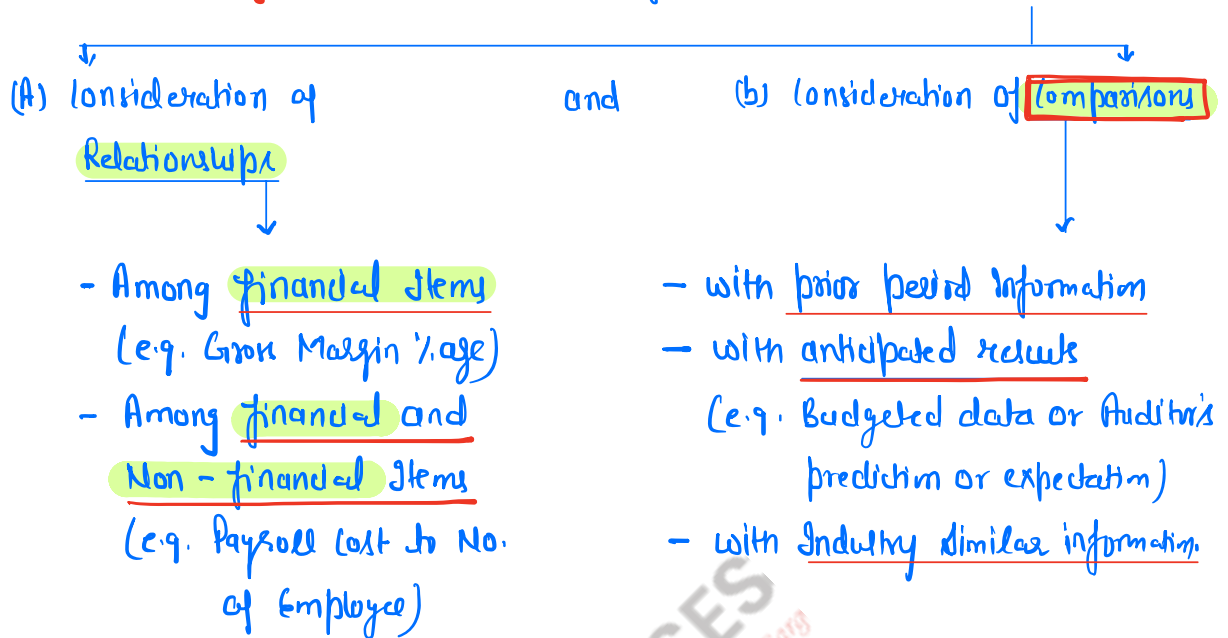
Auditor need to investigate the fluctuation.

(a) Inquiry of Mngt.

(b) Other Audit Procedure

(If Mngt. unable to provide explanation or Explanation provided are inadequate)

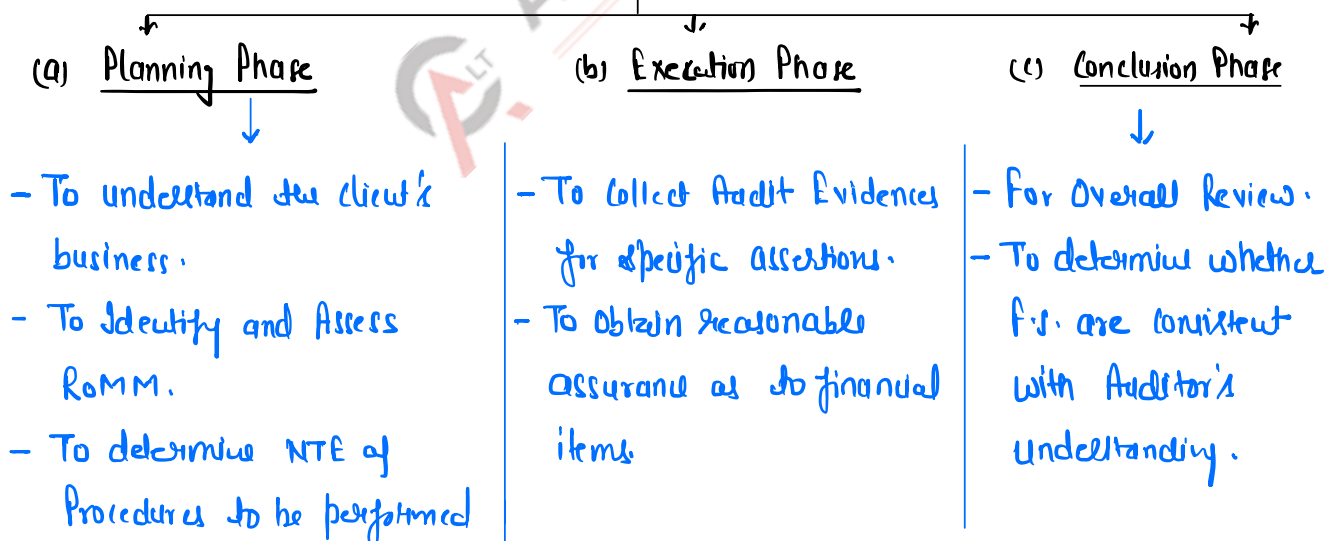
Nature of Analytical Procedures: Analytical Procedures comprises of:



(ii) Need and Purpose of A.P. : (H.W. — Learning + Noting)

(iii) Application of Analytical Procedures:

Analytical procedures may be applied during different phases of Audit:



[Note: Use of AP during Initial phase of audit is dealt by SA 300 and SA 315.]

Note: SA-520 provides the requirement related to use of AP as SAP- Sub. Analytical Procedure