

Compliance with Audit Documentation

ICAI Peer Review Board(Nagpur Branch of WIRC of ICAI)

Compiled by

CA Kamlesh Saboo

B.Com.(Hons.),FCA, IP,DISA,FAFD, Cert Concurrent auditor.
9819195333



Compliance with Audit Documentation

Examples of audit documentation include the following:

- Engagement letter
- Audit programs defined, with details of work carried out and results filled, including planning memorandum
- Analyses of various account balances through comparatives and corroborative.
- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.
- Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements).

Audit documentation, however, is not a substitute for the entity's accounting records.

Compliance with Audit Documentation

The auditor need not include in audit documentation:

- Superseded drafts of working papers and financial statements,
- Notes that reflect incompleteness,
- Preliminary thinking,
- Previous copies of documents corrected for typographical or other errors, and Duplicates of documents.
- Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

Compliance with Audit Documentation

Form, Content and Extent of Audit Documentation

Para 8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing, and extent of the audit procedures** performed to comply with the SAs and applicable legal and regulatory requirements;
- (b) The results of the audit procedures performed, and the audit evidence** obtained;
and
- (c) Significant matters arising during the audit, the conclusions** reached thereon, and **significant professional judgments** made in reaching those conclusions.

Compliance with Audit Documentation

The nature of an audit procedure refers to its **purpose** (i.e., **test of controls or substantive procedure**) and its **type** (i.e., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure).

Timing of an audit procedure refers to **when it is performed, or the period or date** to which the audit evidence applies.

Extent of an audit procedure refers to **the quantity to be performed**, for example, a sample size or the number of observations of a control activity.

For example, **in relation to revenue, tests of controls** may be most responsive to the assessed risk of misstatement of the **completeness assertion**, whereas **substantive procedures** may be most responsive to the assessed risk of misstatement of the **occurrence assertion**.

The higher the risk of material misstatement, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). This is particularly relevant when considering the response to the risks of fraud.

Compliance with Audit Documentation

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset (**Existence and Valuation**)

Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time (**Control activities and physical verification**)

External confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic (**Existence valuation Completeness**)

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically. (**Accuracy**)

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control. (**Control activities and physical verification**)

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data.

Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. (**Mere inquiry is not enough**)

Compliance with Audit Documentation

Form, Content and Extent of Audit Documentation

In principle, compliance with the requirements of this SA (SA 230) will result in the audit documentation being sufficient and appropriate in the circumstances.

Audit documentation provides evidence that the audit complies with SAs.

However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit.

Compliance with Audit Documentation

The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.

The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, those charged with governance.

An auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the SAs.

Compliance with Audit Documentation

Robust documentation well-organized, comprehensive, and reliable documentation. It's not just about writing something down, but ensuring that the information is accurate, easy to understand, and readily available for use, troubleshooting, and knowledge transfer.

Sufficiency is the measure of the **quantity of audit evidence**. It depends on factors like the risk of material misstatement, the quality of the evidence, and the materiality level of the information. For example, **if the risk of misstatement is high**, more evidence may be needed to support the audit opinion.

Appropriateness refers to the **quality of the audit evidence**. For evidence to be appropriate, it must be relevant and reliable in supporting the auditor's conclusions. **Relevance** means the evidence is directly related to the assertions being tested, and **reliability** means the evidence is trustworthy and free from bias.

Work not documented is work not done; therefore and ideally work documented is work done

Compliance with Audit Documentation

Appointment and Acceptance

- Minutes of Meeting in which the Firm has been appointed
- Engagement Acceptance & Continuance Checklist
- Acknowledgement of Engagement Letter
- Independence Confirmations from the Engagement Team
- Form ADT 1 is required to be filed with Registrar of Companies (ROC) within 15 days from the date of Auditors appointment. (Generally AGM)

•NOC from Previous Auditor

Q. Whether a Chartered Accountant will be deemed to be guilty of professional misconduct if he accepts his appointment as an auditor immediately after intimating his appointment over the phone to the previous auditor?

A. Yes, the member would be held guilty of professional misconduct for the following reasons : That he had failed to communicate with the retiring auditor in writing; and That he did not wait for a reasonable length of time for a reply to be received from him.

The Audit File should have sufficient and appropriate documentation to support the decision

Compliance with Audit Documentation

Audit Planning

- **Audit Planning Meeting** include EQCR Partner and EQCR Team Member) (also wherein certain decisions such locations & that will be visited for example stock take etc are decided to be informed to Client about the locations) and
- **Audit Planning Memorandum**
- **Minutes of Kick off Meeting** (With client)(Reminder to obtain RCM from Client)
- **Identification of Risks** (especially Significant Risks) and the planned audit procedures
- **Fraud related discussions and inquiries** with the Entity personnel (in different functions)
- **Understanding the legal and regulatory environment of the Entity** Note on materiality and Basis of materiality and determination of materiality (reminder to revisit the same later on)
- **Significant Laws & Regulations**(SA 250 - From the list of Applicable laws & Regulations from Secretarial Dept.)

Compliance with Audit Documentation

Planning and Risk Assessment

- **Preliminary Analytical Procedures** (remember to do a final analytical procedure as well)
- **Understanding the Operations and nature of business** (ideally 6 Business Cycles ; walkthrough; documentation of checking of RCM of the client; Design and Implementation of Controls and Operating Effectiveness of the Controls (to be checked and documented) (this will also help in the identification of Significant Risks)
- **Audit Requirement Communication-** including that for Schedule III and CARO
- **Understand the nature of the design and implementation of controls ;** the operating effectiveness and the Risk Associated with Controls (RAWC)... Refer to the Guidance Note from our ICAI
- As we would be aware the Guidance Note mentions 7 factors to be checked for Design of the Controls and there are 9 factors for RAWC

Compliance with Audit Documentation

Test of Details

Determination of number of samples (based on Materiality and Risk Assessment giving cross reference to the documentation / work-papers for Materiality and Risk Assessment)

Coverage of population (Areas / Products / **Percentage of population**)

Link between the Audit Procedures done and the Assertions for the Amount

Tickmark (explanation of the item or details of other underlying documents referred to)

Compliance with Audit Documentation

Certain requisites

- Nature, Timing and Extent of audit procedures (as mentioned earlier)
- Observations
- Significant judgements
- Conclusion reached
- **Requirements of Ind AS** (example Ind AS 115 mentions 5 step model and ideally these 5 steps have to be documented)

- Identify the contract.
- Identify performance obligations.
- Determine the transaction price.
- Allocate the transaction price.
- Recognize revenue when (or as) a performance obligation is satisfied.

Compliance with Audit Documentation

Certain requisites (Low hanging fruits)

- Link to Financials (referring to the disclosures and presentation)
- Tally with Trial Balance
- Mention source of data (name and designation of person OR SAP Report (could be Z report))
- In case we are not checking a particular Account Code the reasons for the same must be documented)
- Preparer and reviewer sign off (has to be before the signing of the Financials) and date of sign off.
- Review Notes >> corroborative evidence of reviews. These should be deleted before “archiving the Audit File”)

Compliance with Audit Documentation

Test of Details

- Each account of the TB should be linked to the Notes to Accounts and each Note should be linked to work paper . Each work paper should mention the Note Number of the FS
- Audit procedures when confirmations not received OR when confirmations received for a different balance
- Revenue from Operations (in case Ind AS115 is applicable then please check and document the 5 step model)
- Inventory (Cost or NRV checking is to be documented- check with Inventory Valuation Policy)- Cut-off testing for Inventory and for Liabilities

Compliance with Audit Documentation

Test of Details

- Employee Benefits - Checking of Data Sent to actuary Data & Check the Valuation report vis-à-vis the same
- Key Audit Matters (the procedure mentioned in the “A Report” should be based on what is documented in the work paper of that area and that which is documented as an audit procedure should be done)
- What are the additional Audit procedures done for significant Risk (extra or additional procedures done because the Account Balance ; Transaction or Disclosure being a Significant Risk)
- To ensure that there are work papers for each & every Standard of Auditing (*any idea how many*) in the checklist mention the reference of Document where the documentation is done.

Confirmations

Positive confirmation request – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Compliance with Audit Documentation

Journal Entry Testing

Journal Entry Testing

Management override of Controls is possible thru JE

Test the **appropriateness of journal entries recorded in the general ledger** and other adjustments made in the preparation of the financial statements

Review **accounting estimates for biases and evaluate** whether the circumstances producing the bias,

For significant transactions that are outside the normal course of business for the entity, **the auditor shall evaluate whether the business rationale** (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets

Compliance with Audit Documentation

Journal Entry Testing

- Non Standard JEs to be checked by Audit Team and should document
- Reasons and Frequency
- Why is JE required

- Check and emphasis on along with robust documentation for JE for amounts ending '99' or '00'
- **JEs debiting and crediting same account** (with different sub codes) (could be to impact the bonus of a/ the preparer and authoriser)
- JEs passed at period end and / or not reversed in the beginning of next period
- JEs passed debiting an account where only credit items should exist

Compliance with Audit Documentation

Journal Entry Testing

- JEs should not be passed in accounts related to Cash and Bank (actually needless to say this JEs passed on non-working days
- JEs passed in accounts / codes **which are not as per the role** and responsibility of the preparer of the JE or the reviewer of the JE
- JEs narration be complete and meaningful. Narrations should be read carefully and understood properly. The narration **should not mention the words “ target, as per discussions” “ As per discussion with Auditor”**
- JEs prepared / checker by **generic account names / email ids** such as “Accounts @ XYZ Ltd.” For this will make it slightly difficult to pin point the maker / checker

Compliance with Audit Documentation

- Going Concern Consider that the Entity is profit making one; however documentation of the fact that we have checked for and evaluated “Going Concern’ is an absolute must
- Subsequent Events
- Related Party Transactions (document to mention details about identification of the RP; the transactions and the balances)
- Using the work of experts
- Document the checking of the Accounting Policies
- Disclosures testing
- Management Representation Letter

Compliance with Audit Documentation

Analysis of the FS - Ideally in our Test of Details the Engagement Team must incorporate an analysis of the amounts of current year vis-à-vis the previous year.

This documentation will ensure that the understanding gained during Test of Details is in line with the Entity's Management & explanation for the variance if any.

Compliance with Audit Documentation

Audit Committee Presentation

- Please read and ensure adherence to Paras 14-17 of SA 260 and the relevant Application and Other Explanatory Material and SA 265 Try and incorporate (not necessarily in same order)
- The Roles and responsibilities of the Management and the Auditors (whether with Joint Auditors or not)
- The scope and timing
- The areas of Significant Risk and related matters
- The locations covered
- Estimates and Judgements made by the Management and compare the same with reasons the previous year's estimates and judgements
- Whether or not we have relied on the Internal Auditor and reports
- Cover System Controls and IT General Controls (separately if need be)
- Materiality and Performance materiality (no need to mention the amounts)
- Audit Report . Ensure compliance to SAs

Compliance with Audit Documentation

KAM and EOM

Key Audit Matters – Those matters that, in the auditor’s professional judgment, **were of most significance in the audit of the financial statements of the current period.**

Key audit matters are selected from matters communicated with those charged with governance

Emphasis of Matter paragraph – A paragraph included in the auditor’s report that **refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment,** is of such importance that it is fundamental to users’ understanding of the financial statements.

(An example would be Attention to a Note XYZ of the FS which would ideally not impact our opinion)

Other Matter paragraph –A paragraph included in the auditor’s report that **refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment,** is relevant to users’ **understanding of the audit,** the auditor’s responsibilities or the auditor’s report.

(an easy example The fact that the previous year FS where audited by someone else)

Compliance with Audit Documentation

Gist of SA 220 vis-à-vis Engagement Partner's responsibilities

Quality Control for an Audit of Financial Statements

- Leadership Responsibilities for Quality on Audits
- Relevant Ethical Requirements
- Independence
- Acceptance and Continuance of Client Relationships and Audit Engagements
- Assignment of Engagement Teams
- Engagement Performance Direction, Supervision and Performance
- Reviews
- Consultation
- Engagement Quality Control Review

Compliance with Audit Documentation

SQC

The firm's **system of quality control** should include policies and procedures addressing each of the following elements:

- (a) Leadership responsibilities for quality within the firm.
- (b) Ethical requirements.
- (c) Acceptance and continuance of client relationships and specific engagements.
- (d) Human resources.
- (e) Engagement performance.
- (f) Monitoring.

As a Reviewer one would check the presence of an Audit Manual; however the completeness and accuracy of the Audit Manual may not be verified.

Compliance with Audit Documentation

A22. The completion of the assembly of the final audit file after the date of the auditor's report is **an administrative process** that does not involve the **performance of new audit procedures or the drawing of new conclusions**.

Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature.

Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

Any Questions



Any Questions

Compiled by

CA Kamlesh Saboo

B.Com.(Hons.),FCA, IP,DISA,FAFD, Cert Concurrent auditor.

9819195333



*Thank
you*



CA Kamlesh Saboo

B.Com.(Hons.),FCA, IP,DISA,FAFD,

Compiled by CA Kamlesh Saboo