



# Practical issues on Standards on Auditing under COVID-19

SA 320 - Materiality in Planning & Performing an Audit

SA 500 - Audit Evidence

SA 530 - Audit Sampling

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## SA 320 Materiality in Planning & Performing an Audit

1. While determining the overall audit strategy, the auditor shall determine the materiality for the financial statements as a whole;
2. Separate materiality levels must be determined for such transactions, account balances or disclosures, which are expected to influence the economic decisions of users of FS, even though they are below the materiality level determined in point 1 above;
3. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures; and
4. The auditor shall revise materiality determined in points 1 to 3 in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

### WAY FORWARD IN COVID - 19

The COVID - 19 outbreak **has given rise to numerous risks** which the auditor needs to address. In this regard, the auditor should assess if the impact of the COVID-19 outbreak revises any risks previously identified or gives rise to other risks of material misstatements. Any revision in the risk assessment on the part of the auditor, will require a revision in the materiality level, and the planned audit approach as **risk and materiality go hand in hand**.

## SA 500 Audit Evidence

1. The auditor shall design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence;
  - Sufficient appropriate audit evidence is required to give reasonable assurance that the Financial Statements taken as a whole are free from material misstatements;
  - The audit evidence can be obtained from internal as well as external sources; and
  - Auditor obtains audit evidence through performing:

**RISK ASSESSMENT PROCEDURES; &**

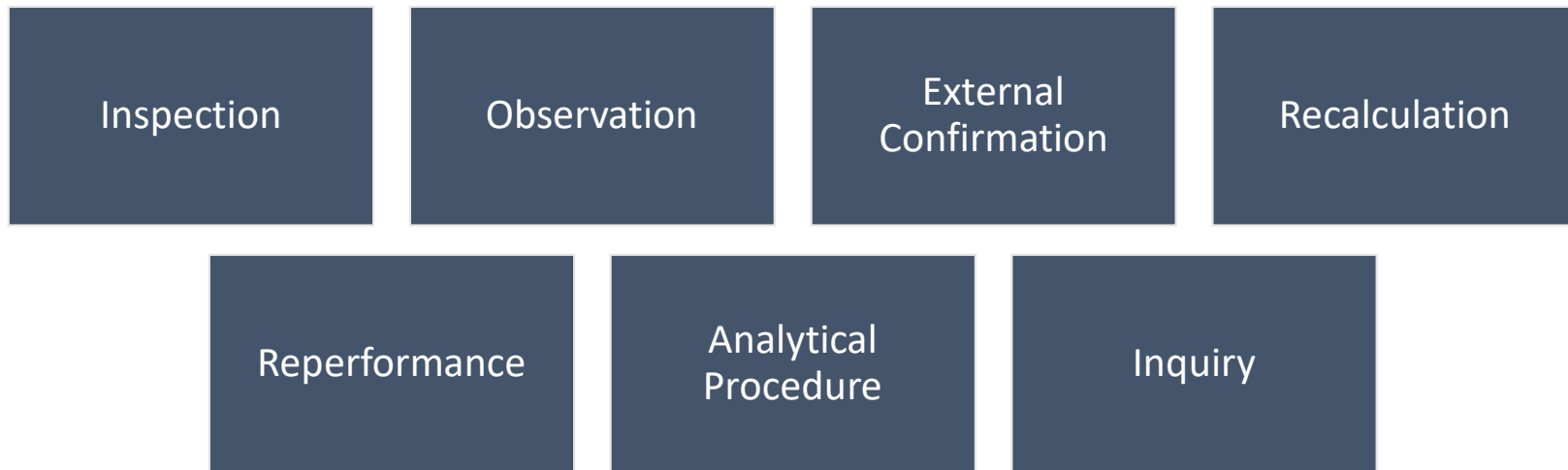
A

**Test of controls**

B

**Substantive Procedures i.e. Test of details**

- The audit procedure for obtaining audit evidence comprises of:



2. When auditor wants to use any information as audit evidence prepared by managements expert, he/ she is first required to evaluate competence, capability and objectivity of expert before using such information. Also, he/she should obtain understanding and evaluate appropriateness of expert's work.

3. When auditor finds inconsistency between audit evidences obtained from two sources or has doubts on the reliability of audit evidence obtained, the auditor shall:
  - Determine what modifications or additions to audit procedures are necessary to resolve the matter; and
  - Shall consider the effect of the matter, if any on the other aspects of the audit.

### **WAY FORWARD IN COVID – 19**

1. Reassessment of the auditor's planned procedures, performing alternative procedures to ensure sufficiency and appropriateness of audit evidence that can form basis of the audit opinion;
2. Evaluating the availability of electronic and digital evidence made available by management, and the review controls around the same, specifically for reliability, security and storage of such evidence
3. Examining records or documents in electronic form (the reliability of which depends on internal controls of the reporting entity over the preparation and maintenance of financial reporting); and
4. Evaluating work of management experts.

# SA 530 Audit Sampling

## 1. Sample design, size and selection of items for testing

The auditor shall consider

The purpose of the audit procedure; and  
Characteristics of the population for which the  
sample is drawn

The auditor shall determine

A sample size sufficient to reduce sampling risk to an  
acceptably low level

The auditor shall select items

In such a way that each sampling unit in the  
population has a chance of selection

## 2. Performing audit procedures

- Perform audit procedures on each item selected; and
- If the auditor is unable to do so,
  - treat item as a deviation from prescribed control, in case of test of controls, or
  - a misstatement, in case of test of details.

## 3. Nature and cause of deviations and misstatements

The auditor shall investigate the nature and cause of any deviations or misstatements identified.

The auditor shall perform additional audit procedures to obtain sufficient appropriate audit evidence.

## 4. Projecting misstatements

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

## 5. Evaluating results of audit sampling

The auditor shall evaluate:

The results of the sample.

Whether the use of audit sampling has provided a reasonable basis for conclusion about the population that has been tested..

### Key points –

- Tolerable error is the amount of error that is acceptable to the auditor in making a sample choice.
- Anomaly is the exceptional deviation or deviation that may be presented in the sample size selected for each audit.

### WAY FORWARD IN COVID – 19

1. Moving the collection of audit evidence to cloud platforms will enable the auditors to remotely gather sufficient, appropriate audit evidence and will also mitigate delays in receiving requested audit evidence in case of companies with significant operations in areas affected by COVID-19; and
2. The planned audit approach may need to change, and alternative procedures be developed using the technology in the current circumstances to ensure sufficient and appropriate level of samples selected and testing performed