

# Audit Procedure for Obtaining Audit Evidences

What is Audit Procedure for Obtaining Audit Evidences?

Answer : generally in case of big audits or in case of Company Audits, the following steps are followed to obtain Audit Procedures.

1. Risk Assessment Procedured (Discussed in SA 315)
  - A) Inquiries of the management & others within the entity. This is “whichever department or area the auditor consider risky, he should make an inquiry of the concern department head.”
  - B) Analytical Procedure - it helps identify the existances of unusual transactions, ratios, events, amounts & trends.
  - C) Observation & Inspection - these may support the inquiry of the management & may also provide information about the entity & its environment.
2. Test of Controls - these are tests, designed to obtain assurance that those internal controls on which the auditor is going to place reliance are
  - A) In existence;
  - B) Operating effectively; &
  - C) Throughout the period of intended reliance.
3. Substantive procedures - this is nothing but vouching & verification.

Note - After completing 1 above, auditor identifies vulnerable areas.

Then he decides to evaluate the relavent internal controls.

After evaluating the internal controls, he comes to a conclusion whether to rely on internal controls or not.

If he concludes to rely, the degree of reliance.

The degree of substantive procedures depends upon outcome of 2. Above.

If the controls are good enough, then degree of substantive procedure may be low & vice versa.

In short it suggest 3 tests or checks

1. Risk Assessment Procedures & Related Activities - It Identify weak areas,
2. TOC - It evaluate the relevant internal control system of the department the auditor has listed as riskier in 1 above ; &
3. Substantive Procedures - Finally he carry out vouching & Verification in much of those areas which has been identified as MORE riskier even after 2<sup>nd</sup> check above (TOC).