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Bombay Chartered Accountants' Society
The Knowledge Portal

Documentation of Audit

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The Importance of Documentation

The need

- World over auditors are hauled up before courts and faced with huge punitive damages where they could not conclusively “prove” that they had applied auditing standards and professional judgement with due professional care
- Same situation is progressively emerging in India (Peer Review > Quality Review > Disciplinary Committee > Court)
- When things go wrong, the question is: why the auditor did not warn those affected?
- The quality of an auditor's work is challenged and the methodology of each audit procedure that he carried out or failed to carry out comes under independent regulatory scrutiny or, worse, under the opposition lawyer’s scrutiny

..The need

- The onus is on the auditor to “prove” that he was not professionally negligent in the performance of his duty
- If his work papers do not evidence his having performed a procedure, the assumption is that the audit procedure was not performed
- Scope and resource limitations faced by the auditor are no defence if he did not give a disclaimer of opinion as required per SA 700
- Documentation is the only way an auditor can prove to outsiders that he planned and performed an effective audit, however good he might himself consider the audit to have been done

No one will believe you did something on an audit if there is nothing in your working papers file to show for it !!!

SA 200 Basic Principles Governing an Audit

Paragraphs 11 - 14

Paras 11 and 12

11. The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles

12. The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on a knowledge of the client's business

Paras 13 and 14

13. Plans should be made to cover, among other things:
    a. acquiring knowledge of the client's accounting system, policies and internal control procedures
    b. establishing the expected degree of reliance to be placed on internal control
    c. determining and programming the nature, timing, and extent of the audit procedures to be performed
    d. coordinating the work to be performed
14. Plans should be further developed and revised as necessary during the course of a audit

SA 230 (Revised)

Audit Documentation

The principle

The auditor should prepare audit documentation that is:

- sufficient and appropriate
- to provide a record of the basis for the auditor’s report, and
- to demonstrate that the audit was performed in accordance with SAs and applicable legal and regulatory requirements

Nature

- Documentation may be on electronic media
- Includes
  - Audit programs
  - Analyses
  - Issues memoranda
  - Letters of confirmation and representation
  - Checklists
  - Extracts of important documents
  - Correspondence (including e-mail) concerning significant matters
  - Schedules of work the auditor performed

Purpose

- To assist audit team to plan and perform the audit
- To enable supervision and quality control of work
- To demonstrate accountability of the audit team for its work
- To retain a record of matters of continuing significance to future audits
- To withstand the test of an independent experienced auditor review (including peer review) to comply with SQC 1.
- To enable an experienced auditor to conduct external reviews in accordance with applicable legal, regulatory or other requirements

Form, content and extent

- Documentation should enable “an experienced auditor”, having no previous connection with the audit, to understand
  - Nature, timing, extent and results of the audit procedures performed
  - Audit evidence obtained
  - Conclusions reached on significant matters
  - In relation to audit procedures designed to address identified risks of material misstatement, conclusions that are not otherwise readily determinable from the documentation of the procedures performed or audit evidence obtained

Significant matters

- Matters that give rise to significant risks
- Results of audit procedures indicating
  - Possibility of material misstatement
  - Need to revise the auditor's risk assessment and responses thereto
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures
- Findings that could result in a modification to the auditor's report

Accountability

- The auditor should record
  - Who performed the audit work and the date of such work
  - Who reviewed specific audit documentation and the date of such review

Documentation of specific items tested

- Auditor should record the identifying characteristics of the specific items tested
- Retain copies of those client records if they are needed to enable an experienced auditor to understand the work performed and conclusions reached
- Reasons for all departures from SAs should be documented

Changes to w/ps after date of auditor's report

- Exceptional circumstances may require performance of new audit procedures or revise audit conclusions

- Documentation should reflect
  - New audit procedures performed
  - New conclusions reached
  - When and by whom changes were made and/or reviewed
  - Specific reasons for the changes
  - Effect, if any, of the changes on auditor's conclusions

Changes resulting from the process of assembling and completing audit file

- Editorial changes may be made to w/ps after date of auditor's report
- Assembling of audit file should ordinarily be completed within 60 days after date of the auditor's report *– requirement less stringent than under PCAOB Std 3 which requires archiving within 45 days of report issuance*

Changes to audit documentation after the audit file has been completed

- After the audit file has been completed, the auditor should not delete or discard audit documentation.
- Additions/alterations to w/ps after the audit file has been completed, to be documented as such regardless of their nature

New information received after the date of the auditor’s report

- No responsibility to perform additional audit procedures, but if performed, auditor retains the new information, to the extent audit procedures are performed on it
- Auditor documents the resulting addition to the w/ps
- If new information might have caused the auditor to modify the auditor’s report had it been known at the date of the auditor’s report, follow the requirements and guidance in SA 560, *Subsequent Events*

Confidentiality, safe custody, retention and ownership of audit documentation

- The auditor should apply appropriate procedures for audit documentation that
  - Maintain its confidentiality and safe custody
  - Protect its integrity
  - Enable its accessibility and retrievability
  - Enable its retention for a period sufficient to meet the needs of the firm, and legal and professional requirements – usually not shorter than 10 years from the date of the auditor’s report

General Requirements of Documentation

The planning section of file

- The risk assessment process
  - By understanding the entity, its business and its environment
  - By considering the risk of fraud
  - By understanding of entity’s internal controls
  - By understanding the accounting process
  - By performing preliminary analytical procedures
  - By determining materiality
  - At the account balance and assertion level
- Response to the assessed risks
- Developing detailed controls and substantive testing audit programmes
- Preparer and reviewer sign-offs and dates

The audit management section of file

- Staff scheduling, time budgeting and audit timetable
- Confirmation control
- Client meetings – AGM, board, audit committee, other board committees
- Client communications and correspondence (including e-mail)

The controls testing section of file

- Controls testing audit programme compliance
- Tests of controls mitigating identified risks
- Tests of general IT controls
- Tests of IT and manual business process controls
- Conclusion on reliability of controls and consequent modification to the audit programme
- Preparer and reviewer sign-offs and dates

The substantive testing section of file

- Substantive testing audit programme compliance
- Sampling methodology used, sample size calculations and representative samples drawn for testing various components of FS in accord with risks identified
- For various components of FS:
  - Analytical testing w/ps: justification, objective, findings and conclusion
  - Detail testing w/ps: justification, objective, findings and conclusion
  - Details of why and how “audit judgement” was exercised in areas where > one opinion was possible
- Conclusion on substantive procedures
- Preparer and reviewer sign-offs and dates

The reporting section of file

- Audit summary memorandum including conclusions on risk mitigation, controls and substantive testing
- Aggregation of errors and comfort with materiality
- Management letter and communications with TCWG
- Draft and signed FS
- Cross-referenced trial balance
- Notes and disclosures w/ps
- Laws and (accounting and auditing) standards compliance checklists
- Quarterly financial reporting and/or interim reporting w/ps
- Other reporting (eg certificates, tax audit) w/ps
- Preparer and reviewer sign-offs and dates

Specific Requirements under various SAs

SA 240 Auditor’s responsibility to consider fraud and error in an audit of FS

- Fraud risk factors identified at planning and performance stages
- Auditor’s response thereto
- The auditor must document matters which are important in providing evidence to support the audit opinion, and the working papers must include the auditor's reasoning on all significant matters which require the auditor's judgment, together with the auditor's conclusion thereon
- Because of the importance of fraud risk factors in the assessment of the inherent or control risk of material misstatement, the auditor documents fraud risk factors identified and the response considered appropriate by the auditor

SA 315, 330 Risk assessment and internal control

- The understanding obtained of entity's accounting and internal control systems
- The assessment of control risk
- When control risk is assessed at less than high, the auditor would also document the basis for the conclusions
- Techniques of documentation – used alone or together
  - Narrative descriptions
  - Questionnaires
  - Checklists
  - Flow charts
- Generally, the more complex the entity's accounting and internal control systems and the more extensive the auditor's procedures, the more extensive the auditor's documentation will need to be

SA 300 Audit planning

- The auditor should document his overall plan
- The form and extent of the documentation will vary depending on the size and complexity of the audit
- A time budget, in which hours are budgeted for the various audit areas or procedures
- A written audit programme setting forth the procedures that are needed to implement the audit plan
- The programme may also contain the audit objectives for each area and should have sufficient details to serve as a set of instructions to the assistants involved in the audit and as a means to control the proper execution of the work

SA 600 Using the work of another auditor

- The principal auditor should document the components whose financial statements were audited by other auditors
- Their significance to the financial statements of the entity as a whole
- Names of the other auditors
- Any conclusions reached that individual components are not material
- He should also document how he applied the procedures he performed and the conclusions he reached
- Where the other auditor's report is other than unqualified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report

SA 580 Representations by management

- Evidence of management's representations
- A written representation is better audit evidence than an oral representation and can take the form of
  - A representation letter from management
  - A letter from the auditor outlining the auditor's understanding of management's representations, duly acknowledged and confirmed by management
  - A duly authenticated copy of relevant minutes of meetings of the board of directors or similar body

SA 250 Consideration of laws and regulations in an audit of financial statements

- When the auditor believes there may be non-compliance, the auditor should document the findings and discuss them with management
- Documentation of findings would include copies of records and documents and making minutes of conversations, if appropriate

SA 260 Communications of audit matters with those charged with governance

- The auditor’s communication with those charged with governance may be made orally or in writing
- When audit matters of governance interest are communicated orally, the auditor should document in the working papers the matters communicated and any responses to those matters

Auditing in a computer information systems environment

- The auditor should document the audit plan, the nature, timing and extent of audit procedures performed and the conclusions drawn from the evidence obtained
- In an audit in CIS environment, some of the audit evidence may be in the electronic form. The auditor should satisfy himself that such evidence is adequately and safely stored and is retrievable in its entirety as and when required

General Requirements

General concept

- Remember: WHAT IS NOT DOCUMENTED IS NOT DONE
- Ensure that all SAs have been followed during planning, performing, concluding and reporting on the audit
- Think of what is required to be done on the audit under each SA (use checklist) and see whether documentary evidence of having done it exists in the working papers file – if not, put it in
- Ensure that there is a written justification in the file for the nature, timing and extent of all audit work done

General concept

- Ensure that there is a written justification in the file for all decisions taken in areas where “professional judgement” was exercised
- Do not keep anything in your w/p file that has not been subjected to your audit procedures (eg unaudited client’s documents) – you will be held responsible for everything that is found in your file
- Where there was disagreement with management on any issue, document how that disagreement was resolved and the audit justification used therefor, referencing the concerned law or accounting standard and its interpretation

Open Forum

Thanks!