



SA 500 AUDIT EVIDENCE

Evidence in its broadest sense includes everything that is used to determine or demonstrate the **truth** of an assertion

- **Objective of audit** is to obtain **reasonable assurance** about whether the financial statements as a whole are free from material misstatement
- **Audit risk** is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated
- To obtain **reasonable assurance**, the auditor shall obtain **sufficient appropriate audit evidence** to reduce **audit risk** to an acceptably low level
- Because audit risk is “reduced” (and not eliminated) and assurance is “reasonable” (rather than absolute), an auditor offers an “opinion” and not a “certificate”

- Q: When does an auditor collect and evaluate evidence?
- Q: Can previous year audit experience provide evidence for current year audit?
- Q: Is auditor’s client acceptance process one means of gathering evidence?
- Q: Evidence supports audit assertions. What about evidence that contradicts audit assertions?

- Q: Information constitutes evidence. Can absence of information also constitute evidence?
- Q: What are the 6 audit procedures used for collecting evidence?
- Q: Why is the procedure of ‘inquiry’ not included?

- Q: We always say “sufficient appropriate audit evidence” – why?
- Q: How?
- Q: How is appropriateness measured?

▪ Q: What assurance do audit procedures like analysis, review, reperformance, reconciliation, etc provide?

▪ Q: How does an auditor obtain “consistency” in evidence?

▪ Q: What are the 3 basic procedures performed to obtain evidence?

▪ Q: Is nature and timing of audit impacted by the kind of evidence desired?

▪ Q: What are the techniques used by auditors to gather evidence?

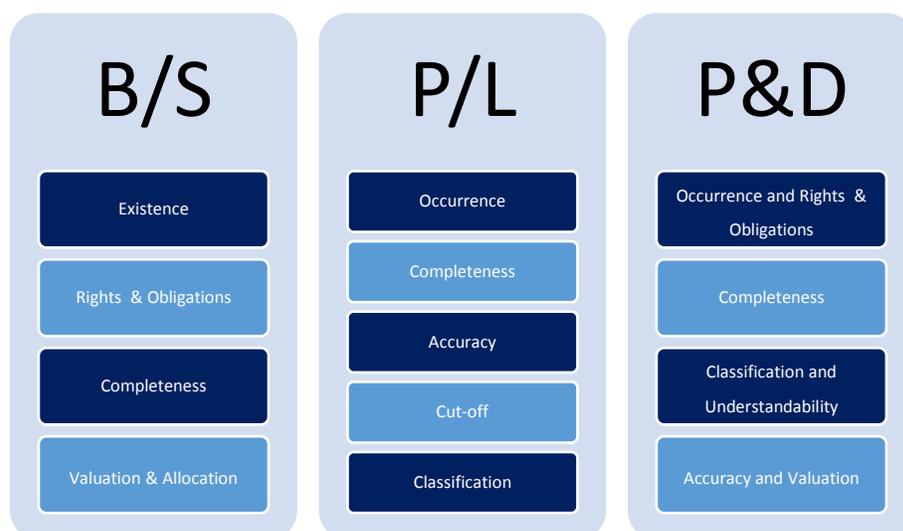
▪ Q: Which of these procedures will apply at the risk assessment stage, controls testing stage and substantive testing stage?

▪ Q: How is the tool of inspection used for gathering evidence?

▪ Q: How reliable is evidence gathered by inspection?

▪ Q: Does testing by inspection answer all the audit questions?

▪ Q: Does that mean that one would need to employ multiple tools to obtain evidence for the different assertions that are to be tested?



- Q: What evidence does observation provide?
- Q: What is a major limitation of observation as a means of evidence gathering?

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- Q: What evidence can external confirmation provide?
- Q: Can an auditor use external confirmation to evidence anything else?

- Q: What kind of evidence does an auditor obtain by recalculation?
- Q: When does the auditor use reperformance?

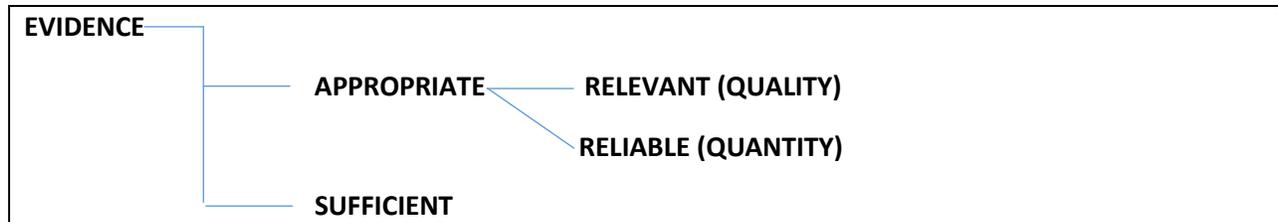
- Q: How does an auditor use the tool of analytical procedures to obtain evidence?

- Q: How can an auditor effectively use inquiry as a tool for gathering primary evidenced?

- Q: What could responses to inquiry tell an auditor?
- Q: When an auditor gets oral responses to his inquiry, would he need to obtain written representations?

- Q: Some accounting treatments depend upon management's intention. How can inquiry about management's intention be corroborated?

- Q: What are some of the techniques of gathering evidence relating to computer systems?

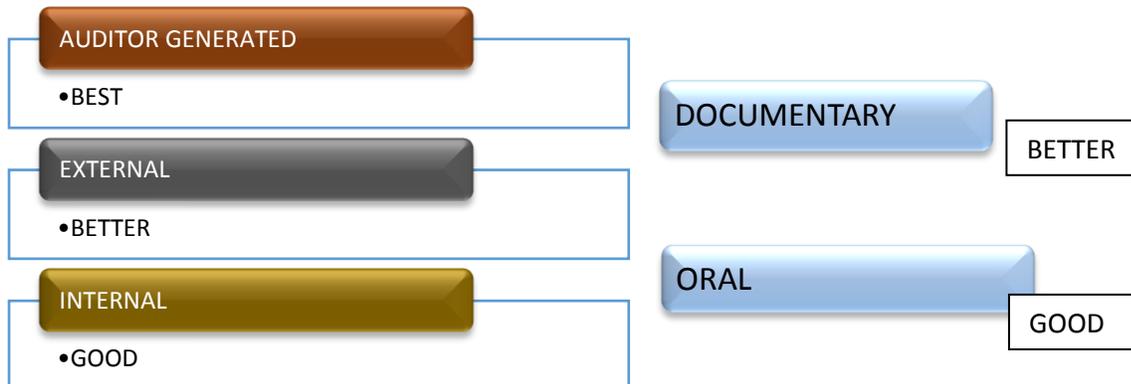


- Q: Why do errors and frauds escape an auditor even though he has performed sufficient audit procedures?
- Q: What is the meaning of “relevant”?
- Q: Give an example

- Q: Illustrate how our test may not be relevant to an assertion that gives rise to a risk?
- Q: What is “directional testing”?

- Q: What needs to be done to plan for relevant substantive procedures?

- Q: What needs to be done to plan for relevant tests of controls?



- Q: Are these generalisations about reliability of evidence always valid?

- Q: When evaluating reliability of evidence, does the auditor need to be mindful of SA 240?

- Q: Have technology changes changed the traditional auditor’s response to reliability?

- Q: Who is a management's expert?
- Q: A valuation specialist (a) provides an estimate of the value of securities for which no market exists; (b) provides information of private transactions, based on which the management develops the value of securities. Is he a management's expert in both cases?

- Q: What, in general, is an auditor expected to do for using the work of a management's expert to audit an assertion?
- Q: If the management does not have expertise in a non-accounting area and do not want to employ a management's expert, can they make a best estimate of the assertion – say, based on past performance?

- Q: What considerations may drive the nature, timing and extent of audit procedures when using the work of a management's expert?

- Q: Before using the work of a management's expert, what does an auditor need to evaluate?
- Q: Of the above, which can create the most risk for an auditor?

- Q: How does the auditor understand the expert's work?

- Q: What are the 3 things an auditor needs to do in evaluating the management's expert's work before accepting it as audit evidence?

- IPE = information produced by the entity
- Q: What is an auditor required to do before he accepts IPE for use in his testing procedures?

- Q: Is testing for completeness and accuracy of IPE done as a separate exercise?

- Q: What are the avenues available to an auditor for making a selection of items to be tested?

- Q: What should you have on the audit file to show for evidence examined?

SA 580 WRITTEN REPRESENTATIONS

- An auditor is responsible for obtaining written representations (reps) from management/ TCWG
- Written reps (MRL) are similar to responses to inquiry in terms of audit evidence – ie that they provide evidence but not sufficient appropriate audit evidence
- An inquiry *elicits* information, an MRL *confirms* the information/ assertion and *commits* management to it in writing
- An MRL is not enough by itself to vouch for any assertion, but needs corroboration of other normal evidence – it could be said to be like “incremental evidence”

- To get the management to accept its share of responsibility for the audit in writing. This is because the auditor includes a management’s responsibility paragraph in the auditor’s report. The MRL gives him the strength to commit the management to such responsibility – *this is the reason why MRL must be signed before the date of the auditor’s report*
- To obtain written support for other evidence relied on by the auditor for some of the key assertions in the FS
- To respond appropriately to assertions made by management in the MRL and for assertions that management refuses to make in the MRL

- Q: Who must sign an MRL?
- Q: Can MRL use language that says that the reps are made to the best of knowledge and belief of those who sign them?
- Q: Would it be better to have language that says that such inquiries as were necessary were made for giving the representations?

- Q: What are the two kinds of reps that are always necessary?

- Q: What are the other supplementary reps?

- Q: During audit an auditor obtains a specific rep. Does he need to include that again in the year-end rep?
- Q: Since the FS also include prior period details, is there a need to get any MRL covering the prior period again?
- Q: Mid-way during the year there was a change in CEO/ CFO. The new CEO/ CFO do not wish to give a rep for periods when they were not there. Are they justified?

- Q: What is the form of an MRL?
- Q: Is the MRL to be communicated to TCWG?
- Q: What is the auditor to do if he finds one or more rep given by management to be inconsistent with other evidence in his possession?

- Q: If auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these can he rely on management's representations?
- Q: If management reps are not reliable, must he always withdraw?
- Q: What if the auditor concludes that although there are concerns, the reps are still reliable?

- Q: If auditor concludes that written reps provided are not reliable or if they are not provided, what should he do?
- Q: Auditor asks for a rep in a given form but management gives him the rep in a changed form. What should the auditor do?