The Institute of Chartered Accountants of India
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SkillUp Knowledge Webinar Series

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Statutory Audit :
A Deep Dive into Audit Evidence

SA 500 : Audit Evidence

Importance:

The quality of an audit depends directly on the adequacy and appropriateness of procedures used to gather and evaluate evidence

Gives auditors principles and procedures to follow so that the evidence is sufficient and appropriate

Audit Evidence

SA 500, Audit Evidence

SA 501, Audit Evidence—Specific Considerations for Selected Items

SA 505, External Confirmations

SA 510, Initial Audit Engagements—Opening Balances

SA 520, Analytical Procedures

SA 610, Using the work of Internal Auditors

SA 530, Audit Sampling

SA 540, Auditing Accounting Estimates, Including Fair Value

SA 550, Related Parties

SA 580, Management Representation Letter

SA 500 : Audit Evidence

Definition :

- Information used by the auditor in arriving at the conclusions on which the auditor's opinion is base
- It includes two parts:
  - 1. Accounting records underlying the financial statements
  - 2. Other information- e.g. minutes of meetings, confirmations from third parties, analyst reports, manual giving internal control details, etc

Scope:

- Applies to all audit evidence obtained during an audit

SA 500 : Audit Evidence

Objective:	Key Qualities:
• Design and perform audit procedures that enable you to obtain sufficient appropriate audit evidence to draw reasonable conclusions for the audit opinion • Explains what constitutes audit evidence in an audit of Financial Statements	• Sufficiency = Quantity of evidence. Affected by risk of material misstatement, Size and characteristics of population,materiality and quality of evidence • Appropriateness = Quality of evidence. Measured by relevance and reliability

Relevance and Reliability of Audit Evidence

Relevance: Evidence must directly address the audit objective (e.g., verifying inventory existence vs. completeness).

Reliability (Hierarchy):

- **Most Reliable:** Independent, external sources; directly obtained by the auditor; original documents; documents in electronic or paper form.
- **Moderately Reliable:** Internally generated evidence when internal controls are effective.
- **Least Reliable:** Internally generated evidence with weak controls; verbal evidence;photocopies.

Sources of Audit Evidence

Evidence can come from both internal and external sources.

Internal evidence includes accounting records, invoices, and management representations.

External evidence includes bank statements, confirmations from customers and suppliers, and legal confirmations.

Source of Audit evidence

Some audit evidence is obtained by performing audit procedures to test the accounting records.

Example:

- Through analysis and review
- Reperforming procedures followed in the financial reporting process
- Reconciling related types and applications of same information

Reliability Factors of the Source of Audit Evidence

Internal Evidence: Reliable if internal controls are strong including electronic records

External Evidence: Highly reliable, especially if direct. From third parties is better than from the client

Documentation: Documentary form (paper/electronic) is superior to oral.

Original V/s Copies: Original documents are preferred over photocopies or scanned versions as originals are susceptible to alterations

Method of Obtaining Audit Evidence: Evidence Obtained directly by the auditor is more reliable than evidence obtained indirectly or through intermediaries or inferred

Reliability of audit evidence increases when

- Obtained from Independent sources
- Related controls are effective
- Obtained directly by the auditor
- Obtained in documentary form
- Provided by Original Documents

Types of Audit Evidence

Depending upon nature

- Visual
- Oral
- Documentary

Depending on Source

- Internal
- External

Audit Procedures to obtain audit evidence

Audit evidence to draw reasonable conclusions on which to base the auditor’s opinion is obtained by performing

- Risk Assessment procedures
- Further Audit procedures comprising of Test of Controls and Substantive procedures
- Substantive procedures comprise of Analytical Procedures and Test of Details
- Test of Details Comprises Test of Transactions i.e. Vouching and Test of Balances i.e. Verification

Types of Audit Procedures to obtain audit evidence

Inspection: Examining records or documents.

Observation: Watching a process or procedure being performed by others.

External Confirmation: Obtaining direct written responses from a third party.

Recalculation: Checking the mathematical accuracy of documents or records.

Reperformance: Independently executing procedures or controls that were originally performed by the entity.

Analytical Procedures: Evaluating financial information through the analysis of plausible relationships among both financial and non-financial data.

Inquiry :Seek info from client/staff Ask management about provisions

Key points to Remember in respect of audit procedures

Using management's expert reports: Evaluate competence, capability, objectivity.

Using information from entity: Evaluate accuracy and completeness.

Inconsistency: If evidence from one source conflicts with another, auditor must determine what procedures are needed to resolve it.

Selecting items for testing: 100% check, specific items, or audit sampling.

Audit Trail

- It is documented flow of transaction
- Used as evidence to establish authentication and integrity of transaction
- Helps in regular system operations
- Involves cost and time – Use of automated tools can help reduce it
- Enhance data security

SA 610 Using the work of Internal Auditor

Guides external auditor on incorporating internal audit work as audit evidence

Use the work of internal auditors in obtaining audit evidence for substantive procedures or tests of controls if the work is deemed adequate

Evaluate:

- Objectivity: The internal audit function's independence from management.
- Competence: The qualifications and experience of the internal auditors
- Systematic Approach: Whether the function applies a structured, documented, and controlled methodology

SA 610 Using the Work of Internal Auditor

Prohibited Areas:

- assessing material misstatement risks
- evaluating going concern
- determining significant accounting estimates

Key Areas of Internal Audit Work Used by External Auditors

- IT Audits
- Testing of the operating effectiveness of controls
- Substantive Procedures involving limited judgement
- Observation of inventory counts
- Testing of Compliance with regulatory requirement

SA 530 Audit Sampling

Auditors don’t test everything

Size depends on risk, controls, and materiality

Use statistical sampling or non statistical sampling

Perform test of controls, test of details and evaluate the results of the sample

- Test of controls is done to identify deviations from expected internal controls
- Test of Details is done to identify the misstatements of account balances and class of transactions

The application of audit procedures to less than 100% of items within a population of audit relevance such that sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population

Sample Selection Method

- Random Sampling -Simple Random Sampling/Stratified Sampling
- Systematic Sampling/Interval Sampling
- Monetary Unit Sampling
- Haphazard Sampling
- Block Sampling

Specific Considerations (SA 501)

Inventory: Physical verification, count observation, inventory cutoff procedures, audit procedures over inventory final records and if inventory lying in the custody of third party get confirmation of the same

Litigation/Claims: Inquiry of management, review of legal expenses, communicate with entity's external legal counsel , written representation and review of minutes.

Segment Information: Understanding methods used by management for in determining segment information , Test for presentation and disclosure, preforming analytical procedure

SA 540 Auditing Accounting Estimates, Including Fair Value

Evidence obtained under SA 540 must demonstrate whether the accounting estimates are reasonable and if disclosures are appropriate

Key Audit Procedures for Evidence Collection :

- Understanding the Process:
- Reviewing Prior Period Estimates
- Testing Controls C Data
- Assessing Assumptions C Methods
- Developing an Auditor's Estimate

Key Audit Evidence Areas:

- **Estimation Uncertainty:** The degree to which an estimate is susceptible to imprecision.
- **Management Bias:** Lack of neutrality in estimations.
- **Significant Risks:** Specific attention to estimates with high estimation uncertainty, such as complex derivatives or impairment, often requiring specialized skills

SA 520 Analytical Procedures

Purpose: To obtain relevant and reliable audit evidence to support assertions.

Substantive Analytical Procedures (SAPs): Used to test for material misstatements in account balances or classes of transactions.

Overall Review: Performed near the end of the audit to ensure financial statements align with the auditor's understanding

Investigate and document the differences

Types of Procedures:

- **Trend Analysis:** Comparing current data with prior periods
- **Ratio Analysis:** Evaluating relationships between financial statement items
- **Reasonableness Tests:** Testing relationships between financial and non-financial data (e.g., payroll cost vs. headcount)
- **Structural Modelling** – A modelling tool constructs a statistical model from financial and non financial data of prior accounting periods to predict current accounting balances Eg Linear Regression

SA 505 External Confirmations

External confirmation = audit evidence obtained as a direct written response to the auditor from a third party

Considered one of the strongest types of evidence because it comes from outside the client

Types of confirmations

- Positive : Ask third party to reply in all cases - agree or disagree Debtors, bank balances, loans High - no response is a red flag
- Negative: Reply only if they disagree - Used when risk is low, population is large C homogeneous Lower - no response could mean they agree OR didn't get it
- Blank: Don't state the amount, ask third party to fill it -Debtors, to avoid leading the party Highest - reduces risk of bias

Common areas: Cash, receivables, payables, loans, investments, legal cases

Non-response doesn't provide evidence. You must perform *alternative procedures*.

- - For debtors: Check subsequent cash receipts, dispatch docs, sales invoices
- - For banks: Do other bank procedures, but non-reply for bank is usually a big issue

Exceptions in responses

If the third party disagrees, it's not automatically a misstatement. Investigate why. Could be timing difference, dispute, or error

SA 510 Initial Audit Engagements -Opening Balances

Deals with auditor's responsibilities relating to opening balances when conducting an initial audit engagement

Obtain audit evidence as to

- whether the accounting policies are consistently applied and in case of any changes whether properly accounted for , presented and disclosed
- Whether opening balances contain misstatement that materially affects the current period's financial statements

Read the most recent financial statements and predecessor auditor's report

SA 550 Related Parties

Related party transactions can be used to manipulate the financials: inflate revenue, hide liabilities, move profits

High Risk Area, Arm's Length issue ,Disclosure risk,Completeness Problem

Management has incentive + opportunity to conceal them

Makes the auditor dig deeper than usual, Heavy emphasis on professional skepticism

Management representations

Risk assessment procedures

- Inquiries of management
- Understanding controls
- Stay alert

If you identify undisclosed related parties or significant transactions, you must:

- Confirm with the other party External confirmation = strong evidence of existence/terms
- Inspect agreements, invoices, contracts= Documentary evidence of terms and business rationale
- Confirm terms with banks, lawyers = Third-party evidence if amounts are material
- Verify authorization= Board minutes showing proper approval = evidence controls worked
- Test business rationale

SA 580 Management Representation Letter

formal written statement provided by management to auditors

- confirming responsibility for financial statements, internal controls, and providing complete information

Dated the same as the audit report

serves as crucial audit evidence to prevent misunderstanding

It's considered internal evidence

Lowest on the reliability hierarchy

Bias Risk

Can supplement but not replace other audit procedures

Key audit evidence failures

Recent news and inspection reports from India’s National Financial Reporting Authority (NFRA) in early 2026 have revealed systemic audit evidence deficiencies and failures across major auditing firms

- **Key deficiencies highlight a pattern of**
- inadequate documentation
- lack of professional skepticism
- failure to verify crucial financial data
- Improper Sampling
- Ignoring Going Concern Risks
- Failures to identify, disclose and verify related party transactions

Regulatory Updates and Future Trends

- Tighter Independence Rules
- 30 Forensic Accounting standards will be introduced by ICAI
- AI for audit Oversight
- Revision of Auditing Standards
- Peer Review Extension

Presentation in Audit Documentation (SA 230) and Focus on Technology

Audit evidence is formally presented in audit files (working papers)

is crucial for ensuring the reliability, validity of the audit findings

Digital evidence post lockdown

File Retention issues

It must show:

- The audit procedures performed (e.g., Vouching, Verification).
- The evidence obtained (e.g., invoices, bank confirmations).
- The conclusions reached

Auditor’s Responsibility

The standard doesn’t require the auditor to obtain all possible evidence.

Just sufficient appropriate evidence to reduce audit risk to an acceptably low level.

The auditors shall determine what modifications or additions to audit procedures are necessary to resolve the matter in case of inconsistency or doubts over reliability of audit evidence and shall consider the effects of the matter if any on the other aspects of audit

Thank You

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