

Chapter - 4 "Audit Evidence"

Topics Covered: SA 500 Series - 500, 501, 505, 510, 520, 530, 540, 550, 560, 570, 580
SA 600 Series - 600, 610, 620
ch-8 (8 standards)
Chapter-7

(I) SA-500 "Audit Evidence":

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

Information includes

Information contained in Accounting Records

Example: - Records of Initial Accounting Entries;
- General and Subsidiary ledgers;
- Voucher, Invoices, Contracts etc.;
- Worksheets supporting calculations, Cost Allocations, Reconciliations etc.

Other Information

Example: Minutes Book of Meetings
- Written confirmation from third parties;
- Policy Manuals etc.

(ii) Types of Audit Evidences

(A) Depending upon Nature: Inspection of

(1) Documentary: For Ex: Voucher, Agreements, Minutes of Meetings etc.

(2) Oral: For Ex: Inquiry with Mngr. / TCWG (Those charged with Governance)
Discussion with Mngr.

(3) Visual: Visual Evidences are the result of observations made by Auditor.

For Ex: Observing Physical verification of inventories.

(B) Depending upon source:

(1) Internal: Evidences originates within the Entity.

For Ex. Sales Invoices; Goods Received Note (GRN);
Debit Note or Credit Note issued etc.

(2) External: Evidences originates outside the Entity.

For Ex.: Purchase Invoice; Supplier's challan, Bank Statement.

(iii) Relevance and Reliability of Audit evidences:

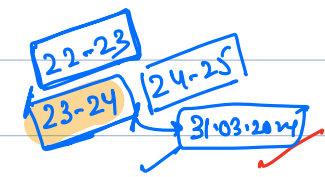
(A) Relevance: deals with logical connection with purpose of audit procedure and assertion under consideration.

Note: A given set of audit procedure may provide audit evidence that are relevant to certain assertions, but not others.

For Ex: Inspection of documents w.r.t. collection of trade

receivable after year-end may provide evidence as to Existence and Valuation of trade receivable;

but not necessarily of Cut-off.



04.05.2024

ABC Ltd.

01.04.2024

BY Ltd. (- 10,00,000)
(Collection of trade receivable)

Bank Statement - May 2024

Imp.

(B) Reliability: Following Principle / Generalisations are useful for consideration of reliability of information to be used as audit evidence:

(i) Audit Evidences obtained from independent sources outside the entity are considered more reliable.

(ii) Reliability of Internal evidences is increased when related controls are strong and effective.

(iii) Audit Evidences in documentary form are more reliable than oral evidences.

(iv) Audit evidences obtained directly by the auditor are considered more reliable than evidences collected through the management / others.

(v) Audit Evidences provided by Original documents are more reliable than evidences provided by photocopies.

(iv) Sufficiency and appropriateness of Audit Evidences:

(A) Sufficiency: Measurement of Quantity of audit Evidences and may be effected by following factors:

- (i) 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 required for less significant items).
- (ii) RoMM: More Evidences will be required for assertions having higher RoMM and vice versa.
- (iii) Size of Population: More Evidences will be required in case of large size population and vice versa.
- (iv) Nature of Population: More Evidences will be required in case of heterogenous population; less evidences will be required for homogenous population.
(Similar nature of documentation)

(B) Appropriateness: Measurement of Quality of Audit evidences and is influenced by source and nature.

For Ex: External Evidences are considered more reliable than internal evidences.

Documentary evidences are considered more reliable than oral Evidences.

Note: Higher is the appropriateness/relevancy of Audit evidences, lower can be the sufficiency of audit evidences.

(v) Audit procedures to be performed to collect audit evidences:

(A) Risk Assessment Procedures (RAP)

↓
Procedures performed to obtain understanding of Entity, its environment including internal control

↓
to identify and assess ROMM

(Details already covered in SA 315)

(B) Further Audit Procedure

(FAP) / Response to

Assessed Risk (SA-330)

(A) Tests of Controls (ToC) / Compliance Procedures

Procedures performed to evaluate Existence, Effectiveness and Continuity of Internal Controls

(Details already covered in SA-330)

(B) Substantive Procedures

Procedures performed to examine accuracy, validity and completeness of accounting information and records

(A) Tests of details (ToD)

↓ of

- Transaction occurred during the year
(i.e. Vouching of transactions)

and

- Account balances that exist at year end.

(i.e. Verification of Assets and Liabilities)

(B) Substantive Analytical Procedure (SAP)

↓ involves consideration of.

(i) Comparison; and

(ii) Relationships

among financial and non-financial information.

(Details to be covered in SA-520)

Note: Nature and timing of audit procedures are effected by:

(a) Availability of audit evidences in electronic form only. (CAATs to be applied)

(b) " " " " at certain point of time only.

(vi) Methods to obtain audit evidences:

(i) Inquiry

Seeking information from knowledgeable persons of financial and non-financial matters, within the Entity or Outside the Entity.

For Ex: Asking Mngt. for reasons in changes in accounting policies

(ii) Inspection

Examination of records, documents, books, etc.

For Ex: Checking Minutes of Meeting to find out dividend rate.

(iii) Observation

looking at a process or procedure being performed by others.

For Ex: Observing Physical Count of inventory conducted by Mngt.

(iv) External Confirmations

(SA-505)

Audit Evidence obtained by auditor as a direct written response to the auditor from a third party in paper form or electronic form.

For Ex: Auditor send a letter to a trade receivables to confirm the year-end balance.

(v) Re-calculation

checking arithmetical accuracy of documents, records or financial items.

For Ex: Calculating interest payable to debenture holders; computing I-tax liability.

(vi) Re-performance

Independent execution of procedures or controls by auditor that were originally performed as part of Entity's C.

For Ex.: Performing test count of Inventory.

(vii) Analytical Procedures
(SA-520)

Evaluation of financial information by establishing relationship among financial and non-financial items.

For Ex.: Analysing debtor T/0 Ratio of last 3 years to find Reasonableness of year end balances of trade receivables.