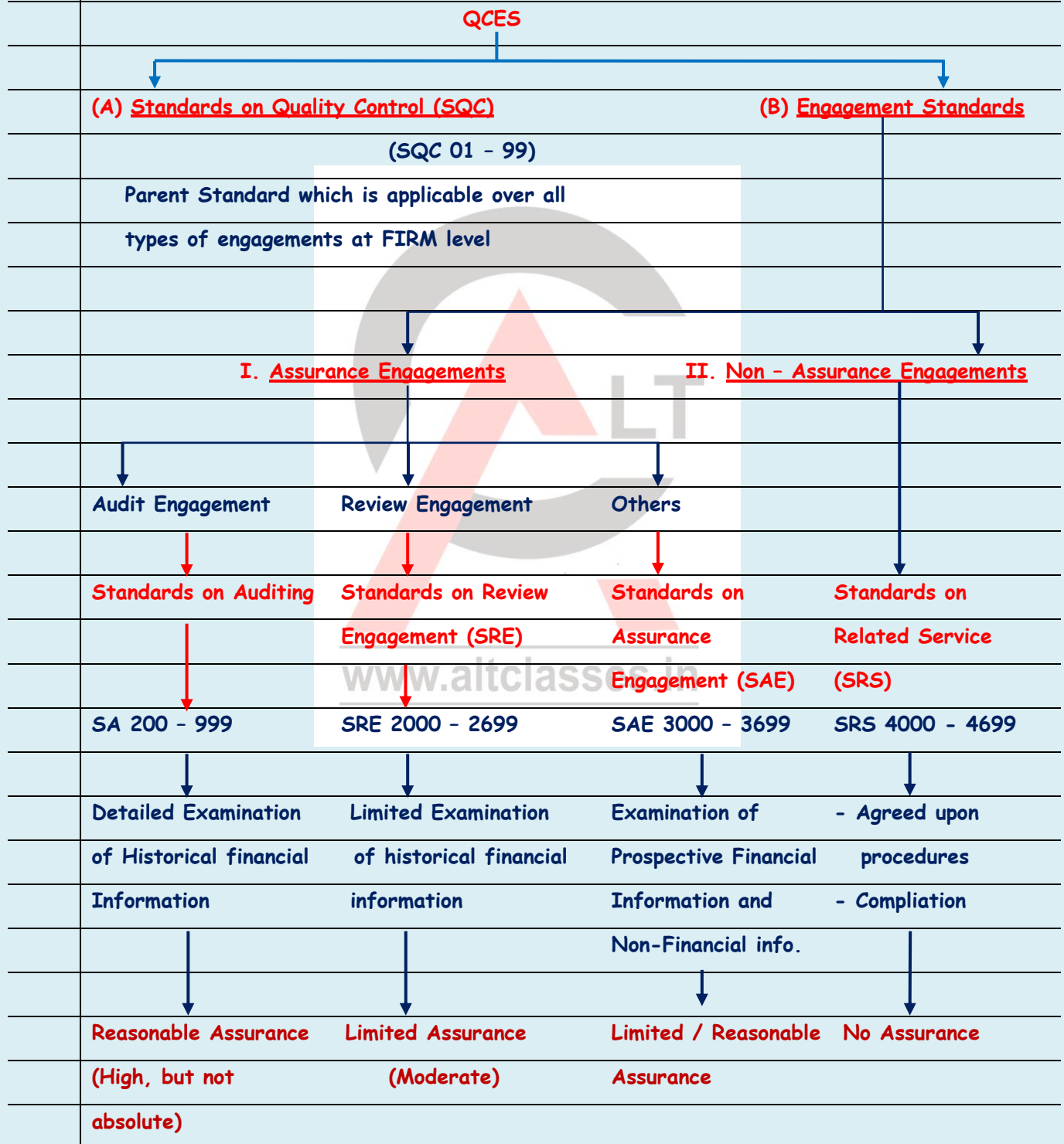


# Chapter - 1 "Standards on Auditing"

(1) Classification of Quality Control and Engagement Standards (QCES):



**SA 500 - 599**

(2)	<b>SA 500 "Audit Evidence":</b>		
	<b>(i) <u>Meaning and Nature of audit Evidence:</u></b>		
	<b>(a) <u>Meaning:</u></b> Any information on which auditor based his opinion, is known as audit evidence.		
	Information may be internal / external or financial / non-financial; Oral / written / visual.		
	<b>(b) <u>Nature:</u></b> Audit Evidences should be:		
	- <b>Sufficient:</b> refers to Quantum (No. of evidences)		
	- <b>Appropriate:</b> refers to Quality (Relevancy of evidences)		
	<b>(ii) <u>Auditor's duties when any information is to be used as audit evidence:</u></b>		
	<b>(A) Information produced by entity</b> (e.g. Agreement, receipt, invoices)	<b>(b) Information produced using the work of Management expert</b> (e.g. Actuarial report)	
	↓	↓	
	- Auditor should collect evidences as to Completeness and accuracy of the information	(i) Evaluate competency, capability & objectivity of Mngt. Expert (ii) Obtain an understanding of expert work.	
	- Ensure that information is sufficiently precise and detailed for the purpose of audit.	(a) Area of Speciality (b) Legal requirements (c) Professional Standards (d) Nature of Data Used; and (e) Assumptions and Methods used	
		(iii) Evaluate appropriateness of expert work for	
	<b>(a) Finding and Conclusion</b>	<b>(b) Data used</b>	<b>(c) Assumptions used</b>
	↓	↓	↓
	- Relevance - Reasonableness - Consistency with other evidences	- Relevancy - Completeness - Accuracy	- Relevance - Reasonableness

**(iii) Procedures to be performed to collect audit Evidences:**

**(a) Risk Assessment Procedure (RAP)**

**(ii) Responses to Assessed Risk**

**(Further Audit Procedures)**

Procedures performed to obtain understanding of

- Entity
- Environment &
- Internal control

to identify and asses

Risk of Material Misstatement (RMM)

**(i) Compliance Procedures OR Tests of Controls**

**(ii) Substantive Procedures**

Procedures performed to evaluate

- Existence
- Effectiveness, and
- Continuity of

Internal Controls

Procedures performed to determine

- Validity
  - Completeness, and
  - Accuracy
- of Accounting information

**Tests of details (Tod)**

- Transactions (Vouching)
- Balances (Verification)

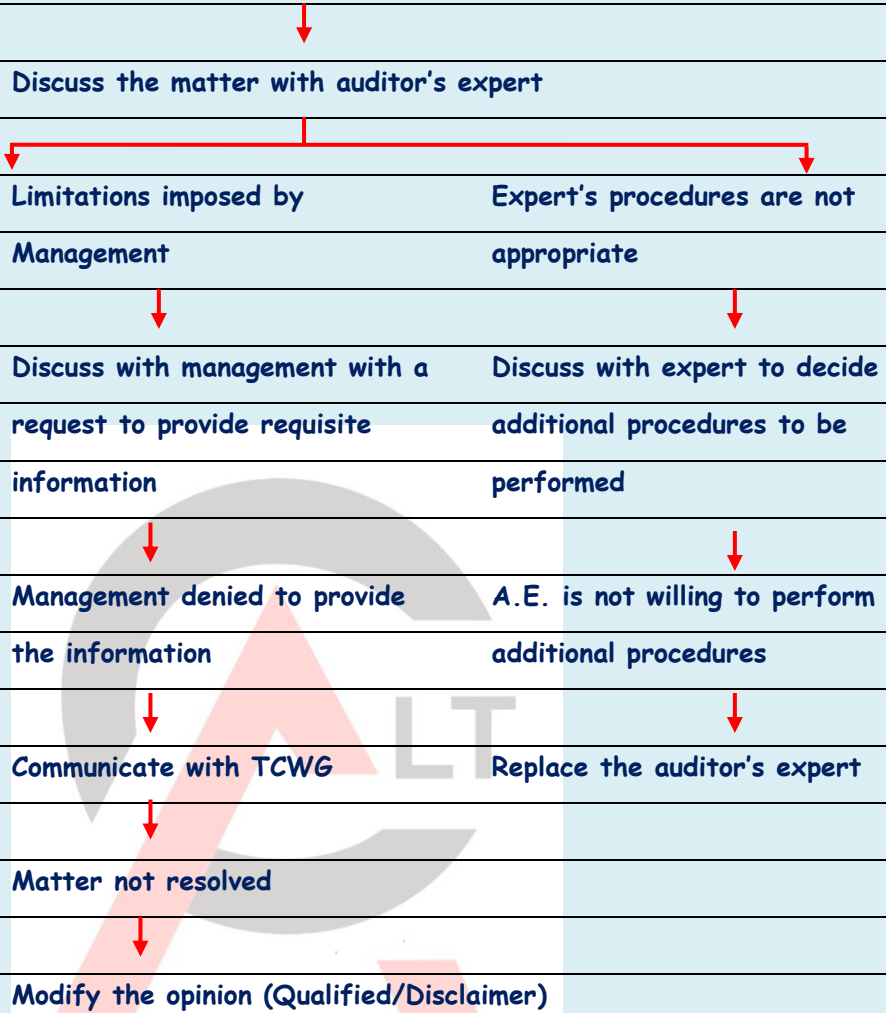
**Substantive Analytical Pro.**

- Consideration of
- Comparison
  - Relationships

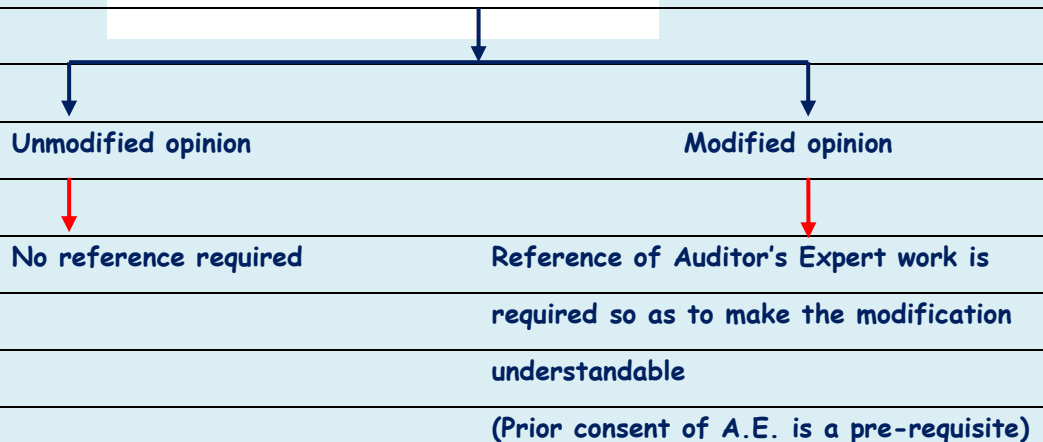
	(iv) <u>Techniques/ (Procedures) to be used for collection of audit Evidences:</u>
	1. Inspection
	2. Inquiry
	3. Observation
	4. Analytical Procedures
	5. External Confirmation
	6. Recalculation
	7. Reperformance
	(v) <u>Auditor's duties when any inconsistency arises among two audit evidences or audit evidences not obtained by performing procedures; or audit evidences collected are not reliable.</u>
	- Perform additional procedures so as to collect evidences to resolve doubts.
	(vi) <u>Reliability of audit evidences:</u>
	(a) External Evidences are considered more reliable than internal evidences.
	(b) The reliability of internal evidence is increased when the related controls, imposed by entity are effective.
	(c) Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.
	(d) Audit evidence in documentary form, is more reliable than evidence obtained orally.
	(e) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies.
<b>DO Practice - Questions on SA 500</b>	
	(3) <u>SA 620 - Using the work of Auditor's Expert"</u>
	(i) <u>Meaning of Auditor's Expert:</u>
	A person or an organization having experience in field other than accounting & auditing
	↓
	engaged by auditor
	↓
	for the purpose of obtaining sufficient and Appropriate audit evidence

	(ii) <b><u>Area in which work of Auditor's Expert can be used:</u></b>															
	1) Actuarial calculations (For Ex.: Provision for employee benefits)															
	2) Valuation of complex financial instruments (derivatives)															
	3) Valuation of land and building, antiques and arts															
	4) Valuation of assets acquired in business combinations															
	5) Estimation of oil and gas reserves															
	6) Valuation of environmental liabilities															
	7) Interpretation of law, statutes, etc.															
	(iii) <b><u>Procedures when using work of auditor's expert:</u></b>															
	<b>Step- 1:</b> Determine the need of auditor's expert.															
	↓ need exist															
	<b>Step- 2:</b> Evaluate the competence, capability and objectivity of expert															
	↓ satisfied															
	<b>Step- 3:</b> Obtain an understanding of the expert work for audit purpose															
	↓ understanding obtained															
	<b>Step-4:</b> Entered into written and detailed agreement with expert.															
	<b>Agreements shall provide the following:</b>															
	⇒ Nature, scope and Objectives of Auditor's Expert work.															
	⇒ Respective Role & Responsibilities of Auditor and auditor's Expert.															
	⇒ NTE of Communication including form of report.															
	⇒ Confidentiality requirements to be observed by Auditor's Expert.															
	↓															
	<b>Step-5:</b> Evaluate the appropriateness of Expert's work															
	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">Findings and Conclusion</td> <td style="width: 33%; text-align: center;">Assumptions</td> <td style="width: 33%; text-align: center;">Source data</td> </tr> <tr> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> <td style="text-align: center;">↓</td> </tr> <tr> <td style="text-align: center;">- Relevance</td> <td style="text-align: center;">- Relevance</td> <td style="text-align: center;">- Relevance</td> </tr> <tr> <td style="text-align: center;">- Reasonableness</td> <td style="text-align: center;">- Completeness</td> <td style="text-align: center;">- Reasonableness</td> </tr> <tr> <td style="text-align: center;">- Consistency with other</td> <td style="text-align: center;">- Accuracy</td> <td></td> </tr> </table>	Findings and Conclusion	Assumptions	Source data	↓	↓	↓	- Relevance	- Relevance	- Relevance	- Reasonableness	- Completeness	- Reasonableness	- Consistency with other	- Accuracy	
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	Evidence															

**Step - 6: Auditor's Expert work not appropriate:**



**(iv) Reference of A.E work in Auditor's Report:**



DO Practice - Questions on SA 620

**(4) SA 501 "Audit Evidence - Specific Considerations for selected items"****(i) Inventory****(ii) Litigation and claim****(iii) Segment information****Existence and Condition****Completeness****Presentation & Disclosure****(i) Auditor's procedures w.r.t. Inventory - Existence and Condition:****(a) General Procedures:**

- If inventory is material to financial statements, auditors should attend the inventory count unless Impractical so as to:
  - 1) Evaluate the Management instructions.
  - 2) Observe the performance of management count procedures.
  - 3) Inspect the inventory.
  - 4) Perform test count.
- Auditor should also perform procedures\* over the inventory records to determine whether the records reflects the result of inventory count.

**\* Vouching****(b) Procedures in special situations:****(I) Inventory count - attendance is impractical:**

- Auditor should perform alternative audit procedures\*, to obtain sufficient appropriate audit evidences regarding existence and condition of inventory.

**\* Analytical procedures; External Confirmations; Inspection of Records written Representation; Cut - off procedures.**

- If auditor not able to collect the evidences, auditor is required to modify the opinion (Qualified/Disclaimer)

	<b>(II) <u>Auditor unable to attend:</u></b>
	- Perform <u>test count</u> on alternate day.
	- Perform <u>procedures*</u> on transactions for intervening period to ensure that such transactions are properly recorded.
	<b>* vouching, reconciliation, etc.</b>
	- Ensure that <u>cut-off procedures*</u> are being applied.
	<b>* to separate transactions of one period from another.</b>
	- Verify that the procedures* performed by the management over the discrepancies noticed by them during verification are appropriate. <b>* for example - write off</b>
	- Obtain a Written Representation from the management as to completeness of information provided.
	<b>(III) <u>Inventory count on a date other than B/s date:</u></b>
	Perform procedures on transactions for the intervening period to ensure that the transactions are properly recorded.
	<b>(IV) <u>Inventory lying with 3<sup>rd</sup> party:</u></b>
	- Request <u>External Confirmations</u> from 3 <sup>rd</sup> parties.
	- Perform <u>other procedures</u> as deem appropriate.
	↓
	Visit the premises of 3 <sup>rd</sup> party, if allowed.
	Subsequent tracing
	Obtain auditor's report of 3 <sup>rd</sup> Party, if available.
	<b>(ii) <u>Auditor's procedures w.r.t. Litigations and Claims - Completeness:</u></b>
	Auditor is required to identify litigation and claims by following procedures:
	<b>Inquiry:</b> of Mngt. & others within entity, including in house legal counsel.
	<b>Review:</b> of minutes of meetings of TCWG, communication between entity & External legal counsel.
	<b>Review:</b> of legal expenses account.



Note: If management refuses to permit auditor to communicate with legal counsel

or

external legal counsel refuses to communicate with auditor

and

auditor unable to collect SAAE by performing alternate procedures,



auditor shall modify Opinion in accordance with SA 705

**(iii) Auditor's procedures w.r.t. Segment Information - presentation and Disclosure:**

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

- (a) Obtaining an understanding of the methods used by management in determining segment information, and
  - Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
  - Where appropriate, test the application of such methods; and
- (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

DO Practice - Questions on SA 500, 620 and 501

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