

Documentation in Audit of Financial Statements as per Standards on Auditing

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SA 230, Audit Documentation

- ❖ This is the mother Standard, deals with the Auditor's Responsibility to prepare the Audit documentation for an audit of Financial Statements.
- ❖ Specific requirements of other SAs do not limit the application of this SA.
- ❖ Laws or Regulations may establish additional documentation requirements.
- ❖ **Objective:** to prepare documentation that provides -
 - a sufficient and appropriate record of the basis for the Auditor's report.
 - Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- ❖ **Form, Context and Extent of Audit Documentation:**

The Auditor shall prepare documentation that is sufficient to enable a experienced auditor, having no previous connection with the audit, to understand:

 - Nature, Timing and Extent of the Audit procedures performed.
 - Results of the Audit procedures performed and the audit evidence obtained.
 - Significant matters arising during the audit, conclusions reached thereon, significant professional judgments made in reaching those conclusions.

SA 230, Audit Documentation (Contd..)

- ❖ The form, content and extent of audit documentation depend on factors such as:
 - The size and complexity of the entity.
 - The nature of the audit procedures to be performed.
 - The identified risks of material misstatement.
 - The significance of the audit evidence obtained.
 - The nature and extent of exceptions identified.
 - The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
 - The audit methodology and tools used.
- ❖ Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:
 - Audit programmes.
 - Analyses.
 - Issues memoranda.
 - Summaries of significant matters.
 - Letters of confirmation and representation.
 - Checklists.
 - Correspondence (including e-mail) concerning significant matters.
- ❖ **The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation.**
- ❖ **An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results.**

SA 230, Audit Documentation (Contd..)

❖ **Departure from a relevant requirement:**

- If departing from a relevant requirement, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement and reasons for departure.

❖ **Assembly of the final audit file.**

- Audit documentation shall be assembled in an audit file and complete the assembling the final audit file on a timely basis after the Auditor's Report, not more than 60 days after the date of the audit report.

SA 230, Audit Documentation (Contd..)

- ❖ Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.
- ❖ In principle, compliance with the requirements of this SA will result in the audit documentation being sufficient and appropriate in the circumstances. Other SAs contain specific documentation requirements that are intended to clarify the application of this SA in the particular circumstances of those SAs.
- ❖ Audit documentation provides evidence that the audit complies with SAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:
 - The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
 - The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, those charged with governance.
 - An auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the SAs.

SA 230, Audit Documentation (Contd..)

- ❖ The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross- references to other relevant supporting audit documentation that provides such information.
- ❖ Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor's consideration of the significant matters.
- ❖ It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

SA 220, Quality Control for an Audit of Financial Statements

❖ **Compliance with the Relevant Ethical and independence Requirements.**

- Compliance with relevant ethical requirements.
- Confirmation of independence and documentation.
- Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
- Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- Nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

- ❖ Significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud.
- ❖ Responses to assessed risks.
- ❖ Fraud in revenue recognition.
- ❖ Communications about fraud.

SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements.

- ❖ Identification of suspected non-compliance with Laws and Regulations.
 - Copy of related records or documents.
 - Minutes of discussion held with TCWC and result thereof.

SA 260 - Communication with Those Charged with Governance.

- ❖ Where communication was made orally, the same shall be included in the documentation, and when and to whom they were communicated.
- ❖ Where communication was made in writing, the auditor shall retain a copy of the same as part of his audit documentation.

Communication to contain:

- the matter communicated
- When the communication was made.
- To whom the communication was made.

SA 265, Communicating Deficiencies in Internal Control to those Charged with Governance and Management.

- ❖ Written communication of significant deficiencies in IC.
- ❖ Other deficiencies in IC identified during the audit.
- ❖ The communication of significant deficiencies in IC shall include:
 - A description of the deficiencies and an explanation of their potential effects.
 - Sufficient information to enable TCWG and management to understand the context of the communication.

SA 300, Planning an Audit of Financial Statements.

❖ The Auditor shall document:

- The overall audit strategy.
- The Audit plan
- Any significant changes made during the audit engagement to the overall audit strategy / plan.

❖ In establishing the overall audit strategy, the auditor shall:

- Identify the characteristics of the engagement that define its scope.
- Ascertain the reporting objectives of the engagement.
- Consider the factors that are significant in directing the team's efforts.
 - consider the results of preliminary engagement activities.
- Ascertain the nature, timing and extent of resources to perform the audit.

❖ The audit plan shall include:

- A description of planned risk assessment procedures.
- Planned further audit procedures at the assertion level.
- Other planned audit procedures that are required so that the engagement complies with SAs.

SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

- ❖ Discussion among the engagement Team on the susceptibility of the auditee's financial statements to material misstatements and the application of correct financial reporting framework to the entity's facts and circumstances.
- ❖ Understanding of each of the aspects of the entity and its environment.
 - *Relevant industry, regulatory and other external factors including the applicable financial reporting frame work.*
 - *Nature of the entity, its operations, governance structure, type of investments in special purpose entities and the way the entity is financed.*
 - *Entity's selection and application of Accounting Policies, including the reasons for changes thereto.*
 - *Entity's objectives, strategies and business risks that may result in risks of material misstatement.*
 - *Measurement and review of entity's financial performance.*
- ❖ Understanding of Internal Control relevant to the Audit.
- ❖ Understanding of entity's risk assessment process.
- ❖ Understanding of information system including the related business processes, relevant to financial reporting.
- ❖ Understanding of control activities relevant to the Audit.
- ❖ Identifying and assessing the risks of material misstatement.
- ❖ Risks identified and related controls about which the auditor obtained an understanding.

SA 320, Materiality in Planning and Performing an Audit

- ❖ The Audit documentation shall include the following amounts and the factors considered in their determination:
 - Materiality for the financial statements as a whole.
 - If applicable, materiality level for particular classes of transactions, account balances or disclosures.
 - Performance materiality.
 - Any revision of the above as the audit progressed.

SA 330, The Auditor's Responses to Assessed Risks

- ❖ Overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed.
- ❖ Linkage of those procedures with the assessed risks at the assertion level; and
- ❖ The results of the audit procedures, including the conclusions where these are not otherwise clear.

SA 450, Evaluation of Misstatements Identified during the Audit

- ❖ The amount below which misstatements would be regarded as clearly trivial.
- ❖ All misstatements accumulated during the audit and whether they have been corrected; and
- ❖ The auditor's conclusion as to whether uncorrected misstatement are material, individually or in aggregate, and the basis for that conclusion.

SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

- ❖ The basis for the Auditor's conclusion about the reasonableness of accounting estimates and their disclosures that give rise to significant risks.
- ❖ Indicators of possible Management bias.
- ❖ To obtain sufficient appropriate audit evidence whether the disclosures related to accounting estimates are in accordance with the requirements of the applicable financial reporting frame work.
- ❖ To obtain written representations on whether the significant assumptions used in making accounting estimates are reasonable.

SA 550, Related Parties

- ❖ The names of the identified related parties and the nature of the related party relationships.
- ❖ Related party transactions made during the year.

SA 570, Going Concern

- ❖ The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on the management's use of the going concern basis of accounting in the preparation of financial statements.
- ❖ The auditor shall conclude that the management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

SA 580, Written Representations

- ❖ The Auditor shall request the management to provide a written representation that:
 - It has fulfilled its responsibility for the preparation of the FS in accordance with the applicable financial reporting framework.
 - It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement; and
 - All transactions have been recorded and are reflected in the financial statements and received the same in time.
- ❖ The date of written representation shall be as near as practicable to, but not after the date of the Auditor's report on the FS. Further, the WR shall be for all FS and period referred to in the Audit report.

SA 610, Using the Work of Internal Auditors

- ❖ If the external auditor uses the work of the internal audit functions, the auditor shall document:
 - Evaluation of the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors.
 - Level of competence of the IA function.
 - Whether the IA function applies a systematic and disciplined approach, including quality control.
- ❖ The nature and extent of the work used and the basis for that decision.
- ❖ Audit procedures performed by the external auditor to evaluate the adequacy of the work used.
- ❖ If the external auditor uses the internal auditors to provide direct assistance on the audit, the auditor shall document:
 - Evaluation of existence and significance of threats to the objectivity of IA.
 - Basis for the decision regarding the nature and extent of work performed by IA.
 - Review of work performed and the extent of that review in accordance with SA 230.
 - Written agreements obtained from authorized representative of the entity and IA.
 - Working papers prepared by the IA who provided direct assistance on the audit engagement.

SA 701, Communicating Key Audit Matters in the Independent Auditor's Report

- ❖ The matters that required significant auditor attention (as determined in accordance with para.9) and the rationale for the auditor's determination as to whether or not each of these matters is a KAM (in accordance with para.10).
- ❖ Where applicable, the rationale for the auditor's determination that there are no KAM to communicate in the Auditor's Report.
- ❖ Where applicable, the rationale for the auditor's determination not to communicate in the Auditor's Report a matter determined to be a key audit matter.

XVII. SA 720, The Auditor's Responsibilities Relating to Other Information

- ❖ In addressing the requirements of SA 230 as it applies to this SA, the auditor shall include in the audit documentation:
 - Documentation of the procedure performed under this SA.
 - The final version of the other information on which the auditor as performed the work required under this SA.

THANK YOU