

Insights into SA 230 "Audit Documentation", SA 500 "Audit Evidence" and SA 501 "Special Considerations for Selected Items"

Presentation at the
4 Days Seminar organised by the Auditing and Assurance Board and
Peer Review Board of ICAI
and hosted by the Hyderabad Branch of SIRC of ICAI
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Structure of the Discussion

Peer Review Major Observations

- Non compliance with Accounting and Standards on Auditing
- Improper/ inadequate disclosures/ Reporting
- Adequacy of documentation of the work done
- Audit conclusions not properly supported where judgemental issues involved

FRRB Major Observations

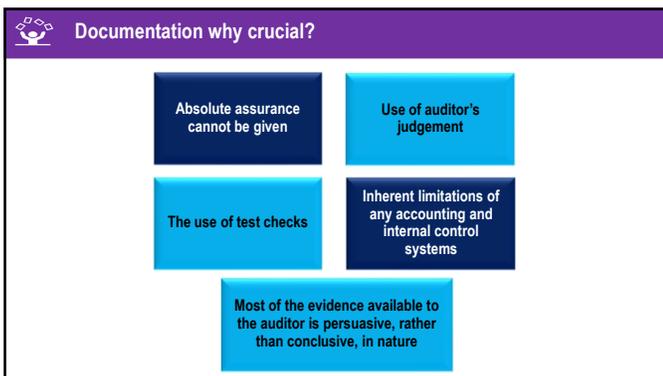
- Non-Compliance with accounting and auditing standards
- Non-compliance with reporting obligations under the Companies Act
- Non-Compliance with disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations
- Inadequate/ improper audit opinions



Framework

| Nature of Service | Audit | Review | Agreed Upon Procedures | Compilation |
|--|---|---|--|--|
| Level of assurance provided by auditor | High but not absolute assurance | Moderate assurance | No assurance | No assurance |
| Report provided by auditor | Positive assurance on assertions and other specific reporting requirement | Negative assurance on assertions and other specific reporting requirement | Factual findings of procedures performed as agreed | Identification of information compiled |

Documentation is mandatory in all cases



 **Planning and audit documentation**

- Agreeing the terms of audit engagements (SA 210)
- Consideration of laws and regulations (SA 250)
- Planning an audit (SA 300)
- Materiality in planning and performing an audit (SA 320)
- Preliminary analytics (SA 520)

 **Execution of an audit and audit documentation**

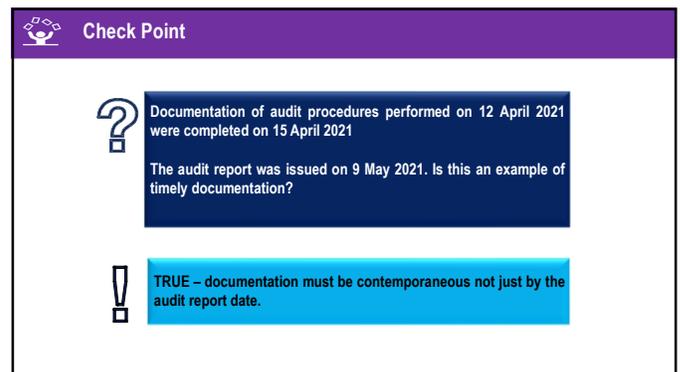
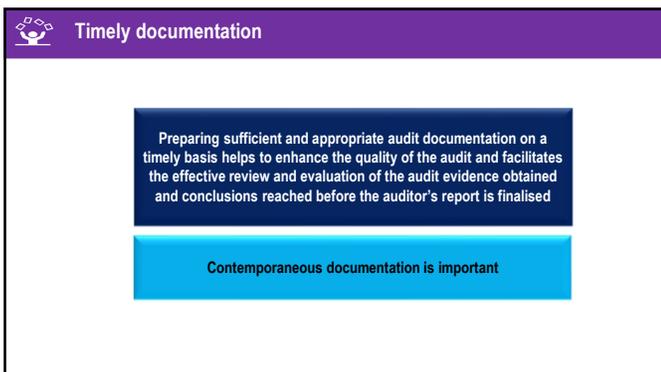
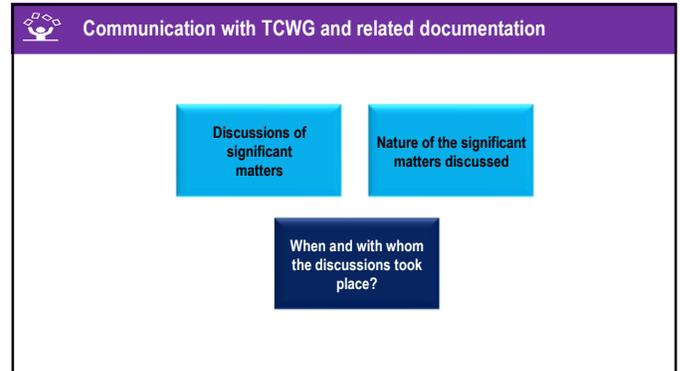
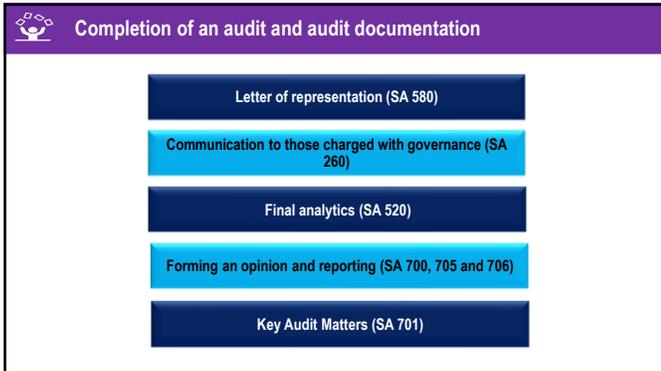
- Audit evidence (SA 500)
- External confirmations (SA 505)
- Analytical procedures (SA 520)
- Audit Sampling (SA 530)

 **Execution of an audit and audit documentation**

- Auditing accounting estimates (SA 540)
- Related Party Transactions (SA 550)
- Subsequent events (SA 560)
- Using the work of experts (SA 620)

 **NTE of audit procedures and audit documentation**

- Characteristics of the specific items or matters tested
- Who performed the audit work?
- The date such work was completed
- Who reviewed the audit work performed?
- The date and extent of such review



Matters arising after the date of the Auditor's Report

If in exceptional circumstances 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 | New/ additional audit procedures performed | Audit evidence obtained, and conclusions reached |
| Their effect on the auditor's report | | When and by whom audit documentation were made |

Assembly of final audit file

SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files

Ordinarily not more than 60 days after the date of the auditor's report

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

Ordinarily is no shorter than seven years from the date of the auditor's report

Check Point

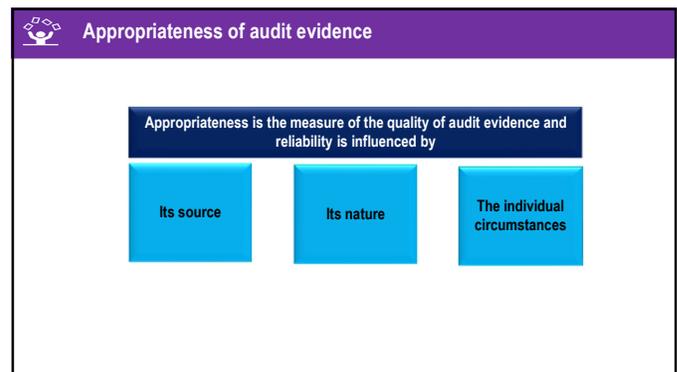
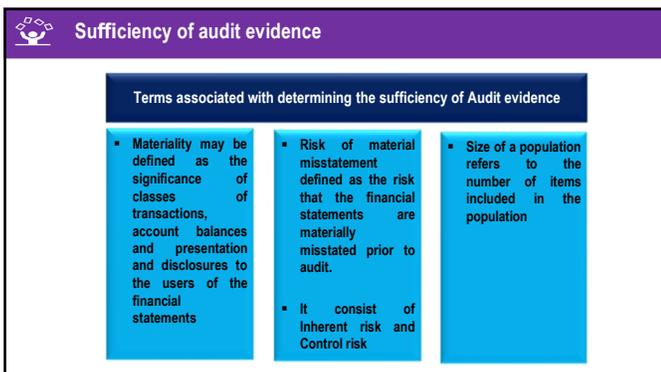
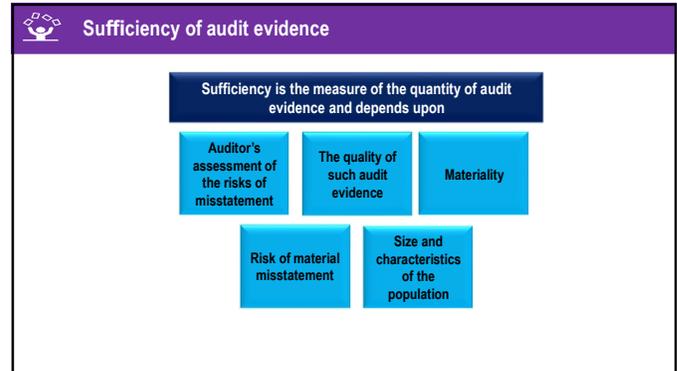
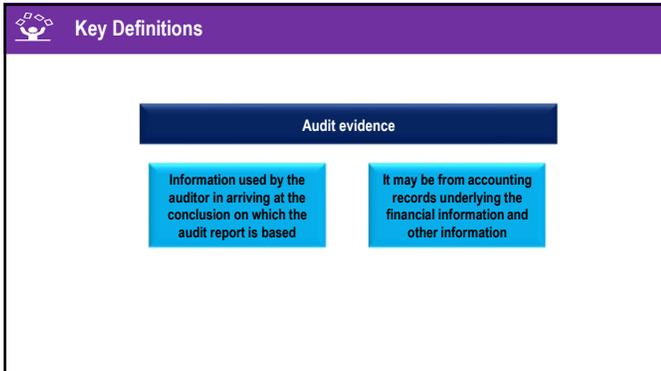
? Is it true that all audit evidence required to support our audit opinion be documented prior to issuance of the audit opinion?

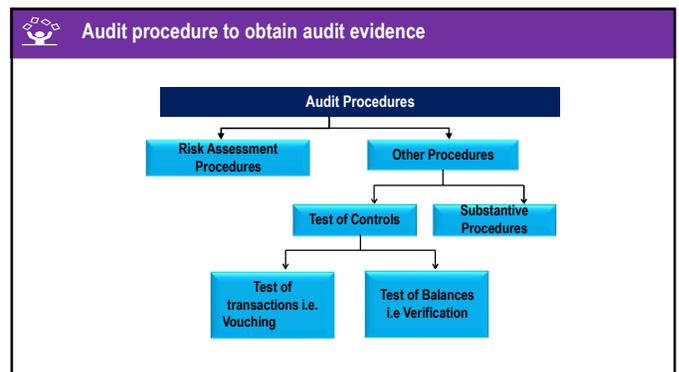
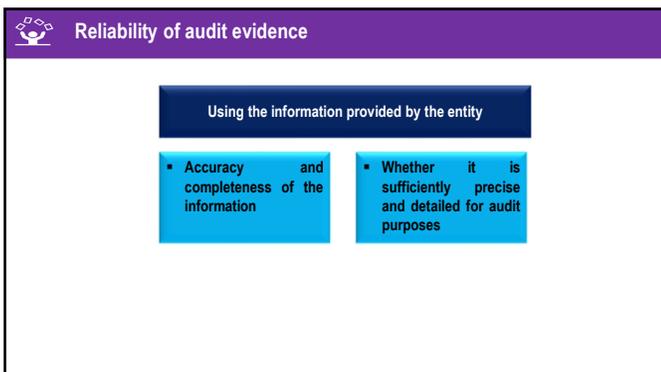
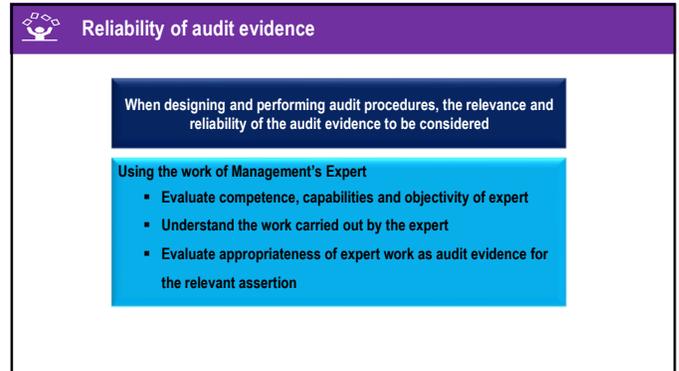
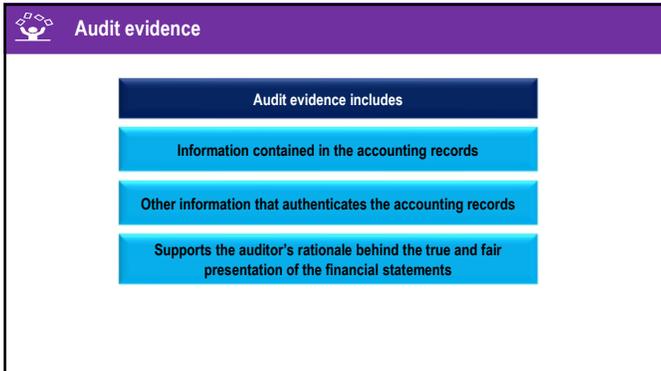
! FALSE – but it is a best practice. Documentation should be on a timely basis, so audit evidence received during the year should be documented at the time it is received.

Documentation is not required to be fully completed prior to issuance of the opinion, however, all audit evidence relevant to the opinion must be obtained by this date.

Best practices

| | |
|-------------------------------------|---------------------------|
| Permanent and temporary files | Use of checklists |
| Training the audit team | Consult, consult, consult |
| Work paper review by senior auditor | |

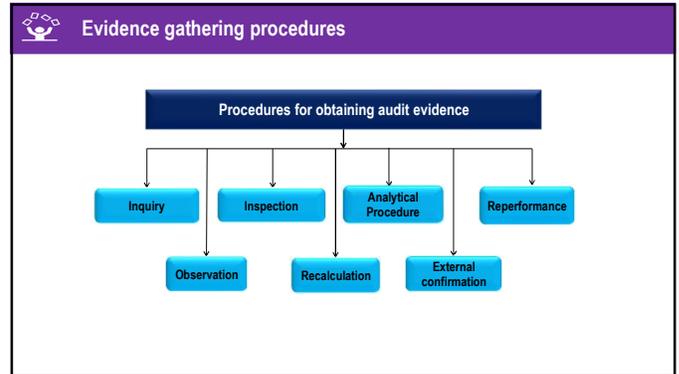




Risk assessment procedures

Audit procedure performed

- to obtain an understanding of the entity and its environment
- including the entity's internal control, to identify and assess the risks of material misstatement
- whether due to fraud or error, at the financial statement and assertion levels



Assertions about class of transactions

| | |
|----------------|--|
| Occurrence | Transactions and events that have been recorded have occurred and pertain to the entity |
| Completeness | All transactions and events that should have been recorded have been recorded |
| Accuracy | Amounts and other data relating to recorded transactions and events have been recorded appropriately |
| Cut-off | Transactions and events have been recorded in the correct accounting period |
| Classification | Transactions and events have been recorded in the proper accounts |

Assertions about account balances

| | |
|--------------------------|--|
| Existence | Assets, liabilities, and equity interests exist |
| Rights and obligations | The entity holds or controls the rights to assets, and liabilities are the obligations of the entity |
| Completeness | All assets, liabilities and equity interests that should have been recorded have been recorded |
| Valuation and allocation | Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded |

| Assertions about presentation and disclosure | |
|--|---|
| Occurrence | Disclosed events, transactions, and other matters have occurred and pertain to the entity |
| Rights and obligations | Disclosed events, transactions, and other matter pertain to the entity |
| Completeness | All disclosures that should have been included in the financial statements have been included |
| Accuracy and valuation | Financial and other information are disclosed fairly and at appropriate amounts |

| Audit evidence - reliability | |
|--|---|
| Reliability increases | Reliability decreases |
| When obtained from independent source outside the entity | When obtained from within the entity |
| When controls are operating effectively | When controls are not operating effectively |
| When obtain directly | When obtained through the entity |
| When it is in documentary form | When it is given orally |
| When original documents are produced | When copies are produced |

| Inventories |
|--|
| The auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by |
| <ul style="list-style-type: none"> ▪ Attend at physical inventory counting <ul style="list-style-type: none"> ▪ Evaluate management's instructions and procedures for recording and controlling the results of counting ▪ Observe management's count procedures ▪ Inspect the inventories ▪ Perform test counts ▪ Perform audit procedures to reconcile physical and book inventories |

| Attendance of physical inventory |
|---|
| Attendance of physical inventory counting involves |
| Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts |
| Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count |
| Obtaining audit evidence as to the reliability of management's count procedures |

 **Matters Relevant in Planning Attendance at Physical Inventory Counting**

Factors to be considered

- Nature of inventory
- Stages of completion of work in progress
- The risks of material misstatement related to inventory
- The nature of the internal control related to inventory
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.

 **Matters Relevant in Planning Attendance at Physical Inventory Counting**

Factors to be considered

- The timing of physical inventory counting
- Whether the entity maintains a perpetual inventory system
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate
- Whether the assistance of an auditor's expert is needed

 **Physical inventory counting**

- Date other than the date of financial statements
 - Obtain audit evidence to confirm that the changes in inventories between the date of financial statements and count date are properly recorded
 - Example – Roll Forward/ Roll backward procedures

 **Unable to attend physical counting**

Auditor is unable to attend physical inventory counting due to unforeseen circumstances

Observe physical count on alternate date Perform reconciliation procedures

 **Custody and control of third party**

When inventory under the custody and control of a third party, the auditor shall obtain SAAE

- Request confirmation from existence and condition
- Perform inspection or other alternative procedures

 **Litigation and claims**

To identify litigation and claims involving the entity which may give rise to a ROMM, including

- Enquiry with the management
- Others within the entity including the In-house legal counsel
- Review minutes of meetings of TCWG
- Communications between entity and its external counsel
- Reviewing legal expenses

 **Litigation and claims**

Communication with the Entity's External Legal Counsel

- To obtain direct confirmation is auditor assesses ROMM
- To be prepared by the management and sent by the auditor
- Requesting to communicate directly with the auditors

 **Litigation and claims**

Communication with the Entity's External Legal Counsel

- If law prohibits the legal counsel to give such confirmation, to perform alternative procedures
- If management or legal counsel refuses, perform alternative procedures
- If unable to obtain SAAE, shall modify audit opinion

 **Segment information**

Auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information

- Understand the methods used by the management in determining segment reporting
 - Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and
 - Where appropriate, testing the application of such methods.
- Perform analytical or other procedures as may be appropriate

 **Questions?**

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Thank you



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