

# Audit Process and Documentation

## Lesson 11

### KEY CONCEPTS

- Audit Process ■ Audit Planning ■ Risk Assessment ■ Audit Evidence ■ Audit Check list ■ Documentation

### Learning Objectives

#### To understand:

- An audit should be seen as an aid to the organisation concerned in ensuring that its operations are conducted in compliance with the provisions of the applicable legislations.
- The Audit process that has three components i.e. Audit Planning, Audit Execution, and Audit Reporting.
- Audit documentations is extremely necessary to avoid the duplication of the work, forming of audit opinion and for future and cross references.
- The manner of Documentation of the Audit records.

### Lesson Outline

- Introduction
- CSAS-2
- Audit Planning
- Risk Assessment
- Information about the Auditee
- Audit check-list
- Collection and verification of Audit Evidence
- Third party confirmation
- Analysis of Audit Evidence
- Documentation
- Record Keeping and Retention
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References (Websites/ Video Links)

**REGULATORY FRAMEWORK**

- (CSAS-2) Auditing Standard on Audit Process and Documentation

**INTRODUCTION**

The Auditor must plan and perform audit procedures to obtain sufficient and appropriate audit evidence to have a reasonable basis for Auditor's opinion. Sufficiency is the measure of the quantity of audit evidence and depends on various factors including internal controls systems and risk involved. As the risk increases, the amount of evidence that the Auditor should obtain also increases. However, as the quality of the evidence increases, the need for additional corroborating evidence decreases. Increase in the quantum of poor quality of evidences cannot compensate for the requirement of sufficiency of evidence.

Appropriateness is the measure of the quality of audit evidence, i.e. its relevance and reliability. To be appropriate, audit evidence must be relevant and reliable in providing support for the conclusions on which the Auditor's opinion is based.

**Auditing Standard on Audit Process and Documentation (CSAS-2)**

This Auditing Standard CSAS-2 is applicable to the Auditor undertaking Audit under any statute. The Standard deals with responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit documents.

The objective of the Standard is to prescribe principles for an Auditor:

- (i) to conduct audit as per the specified audit process;
- (ii) to maintain documentation that provide:
  - (a) sufficient and appropriate record to form the basis for the Auditor's Report; and
  - (b) evidence that the audit was planned and performed in accordance with the applicable Auditing Standards and statutory requirements.

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

For the purpose of Auditing Standards (CSAS) issued by the Institute of Company Secretaries of India ('ICSI'), the following terms shall have the meaning attributed as below, unless specified otherwise :

- (1) "Audit Documents" means the working papers prepared or records obtained by the Auditor in connection with the audit.

*Working papers* include the audit plan, letters of representation and/or confirmation, abstracts of Auditee's documents, records kept by the Auditor of the procedures applied, the tests performed, the information obtained, analyses and the conclusions reached in the process of audit. The audit documents may be in physical and/or electronic mode.

**Test Yourself**

**Question:** What are audit documents?

**Answer:** The Standards define audit documents as the working papers prepared or records obtained by the Auditor in connection with the audit.

- (2) "Audit Evidence" refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.

The audit evidence is fundamental and important part in the audit process. The auditors need audit evidence to form and conclude their audit opinion. The sources of the audit evidence may be internal to the auditee or from external sources. These may include the company's record, data, disclosures in financial statements, company's website, website of various Govt. authorities like SEBI, Stock Exchange, etc.

#### Test Yourself

**Question:** What is Audit Evidence?

**Answer:** Audit Evidence refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.

(3) "Management" as defined in CSAS-1.

"Management" includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee.

#### Test Yourself

**Question 1:** What is the scope of CSAS-2 and what does it deal with?

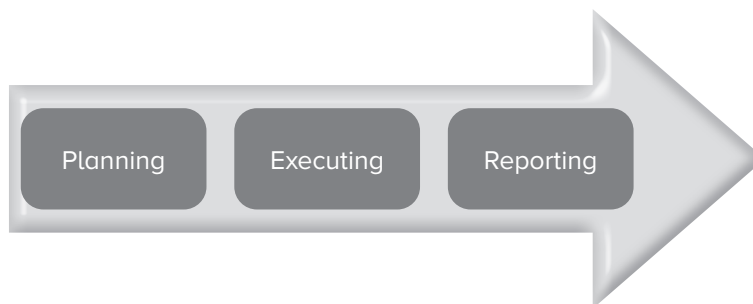
**Answer:** CSAS-2 is applicable to the auditor who is undertaking audit under any statute and deals with responsibilities and duties of auditor with respect to Audit Process in conducting audit and maintaining proper audit documents.

**Question 2:** Is CSAS-2 mandatory?

**Answer:** CSAS-2 is mandatory for audit engagements accepted by an auditor on or after April 01, 2021.

## OVERVIEW OF THE AUDIT PROCESS

The audit process can be broadly grouped in three phases:



**Audit Planning:** For an effective audit, a timely, well thought out and well executed planning efforts is essential. The Auditor should obtain and update his understanding of the company, its activities, operation's and control environment in the company. The Audit planning consists of the following actions:

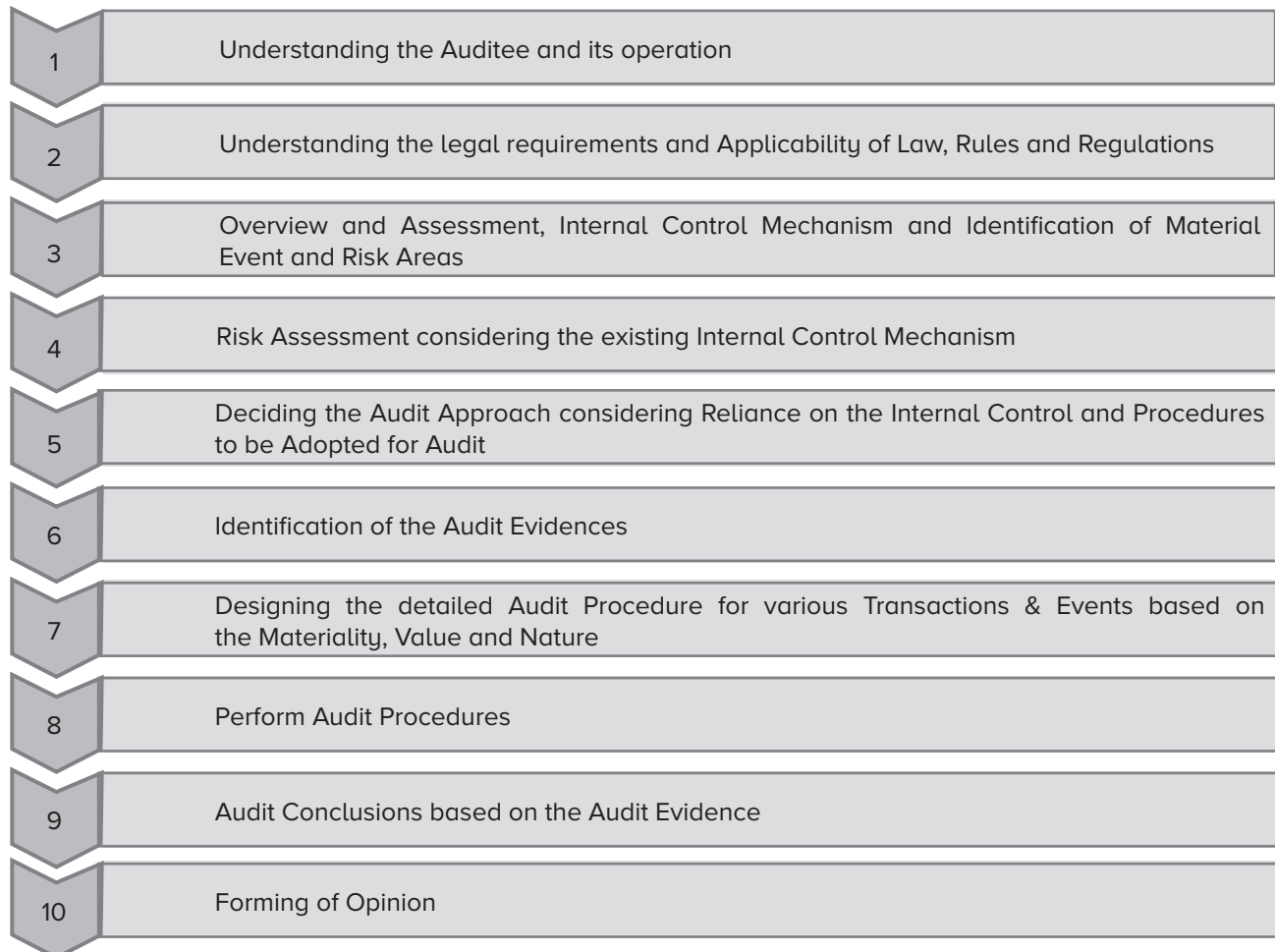
1. Understanding the company;
2. Establishing audit objectives and scope;
3. Determining Materiality;

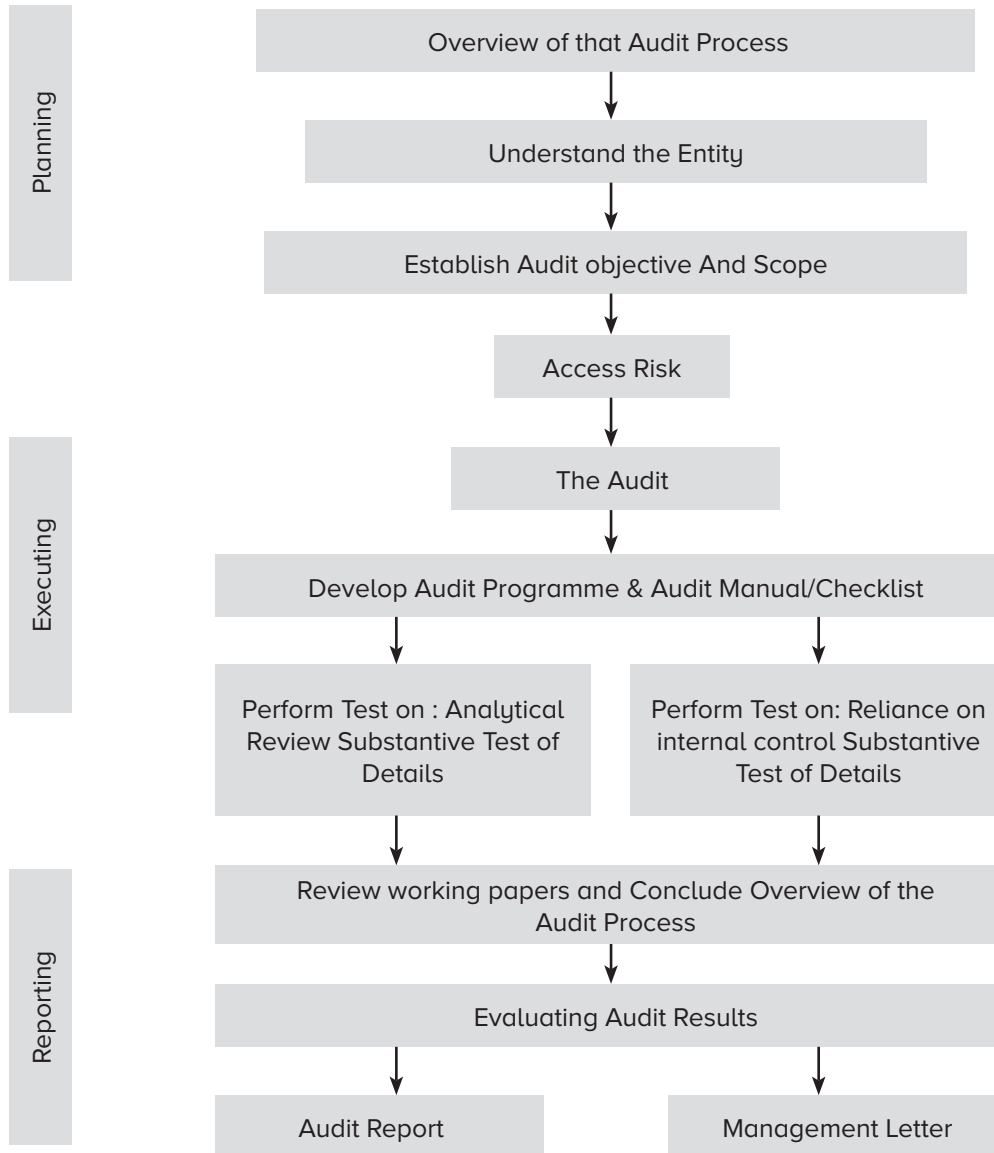
4. Assessment of Risk;
5. Preparation of Audit plan;
6. Preparation of detailed Audit Programme.

**Execution of Audit:** The effective Audit Execution is based on the Audit plan and the efficiency of the Audit team. However the Execution of the Audit covers the following actions:

1. Sampling of various transactions or items;
2. Sampling for testing of controls;
3. Identification of events;
4. Performing controls testing procedures;
5. Performing analytical procedures;
6. Sampling for substantive test of details;
7. Performing substantive test of details;
8. Review of working papers;
9. Management discussion on draft Report.

**Reporting:** In the reporting phase, the auditor covers evaluation of audit results, deriving conclusion, forming of opinion and prepare the audit report.





**AUDIT PLANNING**

The audit plan, describes the processes and activities that are to be carried out in connection with a particular audit and for the improving the quality of audit. Accordingly, an auditor should plan an audit so that it is performed in an effective manner within the defined scope. The audit planning should also include overall audit strategy for the audit.

“The Auditor shall make audit plan to conduct audit as per the terms of Audit Engagement”.

The Audit Plan is a comprehensive report of scheduled audits by process or location. The purpose of the plan is to define the audit work to be completed in fiscal year and enables to focus on important areas under review. The Audit plan is dynamic in nature and is to be designed based on organization’s need.

**Illustration:**

An internal audit plan is a document defining the scope, coverage and resources, including time, required for an internal audit over a defined period. The internal auditor should, in consultation with those charged with governance, including the audit committee, develop and document a plan for each internal audit engagement to help him to conduct the engagement in an efficient and timely manner. Adequate planning ensures that appropriate attention is devoted to significant areas of audit, potential problems are identified, and that the skills and time of the staff are appropriately utilized.

Audit plan is very crucial and should be designed with due care. Audit plan addresses the specifics of what, where, who, when and how: Such as- What are the audit objectives?; Where will the audit be done?; Whether there will be audit visits to other locations of the company?; When will the audit(s) occur?; Who constitute the audit team?; How will the audit be done? etc.

The Auditor should prepare an audit plan, which shall include detailed layout for conducting audit procedures, timing, sample sizes, basis of selection of sample, etc.

The basic purpose of an audit plan is:

- to develop an audit process which ensures that sufficient and appropriate evidence is gathered to support the audit opinion;
- the audit should be planned in a manner which ensures that the audit is carried out in an efficient and effective way in a timely manner;
- the audit plan should be documented and kept as audit working paper;
- the audit planning process should be framed on a thorough understanding of the Auditee, its business, sector in which it functions and its operation;
- to determine the materiality for the audit.

Audit planning means establishing and developing an overall audit process, including but not limited to:

Identification of broad audit areas;

Seeking previous audit findings and observations from the Management and the Predecessor or Previous Auditor, in case of change of Auditor;

Determination of subject matters and audit areas requiring special attention, when considered necessary;

Risk Assessment and Materiality;

Audit technique;

Allocation of audit resources for the audit; and

Preparation of audit schedule.

The audit approach may be a reliance or systems-based approach where the preliminary assessment has shown that controls are robust and proper procedures have been followed; or a substantive approach where the preliminary assessment shows controls to be poor, or where testing shows that the controls have not operated continuously and effectively during the period being audited, or where controls (even if deemed to be good or excellent) are not tested (whether due to lack of resources, expertise, etc.)

Materiality, together with the Auditor's assessment of inherent risks and the Auditor's preliminary assessment of internal controls, provide the basis for the appropriate audit approach. The combined assessment of inherent risk and evaluation of internal control helps to determine the nature and extent of the audit procedures to be designed and performed.

The audit shall be planned in a manner which ensures that qualitative audit is carried out in an efficient, effective and timely manner. Audit planning shall ensure that appropriate attention is accorded to crucial areas of audit and significant issues are identified in a timely manner.

### Test Yourself

**Question:** Whether preparation of Audit Plan is mandatory?

**Answer:** The Auditor shall make audit plan to conduct audit as per the terms of Audit Engagement.

### Essentials of Audit Planning

The Audit planning helps to develop an audit approach which will ensure that sufficient appropriate evidence is gathered to support the audit opinion in the most cost effective manner. For a successful audit plan, the following points should be considered by auditor:

**Ensuring the quality of Audit:** The Audit should be planned in such manner, which ensures the high quality of audit in economic, efficient, and effective way and in a timely manner.

**Documented Audit Plan:** The Audit plan should be documented and should be kept with the audit working papers.

**Clubbing of inter related steps:** The Inter related steps and events should be clubbed together.

**Finalization type of Audit Plan:** The elements of an audit plan may be similar for different auditee entities. However, the actual contents may differ from auditee to auditee enterprise, and on nature, type & objective of the audit or authentication assignment.

**Independent review of Audit Plan :** The audit plan should be reviewed by the experienced auditor, normally not engaged on the assignment. Their experience may be useful to modify the audit plan to meet the audit objectives more vigorously.

**Flexibility:** The audit plan should be flexible enough to accommodate modifications which may be necessary and should be carried out with the approval of team leader.

**Reaching conclusion:** Auditing involves the collection and analysis of facts and data sufficient to reach reliable and valid conclusions about the subject of the audit.

**Training and communication to Audit Staff:** The Auditing staff should be made familiar of the quality control policies and procedures of the firm. The hierarchy, responsibility & authority for decision making needs to be clearly defined and understood by the audit staff.

**CASE STUDY**

Secretarial Auditor Engagement and Audit Planning in case of Sun Moon Ltd.

- **Engagement of Secretarial Auditor**

Sun Moon Ltd by receiving consent letter and passing Board resolution has appointed secretarial auditor M/s J J & Associates (Practicing Company Secretaries Firm)

- **Intimation to earlier Incumbent**

M/s J J & Associates (Practicing Company Secretaries Firm) is appointed as Secretarial Auditor in place of the existing Secretarial Auditor Mr. ABC, M/s J J & Associates shall intimate the appointment to the earlier incumbent in writing.

- **Acceptance of Appointment**

An appointment letter to be issued by the Sun Moon Ltd to M/s J J & Associates along with a copy of the board resolution. Accordingly, the M/s J J & Associates shall confirm acceptance/Rejection (as the case may be) of appointment in writing.

- **Preliminary Discussions/Surveys**

It is important to have relevant information about the company. The secretarial auditor is expected to take an overview of the operations of the company and interact with the personnel involved to know about the nature of the business. He may opt for surveys for generating information about the company.

- **Preliminary Meeting**

The preliminary meeting with the senior management and the administrative staff involved in the audit will give a fair idea of what is expected and the manner in which audit activities are to be undertaken. In the meeting the preliminary questionnaire and the initial observations of the secretarial auditor may be put forth and discussed. At this stage time frame of the audit should be determined and finalized. The secretarial auditor shall at this stage discuss the scope and objectives of the audit, gather information on important processes, evaluate existing controls, and plan the audit steps.

- **Finalization of Audit Plan and Briefing the Staff**

For an efficient and effective audit report it is important to work out an action plan. The work plan involves briefing the audit staff as to allotment of work, fieldwork responsibilities and other roles. The audit plan should comprehensively outline the fieldwork and usage of auditing tools. The review of controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section. It is essential that the audit work plan is in adherence strictly with the timelines.

- **Testing, Interviews and Analysis**

The secretarial auditor may use a variety of tools and technology to gather information about the company's operations. It is during this stage that the Secretarial Auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by the Company. Fieldwork typically consists of interviewing with staff of the company whether formally or informally, reviewing procedure manuals, processes, testing and analysing compliance with applicable policies and procedures and laws, rules, regulations, and assessing the adequacy of controls. This is a crucial stage which relates to significant findings which the secretarial auditor uses while preparing the draft audit report.

- **Working Papers**

Working papers are a vital tool of the audit profession. They are the support of the audit opinion. They connect the management's records and financials to the auditor's opinion. They are comprehensive and serve many functions.

- **Preliminary Report/Audit Summary for Discussions**

The detailed commentary describing the findings and recommended solutions shall be summarised and presented for initial discussions with the management for their insights and clarity. Upon completion of the fieldwork, the auditor to summarize the audit findings, conclusions, and recommendations necessary in the form of the audit report.

- **Audit Report Submission**

The auditor shall prepare the final report based on the field work and working papers to present the audit findings and discuss recommendations for improvements, if any. The Final report shall contain the opinion on the statutory compliances examined by the auditor and shall state whether in his opinion the Company is carrying out / not carrying out due compliances of the applicable provisions of the various corporate laws. A final meeting shall be an opportunity for the management and the auditor to discuss various aspects of the audit report and review management responses. This is an opportunity to discuss how the audit went and any remaining issues to be scrutinized. The final report shall be provided with or without qualifications.

- **Review of audit plan**

As part of Secretarial Audit's self-evaluation program, the secretarial auditor after the completion of the audit work plan shall investigate into the details of how did the audit plan work out, assess the odds and take corrective measures for future audits.

### Developing the Audit Plan

The Auditor establishes the overall audit strategy, which sets out the scope, timing and direction of the audit and guides the development of the more detailed audit plan which should include the following:

1. Introduction – a short introduction about the audit;
2. Audit field – A description of the audit field, including the regulatory framework for the audit where relevant and recent significant changes and developments that may affect the audit;
3. Audit objectives – The audit objectives depend on the type of audit to be conducted;
4. Audit coverage – The audit coverage periods to be covered and locations to be visited; control systems to be tested and sample to be audited;
5. Materiality – Identification of materiality in terms of value, nature and context;
6. Risks – A preliminary assessment of risks (e.g. changes in the regulatory environment or internal control systems and evaluation of inherent and control risk);
7. Audit approach – The audit approach, including the audit procedures to be carried out in order to provide the necessary audit evidence. This identifies the extent of planned reliance on control systems and the extent of substantive procedures;
8. Organisation – Organisation of audit work: resources (including recourse to the work of other Auditor and experts), timetable (including the reporting objectives of the audit), documentation in electronic audit support system.

The Auditor shall adhere to the audit plan. The audit plan may be modified, if circumstances so warrant. The audit plan should be documented in audit file, including significant changes made during the course of the audit and the reasons for such changes. The audit plan should be updated and modified as may be necessary during the course of the audit, whether due to unexpected events, changes in conditions or audit evidence obtained. This may have an impact on the planned nature, extent and timing of planned audit procedures. Updation of audit plan may be carried out in the circumstances such as change in business plan, changes in the regulatory environment, changes in management, etc.

The Auditor shall plan the audit with professional scepticism so that it is possible to exercise professional judgment in an objective manner. The application of professional scepticism enhances the effectiveness of applied audit procedures and reduces the risk and possibility that the Auditor will reach an inappropriate conclusion when evaluating the results of audit procedures.

**CASE STUDY:****\*Audit Plan & Process of Case Western Reserve Office of Internal Audit Services**

A key function of the Office of Internal Audit Services is to understand, audit, and report to management on how that risk is being managed. Knowing what areas to audit and where to commit resources is an integral part of managing the internal audit function.

To identify areas of potential risk, each year the Office of Internal Audit Services performs a thorough risk assessment of all university management centers, operating units, and significant departments. From this assessment, an Audit Plan is developed and presented to the Audit Committee for approval.

**Step 1: Planning**

The auditor will review prior audits in your area and professional literature. The auditor will also research applicable policies and statutes and prepare a basic audit program to follow.

**Step 2: Notification**

The Office of Internal Audit Services will notify the appropriate departments regarding the upcoming audit and its purpose, at which time an opening meeting will be scheduled.

**Step 3: Opening Meeting**

This meeting will include management and any administrative personnel involved in the audit. The audit's purpose and objective will be discussed as well as the audit program. The audit program may be adjusted based on information obtained during this meeting.

**Step 4: Fieldwork**

This step includes the testing to be performed as well as interviews with appropriate department personnel.

**Step 5: Report Drafting**

After the fieldwork is completed, a report is drafted. The report includes such areas as the objective and scope of the audit, relevant background, and the findings and recommendations for correction or improvement.

**Step 6: Management Response**

A draft audit report will be submitted to the management of the audited area for their review and responses to the recommendations. Management responses should include their action plan for correction.

**Step 7: Closing Meeting**

This meeting is held with department management. The audit report and management responses will be reviewed and discussed. This is the time for questions and clarifications. Results of other audit procedures not discussed in the final report will be communicated at this meeting.

**Step 8: Final Audit Report Distribution**

After the closing meeting, the final audit report with management responses is distributed to department personnel involved in the audit, the President, Chief Financial Officer, and CWRU's external accounting firm.

**Step 9: Follow-up**

Approximately six months after the audit report is issued, the Office of Internal Audit Services will perform a follow-up review. The purpose of this review is to conclude whether or not the corrective actions were implemented.

*\*Source: <https://case.edu/auditservices/about/customer-service>*

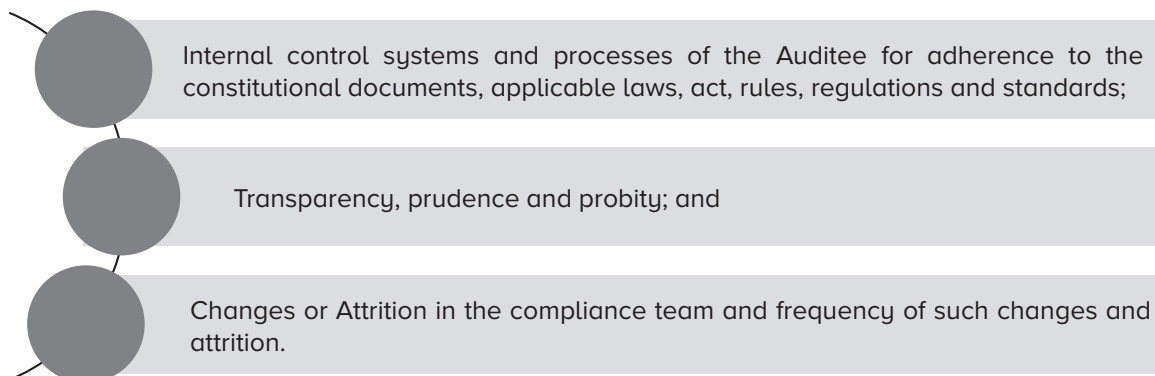
**RISK ASSESSMENT**

**Risk:** A risk is defined as 'threat or possibility that an action or event will adversely or beneficially affect an organization's ability to achieve its objectives'.

**Risk Assessment:** a systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking.

As per CSAS-2 para 2, Risk assessment of the Auditee with respect to and connected/relevant to the Audit Engagement shall be done considering industrial & business environment, organisational structure and compliance requirements. *The industrial & business environment includes the regulatory changes & judicial orders, compliance and disclosure requirements, etc.*

The Auditor shall evaluate high risk areas and activities of the Auditee relating to:



The Auditor shall endeavor to make assessment of risk and shall identify critical and high risk areas; the risk assessment by Auditor can be made:

- by considering the underlying risk assessed by Management or internal and/or specific expert/agencies and analysis thereof;
- by reviewing policies and procedures put in place to mitigate risk;
- by having insight into the objectives, key performance indicators, risks and control measures, holding meetings with key executives of the Auditee.

## CASE STUDY

### Materiality & Risk Assessment

You have been working as a partner in M/s ABC & Associates for six years. M/s ABC & Associates is a medium-sized Practicing Company Secretaries Firm. The firm provides secretarial auditing and internal auditing services. Furthermore, M/s ABC & Associates provides services in the areas such as corporate laws, securities laws & capital market and corporate governance. Most of the clients are in the processed food industry.

M/s ABC & Associates has a Client Acceptance Policy that sets out principles to determine whether to accept a new client or a new engagement. These principles are fundamental to maintaining quality, managing risk, protecting the firm and meeting regulatory requirements.

As part of the client acceptance process, M/s ABC & Associates carefully considers the risk characteristics of a prospective client and conducts several due diligence procedures. Before M/s ABC & Associates accepts a new engagement or client, M/s ABC & Associates determines if it can commit sufficient resources to deliver a high quality audit. The approval process is rigorous, and no new audit engagement may be accepted without the approval of M/s ABC & Associates Managing Partner. M/s ABC & Associates dedicates significant time and resources to the strict implementation of their client acceptance policy. All prospective audit engagements are classified as either 'High Risk', 'Moderate Risk' or 'Low Risk'.

M/s ABC & Associates has set up a team to prepare a recommendation to the Managing Partner for every client acceptance decision in FY 2023-2024.

The managing partner of M/s ABC & Associates met the chairman of the audit committee of a company called 'XYZ Ltd' in the last week of March 2023. The chairman indicated that the company has decided to change its current secretarial auditor.

For new engagements, the CSAS-1 require that the potential new auditor communicates with the predecessor auditor about the audit engagement.

#### DETERMINING MATERIALITY

1. Identify business risks for the processed food service sector;
2. Identify and evaluate the factors important in assessing an audit client's business risk and the risk of material misstatement;
3. Identify and understand the implications of key inherent and business risks associated with a new client;
4. Determine planning materiality for an audit client;
5. Provide support for your materiality decisions.

After you have accepted XYZ LTD as a new client, you are provided with the financial statement of last three years for the purpose of risk assessment.

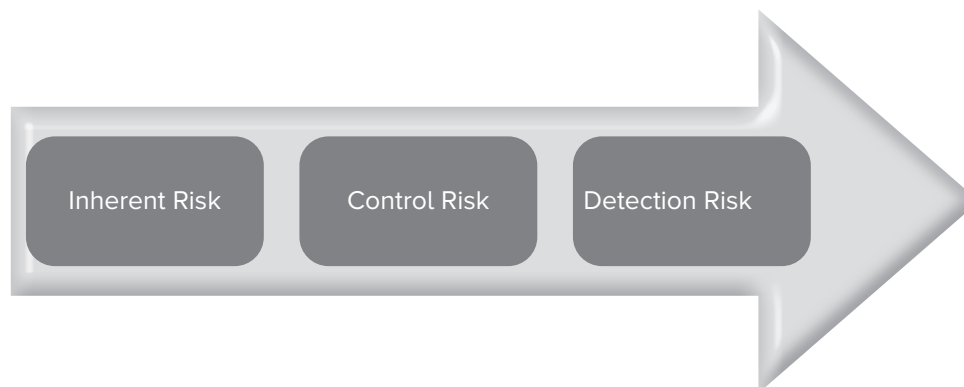
#### Test Yourself

**Question:** Is risk assessment required to be done for audits?

**Answer:** Yes. Risk assessment of auditee with respect to the audit shall be done considering industrial and business environment, organisational structure and compliance requirements.

Auditing risk means that an auditor accepts/presumes some level of uncertainty in performing the audit work, which means that the auditor accepts the risk that the audit opinion given by the auditor might be wrong. Only a very small degree of audit risk would be acceptable as otherwise the audit process may lose its purpose.

#### The audit risk has three components



**Inherent Risk:** Inherent risk is the susceptibility of a class of transaction to misstatement that could be material, individually or when aggregated with misstatements in other transaction, assuming that there were no related internal controls. For example, Genuineness of the related party transactions.

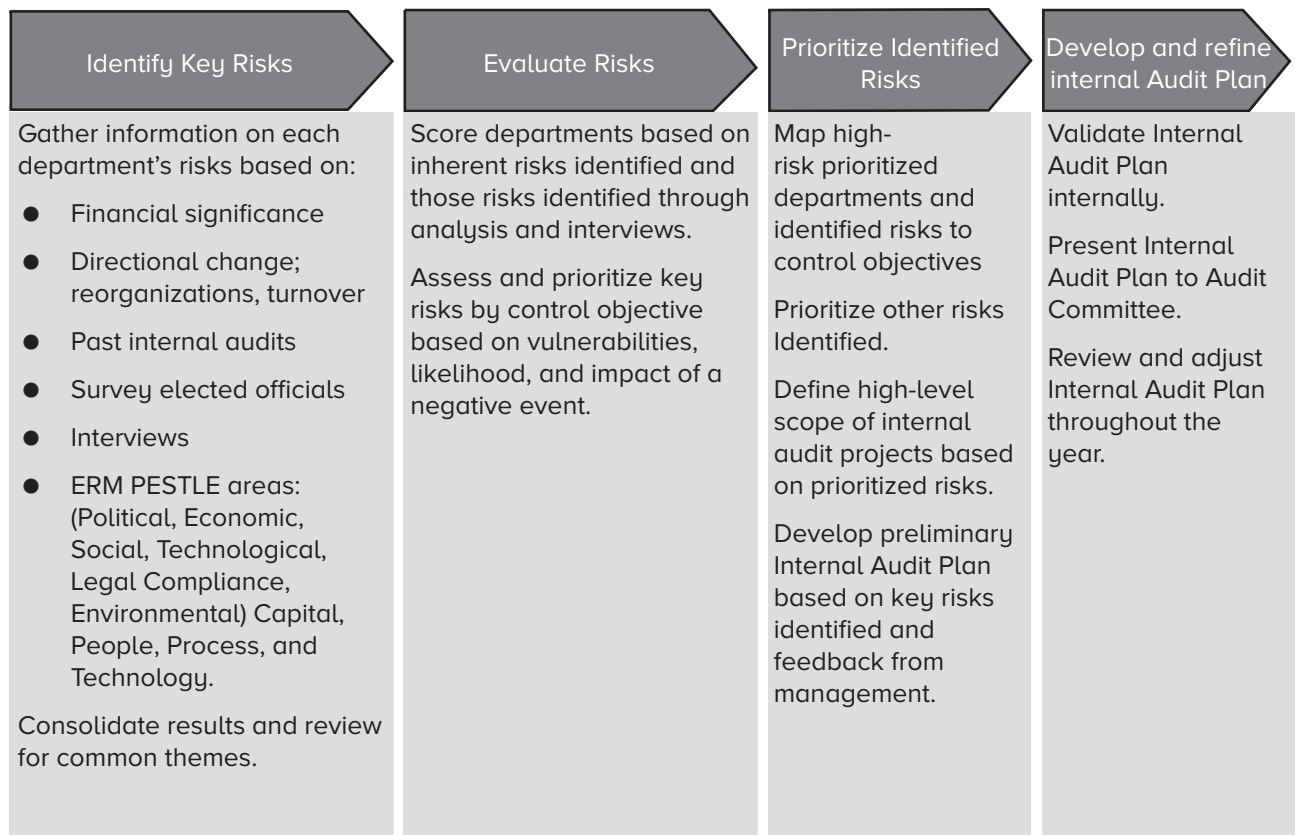
**Control Risk:** Control Risk is the risk that a misstatement that could occur in an class of transactions and that could be material individually or when aggregated with misstatement on other transaction, will not be prevented or detected and corrected on a timely basis by the internal control systems. For example, delay in the filing of forms.

**Detection Risk:** Detection Risk is the risk that an auditor’s substantive audit procedures will not detect a misstatement that exist in class of transactions that could be material, individually or when aggregated with misstatement on other transaction. For example, while certification of e-form, the auditor has overlooked the compliance of the Secretarial Standards.

The auditor should maintain the high level of the assurance/confidence while expressing the audit opinion, and this is the most important steps in the audit planning to ensure that the audit team will gather competent, relevant and reasonable audit evidence at minimum cost.

There is an inverse relationship between materiality and the level of audit risk that is, the higher the materiality level, the lower the audit risk and vice versa. Auditor should take note of the inverse relationship between materiality and audit risk when determining the nature, timing and extent of audit procedures.

**Risk Assessment Process Overview:**



Source: <https://reciprocity.com/blog/risk-assessment-and-internal-controls/>

**\*Sample Internal Audit Risk Assessment Questionnaire**

Please submit the following along with your responses, if applicable:

- a. Risk Assessment completed during the last year:
- b. Organizational Chart :
- c. Any reviews conducted in the area of responsibility either internally or by external auditors and/ or consultants. Please provide a copy of any report with results of the review:

1. Based on the goals and objectives of the unit, what obstacles do you face that could affect or keep you from achieving your goals and objectives (e.g. resources, priority of project, support from management)?
  - a. Strategic – Goals
  - b. Financial – Assets
  - c. Operational – Processes
  - d. Compliance – Laws & Regulations
  - e. Reputational – Public Image
2. What recent events have occurred in this unit (e.g. new degrees, centers, change in management, turnover of staff)?
3. What are some of the areas of risk that your unit is facing? In other words, what exposures do you have that could potentially pose a threat or disruption to your research/business/academic programs? What keeps you up at night when you think of what “could” go wrong? Consider the various areas including but not limited to financial risks, human resources, technological, students, legal and regulatory compliance, public relations or political risk, changes in units (reorganization, turnover).
4. What do you have in place to manage and deal with these risks?
5. What is the worst thing that has already happened in your unit?
6. How do you measure your performance? Have you obtained the desired outcome in recent years?
7. What other units do you depend on to achieve your objectives? Do you feel you receive the information and support you need from these units? If not, please explain why and the difficulties you have encountered
8. Who are your key stakeholders or external constituents (e.g. donors, legislatures)?
9. Are there any particular areas within your unit or on campus which you currently have a concern about? If so, please explain. Please describe or list any areas or concerns that you would like reviewed by Internal Audit.
10. What unique systems do you have and how critical are they to the functioning of your unit? Have you had any performance issues? Who supports these systems? Do you have any systems that contain confidential or critical information such as student, or employee information (eg. social security numbers, etc.)
11. Describe or List any areas in which you are aware of fraud and abuse and the nature of the fraud and abuse.
12. How can Internal Audit meet the expectations of your unit? Do you feel comfortable calling Internal Audit with a problem or concern?

Please list any other comments, questions or concerns.

\* Source: <https://www.template.net/business/assessment/internal-audit-risk-assessment-templates/>

### INFORMATION ABOUT THE AUDITEE

As per CSAS-2 para 3, the Auditor shall obtain sufficient information about the Auditee that is relevant for conduct of audit and forming an opinion and its expression.

It should *inter-alia* cover the following details:

Nature of the business of the Auditee;

Sector in which the Auditee operates and how Government / Regulatory policies have evolved specific to such sector;

Size of the business of the Auditee including geographical locations;

Organisation structures including Directors and KMPs;

Corporate structure, associates, joint ventures, subsidiaries;

Laws applicable to business of the Auditee;

Registrations and permissions obtained;

Court & regulatory orders enforced;

Media Reports.

## AUDIT CHECK-LISTS

As per CSAS-4 para 4, the Auditor shall use systematic and comprehensive audit checklists for carrying out the audit and to verify the compliance requirements.

The Auditor shall compile and validate the checklists for use in the audit process on the basis of information gathered about the Auditee and scope of the audit. It is a useful tool to ensure that no compliance point is missed or omitted while conducting audit. The Audit checklist should provide structure and continuity to an audit. Checklists provide a means of communication and a place to record data for use for future reference.

Ideally audit checklists should:

- promote overall planning and timelines of the audit;

- ensure comprehensive, consistent and focussed audit approach;
- avoid duplication of data verification and information;
- ensure that audit scope is being followed;
- serve as a memory aid and provide a repository for notes collected during the audit process.

Audit checklists should be developed to provide assistance to the audit process and should be reviewed and updated from time to time to meet the scope of audit and its effectiveness. Audit team should be trained in the use of a particular checklist and be shown how to use it to obtain optimal information.

**Illustration:** Audit Findings are expressed in the following manner on the audit checklist:

- Non - conformty (major)
- Non - conformty (minor)
- Opportunity for improvement

Classification	Non-compliance with	Typical form	Reaction of the audited unit
Non-conformity (major)	Binding requirements that must be observed by the audited unit (laws, official regulaions, other external requirements, customer requirements etc.)	<ul style="list-style-type: none"> <li>● Systematic and relevant systematic deviations</li> <li>● Accumulation of minor non-Conformities</li> <li>● Relevant impact on occupational safety, health, environment, nearby areas or finances</li> <li>● Relevant legal consequences are to be expected</li> </ul>	<ul style="list-style-type: none"> <li>● Immediate action</li> <li>● Corrective action</li> <li>● Cause analysis</li> <li>● Deadline</li> <li>● Responsible person</li> <li>● Follow up</li> </ul>
Non-conformity (minor)		<ul style="list-style-type: none"> <li>● Individual or minor cases and/or minor deviations</li> <li>● Minor impact on occupational safety, health, environment, nearby areas or finances</li> <li>● Minor legal consequences are to be expected</li> </ul>	<ul style="list-style-type: none"> <li>● Corrective action</li> <li>● Cause analysis</li> <li>● Deadline</li> <li>● Responsible person</li> <li>● Follow up</li> </ul>
Opportunity for improvement	Best practices	<ul style="list-style-type: none"> <li>● The binding requirements are observed</li> <li>● There are no immediately recognizable negative effects</li> <li>● Possible improvement of processes, procedure, effectiveness, efficiency</li> </ul>	<ul style="list-style-type: none"> <li>● Evaluation and feedback on further action</li> </ul>

Source: <https://www.template.net/business/checklist-templates/internal-audit-checklist/>

**COLLECTION AND VERIFICATION OF AUDIT EVIDENCE (CSAS-2 PARA 5)**

The Auditor shall verify compliance with applicable laws, act, rules, regulations and standards. Deviation, if any, shall be recorded. The Auditor shall satisfy himself about compliance of the Auditee with the applicable laws, rules and regulations. If any deviation is observed, then the appropriate noting of the same shall be made.

The Auditor shall obtain complete, relevant and necessary evidence to support the opinion. Audit evidence is obtained using a variety of techniques such as the following:

**1. Documents/Records Scrutiny**

This is predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents e.g. board resolutions, agenda and minutes, notices, registers, records, procedure manuals, reports, etc. In auditing, it is often not possible, due to limited resources, to check every document or record. The Auditor, wherever necessary, may choose to sample a statistical representative number of documented results, such as monitoring big data or incident reports. An appropriate sampling method will manage any uncertainty to an acceptable level.

**2. Testing, Interviews and Analysis**

The Auditor should determine whether the controls identified during the preliminary review are operating properly and in manner described by the Auditee. Fieldwork typically consists of interviewing the staff of the Auditee whether formally or informally, reviewing procedure manuals and processes, testing and analyzing compliance with applicable policies and procedures and laws, rules, regulations and assessing the adequacy of controls. This exercise may result in significant findings, which the Auditor should consider while preparing the audit report.

**3. Questionnaires**

This involves seeking information from relevant persons within the Auditee through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.

**4. Third Party Confirmation**

Third party confirmation is a type of inquiry and involves obtaining, independently of the Auditee, a reply from a third party with regard to some particular information – for example Registrar and Transfer Agents or other third party agencies.

**5. Analytical Procedures**

Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent in various records.

**Test Yourself**

**Question:** Is audit evidence necessary to support in formation of opinions?

**Answer:** Yes. the auditor shall obtain complete, relevant and necessary evidence to support the opinions. Further, the Auditor shall keep gathering and evaluating evidence until he is satisfied that sufficient and appropriate evidence exists to provide a basis for formation of the Audit Opinion.

The process of gathering and evaluating evidence shall continue until the Auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for formation of the Audit Opinion.

Audit evidence collected through above mentioned audit procedures is to be evaluated against the relevant, already identified criteria. This involves consideration of evidence collected vis-a-vis the subject matter information, as well as the written responses obtained from responsible officers of the Auditee under the scope of audit.

**THIRD PARTY CONFIRMATION (CSAS-2 PARA-6)**

The Auditor shall obtain confirmations from third party(ies), wherever required, with respect to information which is related to such party(ies).

Third party confirmation is a type of inquiry and involves obtaining, independently of the Auditee, a reply from a third party with regard to some particular information – for example Registrar and Transfer Agents or other third party agencies.

During the course of audit, if circumstances warrant, the Auditor shall obtain the information from the third parties. In such cases, a written request should be made to obtain the information. An external confirmation is audit evidence obtained as a direct written response to the Auditor from a third party in paper form, or through electronic or other medium. Requesting external confirmations is a commonly used audit procedure in an audit. It can be useful in obtaining audit evidence about significant transactions outside the normal course of business, and related party transactions.

Circumstances may exist where it may be difficult to obtain responses to external confirmation requests. The auditor should plan alternative or additional procedures.

#### Test Yourself

**Question:** Is third party confirmation relevant during the course of audit?

**Answer:** The Auditor shall obtain confirmations from third party(ies), wherever required, with respect to information which is related to such party(ies). During the course of audit, if circumstances warrant, the Auditor shall obtain the information from the third parties. In such cases, a written request should be made to obtain the information.

### ANALYSIS OF AUDIT EVIDENCE (CSAS-2 PARA-7)

The Auditor shall evaluate the Audit Evidence to arrive at the conclusion. The Auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any. Further, the Auditor has to obtain competent, relevant and reasonable evidence to support his judgment as well as conclusions relating to the audit.

The evidence gathering and evaluation is a simultaneous, systematic and an interactive process and involves:

Gathering evidence by performing appropriate audit procedures;

Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality);

Re-assessing risk and gathering further evidence as necessary.

The evidence gathering and evaluation process should continue until the Auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the Auditor's conclusion. Audit evidence should be evaluated against the identified criteria. This involves consideration of evidence collected vis-à-vis the subject matter information as well as the written responses obtained from responsible officers of the Auditee. Auditor should check that the audit evidence is relevant and reliable.

While evaluating evidence, if the Auditor finds that Audit Evidence is conflicting, the Auditor shall assess the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

After evaluating the evidence and considering its materiality, the Auditor should decide how best to conclude in the light of the evidence collected, which would be the supporting key documents and arrive at audit conclusions. While evaluating evidence, Auditor can find that audit evidence is conflicting i.e. while some evidence supports the subject matter information other evidences seem to contradict it. In such circumstances, the Auditor needs to assess the extent and credibility of conflicting evidence, undertake alternate audit procedure to corroborate the evidences in hand for forming an appropriate opinion.

**Test Yourself**

**Question:** What shall the auditor do in case the evidence is found to be conflicting?

**Answer:** While evaluating evidence, if the Auditor finds that Audit Evidence is conflicting, the Auditor shall assess the extent and credibility of conflicting evidence in order to reach a Conclusion or collect more evidence to resolve the conflict.

**CASE LAW**

In the matter of *Price Waterhouse & Co. Vs. Securities & Exchange Board of India Securities Appellate Tribunal Mumbai Appeal No. 6 of 2018*, it was held that there must be evidence to show that there was fabrication, falsification and fudging of the books of account of SCSL by the appellants and that the said fabrication, etc. was done with intent, knowledge, connivance and collusion with the management in order to play a fraud on the shareholders/investors. The evidence must be apparent and glaring and not on the basis of preponderance of probabilities. There must be direct evidence of falsification and fabrication of the books of account

**DOCUMENTATION (CSAS-2 PARA-8)**

The Auditor shall adequately document the Audit Evidence in working papers, including the basis and extent of planning, work performed and the findings of audit.

The word “document” is used to refer to a written or printed paper that bears the original, official, or legal form of something and can be used to furnish decisive evidence or information. “Documentation” refers to the act or an instance of the supplying of documents or supporting references or records.

Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with scope of audit.

The Audit documentation is important for several reasons including:

- Confirm and support the Auditor’s opinion and reports;
- Increase the efficiency and effectiveness of the audit;
- Serve as a source of information for preparing reports and or answering any enquiries from the Auditee or from any other party;
- Serve as evidence of the Auditor’s compliance with applicable standards;
- Facilitate planning and supervision;
- Help the Auditor’s professional development;
- Help to ensure that delegated work has been satisfactorily performed;
- Provide evidence of work done for future reference;
- The user of the audit report rely upon the audit report with proper documentation;
- It confirms that the Auditor’s report is in conformity with the applicable laws, rules, regulations and standards, etc.

The Audit Documents shall contain sufficient information to enable an Auditor, having no previous connection with the audit, to ascertain from such documents the significant findings and conclusions of the Auditor. Audit documents should be comprehensive, understandable with ease and contain all the significant information related to the scope covered under the audit.

According to the \*Public Company Accounting Oversight Board (PCAOB): Audit documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. Also, the documentation should be appropriately organized to provide a clear link to the significant findings or issues. Examples of audit documentation include memoranda, confirmations, correspondence, schedules, audit programs, and letters of representation. Audit documentation may be in the form of paper, electronic files

\*The Public Company Accounting Oversight Board (PCAOB) is a nonprofit corporation established to oversee the audits of public companies. The PCAOB also oversees the audits of brokers and dealers registered with the U.S. Securities and Exchange Commission (SEC).

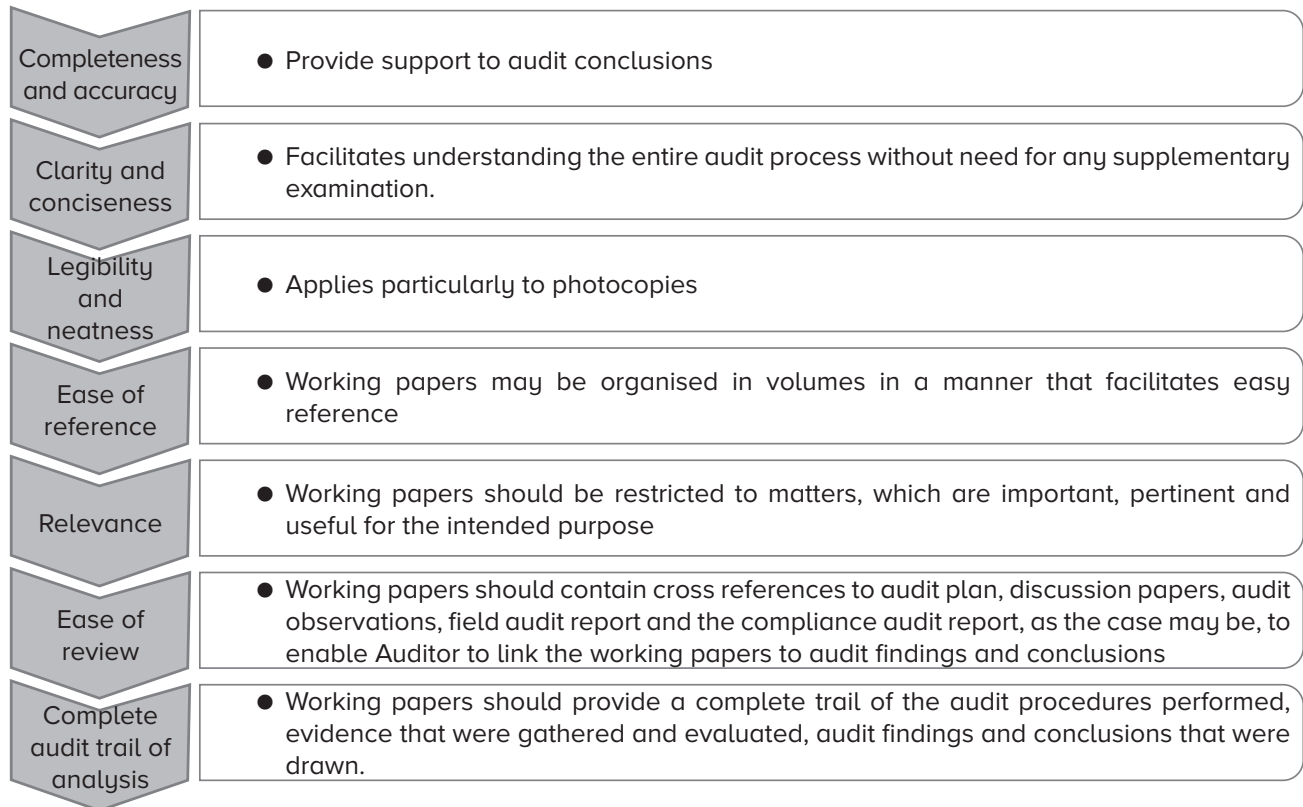
Source: [https://pcaobus.org/oversight/standards/archived-standards/pre-reorganized-auditing-standards-interpretations/details/Auditing\\_Standard\\_3#:~:text=Audit%20documentation%20should%20be%20prepared,the%20significant%20findings%20or%20issues.](https://pcaobus.org/oversight/standards/archived-standards/pre-reorganized-auditing-standards-interpretations/details/Auditing_Standard_3#:~:text=Audit%20documentation%20should%20be%20prepared,the%20significant%20findings%20or%20issues.)

Audit Documentation shall take place throughout the audit process. Working papers shall be complete and appropriately detailed to provide a clear trail of the audit. Audit Documents shall be properly indexed, referenced with and supplemented by the set of working papers.

**CASE LAW**

In *Re V. Shankar Vs. Securities and Exchange Board of India SAT Appeal No. 283 Of 2022*, it was held that the Company secretary, as part of his duty and responsibility is only required to authenticate contents indicated in balance sheet or in offer document and is not required to go into veracity of buy back offer document and its legal compliances before authenticating such document and, therefore, company secretary could not be held guilty of making false or misleading open offer which had been approved by board of directors of company.

Some of the broad characteristics of Audit Documentation are set out below :

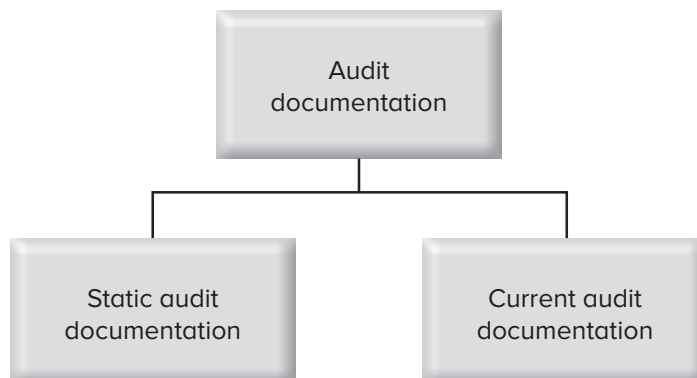


**Test Yourself:**

**Question:** What is the importance of audit documentation?

**Answer:** The Auditor shall adequately document the Audit Evidence in working papers, including the basis and extent of planning, work performed and the findings of audit. Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with scope of audit.

Audit documentation may be divided into two categories:



<ul style="list-style-type: none"> <li>✓ Auditor appointment letter</li> <li>✓ Record of communication with the previous Auditor and his resignation letter</li> <li>✓ Information pertaining to the legal aspects of the Auditee</li> <li>✓ Constitutional Documents - MOA, AOA, LLP Agreement, JV Agreement, Share Purchase Agreement etc.</li> <li>✓ Complete details of the management</li> <li>✓ Copies of audited financial statements of the previous years</li> <li>✓ Details of holding, subsidiary, associate companies and joint ventures.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Evidence that the work performed was supervised and reviewed</li> <li>✓ Audit review points and highlights</li> <li>✓ Major weakness in the internal control systems</li> <li>✓ Confirmations, if sought, received from the Auditee</li> <li>✓ Communication with the third parties</li> <li>✓ Evidence of the audit planning process</li> </ul>
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**Documentation of discussions held with management related to significant matters, where written record is not available:**

Relevant discussions with the Management should be recorded and documented. The Confirmations, if sought, received from the Auditee should be taken on record. Documentation of audit evidence supports audit conclusions and confirms that the audit was carried out in accordance with the scope of the audit. The Auditor should adequately document the audit evidence, including the basis and extent of planning, work performed and the findings of audit.

**What does the significant matters mean?**

Significant Matters: Judging the significance of a matter requires an objective analysis of the facts and circumstances. Significant matters include, Matters that give rise to significant risks; Circumstances that cause the auditor significant difficulty in applying necessary audit procedures and Findings that could result in a modification to the auditor’s report.

Source: [https://www.ifac.org/system/files/downloads/2008\\_Auditing\\_Handbook\\_A075\\_ISA\\_230.pdf](https://www.ifac.org/system/files/downloads/2008_Auditing_Handbook_A075_ISA_230.pdf)

**Test Yourself:**

**Question 1:** When shall the audit documentation take place?

**Answer:** The Audit documentation, shall take place throughout the audit process. Working papers shall be complete and appropriately detailed to provide a clear trail of the audit. Audit Documentation shall be properly indexed, referenced with and supplemented by the set of working papers.

**Question 2:** Whether discussion with management should also be documented?

**Answer:** Yes. the Auditor shall also document discussion with the management with respect to significant matters in respect of which written record is not available.

**RECORD KEEPING AND RETENTION (CSAS-2 PARA-9)**

The Auditor shall establish policies and procedures for retention of Audit Documents. A well established policies and procedures should be in place for the documentation. Audit Documentation is essential for the following purposes:

- To comply with legal duties and requirements, either statutory or regulatory;
- To avoid liability, the improper destruction or alteration of documents in a litigation situation;
- To support or oppose a position in an investigation or litigation;
- To protect from unnecessary expense and time during discovery;
- To maintain control over discovery and e-discovery; and
- To keep documents confidential and avoid leakage to attackers or competitors.

The Audit Documents shall be collated for records within a period of 45 days from the date of signing of Auditor's Report. The documents should be maintained in a manner which is safe, secure and retrievable as and when required.

The Audit Documents shall be maintained in physical or electronic form and retained for a period of 8 years from the date of signing of Auditor's Report.

**Test Yourself:**

**Question 1:** Within how many days shall the audit documents be collated for records?

**Answer:** The audit documents shall be collated for records within a period of 45 days from the date of signing of Auditor's Report.

**Question 2:** For how long the Audit documents are required to be maintained?

**Answer:** The Audit Documents should be maintained in physical or electronic form and retained for a period of 8 years from the date of signing of Auditor's Report.

**LESSON ROUND-UP**

- Sufficiency is the measure of the quantity of audit evidence and depends on various factors including internal controls systems and risk involved.
- Appropriateness is the measure of the quality of audit evidence, i.e. its relevance and reliability.

- This Auditing Standard CSAS-2 is applicable to the Auditor undertaking Audit under any statute. The Standard deals with responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit documents.
- The working paper file contains the documents relating to the work performed by the auditor.
- The audit evidence is fundamental and important part in the audit process. The auditors need audit evidence to form and conclude their audit opinion
- The audit plan, describes the processes and activities that are to be carried out in connection with a particular audit and for the improving the quality of audit.
- Risk assessment of the Auditee with respect to and connected/relevant to the Audit Engagement shall be done considering industrial & business environment, organisational structure and compliance requirements.
- The Auditor shall obtain sufficient information about the Auditee that is relevant for conduct of audit and forming an opinion and its expression.
- The Auditor shall use systematic and comprehensive audit checklists for carrying out the audit and to verify the compliance requirements.
- The Auditor shall verify compliance with applicable laws, act, rules, regulations and standards. Deviation, if any, shall be recorded.
- The Auditor shall obtain confirmations from third party(ies), wherever required, with respect to information which is related to such party(ies).
- The Auditor shall evaluate the Audit Evidence to arrive at the conclusion. The Auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any. Further, the Auditor has to obtain competent, relevant and reasonable evidence to support his judgment as well as conclusions relating to the audit.

### GLOSSARY

**Audit Documents :** Audit Documents means the working papers prepared or records obtained by the Auditor in connection with the audit.

**Audit Evidence :** Audit Evidence refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.

**Management :** Management as defined in CSAS-1.

### TEST YOURSELF

*(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)*

1. 'The audit process can be broadly grouped in three phases'. Prepare a note to substantiate the statement.
2. The interview is the most reliable source for obtaining the information for the auditor. Comment
3. "The audit checklist assists auditors in conducting a thorough, systematic and consistent audit." Briefly highlight the benefits of checklist.
4. The Audit documentation is important for several reasons. Explain.
5. The Auditor shall evaluate the Audit Evidence to arrive at the conclusion. The Auditor shall verify compliance with applicable laws, rules and regulations and highlight deviations, if any. Elucidate.

