

## Ch. 5 - Audit Evidence.

① SA - 500

② SA - 501

③ SA - 505

④ SA - 510

⑤ SA - 530 "Audit Sampling" :

↓  
Approach in which audit procedures are applied over  $< 100\%$  of transactions in a population.

↓  
Conclusion  $\longrightarrow$  draw  $\longrightarrow$  Entire population

Approaches:

Statistical	$\longrightarrow$ samples - selected (a) <u>Random selection</u> (b) <u>Probability</u>
Non-statistical	$\longrightarrow$ sample - selection x x <u>e.g. judgement sampling</u>

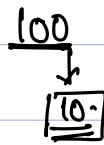
Stratification: Heterogenous population  $\longrightarrow$  Homogenous groups

For Ex. - Transaction upto ₹ 1,00,000	5% selection
₹ 1,00,001 ——— ₹ 10,00,000	30% selection
₹ 10,00,001 ——— ₹ 50 lakh	50% selection
> ₹ 50 lakh	100% selection

Sampling Risk

Opinion based on examination of samples may differ from opinion if entire population was examined.

(A) Over reliance



Samples - Tod - Initial Conclusion  
V&V No Material Misstatement

Samples → Toc - Initial Conclusion  
Controls are effective

Controls might not be effective, for areas not been checked

Misstatement may exist in remaining transactions that are not examined

affects audit effectiveness

(B) Under-reliance



Samples - Misstatements  
Tod }  
Toc } - Controls are not effective

Additional checking

affects → audit efficiency

- Sampling Application:

Step A: Sample design, size and selection

Stratification - No. of samples to be examined

Step B: Apply audit procedures over selected samples  
(Ext. Confirmation) (20)

If designed pro. cannot be applied over the selected sample (x and y)

- perform Alternate audit procedures over original samples (x and y)
- " designed audit procedure over replacement samples (A and B)

Random Selection:

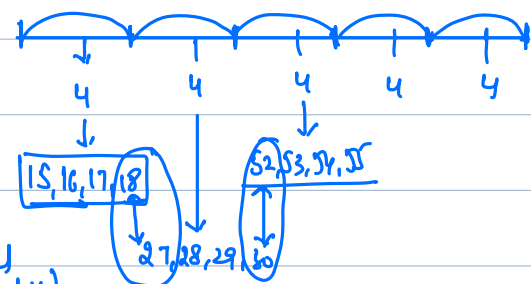
(Use of Random No. Tables)

Systematic Selection =  $\frac{100}{20}$   
Every 5th

Haphazard selection / Judgemental Basis

Monetary Value

Block selection =  $\frac{100}{5}$  = 20 = 4 blocks of 5 blocks



Step-3: Results of audit procedures performed over samples selected

↓  
To be Evaluated  
↓  
for the Entire population

Mistake - Projected  
↓                      ↓  
Samples                      population

Tolerable range of [Mistake]: Application of Performance Materiality.

Tolerable rate of [deviation]  
↓  
w.r.t. Internal Controls

⑥ SA-550 - Related Parties:

R.A.P.

- Obtain an understanding of R.P. relations and transactions - to recognise fraud risk factors -
- To conclude whether f.s. reflects true and fair presentation and not misleading.
- Identify, assess RoMM and respond
- Evaluate whether identified RP relationship and transactions are appropriately accounted for and disclosed as per FRF. (AS-18)

(b) Responses to Assessed Risks -

- Unidentified R.P. - identity -
  - ↳ Request Mngr - identity disc.
  - ↳ Reconsider Risk
  - ↳ Reason from Mngr.
  - ↳ Communicate - ET Member.
  - ↳ Non disclosure - Intentional, Evaluate its implication.

Significant R.P. trans. o/s

Normal course of business

- \* Inquire Mngr. - Identity of RP, changes from prior period. - Evidence - authority of tm.
- Nature of Relationship.
- Type and Purpose of transactions. - Inspect the Contract.
- Business rationale.

- Maintain Awareness for R.P., R.P. transactions.



Professional Skepticism

- Records / documents → for identification of R.P.

- Examples of transactions - O/s normal course of business.

- Terms of txn.

- Accounting / disclosure of txn.

Arm's length price:

- Examine the terms and compare with the terms in which a transaction is carried out with unrelated party.
- If required, take assistance of experts.