

CHAPTER NO
04
AUDIT DOCUMENTATION AND AUDIT EVIDENCE - I

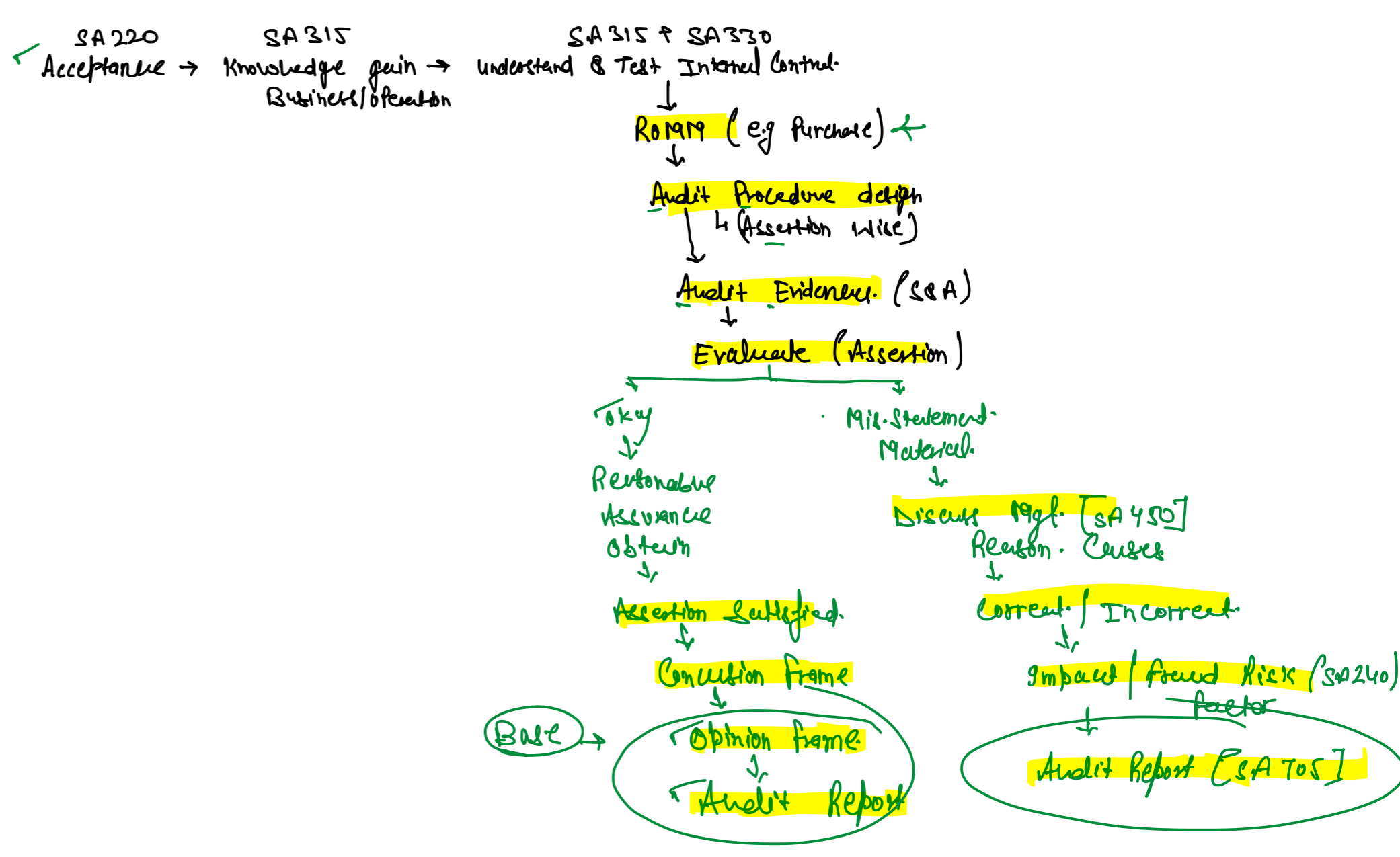
CONCEPT NO

- 01 SA 230 AUDIT DOCUMENTATIONS
- 02 SA 500 - AUDIT EVIDENCE
- 03 SA 501 AUDIT EVIDENCE - SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

मोहनत इतनी करी कि सफलता धीरे मचा दे

Imp: SA 230, 231, 232

SA 220 + Work Not Documented Not Done



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SA - 230 AUDIT DOCUMENTATIONS

Audit Documentation Meaning (R)

SA 230 on 'Audit Documentation': audit documentation refers to the **records of audit procedures performed, relevant audit evidence obtained, and conclusions reached**, (terms such as 'working papers' or 'work papers' are also sometimes used).

Objective of Audit Documentation

(a) A **ufficient and appropriate record** of the basis for the auditor's report; and
(b) **Evidence** that the audit was **planned and performed** in accordance with SA and applicable legal and regulatory requirements.

Nature of audit documentation/Audit documentation provides:

- Evidence of the auditor's basis for a **conclusion** about the achievement of the overall objective of the auditor; and
- Evidence** that the audit was **planned and performed** in accordance with SAs and applicable legal and regulatory requirements.

Purposes/Advantage of audit documentation

Audit documentation serves number of additional purposes, including the following: [EXAMPLES]

- Assisting the engagement team to **plan and perform** the audit.
- Assisting members of the engagement team **responsible for supervision, direct and supervise the audit work**.
- Enabling the engagement team to be **accountable for its work**.
- Retaining a record of matters of continuing **significance to future audits**.
- Enabling the **conduct of quality control review** and inspections.
- Enabling the **conduct of external inspection** in accordance with applicable legal, regulatory or other requirements. → **ICAR | Chartered Act.**

Form, Content and Extent of Audit Documentation (from text)

1) The auditor shall **prepare audit documentation** that is **sufficient** to enable an **experienced auditor** having to **previous connection** with the audit, to understand:
(a) The **nature, timing and extent** of the audit **procedures performed** → **SA**
(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**.

2) Further in documenting the **nature, timing and extent of audit procedures performed**, the auditor shall record:
(a) The identifying characteristics of the **applicable financial matters tested** → **SA**
(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** → **SA**

3) 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**.

4) 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**.

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Form, content and extent of Audit Documentation depend on factors such as:

- The **size and complexity** of the entity.
- The **nature of the audit procedures** to be performed.
- The identified **risk of material misstatement**.
- The **significance of the audit evidence obtained**.

The nature and extent of **exceptions** identified.

The need to document a conclusion **not** 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** → **conclusion to document base**

Examples of Audit Documentation (B)

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

Audit Documentation include: a Example

- 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** → **SA**

The auditor **need not include** in audit documentation → **SA**

- 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**.
- Duplicates of documents**.

Timely Preparation of Audit Documentation → SA

The auditor shall prepare audit documentation **in a timely basis**. Preparing sufficient and appropriate audit documentation on **timely basis** helps to achieve:

- The **quality** of the audit and facilitates the **effective review** → **is same as objective**
- 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**.

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Audit file

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

Assembly of the final audit file (B)

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

After the assembly, the auditor shall **not delete** audit documentation **before** the end of its **retention period** → **SA**

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 period, **if they are administrative in nature**.

Examples of such changes include: → **SA**

- Deleting or discarding **superseded documents**.
- Sorting, collating and **cross referencing working papers**.
- Signing of an **completion checklist** 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 → **SA**

SQC 1 requires firms to **establish policies and procedures** for the **retention** of audit 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**.

Documentation of Significant Matters and Related Significant Professional Judgements

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

Examples of significant matters include:

- Matters that give rise to significant risks.
- Results of audit procedures indicating that the financial statements could be materially misstated, or
(a) 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.

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Only Read

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.

Completion Memorandum or Audit Documentation Summary

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

- Significant matters** identified during the audit and
- How they were **addressed**.

Such a summary may facilitate **help**

- 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** applicable that the auditor **examined a client** that would **prevent the auditor from achieving the overall objectives of the audit**.

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 **audit report**, or, in the case of assurance engagements, the **independence** of the auditor or of his personnel. → **SA**

Only Read (B)

Auditor's property

Ownership & custody of working papers rests with auditor. Thus, it is auditor's property.

Rule of confidentiality

As per SA 200, auditor should not disclose any confidential matter relating to client to any 3rd party unless it is permitted by client or it is his legal/professional duty to disclose the work papers.

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Can he show working papers to 3rd parties including other auditors?

No, otherwise it will violate rule of confidentiality as above

Client?

- Client doesn't have any right to access audit W/P kept by auditor.
- But auditor may at his discretion, show some/complete W/P to client.
- If he shows W/P to client itself, rule of confidentiality does not arise at all.

In case of recurring audit, two types of files are maintained to avoid duplicity of documentation. These are as follows:

Working paper files

- Permanent audit file** → **current audit file** → **audit year**
- Event files**

Departure from a relevant requirement

If, in exceptional circumstances, he departs from SA, the auditor shall **document** the **departure** and the **reasons** for the departure.

Matters arising after the date of the auditor's report & SA 500

If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:

- The circumstances encountered;
- The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
- When and by whom the changes to audit documentation were made and reviewed.

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