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CHAPTER 3 500-599 AUDIT EVIDENCE

1. SA-500 AUDIT EVIDENCE

OBJECTIVE OF SA 500

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

SUFFICIENT APPROPRIATE AUDIT EVIDENCE

The auditor shall design and perform audit procedures that are **appropriate in the circumstances** for the purpose of obtaining sufficient appropriate audit evidence.

1. Audit procedures for obtaining Audit Evidence
2. Inspection
3. Observation
4. Inquiry and Confirmation
5. Recalculation
6. Analytical Procedures
7. Reperformance

1. **Audit procedures for obtaining Audit Evidence:**
   As required by SA 315 & SA 330 audit evidence to **draw reasonable conclusions** on which to base the auditor's opinion is obtained by performing:
   - **Risk Assessment Procedures; and**
   - **Further audit procedures**, which comprise of test of controls & substantive procedures including tests of details and substantive analytical procedure.
2. **Inspection:**
   - Inspection consists of **examining records**, documents or tangible assets.
   - Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media.
   - An **example** of inspection used as a test of controls is inspection of records for evidence of authorization.
   - Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets.
3. **Observation:**
   - Observation consists of **witnessing a process** or procedure being performed by others.
   - For **example**, the auditor may observe the counting of inventories being performed by client's personnel.
4. **Inquiry and Confirmation:**
   - **"Inquiry"** consists of seeking appropriate information from knowledgeable persons inside or outside the entity.
   - **"Confirmation"** consists of the response to an inquiry.
   - For **example**, the auditor requests confirmation of receivables by direct communication with debtors.
5. **Recalculation:**
   - Recalculation consists of **checking the mathematical accuracy** of documents or records.
   - Recalculation may be performed manually or electronically.
6. **Analytical Procedures:**
   Analytical Procedures refers to **studying significant ratios** and trends and investigating unusual fluctuations.
7. Reperformance:
   Reperformance involves auditor's independent **execution of procedures** or controls that were originally performed as part of entity's internal control.

INFORMATION TO BE USED AS AUDIT EVIDENCE

1. When designing and performing audit procedures, the auditor shall consider the **relevance and reliability** of the information to be used as audit evidence.

2. The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
3. The reliability of audit evidence that is generated internally is increased when the related controls are effective.
4. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.
5. Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally.
6. Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.
7. When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall:
   - Evaluate the competence, capabilities and objectivity of that expert;
   - Obtain an understanding of the work of that expert; and
   - Evaluate appropriateness of that expert's work as audit evidence for relevant assertion.
8. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes.

SELECTING ITEMS FOR TESTING TO OBTAIN AUDIT EVIDENCE

When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

INCONSISTENCY IN, OR DOUBTS OVER RELIABILITY OF AUDIT EVIDENCE

1. If,
   a. audit evidence obtained from one source is inconsistent with that from another;
   b. Auditor has doubts over the reliability of information to be used as audit evidence.
2. Auditor shall determine what modifications to audit procedures are necessary to resolve the matter, and shall consider effect of matter, if any on other aspects of the audit.

1. SA-501(REVISED) AUDIT EVIDENCE –SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

OBJECTIVE OF SA 501

To obtain sufficient appropriate audit evidence regarding the:

1. Existence and condition of inventory
2. Completeness of litigation and claims involving the entity; and
3. Presentation & disclosure of segment information in accordance with applicable FRF.

INVENTORY

1. Sufficient Appropriate Evidence
2. Inventory Counting Conducted At Date Other Than B/S Date
3. Auditor Unable To Attend Inventory Count Due To Unforeseen Circumstances
4. Attendance At Inventory Count Is Impracticable
5. Inventory Under Control Of A Third Party

1. Sufficient Appropriate Evidence:
   - When inventory is material,
   - he shall obtain sufficient appropriate evidence
   - w.r.t. existence and condition of inventory by
     - ✓ attendance at physical count &
     - ✓ examining entities final inventory records & comparing them with actual count result
     - ✓ evaluate IC, Observe management, count procedure, Inspect inventory, and Perform test count.
2. Inventory Counting Conducted At Date Other Than B/S Date:
   He shall perform additional procedure w.r.t. changes in inventory between count date & B/S date.
3. Auditor Unable To Attend Inventory Count Due To Unforeseen Circumstances:
   He shall make some count on alternate date and perform procedures on intervening transactions.
4. Attendance At Inventory Count Is Impracticable

- He shall perform **alternate procedures**.
- If it is not possible, then **modify the audit report**.

5. **Inventory Under Control Of A Third Party**

Obtain evidences by performing one or more of following:

- Request **confirmation** from third party.
- Obtaining **service auditor's report** w.r.t. adequacy of procedures of third party.
- Attending / arranging **another auditor** to attend third party's counting procedure.
- **Inspecting documentation** (Example - warehouse receipts).
- **Request confirmation** from parties when inventory has been pledged as collateral.

LITIGATION AND CLAIMS

1. **Identify Litigation and Claims –**
   - Perform procedures to Identify litigation & claims by **Inquiring management** & others.
   - **Reviewing minutes** of meetings of TCWG and correspondence with **legal counsel** & reviewing legal expense account.
2. Risk Of Misstatement w.r.t Litigation & Claims –
   - If Risk is identified then, seek communication with **entity's external legal counsel**.
   - If law, regulation etc. prohibits such direct communication & then perform **alternate procedures**.
3. Written Representation (WR) –

   Auditor shall request WR from management and TCWG that **all know litigation** & claims affecting FS have been **disclosed to auditor** and appropriately accounted for.
4. Modify the opinion –

   If management does **not permit auditor to communicate with legal counsel** or Legal counsel **refuses** to respond and auditor is unable to obtain sufficient appropriate evidence then modify opinion.

SEGMENT INFORMATION

1. Sufficient Appropriate Evidences –

   w.r.t. presentation and disclosure of segment information as per applicable FRF
2. Audit procedures –
   - He should **understand the methods used** by management and evaluate their consistency with applicable FRF.
   - Perform **analytical procedures** appropriate in circumstances.

1. SA-505(REVISED) EXTERNAL CONFIRMATION

OBJECTIVE OF SA 505

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

EXTERNAL CONFIRMATION PROCEDURES

He shall maintain control over external conformation requests including following:

a. **Determining** the information to be confirmed,
b. **Selecting** the appropriate third party,
c. **Designing** the confirmation requests (Properly addressed also),
d. **Sending** the request including follow-up requests if required.

MANAGEMENT REFUSAL TO ALLOW THE AUDITOR TO SEND A CONFIRMATION REQUEST

1. In such case, he shall
   - Inquire management's **reasons** for refusal and assess their validity,
   - **Evaluate** the possibility of **risk** of material misstatement and
   - Perform **alternative procedures**.
2. **If the auditor concludes that:**
   - If management's refusal is **unreasonable**, or

- Auditor is **unable to perform** alternate procedures.
- Then he shall **communicate** with TCWG and consider **effect** on his report.

RELIABILITY OF RESPONSE TO CONFIRMATION REQUESTS

1. If he has doubts about reliability of response, he shall obtain **further evidences** to resolve doubts.
2. If response is found to be **unreliable**, it may indicate fraud risk factor. He shall consider its **effect** on Nature, Timing and Extent of other procedures.

FORM OF CONFIRMATION REQUESTS (IMP)

1. Positive Confirmation Requests
2. Negative Confirmation Requests

1. Positive Confirmation Requests:

-
    - It asks the third party
    - to reply to the auditor
    - in all cases
    - either by indicating agreement/disagreement with the given information or
    - By asking third party to provide information.
- A response to positive confirmation request is ordinarily expected to be reliable.
- If reply to a request is not received in reasonable time, he may send an additional confirmation request.

2. Negative Confirmation Requests:

-
    - It asks the third party
    - to respond directly to the auditor
    - only if there is disagreement
    - With the information provided in the request.
- It is considered to be less persuasive than the positive confirmation request.
- Auditor should **use** them **only if all of following are present**:
    - **a.** **Risk** of misstatement is **low**
    - b. **IC** is effective
    - c. Item contains **small amount**
    - d. **Low exception rate** is expected
    - e. **No reason to believe** that recipient may disregard the request.

NON RESPONSES

In the case of each non-response, the auditor shall perform **alternative audit procedures** to obtain relevant and reliable audit evidence.

EXCEPTIONS

1. It means a response indicating disagreement of third party.
2. The auditor shall **investigate** exceptions to determine whether or not they are indicative of misstatements.

1. SA-510(REVISED) INITIAL AUDIT ENGAGEMENTS- OPENING BALANCES

OBJECTIVE OF SA 510

In conducting an initial audit engagement, objective of auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

a) Opening balances contain misstatements that materially affect the current period's FSs;

b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's FSs, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable.

AUDIT PROCEDURES

1. Opening Balances
2. Consistency of Accounting Policies
3. Relevant Information in the Predecessor Auditor's Report

1. Opening Balances:

1. The auditor shall **read the most recent FSs**, if any and the predecessor **auditor's report** thereon, if any, for information relevant to opening balances, including disclosures.
2. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances **contain misstatements** that materially affect the current period's FSs by:
   a. Determining whether the prior period's closing balances have been **correctly brought forward** to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
   b. Determining whether the opening balances reflect the application of appropriate **accounting policies**; and
   c. Performing one or more of the following:
      - Where the prior year FSs were audited, perusing the **copies of the audited FSs**.
      - **Evaluating** whether audit **procedures** performed in the current period provide evidence relevant to the opening balances; or
      - Performing **specific audit procedures** to obtain evidence regarding opening balances.
3. If the auditor obtains audit evidence that the opening balances contain misstatements that could **materially affect** the current period's FSs, the auditor shall perform such **additional audit procedures** as are appropriate in the circumstances to determine the effect on the current period's FSs.
4. If the auditor concludes that such misstatements exist in the current period's FSs, the auditor shall **communicate the misstatements** with the appropriate level of management and those charged with governance in accordance with **SA 450**.

2. Consistency of Accounting Policies:

- The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been **consistently applied** in the current period's FSs, and
- Whether **changes** in the **accounting policies** have been properly accounted for and adequately presented and **disclosed** in accordance with the applicable FRF.

3. Relevant Information in the Predecessor Auditor's Report:

If the prior period's FS were audited by a predecessor auditor and there was a **modification to the opinion**, the auditor shall **evaluate the effect** of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's FSs in accordance with SA 315.

AUDIT CONCLUSIONS AND REPORTING

1. Opening Balances
2. Consistency of Accounting Policies
3. Modification to the Opinion in the Predecessor Auditor's Report

1. Opening Balances:

- If the auditor is **unable to obtain sufficient appropriate audit evidence** regarding the opening balances, the auditor shall express a **qualified opinion or a disclaimer of opinion**.
- If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's FSs, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a **qualified opinion or an adverse opinion**

2. Consistency of Accounting Policies:

- If the auditor concludes that the current period's accounting policies are **not consistently applied** in relation to opening balances in accordance with the applicable FRF.
- A **change in accounting policies** is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRF.

The auditor shall express a **qualified opinion or an adverse opinion**.

3. Modification to the Opinion in the Predecessor Auditor's Report:

If the predecessor auditor's opinion regarding the prior period's FSs included a modification to the auditor's opinion that **remains relevant and material** to the **current period's FSs**, the auditor shall **modify** the auditor's opinion on the current period's FSs.

1. SA-520(REVISED) ANALYTICAL PROCEDURES

OBJECTIVE OF SA 520

The objectives of the auditor are:

1. To obtain relevant & reliable audit evidence when using substantive analytical procedures; and
2. To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the FS are consistent with the auditors understanding of the entity.

ANALYTICAL PROCEDURES

- means evaluations of financial information
- through analysis of relationships
- Among both financial and non-financial data.

NATURE OF ANALYTICAL PROCEDURES

It includes **comparison with**:

1. Comparable information for **prior periods**.
2. **Anticipated results** like budgets or forecasts.
3. Similar **industry** information.
4. **Predictive estimates** prepared by the auditor.

SUBSTANTIVE ANALYTICAL PROCEDURES (SAP)

When using substantive analytical procedures, he shall consider the **following four factors:**

1. Suitability of Particular SAP
2. Reliability Of Data To Be Compared
3. Development of Expectations
4. Difference of Recorded Amount from Expected Values That Is Acceptable

1. Suitability of Particular SAP:

- He should **determine suitability** of SAP for a particular item.
- These are generally adopted for those transactions that tend to be predictable over time
- For **example**, it can be used to compare gross profit ratio in a stable entity.
- However, such comparisons may not be performed for PSU.

2. Reliability Of Data To Be Compared:

It is influenced by the following:

a. **Source** of information available (more reliable if obtained from some independent source)

b. **Comparability** of information available (Entities should be comparable)
c. **Relevance** of the information available (budgets should be realistic)
d. **Control** over Preparation of information (if last year's FS are audited)

3. Development of Expectations:
- He shall develop an expectation of recorded values.
- Their expectations should be sufficiently **precise** so that misstatement can be identified.

4. Difference of Recorded Amount from Expected Values That Is Acceptable:
- SA330 requires auditor to **obtain more persuasive evidence** if he identifies high risk.
- Thus, for risky items, acceptable differences should be low.
- If difference is more than acceptable difference, he shall **further investigate** to rule out the possibility of misstatement.

ANALYTICAL PROCEDURES THAT ASSIST WHEN FORMING OVERALL CONCLUSION

1. He shall design and perform analytical procedures **near the end of audit**.
2. This way he can conclude whether FS are **consistent with his understanding** of entity.
3. Thus, it helps him in forming opinion on FS.

INVESTIGATING RESULTS OF ANALYTICAL PROCEDURES

If he identifies **fluctuations** or a significant difference between recorded & expected values, he shall **investigate by**
- **Inquiring of management** and thereafter **obtaining evidences** to corroborate the same, &
- Performing other procedures as necessary in the circumstances.

2. SA-530(REVISED) AUDIT SAMPLING

OBJECTIVE OF SA 530

The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusion about the population from which the sample is selected.

DEFINITIONS

1. Audit Sampling (Sampling) –
   The application of audit procedures to **less than 100% of items** within a population such that all sampling units have a chance of selection in order to draw conclusions about the entire population.

2. **Sampling Risk – (IMP)**
- The **risk that the auditor's conclusion** based on a sample may be **different** from the conclusion if the entire population were subjected to the same audit procedure.
- Sampling risk can lead to **two types of erroneous conclusions**:
  a.
  - ✓ In the case of
    - ➢ A test of controls, that controls are **more effective** than they actually are, or
    - ➢ A test of details, that a material misstatement does not exist when in fact it does.
  - ✓ The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

  b.
  - ✓ In the case of
    - ➢ A test of controls, that controls are **less effective** than they actually are, or
    - ➢ A test of details, that a material misstatement exists when in fact it does not.
  - ✓ This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

SAMPLE DESIGN, SIZE AND SELECTION OF ITEMS FOR TESTING

1. The auditor shall **determine a sample size** sufficient to reduce sampling risk to an acceptably low level.
2. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

PERFORMING AUDIT PROCEDURES

1. The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.
2. If the auditor is **unable to apply** the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall **treat that item as a deviation or a misstatement**.

NATURE AND CAUSE OF DEVIATIONS AND MISSTATEMENTS

1. The auditor shall **investigate** the **nature and cause** of any deviations or misstatements identified, and **evaluates** their possible **effect.**
2. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population.

PROJECTING MISSTATEMENTS

For tests of details, the auditor shall project misstatements found in the sample to the population.

EVALUATING RESULTS OF AUDIT SAMPLING

The auditor shall evaluate:

1. The results of the sample and
2. Whether the use of audit sampling has provided a **reasonable basis** for conclusions about the **population** that has been **tested**.

1. SA-540(REVISED) AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

OBJECTIVE OF SA 540

To obtain sufficient appropriate audit evidence whether:

a. Accounting estimates, including fair value accounting estimates are reasonable; and
b. Related disclosures in the FS are adequate.

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

1. Auditor shall obtain an understanding of the following in order to identify and assess the risks of material misstatement for accounting estimates:
   a. The **requirements** of the applicable financial reporting framework.
   b. **How management identifies** those transactions, events and conditions that may give rise to the need for accounting estimates.
   c. **How** management makes **accounting estimates** (methods, assumptions, use of expert)
2. Auditor shall **review** the outcome of accounting estimates included in the prior period FS.

IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

1. In identifying and assessing risks of material misstatement, as required by SA 315, auditor shall **evaluate** the **degree of estimation uncertainty** associated with an accounting estimate.
2. The auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been

identified as having **high estimation uncertainty** give rise to significant risks.

RESPONSES TO THE ASSESSED RISKS OF MATERIAL MISSTATEMENTS

Based on the assessed risks of material misstatement, the auditor shall determine:

a. Whether management has **appropriately applied** the applicable FRF.
b. Whether the **methods are appropriate** and have been applied **consistently**,

FURTHER SUBSTANTIVE PROCEDURES TO RESPOND TO SIGNIFICANT RISKS

1. Estimation Uncertainty
2. Recognition and Measurement Criteria

1. Estimation Uncertainty:

- For accounting estimates that give rise to significant risks, the auditor shall **evaluate** the following:
  - **How management** has considered alternative assumptions or outcomes, and why it has rejected them.
  - Whether the **significant assumptions** used by management are reasonable.
- If, in the **auditor's judgment**, management has not adequately addressed the effects of estimation uncertainty, the auditor shall **evaluate** the reasonableness of accounting estimate.

2. Recognition and Measurement Criteria:

For accounting estimates that give rise to significant risks, the auditor shall obtain sufficient appropriate audit evidence whether the following are in accordance with the requirements of the applicable financial reporting framework:

- **Management's decision** to recognize/not recognize, the accounting estimates in the FS;
- The **selected measurement basis** for the accounting estimates.

DISCLOSURES RELATED TO ACCOUNTING ESTIMATES

1. The auditor shall **obtain** sufficient appropriate audit **evidence** about whether the accounting estimates and their disclosure in the FSs is appropriate.
2. For accounting estimates that give rise to significant risks, the auditor shall **check adequacy of the disclosure** of their estimation uncertainly in the FSs.

INDICATORS OF POSSIBLE MANAGEMENT BIAS

The auditor shall **review** the judgments and decisions made by management.

WRITTEN REPRESENTATIONS

The auditor shall **obtain** written representations from management whether management **believes significant assumptions** used by it in making accounting estimates are reasonable.

DOCUMENTATION

The audit documentation shall include:

1. The **basis** for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and
2. **Indicators** of possible **management bias**, if any.

2. SA-550(REVISED) RELATED PARTIES

OBJECTIVE OF SA 550

The objectives of the auditor are:

1. Irrespective of whether the applicable Financial Reporting Framework (FRF.) establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

a. To recognize fraud risk factors, if any, arising fresh related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
b. To conclude whether the FS, insofar as they are affected by those relationships and transactions achieve a true and fair presentation; or are not misleading; and

2. In addition, where the applicable FRF Establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the FS in accordance with the framework.

NATURE OF RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. The nature of related party, relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the FS than transactions with unrelated parties. **For example** - Related party transactions may not be conducted under normal market terms and conditions; some related party transactions may be conducted with no exchange of consideration.
2. Planning and performing the audit with professional skepticism is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions.
3. The requirements in this SA are designed to assist the auditor in identifying and assessing the risks of material misstatement associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks.

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

1. Understanding the Entity's Related Party Relationships and Transactions:

a. The auditor shall inquire of management regarding:
   - The identity of the entity's related parties, including changes from the prior period;
   - The nature of the relationships between the entity and these related parties; and
   - Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.

b. The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:
   - Identify, account for, and disclose related party relationships and transactions in accordance with the applicable FRF;
   - Authorize and approve significant transactions and arrangements with related parties; and
   - Authorize and approve significant transactions and arrangements outside the normal course of business.

2. Maintaining Alertness for Related Party Information When Reviewing Records or Documents:

a. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

b. If the auditor identifies significant transactions outside the entity's normal course of business the auditor shall inquire of management about:
   - The nature of these transactions; and
   - Whether related parties could be involved.

3. Sharing Related Party Information with the Engagement Team:

The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

IDENTIFICATION AND ASSESSMENT OF THE RISKS OF MATERIAL MISSTATEMENT ASSOCIATED WITH RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. The auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks.
2. If the auditor identifies fraud risk factors the auditor shall consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with SA 240.

RESPONSES TO THE RISKS OF MATERIAL MISSTATEMENT ASSOCIATED WITH RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions:

If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

- Promptly **communicate** the relevant information to other members of engagement team;
- Where the **applicable FRF** establishes related party requirements:
  - **Request management to identify** all transactions with the newly identified related parties for the auditor's further evaluation; and
  - **Inquire** as **to why** the entity's controls over related party relationships and transactions **failed** to enable the identification or disclosure of the related party relationships or transactions;
- Perform appropriate **substantive audit procedures** relating to such newly identified related parties or significant related party transactions;
- **Reconsider** the **risk that other related parties** or significant related party transactions may **exist** that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- If **non-disclosure** by management appears **intentional** evaluate implications for audit.

2. Identified Significant Related Party Transactions outside the Entity's Normal Course of Business:

For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- **Inspect** the underlying contracts or agreements, if any, and **evaluate** whether:
  - The **business rationale** (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
  - The **terms of the transactions** are consistent with management's explanations; and
  - The transactions have been **appropriately accounted** for and **disclosed** in accordance with the applicable FRF; and
- **Obtain audit evidence** that transactions have been appropriately authorized & approved.

3. Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction:

When management has made an assertion in the FS to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an **arm's length transaction**, the auditor shall obtain **sufficient appropriate audit evidence** about the assertion.

EVALUATION OF THE ACCOUNTING FOR AND DISCLOSURE OF IDENTIFIED RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

In forming an opinion on the FS auditor shall evaluate:

a. Whether the identified related party relationships and transactions have been **appropriately accounted** for and **disclosed** in accordance with the applicable FRF.; and
b. Whether **the effects** of the related party relationships and transactions:
   - **Prevent the FS** from achieving true and fair presentation; or
   - **Cause** the FS to be **misleading**.

WRITTEN REPRESENTATIONS

1. They have **disclosed to the auditor** the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
2. They have **appropriately accounted** for and disclosed such relationships and transactions in accordance with the requirements of the framework.

COMMUNICATION WITH TCWG

Unless all of TCWG are involved in managing the entity, the auditor shall communicate with TCWG **significant matters** arising during the audit in connection with the entity's related parties.

DOCUMENTATION

In meeting the documentation requirements of SA 230 and other SAs, the auditor shall include in the audit documentation the **names** of the identified related parties and the **nature of the related party relationships**.

OBJECTIVE OF SA 560

The objectives of the auditor are to:

1. Obtain sufficient appropriate audit evidence about whether events occurring between the date of the FS and the date of the auditor's report that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS; and
2. Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report

EVENTS OCCURRING BETWEEN THE DATE OF THE FS AND THE DATE OF THE AUDITOR'S REPORT (N-09)

1. **Identified of Subsequent Events:**
   - The auditor shall obtain sufficient appropriate audit evidence
   - that all events occurring between the date of the FS and the date of the auditor's report
   - That require **adjustment** of, or **disclosure** in, the FS have been **identified.**
2. **Specific Procedures:**
   The auditor shall:
   a. **Obtain an understanding** of any procedures management has established to ensure that subsequent events are identified.
   b. **Inquiring of management** and TCWG.
   c. **Read minutes**, if any, of the meetings, of the entity's owners, management and TCWG, that have been held after the date of the FS.
   d. Read the entity's **latest subsequent interim FS**, if any. If auditor identifies events that require adjustment of, or disclosure in, the FS, the auditor shall determine whether each such event is appropriately reflected in those FS.
3. **FS Review:**
   When, as result of above procedures, the Auditor identifies events that require adjustment of or disclosure in, the FSs, he shall determine whether each such event is appropriately reflected in those FSs.
4. **Written Representations:**
   Auditor shall request management to provide **WR** that **all** events occurring subsequent to the date of FS & for which the applicable FRF requires adjustment or disclosure have been **adjusted or disclosed.**

FACTS WHICH BECOME KNOWN TO THE AUDITOR AFTER THE DATE OF THE AUDITOR'S REPORT BUT BEFORE THE DATE THE FS ARE ISSUED

1. **Discussion with Management:**
   - The auditor has no obligation to perform any audit procedures regarding the FS after the date of the auditor's report.
   - However, when, after the date of the auditor's report but before the date the FS are issued, a **fact becomes known to the auditor** that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
     - **Discuss** the matter with management and TCWG
     - Determine whether the FS need **amendment** and, if so,
     - **Inquire** how management intends to **address the matter** in the FS.
2. **Amendment of FSs & Issue of New AR:**
   If management **amends the FS**, the auditor shall:
   - **Extend the audit procedures** referred to the date of the new auditor's report; and
   - Provide a **new auditor's report** on the amended FS.
3. **Dual Dating or New Para in Report:**
   - When law, regulation or the FRF does not prohibit management from restricting the amendment of the FS to the effects of the subsequent events, the auditor is permitted, to restrict the audit procedures on subsequent events to that amendment.
   - **In such cases, the auditor shall either:**
     a. **Dual Dating** i.e. **Amend the auditor's report** to include an additional date restricted to that amendment; **or**

b. **Adding New Para** i.e. providing **a new or amended auditor's report** that includes a statement in an **Emphasis of Matter paragraph or Other Matter(s) paragraph** that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the FS as described in the relevant note to the FS.

4. **No amendment of FSs as per Law, etc.:**
   - In some entities, management may not be required by the applicable law, regulation or the FRF to issue amended FS and, accordingly, the auditor need not provide an amended or new auditor's report.
   - However, when management does **not amend** the FS in circumstances where the auditor believes they **need to be amended**, then
     a. If auditor's report has not yet been provided to entity, He shall **modify** the **opinion**; or
     b. If auditor's report has **already** been **provided** to entity, He shall **notify** management & TCWG **not to issue** the FS to third parties before necessary amendments have been made. If the FS are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate **action**, to seek to prevent reliance on the auditor's report.

FACTS WHICH BECOME KNOWN TO THE AUDITOR AFTER THE FS HAVE BEEN ISSUED

1. **Discussion with Management:**
   - After the FS has been issued, the auditor has **no obligation** to perform any audit procedures regarding such FS.
   - However, when, after the FS have been issued, a fact becomes known to the auditor that, had it been **known** to the auditor **at the date of the auditor's report**, may have caused the auditor to **amend** the auditor's report, the auditor shall:
     a. **Discuss the matter** with management and TCWG
     b. Determine whether the **FS need amendment** and, if so,
     c. **Inquire how management intends** to address the matter in the FS.
2. Amendment of FSs & Issue of New AR:

   If the management amends the FS, the auditor shall:
   - **Carry out the audit procedures** necessary in the circumstances on the amendment.
   - **Review** the steps taken by management to ensure that anyone in receipt of the previously issued FS together with the auditor's report thereon is informed of the situation.
3. **Special Control:**

   If management does not take the necessary steps to ensure that anyone in receipt of the previously issued FS is informed of the situation, the auditor will seek to prevent future reliance on the auditor's report.

4. *SA-570(REVISED) GOING CONCERN*

OBJECTIVE OF SA 570

The objectives of the auditor are:

1. To obtain sufficient appropriate audit evidence about the **appropriateness** of management's use of the going concern assumption in the preparation and presentation of the FS;
2. To conclude, based on the audit evidence obtained, whether a **material uncertainty exists** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
3. To determine the implications for the auditor's report.

GOING CONCERN ASSUMPTION

1. Under the going concern assumption, an entity **is viewed as continuing** in business for the **foreseeable future**.
2. General purpose FS are prepared on a going concern basis, unless management either **intends to liquidate** the entity or to **cease operations**.
3. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

RESPONSIBILITIES OF MANAGEMENT

1. In case the FS have not been prepared on a going concern basis, **the fact** would need to be appropriately disclosed.
2. The **detailed requirements** regarding management's responsibility may also be set out in the **law** or regulation.
3. It is the management's responsibility **to assess the entity's ability to continue** as a going concern even if the FRF does not include an explicit requirement to do so.
4. The **following factors** are relevant to that judgment:
    a. The **degree of uncertainty** associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs.
    b. The **size and complexity of the entity,** the **nature and condition of its business** and the degree to which it is affected by external factors.
    c. **Any judgment about the future** is based on information available at the time at which the judgment is made. However subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

RESPONSIBILITIES OF AUDITOR

1. The auditor's responsibility is to **obtain** sufficient appropriate **audit evidence** about the appropriateness of management's use of the going concern assumption.
2. He shall consider whether there is a **material uncertainty** about the entity's ability to continue as a going concern.
3. The absence of any reference to going concern uncertainty in an auditor's report **cannot be viewed as a guarantee** as to the entity's ability to continue as a going concern. (SA 200A)

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

1. The auditor shall consider whether there are events or conditions that may **cast significant doubt** on the entity's ability to continue as a going concern.
2. In so doing, the auditor shall determine whether management has already performed **a preliminary assessment** of the entity's ability to continue as a going concern (discuss with management).
3. If such an assessment has not performed, that auditor shall **discuss with management** the basis for the intended use of going concern assumption & inquire of management whether events or conditions exist that, individually or collectively, may east significant doubt on the entity's to continue as a going concern.
4. The auditor shall **remain alert throughout the audit** for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. There may be following types of indicators:

Financial Indicators	Negative Net worth/working capital; Arrears / discontinuance of Dividends; Adverse Financial ratio; Substantial operating losses; Borrowings approaching maturity without any chance of renewal/repayment; Short term borrowing for long term asset financing; No payment to creditors on due date. Non-compliance with terms in loan agreement; Negative cash flow from operations; Rearrangement with creditors for reduction in liability; or Change from creditors to cash on delivery transaction with supplier.
Operating Indicators	Loss of key management and no replacement available; Loss of major market or supplier; Labour unrest, strikes etc.; or Loss of major license, franchise, etc.
Other Indicators	Pending legal proceedings; Change in Govt. Policy affecting the entity adversely; or Non- compliance with Statutory requirements

5. However, such indications may be mitigated by some positive factors.
6. For example: loss of some major supplier may be compensated by availability of some alternate source of supply.

EVALUATING MANAGEMENT'S ASSESSMENT

1. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor **shall cover the same period** as that used by management to make its assessment as required by law or regulation if it specific a longer period.
2. In evaluating management's assessment, the auditor shall **consider whether** management has considered all **relevant information** of which the auditor is aware.

PERIOD BEYOND MANAGEMENT'S ASSESSMENT

The auditor shall **inquire** of **management** as to its knowledge of **events or conditions** beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

ADDITIONAL AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED

When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall **perform procedures** as follows:

a. **Request management** to make its assessment of the **entity's ability** to continue as a going concern. When management has not yet performed an assessment of entity's ability to continue as a Going Concern
b. Evaluating management's **plans** for future actions.
c. When the entity has prepared a **cash flow forecast**, and then considers its reliability.
d. Considering whether any **additional facts or information** have become available since the date on which management made its assessment.
e. Requesting written representations from management or TCWG, regarding their plans for **future action** and the **feasibility** of these plans.

AUDIT CONCLUSIONS AND REPORTING

1. Auditor shall conclude whether a **material uncertainty exists** related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
2. A material **uncertainty exists** when the magnitude of its **potential impact** and likelihood of occurrence is such that, in the auditor's judgment, appropriate **disclosure** of the nature and implications of the uncertainly is **necessary**.

USE OF GOING CONCERN ASSUMPTION APPROPRIATE BUT A MATERIAL UNCERTAINTY EXISTS

1. When the auditor concludes that use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the FS:
   a. **Adequately describe** the principal **events or conditions** that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
   b. **Disclose clearly** that there is **a material uncertainty** related to events or conditions that may **cast significant doubt** on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
2. If adequate **disclosure is made** in the FSs, the auditor shall express an **unmodified opinion** and include an **Emphasis of Matter paragraph** in the auditor's report to:
   a. **Highlight** the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to
   b. **Draw attention** to the **note** in the FS that discloses the matters set out.
3. If adequate **disclosure is not made**, auditor shall express **qualified or adverse opinion,** as appropriate. Auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about entity's ability to continue as going concern.

USE OF GOING CONCERN ASSUMPTION INAPPROPRIATE

If FS have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern **assumption** in the FS is **inappropriate**, the auditor shall express an **adverse opinion**.

MANAGEMENT UNWILLING TO MAKE OR EXTEND ITS ASSESSMENT

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall **consider the implications** for the auditor's report.

COMMUNICATION WITH TCWG

Communication with TCWG shall include the following:

a. Whether the events or conditions constitute a **material uncertainty;**
b. Whether the **use of the going concern assumption** is **appropriate** in the preparation and presentation of the FS; and
c. The **adequacy** of related **disclosures** in the FS.

SIGNIFICANT DELAY IN APPROVAL OF FS

When the auditor believes that the delay in the approval of the FS could be related to events or conditions relating to the going concern assessment, the auditor shall perform **additional audit procedures** necessary.

5. SA-580(REVISED) WRITTEN REPRESENTATIONS

OBJECTIVE OF SA 580

The objectives of auditor are:

1. To obtain written representations from management that management believes that it has fulfilled the fundamental responsibilities.
2. To support other audit evidence by means of written representations, if determined necessary by the auditor or required by other SM; and
3. To respond appropriately to written representations provided by management or absence thereof.

WRITTEN REPRESENTATIONS AS AUDIT EVIDENCE (IMP)

1. Similar to responses to inquiries, written representations are audit evidence.
2. Although written representations provide necessary audit evidence, they **do not provide sufficient appropriate audit evidence on their own** about any of the matters with which they deal.
3. Furthermore, the **fact** that management has provided reliable written representations **does not affect the nature or extent of other audit evidence** that the auditor obtains.

WRITTEN REPRESENTATIONS

1. A written statement **by management** provided to the auditor **to confirm certain matters** or to support other audit evidence. Written representations in this context do not include FS, the assertions therein or supporting books and records.
2. **From Whom:** The auditor shall request written representations from management with **appropriate responsibilities** for the FS and **knowledge of the matters** concerned.

MANAGEMENT FROM WHOM WRITTEN REPRESENTATIONS REQUESTED

The auditor shall request written representations from management with appropriate responsibilities for the FS and knowledge of the matters concerned.

WRITTEN REPRESENTATIONS ABOUT MANAGEMENT'S RESPONSIBILITIES

1. **Preparation and Presentation of the FS:**
   Written representation that mgt. has fulfilled its responsibility for the preparation and presentation of the FS
2. **Information Provided to the Auditor:**
   Written representation that mgt. has provided the auditor with all relevant information agreed in the terms of the audit engagement and that all transactions have been recorded and are reflected in the FS.

OTHER WRITTEN REPRESENTATIONS

Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations, the auditor shall request such other written representations.

DATE OF AND PERIOD(S) COVERED BY WRITTEN REPRESENTATIONS

The date of the written representations shall be as **near** as practicable **to**, but not after, the **date of the auditor's report** on the FS. The written representations shall be for all FS and period(s) referred to in the auditor's report.

FORM OF WRITTEN REPRESENTATIONS

1. The written representations shall be in the form of a representation letter **addressed** to the **auditor**.
2. If law or regulation requires management to make written public statements about its responsibilities, the relevant matters covered by such statements need not be included in the representation letter.

DOUBT AS TO THE RELIABILITY OF WRITTEN REPRESENTATIONS AND REQUESTED WRITTEN REPRESENTATIONS NOT PROVIDED

1. **Doubt as to the Reliability of Written Representations:**
   - If the auditor has concerns about the competence, integrity, ethical values or diligence of management, the auditor shall **determine** their **effect on the reliability of representations** (oral or written) and audit evidence in general.
   - In particular, if written representations are **inconsistent** with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter.
   - If the auditor concludes that the written representations are **not reliable**, the auditor shall take appropriate actions, including determining the possible effect on the opinion.
2. Requested Written Representations Not Provided:

   If management does not provide one or more of the requested representation, he shall **discuss** the matter with management and **re-evaluate** the reliability and integrity of management. He shall consider its **effect on his audit report** as well.
3. **Written Representation about Management's Responsibilities:**

   The auditor shall **disclaim an opinion** on the FS if:
   a. The auditor concludes that there is sufficient **doubt about the integrity** of management such that the written representations are not reliable; or
   b. Management does **not provide the written representations**.