Sr.No.	SA No.	Question & Answer
May 16		**Hello CA IPCC Students, I know you guys always remain little worried about SAs, so we were thinking how to help students, in the process we came up with idea, we compiled all SA questions from past 3 RTPs in 14 pages, you must be aware of many of these questions so do it from your regular notes / books in other cases you can refer answers here. We wish & pray for your success. ALL THE BEST!!!**
1.	200	**Q-1**. **"Doing a statutory audit is full of risk'. Narrate the factors which cause the risk.** **Ans: - Factors Causing Risk Under Statutory Audit:** As Per SA 200 "Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with standards on auditing", the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general-purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion. An independent audit whether performed in terms of applicable financial reporting framework or in terms of the engagement, the auditor has to be reasonably satisfied as to whether the information contained in the underlying accounting records and other source data is reliable for the preparation of financial statements. Since the entire process of auditing is based on the assessment of judgements made by the management of the entity as well as evaluation of internal controls, the audit suffers certain inherent risks. **Factors which may cause such risk in conducting an audit are discussed below-** **(i) Exercising judgement on the part of the auditor:** The auditor's work involves exercise of judgement, for example, in deciding the extent of audit procedures and in assessing the reasonableness of the judgements and estimates made by management in preparing the financial statements. **(ii) Nature of audit evidence:** Much of the evidence available to the auditor can enable him to draw only reasonable conclusions therefrom. The auditor normally relies upon persuasive evidence rather than conclusive evidence. Even in circumstances where conclusive evidence is available, the cost of obtaining such an evidence may far exceed the benefits. **(iii) Inherent limitations of internal control:** Internal control can provide only reasonable, but not absolute, assurance on account of several inherent limitations such as potential for human error, possibility of circumstances of control through collusion, etc. On account of above, it is quite clear that an audit suffers from control risk on account of inherent limitations of internal control and detection risk on account of test nature of audit and judgement and estimates involved in formulating accounting policies.
	200	**Q-2. "The process of auditing is such that it suffers from certain limitations" Discuss**. **Ans: - Inherent Limitations of Audit:** As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the objectives of an audit of financial statements, prepared with in a framework of recognized accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements. In forming his opinion on the financial statements, the auditor

		follows procedures designed to satisfy him that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. The process of auditing, however, is such that it suffers from certain limitations, i.e. the limitation which cannot be overcome irrespective of the nature and extent of audit procedures. The limitations of an audit arise from- **(i) The Nature of Financial Reporting:** The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. **(ii) The Nature of Audit Procedures:** There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example: **(1)** There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. **(2)** Fraud may involve sophisticated and carefully organized schemes designed to conceal it. The auditor is neither trained as nor expected to be an expert in the authentication of documents. **(3)** An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation. **(iii) Timeliness of Financial Reporting and the Balance between Benefit and Cost:** The relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. There is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise. **(iv) Other Matters that Affect the Limitations of an Audit:** In the case of certain assertions or subject matters, the potential effects of the limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include: ✓ Fraud, particularly fraud involving senior management or collusion. ✓ The existence and completeness of related party relationships and transactions. ✓ The occurrence of non-compliance with laws and regulations. ✓ Future events or conditions that may cause an entity to cease to continue as a going concern. Because of the limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
	200	**Q-3 Explain concept of 'Materiality'.** **Ans: - Concept of Materiality:** According to SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", financial reporting frameworks often discuss the concept of materiality in

		the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that: • Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both; and • Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. **(1)** Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred above provides the auditor with such a frame of reference. **(2)** The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users: **(a)** Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence; **(b)** Understand that financial statements are prepared, presented and audited to levels of materiality; **(c)** Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and **(d)** Make reasonable economic decisions on the basis of the information in the financial statements. **(3)** The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.
Nov-16		
	200	**Q-4 "The process of auditing is such that it suffers from certain limitations which cannot be overcome irrespective of the nature and extent of audit procedures." Explain.** **Ans: - Inherent limitations of Audit**: As per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the objectives of an audit of financial statements, prepared with in a framework of recognized accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements. In forming his opinion on the financial statements, the auditor follows procedures designed to satisfy him that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. The process of auditing, however, is such that it suffers from certain limitations, i.e. the limitation which cannot be overcome irrespective of the nature and extent of audit procedures. The limitations of an audit arise from: **(i) The Nature of Financial Reporting:** The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty,

		and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. **(ii) The Nature of Audit Procedures:** There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example: **(1)** There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. **(2)** Fraud may involve sophisticated and carefully organized schemes designed to conceal it. The auditor is neither trained as nor expected to be an expert in the authentication of documents. **(3)** An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation. **(iii) Timeliness of Financial Reporting and the Balance between Benefit and Cost:** The relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. There is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise. **(iv) Other Matters that Affect the Limitations of an Audit:** In the case of certain assertions or subject matters, the potential effects of the limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include: ✓ Fraud, particularly fraud involving senior management or collusion. ✓ The existence and completeness of related party relationships and transactions. ✓ The occurrence of non-compliance with laws and regulations. ✓ Future events or conditions that may cause an entity to cease to continue as a going concern. Because of the limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
	200	**Q-5. The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit. Do you agree with the statement?** **Ans: -** Professional Skepticism: As per SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", professional skepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

		Therefore, professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of overlooking unusual circumstances, over generalizing when drawing conclusions from audit observations or using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof. Further, while obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. This requirement is also designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement. Therefore, we do agree with the statement.
May-17		
	200	**Q-6. "The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements". Explain stating the objectives of audit as per SA 200.** **Ans: - As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:** **(1)** To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and **(2)** To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general-purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion.
2.	**220**	**Q-7. Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220.** **Ans: -** Information which assist the Auditor in accepting and continuing of relationship with Client: As per SA 220, "Quality Control for an Audit of Financial Statements" the auditor should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of a new engagement with an existing client. The following information would assist the auditor in accepting and continuing of relationship with the client**:** **(i)** The integrity of the principal owners, key management and those charged with governance of the entity; **(ii)** Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;

		(iii) Whether the firm and the engagement team can comply with relevant ethical requirements; and **(iv)** Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.
3.	230	**Q-7. The audit working papers constitute the link between the auditor's report and the client's records. Discuss stating clearly the objectives of audit working papers.** **Ans: - Matters the auditor may consider in determining the extent of tests of controls:** When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls. Matters the auditor may consider in determining the extent of tests of controls include the following: • The frequency of the performance of the control by the entity during the period. • The length of time during the audit period that the auditor is relying on the operating effectiveness of the control. • The expected rate of deviation from a control. • The relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
May-16		
4	250	**Q-8 With reference of SA 250 give some examples or matters indicating to the auditor about non-compliance of laws & regulations by management.** **Ans: - Non-compliance of Laws and Regulations by Management:** As per SA 250 on "Consideration of Laws and Regulation in an Audit of Financial Statements", the following are examples or matters indicating to the auditor about non-compliance with laws and regulations by management: • Investigations by regulatory organizations and government departments or payment of fines or penalties. • Payments for unspecified services or loans to consultants, related parties, employees or government employees. • Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. • Purchasing at prices significantly above or below market price. • Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. • Unusual payments towards legal and retainer-ship fees. • Unusual transactions with companies registered in tax havens. • Payments for goods or services made other than to the country from which the goods or services originated. • Payments without proper exchange control documentation. • Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. • Unauthorized transactions or improperly recorded transactions. • Adverse media comment.
May-17		
5	260	**Q-9. State the significant difficulties encountered during audit with reference to SA-260 (communication with those charged with governance).**

		Ans: - Significant Difficulties Encountered During the Audit: As per SA 260 “Communication with Those Charged with Governance”, significant difficulties encountered during the audit may include such matters as: • Significant delays in management providing required information. • An unnecessarily brief time within which to complete the audit. • Extensive unexpected effort required to obtain sufficient appropriate audit evidence. • The unavailability of expected information. • Restrictions imposed on the auditor by management. • Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested.
May-16		
6	**315**	**Q-11. Explain the concept of Internal Control. Also state the objectives of Internal Control.** **Ans: - Internal Control:** As per SA-315, “Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment” the internal control may be defined as “the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.” **Objectives of Internal Control:** • transactions are executed in accordance with managements general or specific authorization; • all transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets; • assets are safeguarded from unauthorized access, use or disposition; and • the recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.
Nov-16		
	315	**Q-12. “Risk of material misstatement at the assertion level for classes of transactions, account balances and disclosures need to be considered.” Explain stating the different categories of assertions used by the auditor.** **Ans: -** Risk of Material Misstatement at the Assertion Level: According to SA 315 “Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment”, risks of material misstatement at the assertion level for classes of transactions, account balances, and disclosures need to be considered because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level necessary to obtain sufficient appropriate audit evidence. In identifying and assessing risks of material misstatement at the assertion level, the auditor may conclude that the identified risks relate more pervasively to the financial statements as a whole and potentially affect many assertions. Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms- ➢ Assertions about classes of transactions and events for the period under audit:- • Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.

		• Completeness—all transactions and events that should have been recorded have been recorded. • Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately. • Cut-off—transactions and events have been recorded in the correct accounting period. • Classification—transactions and events have been recorded in the proper accounts.
May-17		
	315	**Q-13. The auditor may exercise his judgement to identify which risks are significant risks. Explain the above in context of SA-315.** **Ans: - Identification of Significant Risks:** SA 315 “Identifying and Assessing the Risk of Material Misstatement through understanding the Entity and its Environment” defines ‘significant risk’ as an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. As part of the risk assessment, the auditor shall determine whether any of the risks identified are, in the auditor’s judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. In exercising judgment, as to which risks are significant risks, the auditor shall consider at least the following- • Whether the risk is a risk of fraud; • Whether the risk is related to recent significant economic, accounting or other developments like changes in regulatory environment etc. and therefore requires specific attention; • The complexity of transactions; • Whether the risk involves significant transactions with related parties; • The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and • Whether the risk involves significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.
May-17		
7	**320**	**Q-14. “SA 320 “Materiality in Planning and Performing an Audit”, establishes standards on the concept of materiality and the relationship with audit risk while conducting an audit. Hence, the auditor requires more reliable evidence in support of material items”. Explain.** **Ans: - Advantages and Disadvantages of the use of an Audit Programme** The advantages of an audit programme are: • It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done. • It is essential, particularly for major audits, to provide a total perspective of the work to be performed. • Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated. • Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some ‘mental’ plan. In such a situation, there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, the danger is significantly less and the audit can proceed systematically.

		• The assistants, by putting their signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant. • The principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work. • It serves as a guide for audits to be carried out in the succeeding year. • A properly drawn up audit programme serves as evidence in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor. **Some disadvantages are also there in the use of audit programmes but most of these can be removed by taking some concrete steps. The disadvantages are:** • The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme. • The programme often tends to become rigid and inflexible following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon. • Inefficient assistants may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein. • A hard and fast audit programme may kill the initiative of efficient and enterprising assistants. All these disadvantages may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.
May-16		
8	**330**	**Q-15. "Satisfactory Control Environment may help reduce the risk of fraud but is not an absolute deterrent for fraud". Explain.** **Ans: - Satisfactory Control Environment - not an absolute deterrent to fraud:** The existence of a satisfactory control environment can be a positive factor when the auditor assesses the risks of material misstatement. However, although it may help reduce the risk of fraud, a satisfactory control environment is not an absolute deterrent to fraud. Conversely, deficiencies in the control environment may undermine the effectiveness of controls, in particular in relation to fraud. For example, management's failure to commit sufficient resources to address IT security risks may adversely affect internal control by allowing improper changes to be made to computer programs or to data, or unauthorized transactions to be processed. As explained in SA 330, the control environment also influences the nature, timing, and extent of the auditor's further procedures. The control environment in itself does not prevent, or detect and correct, a material misstatement. It may, however, influence the auditor's evaluation of the effectiveness of other controls (for example, the monitoring of controls and the operation of specific control activities) and thereby, the auditor's assessment of the risks of material misstatement.
Nov-16		
	330	**Q-16. Explain the test of controls and substantive procedures as audit procedure of obtaining sufficient appropriate audit evidence for forming an audit opinion.** **Ans:- Collection of Evidence to Form Audit Opinion:** Auditor should obtain sufficient and appropriate audit evidence and test them before framing an opinion about the assertions the financial statements reveal. For this, the auditor checks evidences through:-

<table>
<tr><td></td><td></td><td>(a) Test of Controls and
(b) Substantive Procedure.
According to SA 330 “The Auditor’s Responses to Assessed Risks”, ‘test of controls’ means an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.
The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when:
The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.
SA 330 further explains the ‘substantive procedure’ as an audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:
Tests of details (of classes of transactions, account balances, and disclosures), and
Substantive analytical procedures.
Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures.</td></tr>
<tr><td colspan="2">May-17</td><td></td></tr>
<tr><td>9</td><td>500</td><td>Q-17. “Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability”. Explain. Also, state generalizations about the reliability of audit evidence.

Ans: - Reliability of Audit Evidence: SA 500 on “Audit Evidence” provides that the reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management’s expert may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:
The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).</td></tr>
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		• Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.
10	505	**Q-18. What is meant by external confirmation? Mention four situations where external confirmation may be useful for auditors.** **Ans: - External Confirmation:** As per SA 505 "External Confirmations", external confirmation is an audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. The auditor should determine whether the use of external confirmation is necessary to obtain sufficient appropriate audit evidence to support certain financial statement assertions. Following are examples of situations where external confirmations may be useful- ✓ Bank balances and other information from bankers ✓ Account receivables balances ✓ Inventory held by third parties ✓ Account payable balances.
May-16		
11	530	**Q-19. With reference to SA 530, meaning of audit sampling and requirements relating to sample design, sample size & selection of items for testing.** **Ans: - Audit Sampling:** As per SA 530 on "Audit Sampling", the meaning of the term "Audit Sampling" is the application of audit procedures to less than 100% of items within a population of audit relevance such that all 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. According to the said SA, requirements relating to sample design, sample size and selection of items for testing are explained below - • **Sample Design -** When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. • **Sample Size -** The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. • **Selection of Items for Testing -** The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.
Nov-16		
	530	**Q-20. Discuss the methods of Sampling in the light of SA 530.** **Ans: - Methods of Sampling:** There are many methods of selecting samples. The principal methods are as follows - ➢ **Random selection** (applied through random number generators, for example, random number tables). Stratified Sampling is one of the methods of Random Sampling. This method involves dividing the whole population to be tested in a few groups called strata and taking a sample from each of them. Each stratum is treated as if it were a separate population and if proportionate items are selected from each of the stratum. The groups into which the whole population is divided is determined by the auditor on the basis of his judgement e.g. entire expense vouchers may be divided into: • Vouchers above ` 1,00,000 • Vouchers between ` 25,000 and ` 1,00,000

		• Vouchers below ` 25,000 The auditor can then decide to check all vouchers above ` 1,00,000, 50% between ` 25,000 and ` 1,00,000 and 25% of those below ` 25,000. The reasoning behind the stratified sampling is that for a highly-diversified population, weights should be allocated to reflect these differences. This is achieved by selecting different proportions from each strata. It can be seen that the stratified sampling is simply an extension of simple random sampling. ➢ **Systematic selection,** in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population. ➢ **Monetary Unit Sampling** is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts. ➢ **Haphazard selection,** in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling. ➢ **Block selection** involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.
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12	**540**	**Q-21. "Accounting estimate means an approximation of a monetary amount in the absence of a precise means of measurement". Discuss explaining the accounting estimates according to SA-540.** **Ans: - Accounting Estimates:** According to the SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosure", accounting estimate means an approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. SA 540 addresses only accounting estimates involving measurement at fair value, the term "fair value accounting estimates" is used. Because of the uncertainties inherent in business activities, some financial statement items can only be estimated. Further, the specific characteristics of an asset, liability or component of equity, or the basis of or method of measurement prescribed by the financial reporting framework, may give rise to the need to estimate a financial statement item. Some financial reporting frameworks prescribe specific methods of measurement and the disclosures that are required to be made in the financial statements, while other financial reporting frameworks are less specific. Some accounting estimates involve relatively low estimation uncertainty and may give rise to lower risks of material misstatements, for example: ✓ Accounting estimates arising in entities that engage in business activities that are not complex. ✓ Accounting estimates that are frequently made and updated because they relate to routine transactions. For some accounting estimates, however, there may be relatively high estimation uncertainty, particularly where they are based on significant assumptions, for example:

		✓ Accounting estimates relating to the outcome of litigation. ✓ Fair value accounting estimates for derivative financial instruments not publicly traded. Additional examples of accounting estimates are: ✓ Allowance for doubtful accounts. ✓ Inventory obsolescence. ✓ Warranty obligations. ✓ Depreciation method or asset useful life. ✓ Provision against the carrying amount of an investment where there is uncertainty regarding its recoverability. ✓ Outcome of long term contracts. ✓ Financial Obligations / Costs arising from litigation settlements and judgments.
13	**560**	**Q-22**. **"The auditors should consider the effect of subsequent events on the financial statements and on auditor's report". Comment with reference to SA 560.** **Ans: - Effect of Subsequent Events:** SA 560 "Subsequent Events", establishes standards on the auditor's responsibility regarding subsequent events. According to it, 'subsequent events' refer to those events which occur between the date of financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. It lays down the standard that the auditor should consider the effect of subsequent events on the financial statements and on the auditor's report. The auditor should obtain sufficient appropriate evidence that all events upto the date of the auditor's report requiring adjustment or disclosure have been identified and to identify such events. The auditor should- • obtain an understanding of any procedures management has established to ensure that subsequent events are identified. • inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are: ✓ Whether new commitments, borrowings or guarantees have been entered into. ✓ Whether sales or acquisitions of assets have occurred or are planned. ✓ Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned. ✓ Whether there have been any developments regarding contingencies. ✓ Whether there have been any developments regarding risk areas and contingencies. ✓ Whether any unusual accounting adjustments have been made or are contemplated. ✓ Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption. ✓ Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements. ✓ Whether any events have occurred that are relevant to the recoverability of assets. • Read minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. • Read the entity's latest subsequent interim financial statements, if any.

		• Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements. • Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims. • Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence. When the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements. If such events have not been considered by the management and which in the opinion of the auditor are material, the auditor shall modify his report accordingly.
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14	**610**	**Q-23. Explain the activities of the Internal Audit function.** **Ans:- Internal Audit Function:** As per SA-610, "Using the Work of an Internal Auditor", the objectives of internal audit functions vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. The activities of the internal audit function may include one or more of the following: • **Monitoring of internal control.** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto. • **Examination of financial and operating information.** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures. • **Review of operating activities.** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity. • **Review of compliance with laws and regulations.** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements. • **Risk management.** The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems. • **Governance.** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.