

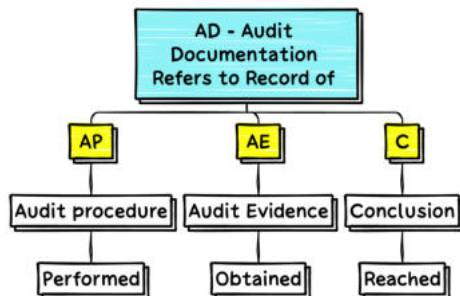
Chapter 6 - Audit Documentation

SA 230 Audit Documentation

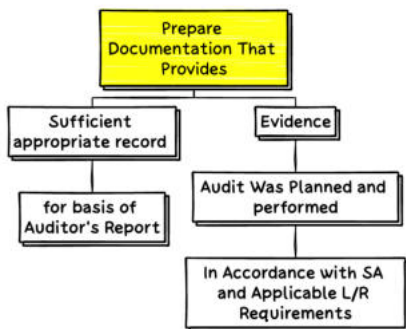
Scope of SA 230

SA 230 on Audit Documentation, deals with the auditor's responsibility to prepare audit documentation for an audit of FS.

Definition of Audit Documentation (also known as Working Papers)



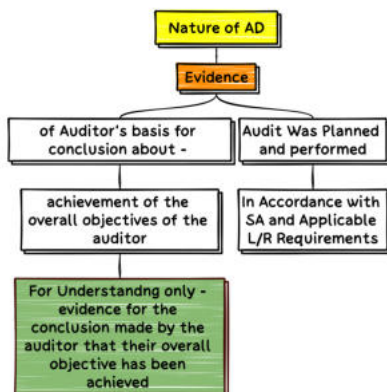
Objective of Auditor w.r.t SA 230



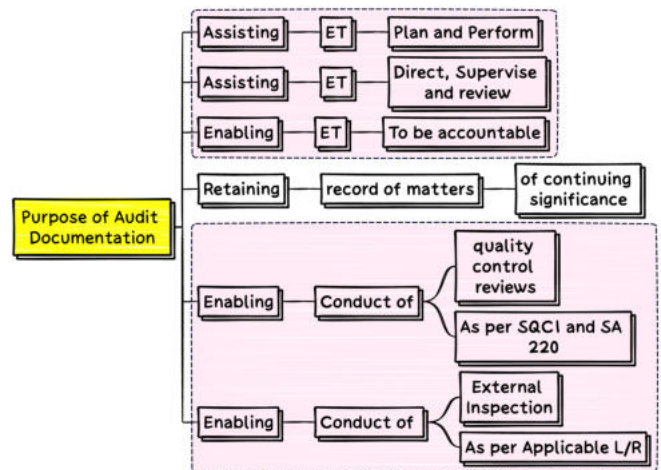
Examples of Audit Documentation

- Audit programmes
- Analyses
- Issue Records (Memoranda)
- Summaries of Significant Matters
- Letters of confirmation (SA 505) and representation (SA 580)
- Checklists
- Correspondence (including e-mail) w.r.t significant matters

Nature of Audit Documentation



Purpose of Audit Documentation



Form, Content and Extent of Audit Documentation

Sufficient to help experienced auditor to understand

- NET of the audit procedures
- Results of the audit procedures performed
- Audit evidence obtained
- Significant matters arising during the audit and
 - conclusions thereon and
 - significant professional judgements made for such conclusions.

Example For Understanding Only

An audit being conducted for an Indian manufacturing company. The auditor documented that they attended physical verification and a review of financial records for inventory valuation (Nature), this task was carried out immediately after the end of the financial year (Timing), and the entire inventory was covered (Extent). The audit results revealed that the inventory was overvalued because some obsolete stock had not been properly accounted for. This was a significant matter, and the auditor concluded that a revaluation of the inventory was necessary. In making this decision, the auditor used their professional judgment, taking into account the nature of the inventory and market conditions. All these details were clearly written in the documentation so that any experienced auditor could understand this audit and validate the auditor's decisions.

Meaning of Experience Auditor

An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of

- Audit processes;
- SAs and applicable legal and regulatory requirements;
- The business environment in which the entity operates; and
- Auditing and financial reporting issues relevant to the entity's industry.

In documenting nature, timing and extent of audit procedures

Auditor shall record:

- Identifying characteristics of the specific items or matters tested.
- Who performed the audit work and the date of completion
- Who reviewed audit work performed and date and extent of such review

Example For Understanding Only

- Suppose an audit is being conducted for the financial transactions of a company.
- The auditor has documented that they tested some specific high-value transactions, for each of which the invoice number, date, and amount were recorded (Identifying Characteristics).
- Audit team member A performed this work, and it was completed on 15th October (Who performed and Completion Date).
- Senior auditor B reviewed this work, which was completed on 20th October, and the review focused on specific points (Who reviewed, Date and Extent of Review).
- Thus, the audit documentation maintains a clear, accountable, and traceable record.

Document discussions of significant matters

Auditor shall **document discussions** of **significant matters** with

- management, TCWG and others
 - **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

During the audit of an Indian manufacturing company, the auditor identified a significant matter—inventory was overvalued due to obsolete stock not being properly accounted for.

- Nature of Significant Matter → Overvaluation of inventory due to outdated stock.
- When → Identified after financial year-end during verification.
- With Whom → Discussed with management, governance, and internal auditors.
- Inconsistency Identified → Management's valuation approach differed from auditor's findings.
- Resolution → Auditor documented the discrepancy, discussions, and decision to revalue inventory for fair presentation.

Factors affecting the form, content and extent of audit documentation

- Size and complexity of the entity
 - MNC or Local Company
- Nature of the audit procedures to be performed
 - A,E,I,O, U, Reperformance, External Confirmation
- Identified risks of material misstatement.
 - Higher ROMM, More Documentation
- Significance of the audit evidence obtained
 - More important the AE, More detailed AD
- Nature and extent of exceptions identified.
 - Misstatement or Deviation Material or Not?
- Need to document a conclusion
 - Some judgments are complex, such as accounting estimates or valuation judgments. In these cases, the auditor needs to explain how and why they chose a particular conclusion.
- Audit methodology and tools used.
 - Use of Technology influences the Form, content and Extent of AD

Other IMPORTANT points reg Audit Documentation

- Audit documentation may be on paper, electronic, or other media.
- Copies of entity's records (e.g., contracts, agreements) may be included.
- It is not a substitute for accounting records.
- Auditor need not include:
 - Superseded drafts of working papers/financial statements.
 - Notes of incomplete or preliminary thinking.
 - Previous copies corrected for errors.
 - Duplicate documents.

Timely Preparation of Audit Documentation

- Helps in
 - Enhancing quality of Audit
 - Effective review
 - Evaluation of evidence obtained and conclusions reached before the auditor's report is finalised.
- Documentation prepared after the audit work is likely to be less accurate

Assembly of Audit File

Meaning of Audit File

Audit file may be defined as

- **one or more folders** or other storage media,
- in physical or electronic form, containing **records** that comprise
- audit documentation for a **specific engagement**

SQC 1

- complete the assembly of the final audit file in not more than **60 days after the date of the auditor's report**

Assembly is an administrative process

Does not involve

- performance of new audit procedures or
- drawing of new conclusions

Changes to Audit documentation during assembly CAN BE DONE

If administrative in nature - EXAMPLES

- 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 auditor has
 - obtained, discussed and agreed with ET members
 - before the date of the auditor's report

Retention

- 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.

Documentation of Significant Matters and Related Significant Professional Judgements

- Significant matters are those matters that come to light during an audit and which can influence the auditor's opinion or report.
- Judging the significance of a matter requires an **objective analysis** of the facts and circumstances.
- An important factor in determining the form, content and extent of audit documentation of significant matters is the
 - extent of professional judgement exercised
 - Professional judgments should also be documented
 - Helps in explaining auditor's conclusion
 - Helps to reinforce the quality of the judgment

Examples For Understanding Only

Helps in explaining the auditor's conclusions

During an audit, the auditor may suspect the authenticity of a document, such as a sales contract or a property title deed. If certain conditions are encountered during the audit that indicate the document may not be authentic, the auditor conducts further investigation. This investigation might involve communicating with the source of the document or consulting external experts. The auditor will record all these details in their documentation, such as the type of investigation conducted, the kinds of evidence obtained, and why they concluded whether the document is authentic or not.

Suppose a company has estimated the depreciation of a large asset in its FS. This estimation process is subjective and involves various judgments, such as the expected life of the asset and its residual value. The auditor needs to assess whether these estimates are reasonable or not. For this purpose, they look at market data, industry standards, and the company's past estimates. The auditor will write all these details in their documentation, making it clear how and why they concluded that these estimates are reasonable

Helps to reinforce the quality of judgment

If the auditor, while analyzing a complex transaction, has referred to various accounting standards and past precedents, then the documentation will show that the decision-making process was well-informed and robust.

Examples of significant matters 🔥

- Matters that give rise to significant risks.
- Indications that FS could be materially misstated.
- Indications that ROMM needs to be revised.
- significant difficulty in applying audit procedures.

Suppose a company has some transactions in foreign currency and the auditor is facing difficulty in accurately valuing those transactions due to complex foreign exchange regulations.

- Evidence that could result in modified opinion
- Evidence that could lead to inclusion of Emphasis of Matter Paragraph in the auditor's report.

Suppose the company has recently settled a large lawsuit. This matter can be highlighted in the auditor's report in the form of an 'emphasis of matter' paragraph, so that readers are informed of this significant event

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

- 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 particular engagement.
- Basis for reasonable subjective judgment (e.g., estimates).
- Basis for conclusions on document authenticity after investigation (expert/confirmation).

Completion Memorandum or Audit Documentation Summary 🔥

- Part of Audit Documentation
- Summary describes
 - **significant matters identified** during the audit
 - **how they were addressed**
- Facilitates
 - Effective and Efficient review of the audit documentation
 - particularly for large and complex audits
- Also help
 - Auditor to consider achievement of objectives of
 - Individual SAs
 - Overall objective of audit

Ownership of Audit Documentation 🔥

SQC1 provides that audit documentation is the **property** of the **auditor** unless otherwise specified by L/R. Auditor should **adopt reasonable procedures** for **custody** and **confidentiality** of his working papers.

Making WP available to client		
Discretion of auditor		
Should not undermine the validity of the work		
Assurance engagements	Independence should not be undermined	
Branch Audits		
Auditor of the company	can	Seek clarification from branch auditor
		Visit the branch
	CANNOT	ask for copy of Working paper of branch auditor
Branch auditor	No compulsion	to give his working papers to principal auditor