

AUDIT DOCUMENTATION

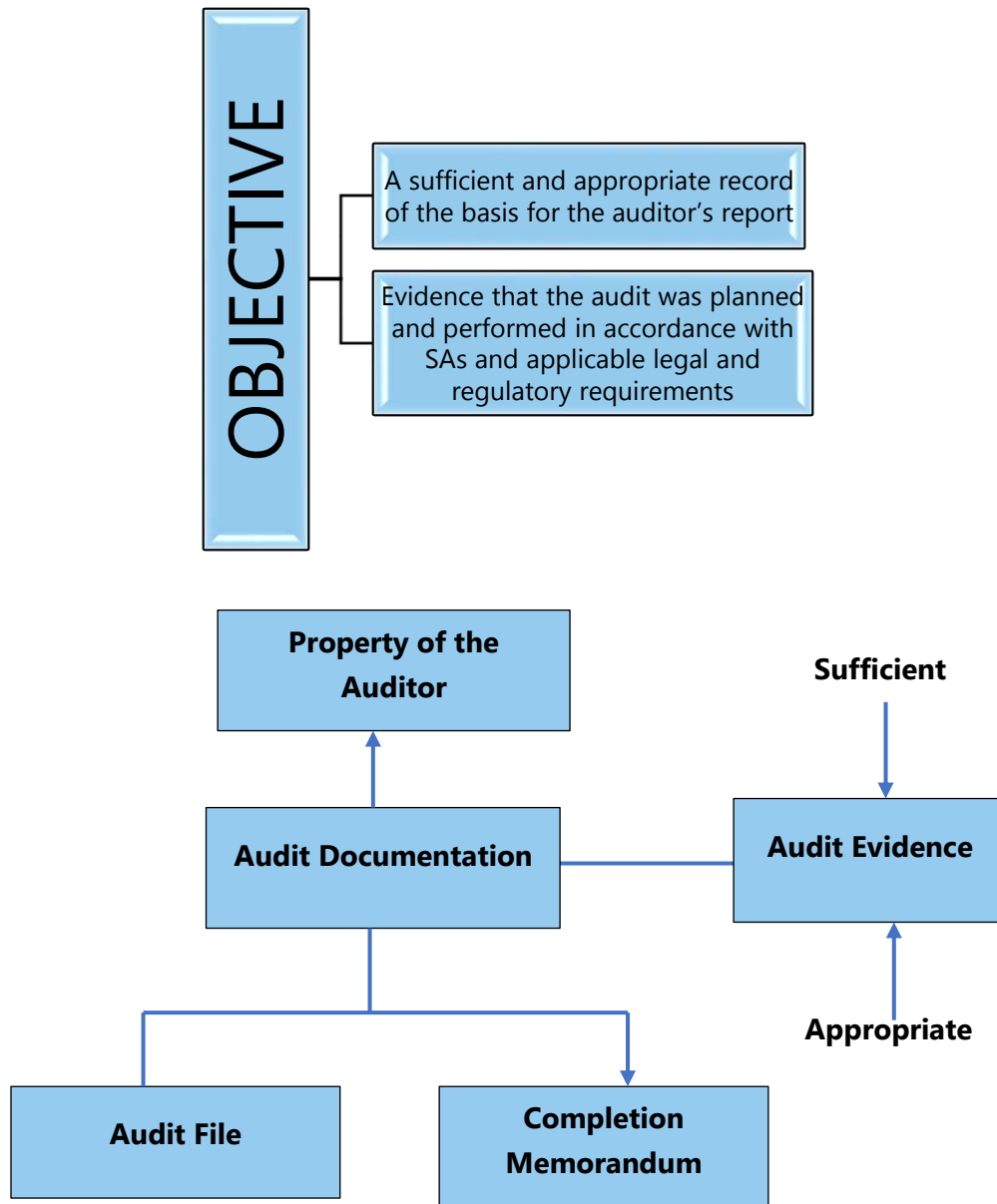


LEARNING OUTCOMES

After studying this chapter, you would be able to understand-

- ◆ Audit Documentation.
- ◆ Nature and purpose of audit documentation.
- ◆ Form, content and extent of audit documentation.
- ◆ Audit documentation summary.
- ◆ Audit file.
- ◆ Assembly of the final audit file.
- ◆ Ownership of audit documentation.
- ◆ Practicality of above concepts by studying through examples and case studies.

CHAPTER OVERVIEW



Sameer received a news alert on his mobile pointing to unconfirmed media reports of providing a Digi locker type facility to auditors for keeping audit documentation in times to come. He immediately grasped the idea as Aadhar card, senior secondary school mark sheet and driving license were being stored by him in such an electronic locker. "Such a facility, if it happened to materialize in future in whatever form, would provide many benefits which come with such an electronic storage", he pondered.

Audit evidence which an auditor obtains by performing various audit procedures along with details of those procedures have to be put into writing. Further, inferences drawn upon by the auditor from evidence obtained and conclusions reached are also documented. Sameer was spontaneously nodding that auditing was, indeed, a logical process.

Without proper documentation, an audit has no legs to stand upon. It is audit documentation which serves as a record of audit work performed. He was also mulling over that, in fact, audit documentation throws up a sort of protective shield around auditors. If an auditor plans and performs his work professionally, his working papers will come to his rescue, in case such a situation arises. Conclusions reached by him can be traced to his working papers.

"Oh! That is importance of documentation", he exclaimed. Now, he understood why Shekhar's seniors used to prompt him to make correspondence with company's officers on mail. Because, it is the documentation that makes the difference. They were right because consequences of not making proper documentation were known to them and poor guys like us were still on learning curve.



1. AUDIT DOCUMENTATION

SA 230 on "Audit Documentation", deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The specific documentation requirements of other SAs do not limit the application of this SA. Laws or regulations may establish additional documentation requirements.

1.1 Definition of Audit Documentation:

Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as “working papers” or “work papers” are also sometimes used.)

record of audit procedures performed

relevant audit evidence obtained

conclusions the auditor reached

1.2 Objective of the Auditor:

The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor’s report; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Objective of the Auditor

- To prepare documentation that provides:
 - a) A sufficient and appropriate record of the basis for the auditor’s report; and
 - b) Evidence that the audit was planned and performed in accordance with SAs.

1.3 Nature of Audit Documentation

Audit documentation provides:

- (a) evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; and

- (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

1.4 Purpose of Audit Documentation

The following are the purpose of Audit documentation:

1. Assisting the engagement team to plan and perform the audit.
2. Assisting members of the engagement team to direct and supervise the audit work, and to discharge their review responsibilities.
3. Enabling the engagement team to be accountable for its work.
4. Retaining a record of matters of continuing significance to future audits.
5. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
6. Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

ILLUSTRATION 1

A new team member of the auditors of Extremely Vibrant Limited was of the view that Audit Documentation does not help in planning the audit of any company. Explain whether Audit Documentation has any relation with regard to planning the audit of a company.

SOLUTION

Audit Documentation helps in planning the audit of a company in a proper manner and also helps in conducting the audit of that company in a more effective way.

1.5 Form, Content and Extent of Audit Documentation

- ◆ 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.
 - (b) The results of the audit procedures performed and the audit evidence obtained and

- (c) Significant matters arising during the audit and the conclusions reached thereon and significant professional judgements made in reaching those conclusions.
- ◆ Further in documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
 - (a) The identifying characteristics of the specific items or matters tested.
 - (b) Who performed the audit work and the date such work was completed; and
 - (c) Who reviewed the audit work performed and the date and extent of such review.
- ◆ The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- ◆ If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency

The form, content and extent of audit documentation depend on factors such as:

1. The size and complexity of the entity.
2. The nature of the audit procedures to be performed.
3. The identified risks of material misstatement.
4. The significance of the audit evidence obtained.
5. The nature and extent of exceptions identified.
6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
7. The audit methodology and tools used.

1.6 Examples of Audit Documentation

Audit documentation may be recorded on paper or on electronic or other media.

Example

Audit Documentation include:

Audit programmes.

Analyses.

Issues memoranda.

Summaries of significant matters.

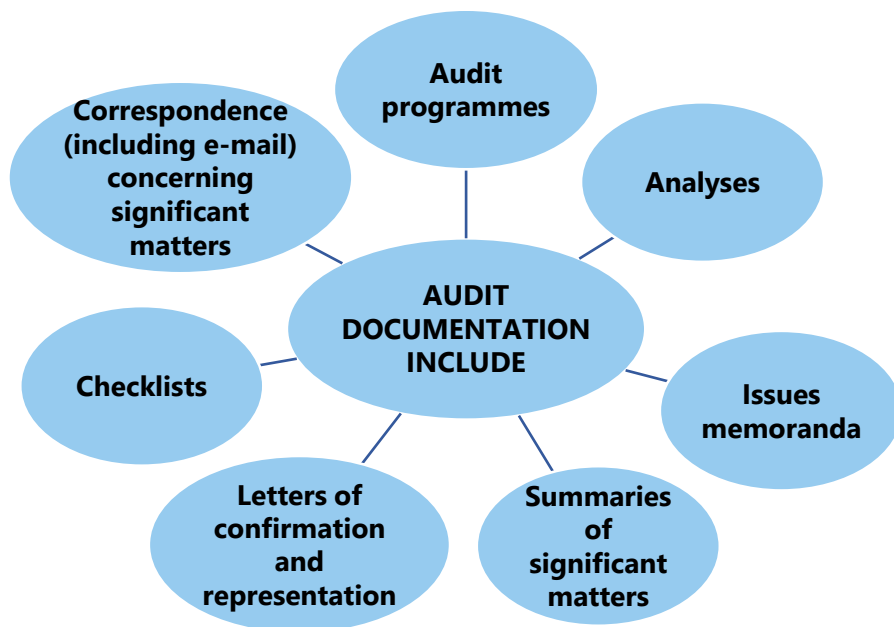
Letters of confirmation and representation.

Checklists.

Correspondence (including e-mail) concerning significant matters.

The auditor may include copies of the entity's records (**for example**, significant and specific contracts and agreements) as part of audit documentation. Audit documentation is not a substitute for the entity's accounting records.

The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.



1.7 Timely Preparation of Audit Documentation

The auditor shall prepare audit documentation on a timely basis. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

1.8 Audit File

Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

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ILLUSTRATION 2

While auditing the books of accounts of Very Careful Limited for the financial year 2020-21, a team member of the auditors of Very Careful Limited was of the view that with regard to audit of the company, no relation exists between Audit File and Audit Documentation. Explain the relationship between Audit File and Audit Documentation.

SOLUTION

Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

1.9 Assembly of the Final Audit File

The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

- ◆ SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
- ◆ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. 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.
- ◆ After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
 - ◆ SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

1.10 Documentation of Significant Matters and Related Significant Professional Judgements

Judging the significance of a matter requires an objective analysis of the facts and circumstances.

Examples of significant matters include:

Matters that give rise to significant risks.

- ◆ Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- ◆ Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- ◆ Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter Paragraph in the auditor's report.

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results.

Documentation of the professional judgements made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgement.

Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits, when reviewing matters of continuing significance (**for example**, when performing a retrospective review of accounting estimates).

Some examples of circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgement include, where the matters and judgements are significant:

The rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider' certain information or factors, and that consideration is significant in the context of the particular engagement.

The basis for the auditor's conclusion on the reasonableness of areas of subjective judgements (for example, the reasonableness of significant accounting estimates).

The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

1.11 Completion Memorandum or Audit Documentation Summary

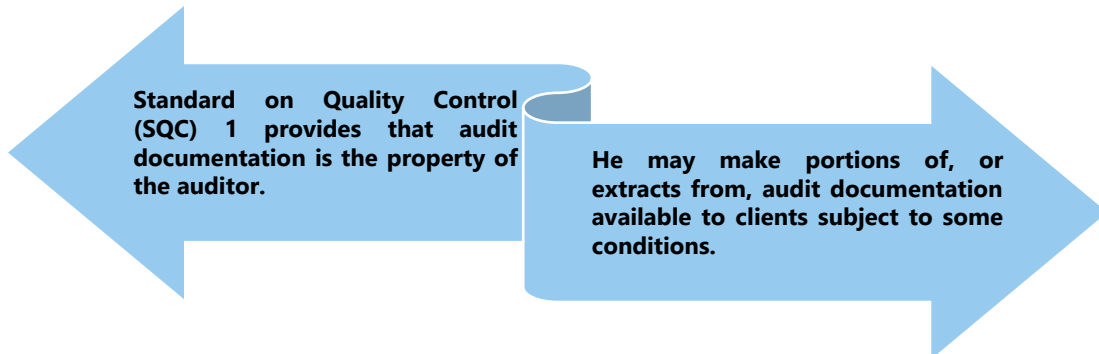
The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-

- ◆ the significant matters identified during the audit and
- ◆ how they were addressed.

Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

1.12 Ownership of Audit Documentation

- ◆ Standard on Quality Control (SQC) 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.
- ◆ He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

**ILLUSTRATION 3**

A director of Very Different Limited was of the view that Audit Documentation of a company is the property of that company. Comment on the contention of the director regarding the audit documentation of the company.

SOLUTION

Audit Documentation of a company is not the property of the company rather Audit Documentation is the property of Auditor of that company.

Test Your Understanding 1

During the course of audit of a company, an issue arose relating to treatment of interest costs of company on its restructured loans taken from a bank. This important matter was discussed with CFO of the company and was properly resolved. Is it necessary for the auditor to include in its working papers?

Test Your Understanding 2

CA Sonali Morarka has completed audit of a listed company. The audit report dated 15th July, 2022 has been issued. However, audit working papers including record of discussions with management, details of audit procedures performed to obtain audit evidence and conclusions reached by her have not been properly assembled. More than six months have elapsed after issue of audit report. Subsequently, she has received a letter from regulator in connection with audit of the company requesting her to share copy of audit file.

The letter has woken up her from deep slumber. She hurriedly assembled audit file and inserted some more papers which were necessary. However, she put current date on these inserted papers and the copy of audit file was sent to regulator. Discuss, the issues involved, in context of "audit documentation".

CASE STUDY

CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:-

- (A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- (B) The team has determined materiality for financial statements as a whole.
- (C) The team has assessed risks of material misstatements to be low.
- (D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.
- (E) During the course of audit, many related party transactions have come to notice.

On the basis of above, answer the following questions:

- (1) *Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?*
 - (a) *Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.*
 - (b) *Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.*

- (c) *It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.*
 - (d) *Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous.*
- (2) *As regards materiality, which of the following statements is most appropriate in context of audit documentation?*
- (a) *Materiality has already been determined. There is no need to put it into working papers.*
 - (b) *Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.*
 - (c) *Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.*
 - (d) *Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.*
- (3) *As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?*
- (a) *Discussion amongst engagement team members and detail of significant decisions reached has to be documented.*
 - (b) *Details of risk assessment procedures have to be documented.*
 - (c) *Details about how understanding of each component of internal control was obtained has to be documented.*
 - (d) *Precise calculation of risk of material misstatements has to be documented.*
- (4) *CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?*

- (a) *Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.*
 - (b) *Detail of test counting undertaken should form part of audit documentation.*
 - (c) *Detail of obsolete goods found should form part of audit documentation.*
 - (d) *Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.*
- (5) *As regards related party transactions, which of the following should not be part of audit documentation?*
- (a) *Management representation letter in this regard*
 - (b) *Related party transaction policy of the company*
 - (c) *Documentation to show that such transactions are at arm's length basis*
 - (d) *Documentation to show that such transactions are at close length basis.*

Answers to Questions involving case study

1. **c** 2. **c** 3. **d** 4. **d** 5. **d**

SUMMARY

- ◆ SA 230 on "Audit Documentation", deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements.
- ◆ Audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Terms such as "working papers" or "work papers" are also sometimes used.
- ◆ The objective of auditor is to prepare audit documentation that provides a sufficient and appropriate record of the basis for auditor's report and evidence that audit was planned and performed in accordance with Standards on Auditing and applicable legal and regulatory requirements.
- ◆ The form, content and extent of audit documentation depend on number of factors.

- ◆ Audit documentation may be recorded on paper or on electronic or other media.
- ◆ The auditor shall prepare audit documentation on a timely basis. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.
- ◆ Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
- ◆ The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
- ◆ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. 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.
- ◆ After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
- ◆ The retention period of documentation for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
- ◆ Unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

TEST YOUR KNOWLEDGE

MCQs based Questions

- (1) Which of the following statement is appropriately suited to preparation of audit documentation?
- (a) *Audit documentation has to be prepared simultaneously as audit progresses.*
 - (b) *Audit documentation has to be prepared 60 days after date of audit report.*
 - (c) *Audit documentation has to be prepared when information is required by regulator.*
 - (d) *Audit documentation has to be prepared 60 days after completion of audit work.*
- (2) *Audit documentation is owned by: -*
- (a) *Client*
 - (b) *Auditor*
 - (c) *Team member responsible for documentation*
 - (d) *Regulator*
- (3) Which of the following is least likely to be included in audit documentation of a company engaged in manufacturing and export of goods?
- (a) *Previous years audited financial statements*
 - (b) *Projected cash flow statement for next twelve months provided by management in support of going concern assumption*
 - (c) *Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers*
 - (d) *Statement showing verification of ageing of trade receivables as on date of balance sheet*

- (4) Which of the following is false in relation to audit documentation when an external auditor relies upon work of internal auditor?
- (a) Evaluation of objectivity and competence of internal auditor has to be documented.
 - (b) Nature of work used and reason for relying upon work used forms part of documentation.
 - (c) Documentation on whether quality control is exercised in internal audit work forms part of audit documentation.
 - (d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation.

Correct/Incorrect

State with reasons (in short) whether the following statements are correct or incorrect:

- (i) As per SA 230 on "Audit Documentation", the working papers are not the property of the auditor.
- (ii) Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit.

Theoretical Questions

1. The form, content and extent of audit documentation depends upon number of factors. List out any four such factors.
2. Discuss any two purposes of audit documentation.
3. Define audit documentation. Also give some examples.
4. "Audit documentation summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits". Explain.

ANSWERS/ SOLUTIONS

Answers to the MCQs based Questions

1. **a** 2. **b** 3. **c** 4. **d**

Answers to Correct/Incorrect

- (i) **Incorrect:** As per SA 230 on "Audit Documentation" the working papers are the property of the auditor and the auditor has right to retain them. He may at his discretion can make available working papers to his client. The auditor should retain them long enough to meet the needs of his practice and legal or professional requirement.
- (ii) **Incorrect:** SA 230 issued by ICAI on Audit Documentation, and "Standard on Quality Control (SQC) 1, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Answers to Theoretical Questions

1. Refer to heading "Form, content and extent of audit documentation"
2. Refer to heading "Purpose of audit documentation"
3. Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as "working papers" or "work papers" are also sometimes used.)
Refer Heading – Examples of Audit Documentation
4. Refer Heading – Completion Memorandum or Audit Documentation Summary

Answers to Questions involving Test your Understanding

- (1) The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the

nature of the significant matters discussed and when and with whom the discussions took place.

In the instant case, an important matter regarding treatment of interest costs of company on its restructured loans taken from a bank directly impacting profits of the company was discussed. Although issue was resolved, it is necessary to document the same by including detail of the person with whom discussions took place along with date.

- (2) An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

In the given case, even after passage of more than six months, she has not assembled audit file. Besides, she has put in some papers with current date which is not permissible at all. It shows that part of audit documentation has been prepared afterwards putting a question mark on quality of audit.