

\* Introduction →

- An auditor needs to gather enough reliable evidence to form an opinion.
- Sufficiency: is about having enough evidence, which depends on risk level. Higher risk means more evidence is needed.
- Appropriateness: is about the quality of evidence, meaning it must be relevant & trustworthy!

\* CSAs - 2 →

Auditor's duties for audit process & documentation →

↓  
Key objectives

- ① conduct audits per prescribed audit process.
- ② maintain proper documentation.
  - sufficient records for report
  - prove audit meets standards & laws.

Key terms

- ① Audit documents: means working papers prepared / records obtained by auditor in connection with audit.
  - can be physical / electronic [audit plans, test results, conclusions etc.]
- ② Audit evidence: means relevant inf. to support audit opinion. gathered from internal / external sources (co. records, govt. websites)
- ③ management: BOD and persons responsible for governance & compliance.

## \* Audit process →

① Audit planning : Objective : Prepare a plan for audit.

- understand the entity
- set audit objectives
- determine materiality
- assess risk
- prepare audit plan
- create audit program

② Audit execution : Objective : Execute audit as planned.

- sample transactions
- perform control tests
- perform analytical procedures
- perform substantive tests
- Review working papers
- Test controls
- Identify key events
- Discuss with mgt.

③ Reporting : objective : Evaluate & report finding

- evaluate audit results
- form an audit opinion.
- prepare audit report.

## \* AUDIT PLANNING →

It is a critical step in ensuring an effective & efficient audit process. It outlines the actions, objectives & strategies for an audit, ensuring that the audit is done within the defined scope & on time

Audit plan : describes the activities & processes to be carried out  
 ↳ defines the audit scope, objectives, timing, sample sizes & audit team.

### Purpose of Audit plan

- to gather sufficient / appropriate evidence for audit opinion.
- to ensure audit is efficient / effective & timely.
- to document the plan as part of audit working papers.

### Process of creating the plan

- ① understand auditee's business & operations
- ② identify high risk areas & areas requiring special attention.
- ③ assess risks & materiality of the audit.
- ④ gather previous audit findings & observations.
- ⑤ plan audit techniques & allocate resources.

— The Audit plan should be FLEXIBLE and designed based on organization's needs and evolving circumstances.

\* Internal audit plan → An internal audit plan outlines the scope, coverage & resources needed for audit.

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Auditor works with audit committee to create a plan

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It helps conduct audit efficiently & on time!

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Ensures attention to imp. areas, identifies potential problems & makes sure staff time/skills are used well.

\* Essentials of Audit planning →

- ① Documented Audit plan — The plan should be documented and kept with the audit working papers.
- ② Clustering of inter-related steps — Related tasks should be grouped together.
- ③ Finalization of audit plan — The plan may differ based on auditee & audit objectives, type & nature.

- ④ Independent review of Audit plan - The plan should be reviewed by an experienced auditor, not involved in the assignment.
- ⑤ Ensuring audit quality - The plan should ensure an } efficient  
effective  
high quality  
audit
- ⑥ flexibility - The plan should be flexible to adjustments with team leader approval.
- ⑦ Reaching conclusions - Collect & analyze sufficient data <sup>to form</sup> ~~from~~ reliable & valid conclusions.
- ⑧ Training & communication - Audit staff should be trained on quality control policies & decision making responsibilities.

### \* Case Study →

[Secretarial Auditor appointment & Audit planning for Sun Moon Ltd]

- ① Engagement of secretarial auditor → appoint new auditor replacing the previous auditor. Done via BR. New auditor will notify this to previous auditor.
- ② Acceptance of appointment - Sun moon Ltd issues appointment letter to new auditor via BR.  
- New auditor shall confirm to acceptance in writing!
- ③ Preliminary discussions / surveys - Auditor gathers info. about the co., its operations & interacts with KMP. Surveys may be used to gather extra info.

- ④ preliminary meeting — Meeting with senior mgt & administrative staff is held to discuss audit expectations.
- Topic discussed include scope, objectives, audit steps & timeline for audit.
  - preliminary observations & audit questionnaires are reviewed.
- ⑤ finalization of audit plan & brief staff — An action plan is created, assigning roles & responsibilities to audit team.
- The audit plan details the field ~~work~~<sup>work</sup>, control review and audit tools to be used.
  - The plan must align with the agreed upon timeline.
- ⑥ Testing, interview & analysis — Auditor uses tools & technology to assess the co.'s ~~resources~~ operations.
- Interviews with staff, reviewing manuals & testing compliance with laws & internal policies are done.
  - This stage identifies significant findings for audit report.
- ⑦ working papers — working papers are compiled to support the audit opinion.
- They link the mgt records to auditor's findings.
- ⑧ Preliminary report / Audit summary for Discussion — The auditor prepares a summary of findings, conclusions & recommendations.
- The summary is discussed with mgt for their feedback & clarity.
- ⑨ Audit report resubmission — The final audit report is based on fieldwork & working papers.
- The report discusses compliance with statutory laws & give an opinion on whether the co. is following corporate laws.
  - A final meeting allows mgt to review the audit findings and discuss any remaining issues.

⑩ Review of Audit plan - The audit process involves appointment, planning, data collection, testing, reporting & evaluation.

- The auditor must ensure efficiency, timeliness & quality throughout the audit, involving the mgt at critical stages to ensure clarity & agreement on findings!

\* Developing the Audit plan →

The audit plan sets the direction for audit, covering the following key points:

- ① Introduction: Brief overview of the audit.
- ② Audit field: Description of audit area, ind. rules & recent changes.
- ③ Audit objectives: what audit aims to achieve.
- ④ Audit coverage: Periods, locations & controls to be audited.
- ⑤ materiality: defines what is significant in the audit.
- ⑥ Risks: Identifies potential risks (eg. changes in law)
- ⑦ Audit approach: Details the audit procedure & reliance on controls.
- ⑧ organisation: Resources, schedules & documentation of plan.

- The plan is documented & updated as needed, especially for changes in conditions / findings.

- Auditors should remain objective & use professional judgement throughout the audit.

## \* Case - Western Reserve office of Internal Audit Services :

- ① Planning : Review past audits, policies, & prepare an audit programme.
- ② Notification : Inform relevant departments about the audit & schedule an opening meeting.
- ③ opening meeting : Discuss the audit's purpose & adjust the plan if needed.
- ④ fieldwork : perform tests & interviews to gather data.
- ⑤ Report drafting : create a report with findings & recommendations.
- ⑥ mgt response : mgt reviews the draft report and provides action plan.
- ⑦ closing meeting : discuss the final report & mgt responses.
- ⑧ final report distribution : distribute the final report to key stakeholders.
- ⑨ follow-up : Conduct a review after 6m to check if corrective actions were taken.

## \* Risk assessment →

Risk : possibility that an event will affect the organisation ↗ [+vely]  
↖ [-vely]

Risk assessment : A process to identify & evaluate potential risks in an activity.

Assessing high risk areas } Focus on } } } }

- internal controls & legal compliance
- changes in compliance team
- ethical standards & transparency.

→ consider mgmt's risk analysis & expert opinions

Evaluate Risk : → review policies to manage risks.  
→ meet with KMP to understand { risk control }.

### \* Case Study : Materiality & Risk assessment →

M/s ABC & Associates provides secretarial & internal auditing services, mainly for clients in food processing industry

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firm has a strict client acceptance policy that evaluates risk of potential clients. New clients are classified as { High moderate low risks. }

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XYZ Ltd wants to change its secretarial auditor. As per CAS - 1, M/s ABC & Associates must contact ~~XYZ Ltd~~ XYZ's Ltd's previous auditor.

↓  
identify risks, evaluate risk factors & set materiality

↓  
determine what's significant!

↓  
After accepting XYZ Ltd as a client, analyze their FS from past 3 years to assess risks & set materiality

### \* Audit Risk & process →

↓  
possibility that auditor's opinion might be wrong! A small degree of audit risk is acceptable, but too much would undermine the audit's purpose.

## Components of Audit Risk →

- ① Inherent Risk - The risk of material misstatement in transactions, even without internal controls. Eg. RPT might be mispresented.
- ② Control Risk - The risk that internal controls fail to detect / prevent misstatements. Eg. Delay in filing forms due to poor internal controls.
- ③ Detection Risk - The risk that audit procedures fail to detect a misstatement. Eg - missing compliance issues when certifying an eform.

## Key concepts →

- Inverse r/s : Higher materiality means lower audit risk & vice-versa.
- Objective - The auditor aims to gather sufficient, relevant & ~~response~~ reasonable evidence to reduce ~~and~~ audit risk at minimum cost.

## Risk assessment process →

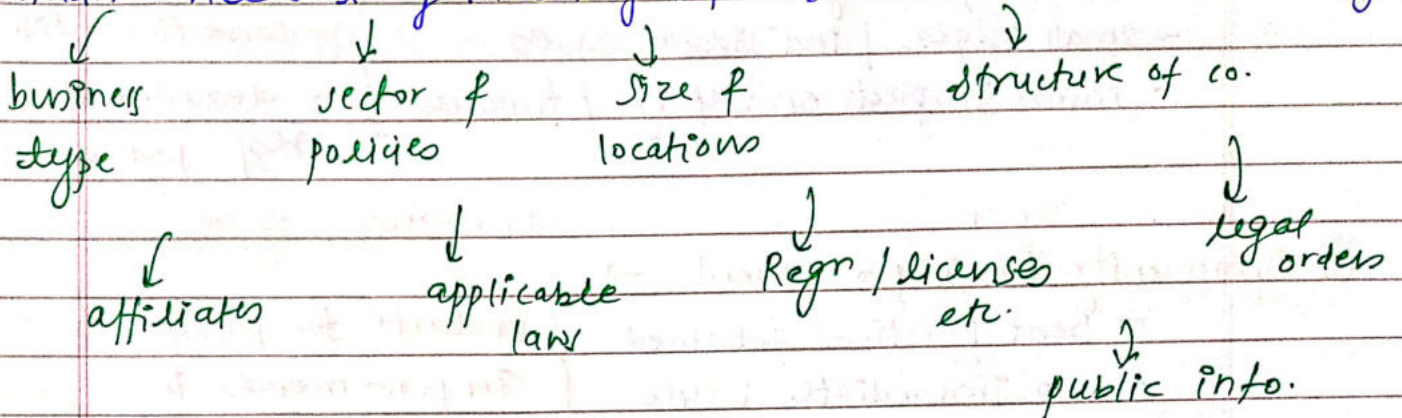
- ① Identify key risks - financial significance, ee T/0, past audits, political / economical / social / tech. factors.
- ② Evaluate & prioritize risks - Analyse & score risks based on vult vulnerability, likelihood & impact.
- ③ Develop audit plan - focus on high priority risks. Map risks to control objectives & refine audit plan accordingly!
- ④ Audit plan validation - get mgt feedback, adjust the plan and present to audit committee.



(CSAS 2 para 3) →

\* Information about the Auditee →

Auditor needs to gather key info. about the auditee including:

\* Audit checklist → (CSAS ~~2~~<sup>2</sup> - para 4) →

Purpose:

- ensure compliance & no requirements are missed.
- provide structure / focus / consistency in audits.
- help with planning & avoid repetitive tasks.

key features:

- efficient planning
- consistency
- Documentation.

- checklists should be updated to stay relevant.
- Audit teams should be trained to use checklists effectively.

- Audit findings:

① major non-confirmity →

- violates laws / regulations

- systematic issues

- Big impact on safety / health / finances

- Immediate action

- corrective measures

- deadline &amp; responsible person.

## ② Minor non-conformity →

- small issues / individual cases
- minor impact on safety / finances

- corrective action
- deadline & resp. person.

## ③ Opportunity for improvement →

- Best practices followed
- no immediate issues

Evaluate for possible improvements in processes.

## \* Collection & verification of Audit Evidences → (CSAS - 2 Para 5) →

- The Auditor must ensure that auditee follows all relevant laws & regulations. Any violations should be noted. The auditor collects evidence using the following methods:

① Document Review: Auditor examines docs like minutes & reports. Sometimes, a sample of docs is checked due to limited resources.

② Testing, interview & analysis: The Auditor tests internal control, interviews staff, reviews procedure and checks compliance with rules.

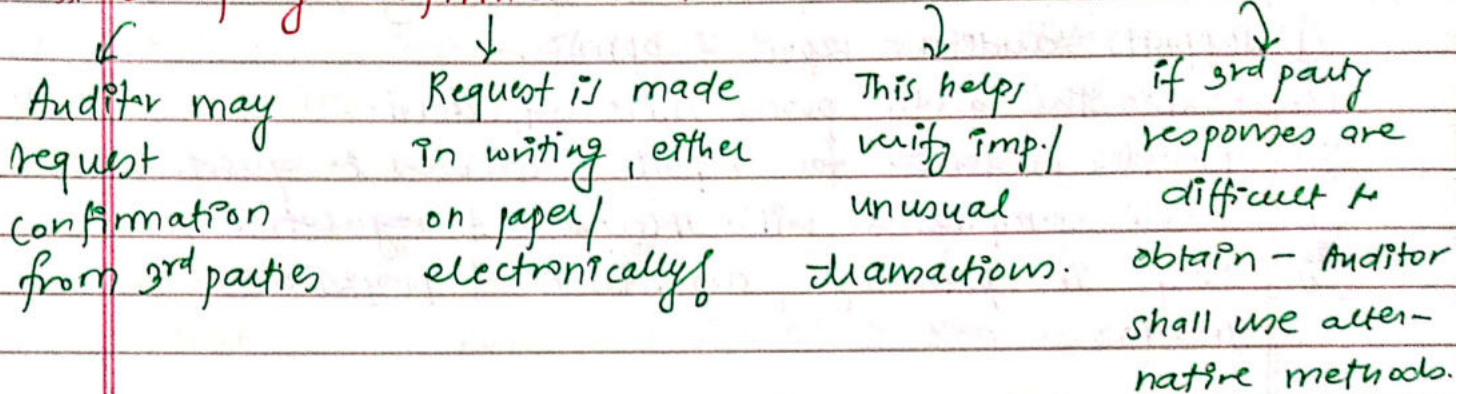
③ Questionnaires: formal questionnaires are sent to relevant people to gather more info.

④ 3<sup>rd</sup> party confirmation: The auditor may get confirmation from 3<sup>rd</sup> parties (external agencies) to verify info.

⑤ Analytical procedure: Auditor compares data to spot any unusual patterns / inconsistencies.

- Auditor continues gathering evidence until enough reliable info. is available to form an audit opinion. All evidence is checked against the audit criteria.

### \* 3<sup>rd</sup> party confirmation →



### \* Analysis of Audit Evidence →

- Auditor checks if evidence is enough (quantity) and reliable (quality) to make a conclusion.

- process :

- ① Collect evidence using proper procedures
- ② Evaluate if its sufficient & relevant
- ③ If needed - gather more evidence.

- If evidence conflicts, Auditor needs to investigate further to resolve it.
- Auditor forms a conclusion based on best available evidence.

Prince waterhouse & co. vs. SEBI → Court ruled that clear and direct evidence of fraud (not just probabilities) is needed to prove falsification (forgery)

## \* Audit documentation →

- Auditor must document evidence, work & findings to support their conclusions & show the audit followed the scope.

Audit documentation is imp. due to following reasons:

- ① Supports auditor's report & opinion.
- ② Makes the audit process more efficient.
- ③ Provides evidence for reports & answers to questions.
- ④ Shows compliance with standards & regulations.
- ⑤ Helps in planning, supervision & professional growth.

Documentation Requirements } must be clear, complete & easy to understand.  
 } → should allow others to understand the audit findings.  
 } → include items like memos, confirmations, & schedules (paper & efirm)

- Process:
- ① Documentation happens throughout the audit.
  - ② Working papers ~~are~~ should be detailed and linked to findings.
  - ③ All docs should be properly organised & indexed.

Shankar vs. SEBI → Court decided that a CS only needs to authenticate the BIs & offer document. They are not responsible for verifying the legal compliance of such documents, so they are not guilty of misleading the offer.

## \* Broad characteristics of Audit Documentation →

- ① Complete & accurate : All info. must be <sup>correct</sup> & <sup>thorough</sup>
- ② Clear & concise : Docs should be easy to understand & brief.
- ③ Audit trail : must show all audit steps, evidence & conclusions.
- ④ Relevant : only include important & necessary details.
- ⑤ Easy to review : Well organized for quick access & reference.
- ⑥ Neat & legible : Documents should be readable & organised.

- working papers } <sup>should link the audit steps, findings & conclusions</sup>  
                           } <sup>should be organised for easy access.</sup>

## \* Audit Documentation →

## Static Audit Documentation

- auditor apptn letter.
- communication with previous auditor & resignation letter.
- legal info. about auditee.
- constitutional docs <sup>AOA</sup> <sub>MOA</sub> } etc.
- complete details of mgmt.
- copies of prior audited FS.
- Details of subsidiaries, associates & JV.

## Current audit Documentation

- Evidence of work supervision & review
- audit review points & highlights
- major weaknesses in internal control.
- confirmation received from Auditee.
- communication with 3<sup>rd</sup> parties
- Evidence of audit planning process.

\* **Documentation of discussions** → The auditor must record imp. discussions with mgt, especially if there's no written record and include any confirmations from the Auditee.

\* **Audit Evidence** → The documentation must show the audit was done according to plan & includes details of work performed & findings.

\* **Significant matters** → These include:

- major risks
- difficulties in conducting audit procedures
- issues that could lead a change in audit report.

\* **Judging significance** → The auditor must objectively assess whether a matter is significant based on the facts & situation.

\* **Record keeping & Retention** →

Purpose:

- comply with legal requirements & avoid liability.
- support positions in legal matters & reduce costs.
- ↳ keep docs secure & confidential.

Document Retention

→ Docs must be compiled within 45 days of signing the Auditors Report

↳ stored securely [physical / electronic] & easily retrievable.

Retention period → keep docs for 8 years from date of Auditors Report.