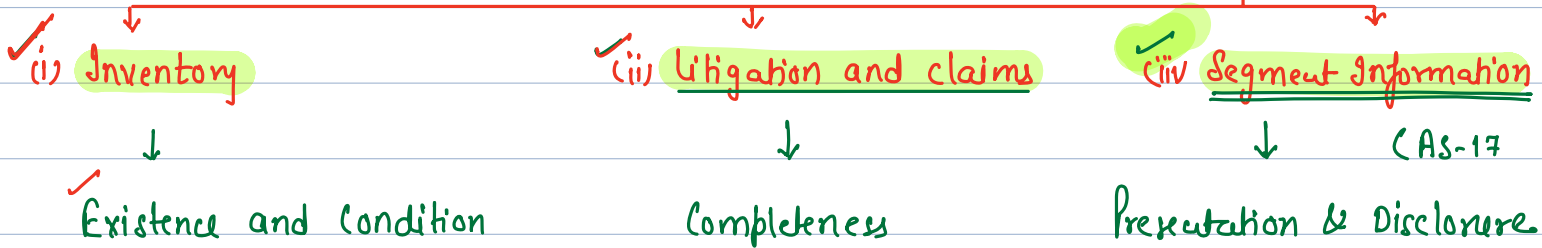


Chapter - 5 "Audit Evidence"

Topics Covered: (1) SA 500 - Audit Evidence

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



(i) Audit Procedures w.r.t. Inventory:

- Auditor is required to Obtain SAAE w.r.t. Existence and Condition of Inventory, if material. (i.e. Significant)

- For this purpose, auditor should perform following procedures:

(A) Attend Physical Inventory Count conducted by management, unless impractical, do as to:

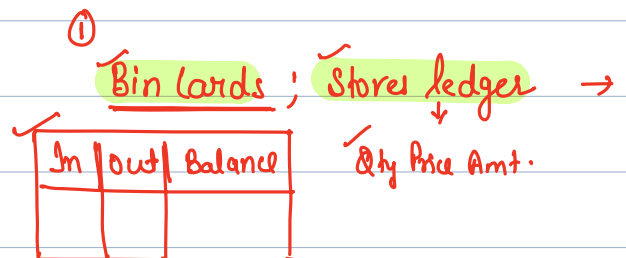
- (i) Evaluate management instructions and procedures for recording the results of inventory count; (Inventory sheets)
- (ii) Observe the performance of Mngt. Count Procedures;
- (iii) Inspect the inventory; and
- (iv) Perform test count.

(B) Perform procedures [★] over the inventory records ^① to determine whether the records accurately reflects the result of Inventory Count.

★ Inspection of records

Vouching;

Reconciliation for Inventory.



Matters relevant in planning the attendance at Physical Inventory Count:

Special cases:

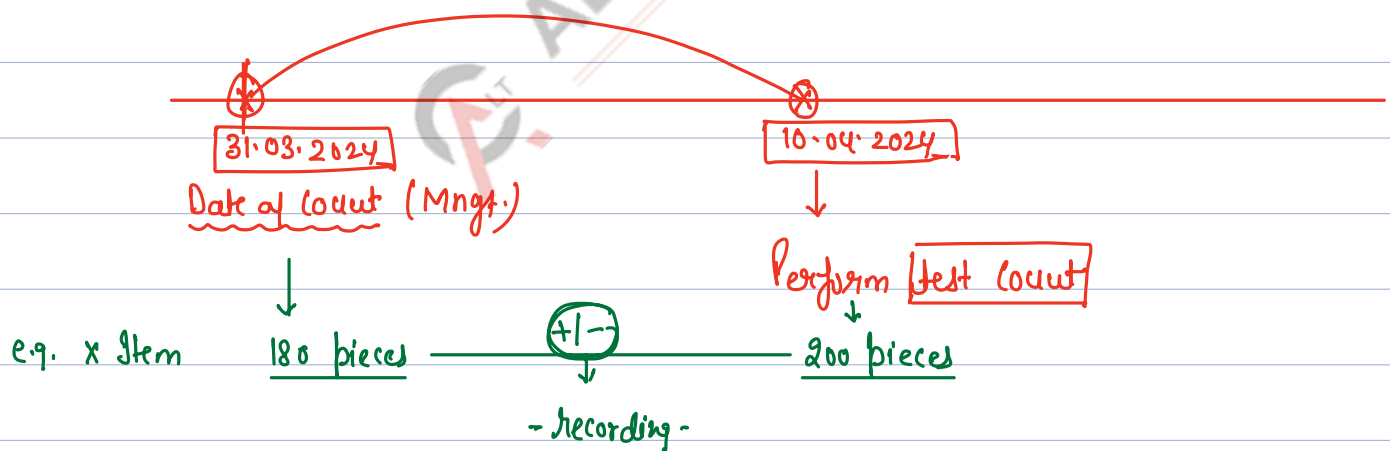
(A) To attend Inventory Count is impractical: (Safety / security concerns)

- Perform alternate audit procedure to collect SAAE w.r.t. existence and condition of Inventory.

* Inspection of documentary records like Purchase Invoice / Sales Invoice; External confirmations from suppliers.

- If auditor unable to collect SAAE from alternate audit procedures, auditor need to modify the audit opinion: (Qualified / Disclaimer)

(B) Auditor not able to attend inventory count due to any reason (other than impractical):

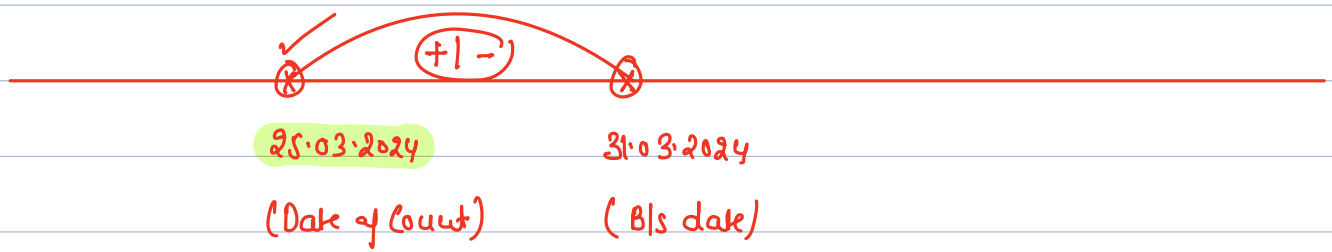


Make or observe some physical count on an alternate date and perform procedures on transactions that occurred during intervening period to ensure their appropriate recording.

* Vouching of Invoices (Sales / purchase)

Reconciliation etc.

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



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

(d) Audit procedures if inventory lying with 3rd parties: (for ex: Consignee, Jobworker; Warehouse etc.)

- Obtain External Confirmation from third parties.
- Perform Inspection and other procedures as appropriate

- (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.

(ii) Audit procedures w.r.t. Litigation and claims - [Completeness]:

- (a) To collect audit evidences w.r.t. Completeness of litigation and claims, auditor is required to design and perform audit procedure, including:
- (i) Inquiry of Mngt. and others within the Entity, including in-house legal counsel.
 - (ii) Review legal Expense account.
 - (iii) Review minutes of meetings of TCGM and Correspondance between entity and external legal counsel.

(b) If Auditor assesses higher ROMM w.r.t. litigations and claims, he shall seek direct communication with external legal counsel through a letter of inquiry.

Note: Such communication requires management permission and meeting, if any, held with a representative of mngt in attendance.

(c) If External legal counsel is prohibited to communicate, auditor shall perform alternate audit procedure.

(d) If Mngt. 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 as per SA 705.

Note: Use of Specific letter of Inquiry:

If Auditor consider that it is unlikely that entity external legal counsel respond appropriately through 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) Mngt. assessment on outcome of each litigation and claim; and estimate of financial implications;
- (c) Request that legal counsel confirms the reasonableness of Mngt. assessment and provide the auditor with further information, if list is incomplete or incorrect.

Circumstances requiring meeting with External legal counsel:

- (a) Auditor determines that matter involves significant risk;
- (b) Matter involved is complex;
- (c) There exist disagreement between mngt. and External legal counsel.

(iii) Audit procedures w.r.t. Presentation and disclosure of Segment information:

(AS-17)

Auditor is required to obtain SAAF w.r.t. presentation and disclosure of segment information in accordance with applicable FRF (AS-17/Sch. 10) by:

- (a) Obtaining an understanding of methods used by mngt. in determining segment information;
- (b) Evaluate whether such methods are likely to result in disclosure as per applicable FRF;
- (c) Test the application of such methods;
- (d) 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 - H.W)



(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:

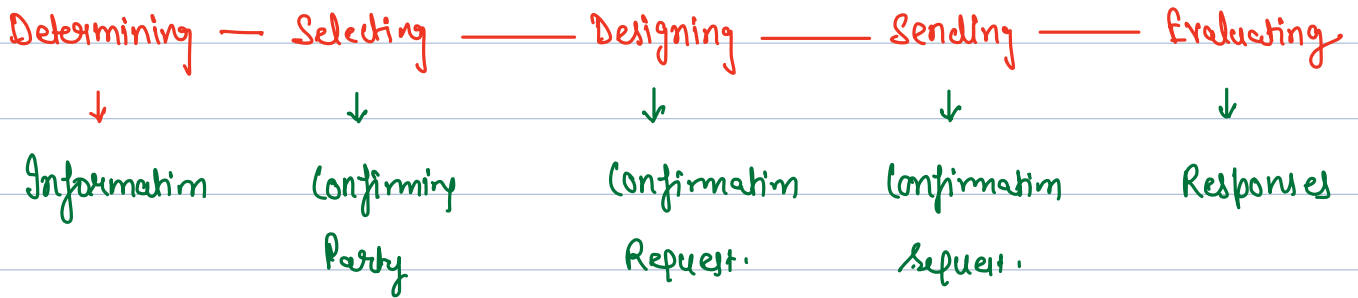
When using EC requests, auditor shall maintain control over EC requests, including:

- (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.)