

AUDIT EVIDENCE — SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS: CAS 501

Requirements

Inventory

- If inventory is **material** to the F/S, the auditor should obtain sufficient appropriate audit evidence regarding the **existence** and **condition of inventory** by:
 - **Attendance at physical inventory counting**, unless **impracticable**, to:
 - **Evaluate** management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting
 - **Observe** the performance of management's count procedures
 - **Inspect** the inventory
 - **Perform** test counts
 - Performing **audit procedures over the entity's final inventory records** to determine whether they accurately reflect actual inventory count results.
- If physical inventory counting is conducted at a date other than the date of the F/S, the auditor should perform audit procedures to obtain audit evidence about **whether changes in inventory** between the count date and the date of the F/S are properly recorded
- If the **auditor is unable to attend physical inventory** counting due to unforeseen circumstances, the auditor should make or observe some physical counts on an **alternative date**, and perform audit procedures on intervening transactions
- **If attendance** at physical inventory counting is **impracticable**, the auditor shall perform **alternative audit procedures** to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory; if it is not possible to do so, the auditor shall modify the opinion in the auditor's report as a result of the scope limitation
 - i.e. inventory may be held in a location that may **pose threats** to the safety of the auditor
 - **General inconvenience** to the auditor, is not sufficient to support a decision by the auditor that attendance is impracticable
 - Alternative audit procedures can include **inspection** of documentation of the subsequent sale of specific inventory to support evidence of existence
- If inventory under **the custody and control of a third party** is material to the F/S, the auditor shall obtain audit evidence regarding the existence and condition of that inventory by performing one or both of the following:
 - a) Requesting confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity
 - b) Performing inspection or other audit procedures
 - Examples of other audit procedures include
 - Attending the third party's physical counting of inventory (or arranging for another auditor to do so)
 - Obtaining another auditor's report or a service auditor's report on the adequacy of the third party's internal control for ensuring that inventory is properly counted and safeguarded

Litigation and Claims

- Design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:
 - **Inquiry of management** and others within the entity, including **in-house legal counsel**

- **Reviewing minutes** of meetings of those charged with governance and correspondence between the entity and its **external legal counsel**
- Reviewing **legal expense accounts**
- If the auditor assesses a risk of material misstatement regarding litigation or claims or if audit procedures performed indicate that material litigation or claims may exist **seek direct communication with the entity's external legal counsel** through a **letter of inquiry**, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor
 - If **management refuses permission to** communicate with the entity's external legal counsel **or if the entity's external legal counsel refuses to** respond **and** the auditor is unable to obtain sufficient appropriate audit evidence by performing **alternative audit** procedures, issue a **modified opinion**
- Request management and those charged with governance to provide **written representations** that all known **actual or possible litigation** and claims whose effects should be considered when preparing the F/S have been **disclosed to the auditor** and **accounted for** appropriately

Segment Information

- Obtain sufficient appropriate audit evidence regarding the **presentation and disclosure of segment information** by:
 - a) Obtaining an understanding of the **methods used by management** in determining segment information; and
 - Evaluating **whether such methods are likely to result in disclosure** in accordance with GAAP; and
 - Where appropriate, **testing the application of such methods**; and
 - b) Performing **analytical procedures** or **other audit procedures**