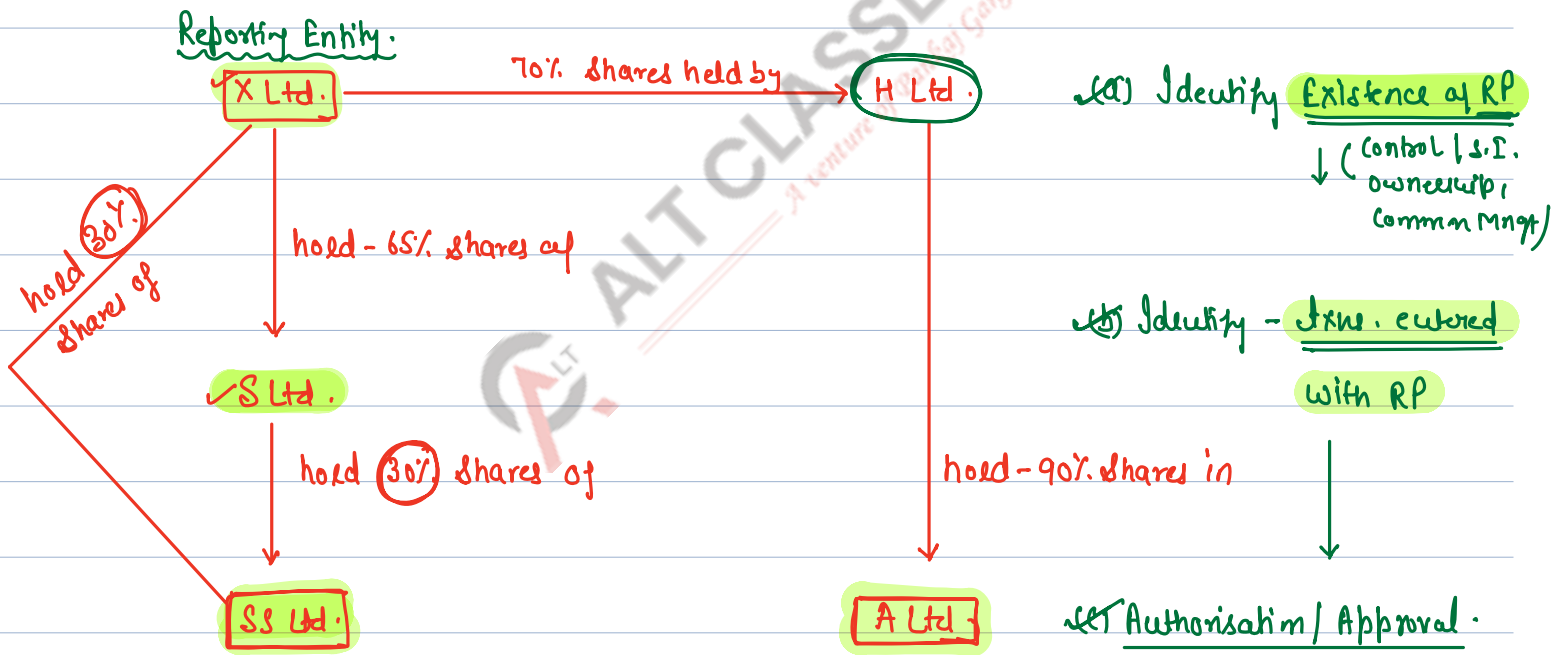


Chapter - 4 "Audit Evidence"

- Topics Covered:
- (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 Engagements - Opening Balance"
 - (5) SA-520 "Analytical Procedures"
 - (6) SA-530 "Audit Sampling"

(7) SA-550 "Related Parties":



Auditor's duties:

- (a) - Inquire - Undisclosed / unidentified RP (Nature, Relations)
 - (b) - Inquire - Txns. entered into with RP / unidentified Txn. (Nature)
 - (c) - RP Txns. - Authorised by App. Authority
 - (d) - APP. Action and disclosure → applicable FRF.
- (a) Identify Existence of RP
 ↓ (Control, I.S.I., ownership, Common Mngt)
 (b) Identify - Txns. entered with RP
 ↓
 (c) Authorisation / Approval.
 (BOD | A.C. | SR-GM)
 ↓
 (d) Appropriate Accounting as per Applicable FRF (AS-18)
 ↓
 (e) Make appropriate disclosures (AS-18 / Sch-III)
- RAP → Responses (ToC + Substantive)

(i) Meaning of Related Party: Only Reading

✓ (ii) Nature of RP Relationships and Transactions: (Learning + Noting)

✓ (iii) Understanding the Entity RP Relationships and Transactions: (L + Noting)

Inquiry - Identity, Nature of Relationship, Transactions (type purpose); Controls (G/A/D - FRF, Autho → RP Txn, Autho → O/S Normal)

(iv) Consideration specific to smaller entities: Reading

✓ (v) ^{Indpr} Records/ Documents to be inspected to verify existence of RP Relationships and Transactions: - Learning + Noting -

(vi) Auditor's response in case of transactions entered into by Entity as normal course of business:

(a) Inspect the underlying contract to evaluate whether:

- (i) Business rationale of the transaction suggest any fraudulent financial reporting or misappropriation of assets;
- (ii) Terms of transactions are consistent with Management Explanation; and
- (iii) Transaction have been appropriately accounted for and disclosed in accordance with applicable FRF.

(b) Obtain audit evidence that transactions have been appropriately authorised and approved.

(8) Using the work of Internal Auditors (SA 610):

(i) Meaning of Internal Audit Function:

A function of an Entity that performs assurance and consulting activities designed to



evaluate and improve effectiveness of

- Entity's Governance
- Risk Management; and
- Internal Control Processes.

100 - 199 - X

200 - 299 - 200, 210, 220

- 230, 240, 250, 260, 265, 299

300 - 499 - 300, 315, 320, 330

- 402, 450

500 - 599 - 500, 501, 505, 510, 520, 530, 550

- 540, 560, 570, 580

600 - 699 - 610

- 600, 620

Imp.

(ii) Objectives and Scope of Internal Audit Function: includes the activities relating to

(GRI)

Governance

Risk Management

Internal Control

To assess the Governance Process in accomplishment

of objectives on -

- (a) Ethics and Values
- (b) Performance Management
- (c) Accountability
- (d) Communicating Risk

- Identifying and evaluating significant exposures to risk

- Improvement of Risk Mngt. and Internal Control

- Detection of Fraud

- Evaluation of Internal Control Processes

- Examination of financial and operating information

- Review of Operating Activities

- Review of Compliance with laws and Regulations

(iii) Requirements of SA 610:

(A) Using the work of Internal Auditor

(B) Using direct Assistance of Internal auditor.

(A) Using the work of Internal Auditor:

(a) Evaluate whether, in which area and to what extent, work of Internal Auditor can be used:

For this purpose, External auditor shall evaluate the following:

- (i) Objectivity of the Internal Auditor;
- (ii) Level of competence of Internal auditor; and
- (iii) Application of Systematic and Disciplined Approach, using Quality Control.

Note: External auditor shall not use the work of Internal Audit function, if he determines that:

- (a) Organisational status of Internal Audit function do not adequately support the objectivity of Internal audit function.
- (b) Internal Auditor is not sufficiently competent.
- (c) Approach used by Internal Auditor is not systematic and disciplined.

(b) Evaluate nature and scope of work of Internal Auditors - so as to determine:

- Nature and Extent of work to be used; and
- Degree of reliance that can be placed.

Areas where statutory auditor can use the work of Internal auditor:

- (i) Testing the operating effectiveness of controls;
- (ii) Substantive Procedures involving limited judgements;
- (iii) Observation of Inventory Count

(iv) Tracing drawachims through info. system

(v) Testing of compliance with regulatory requirements

Circumstances in which external auditor shall plan to use less work of Internal Auditor: