

Practical Aspects of Statutory Audit

Documentation to Reporting Obligations

-Amit Doshi
Associate Director



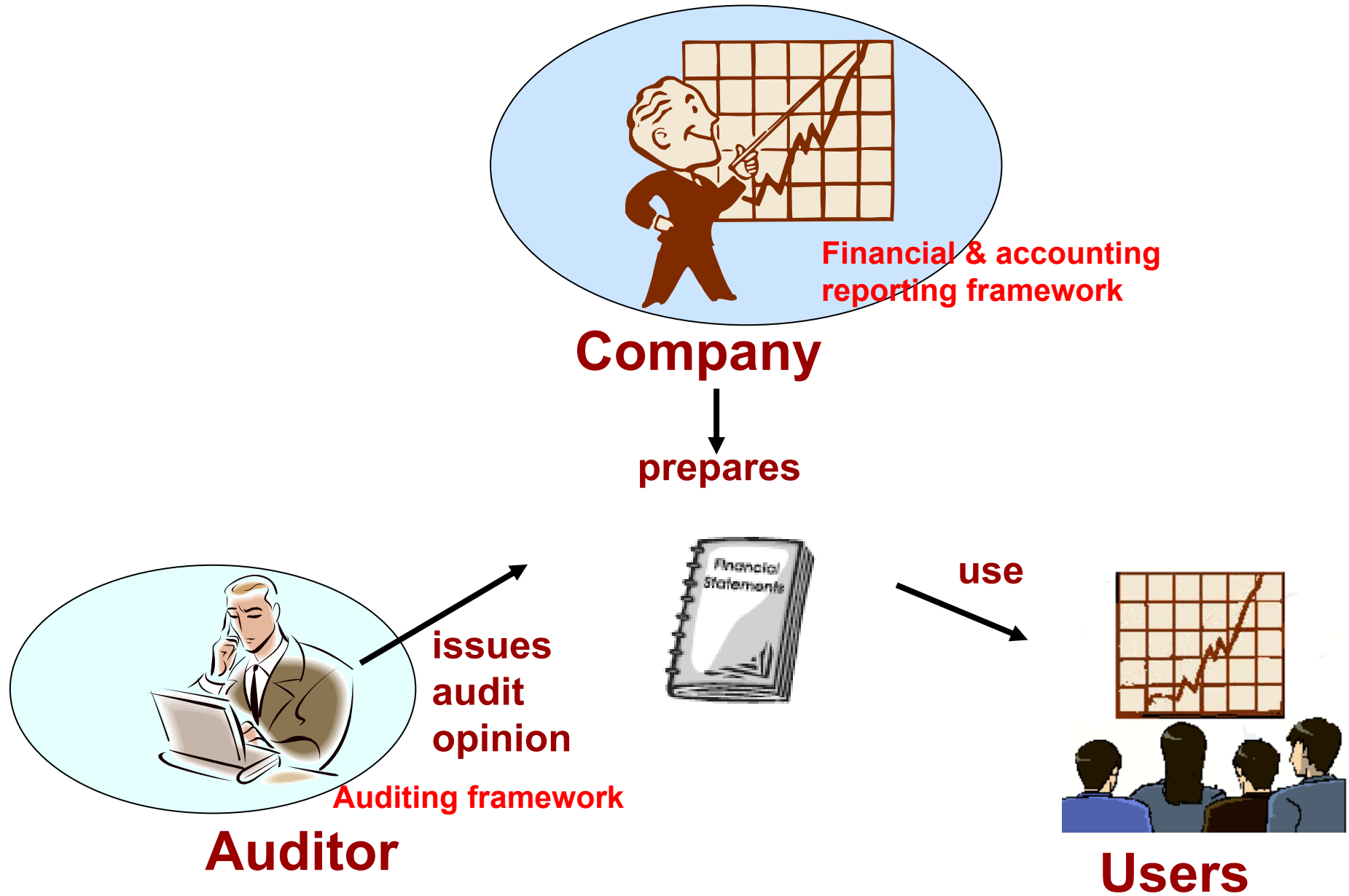
CONTENTS

1. | **Environment**
2. | **Purpose of Audit**
3. | **Audit Documentation**
4. | **Acceptance & Continuance**
5. | **Planning**
6. | **Fieldwork**
7. | **Completion (including reporting obligations)**
8. | **Key to ticks**

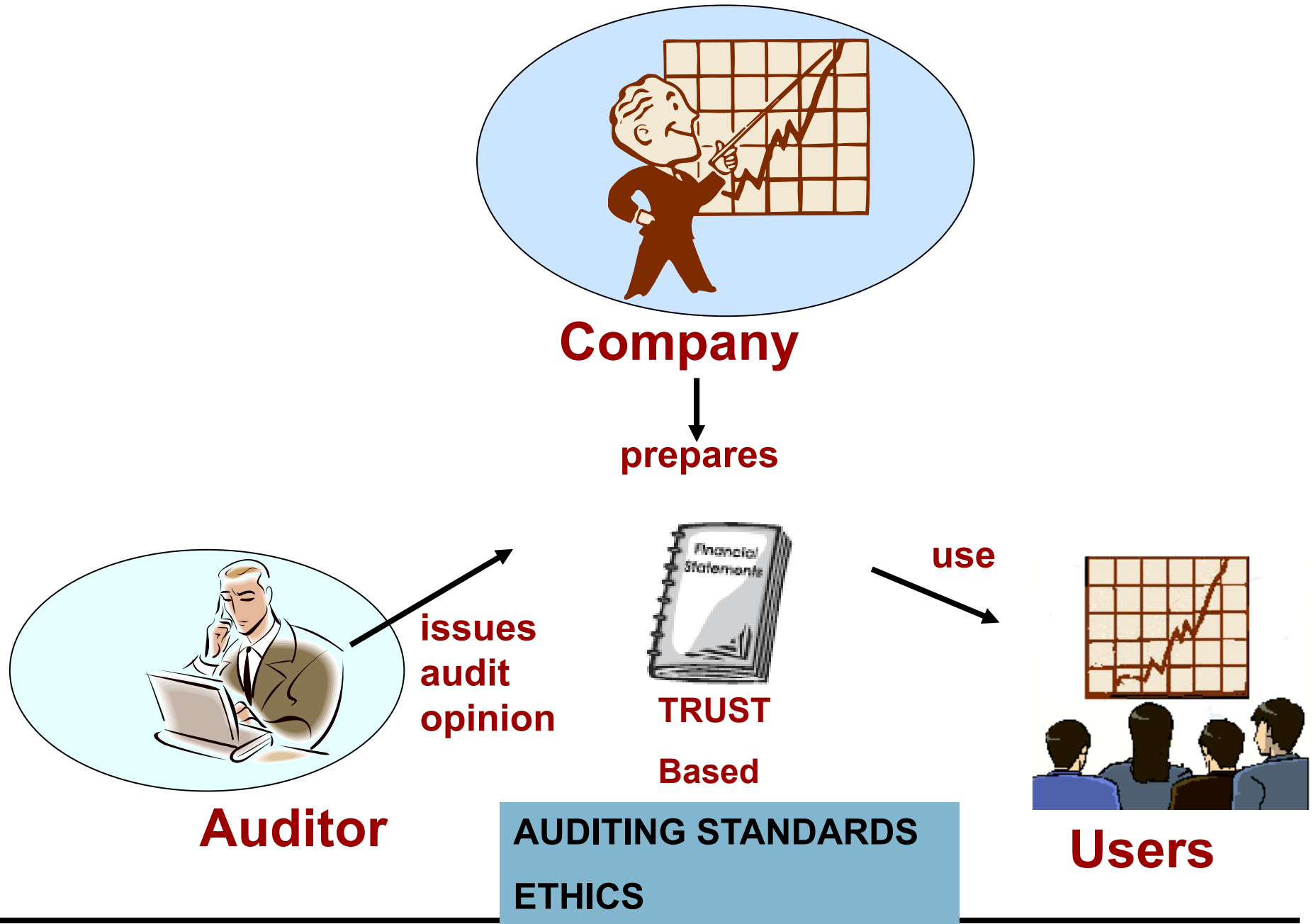
STANDARDS ON AUDITING

Standard	Particulars
SA 210	Agreeing the Terms of Audit Engagements
SA 230	Audit Documentation
SA 450	Evaluation of Misstatements Identified during the Audit
SA 500	Audit Evidence
SA 505	External Confirmations
SA 510	Initial Engagements – opening balances
SA 520	Analytical Procedures
SA 560	Subsequent events
SA 700	Forming An Opinion And Reporting On Financial Statements

ENVIRONMENT

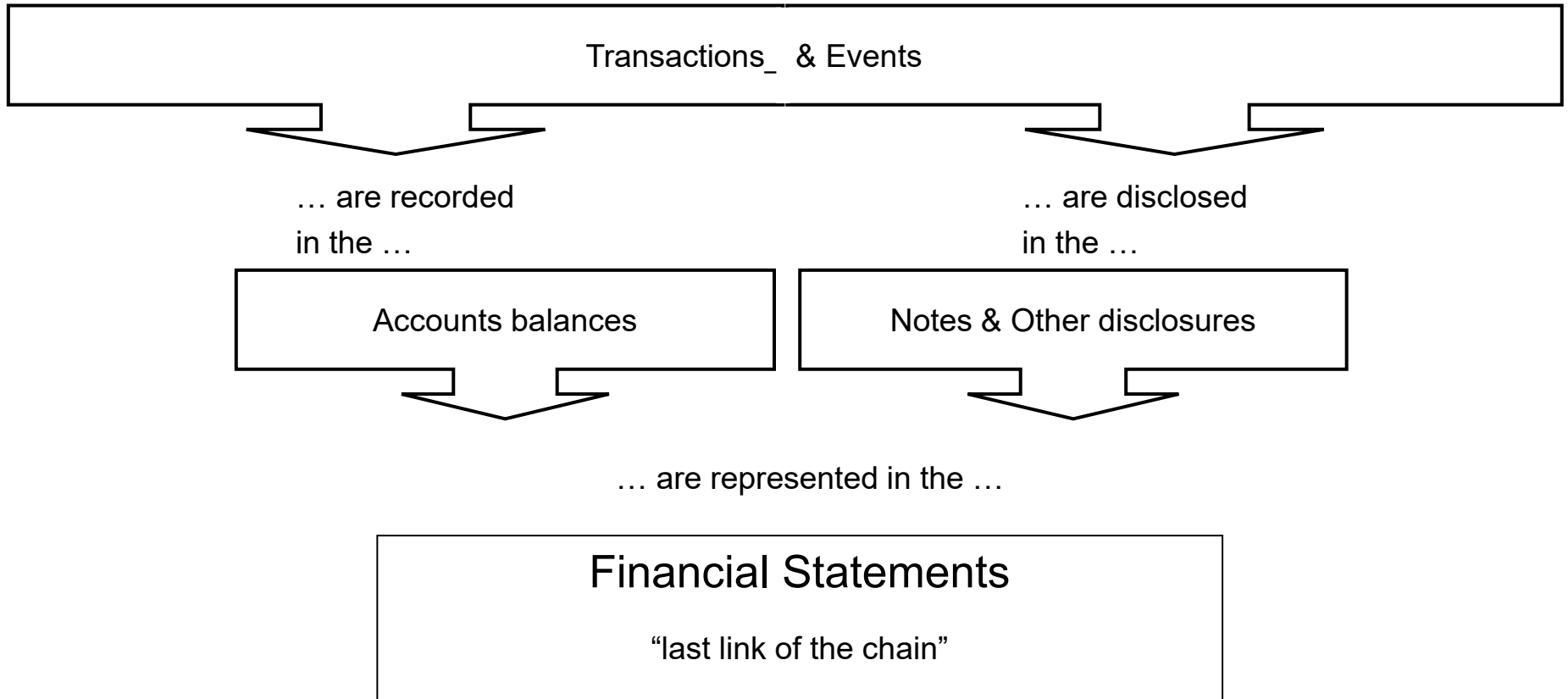


ENVIRONMENT



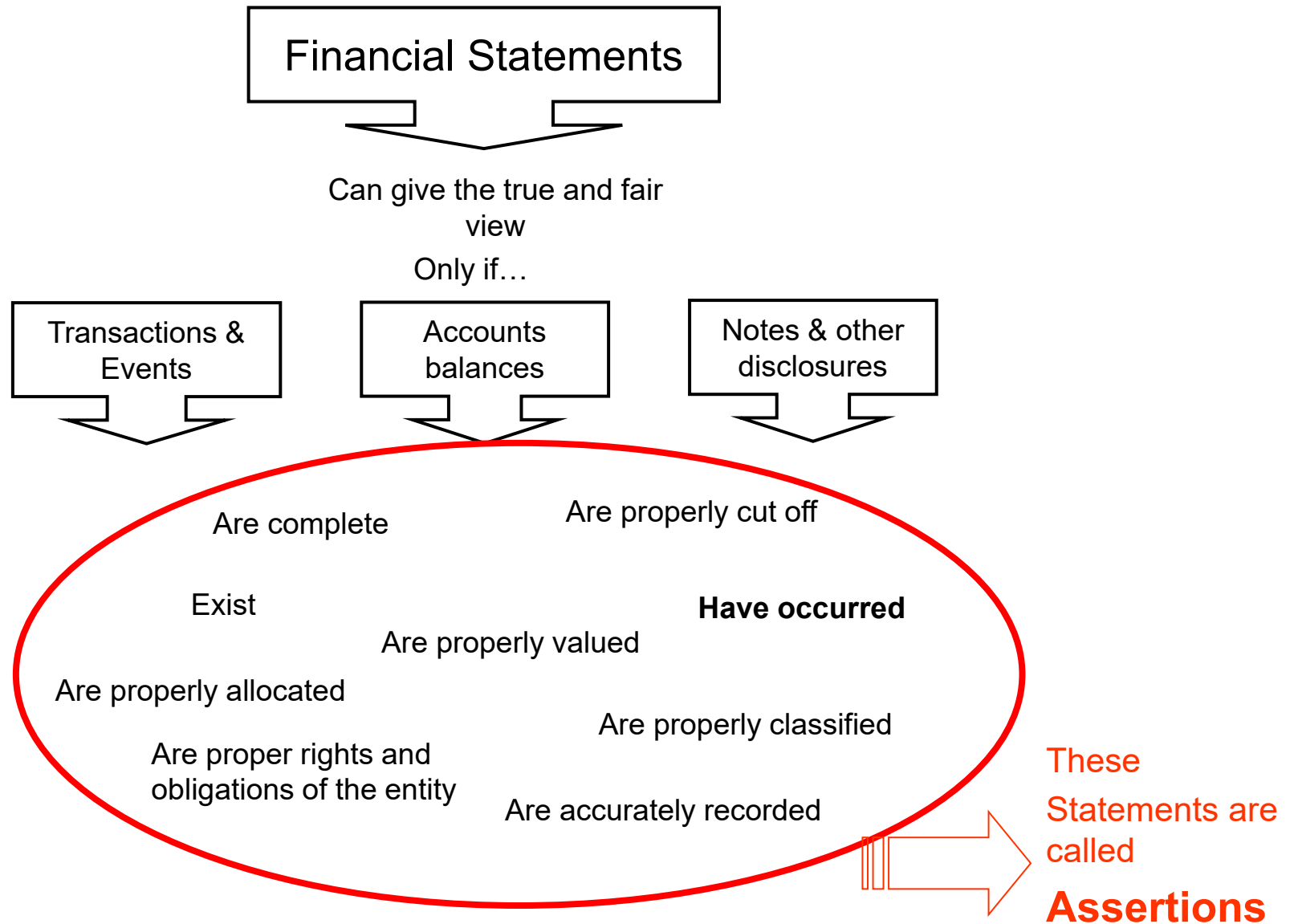
ENVIRONMENT

THE FINANCIAL STATEMENTS ARE MADE OF VARIOUS COMPONENTS



ENVIRONMENT

AS A FIRST CONSEQUENCE,



PURPOSE OF AUDIT

What is the purpose of an audit?

To enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

What are the independent auditor's objectives?

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework;
- and
- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.



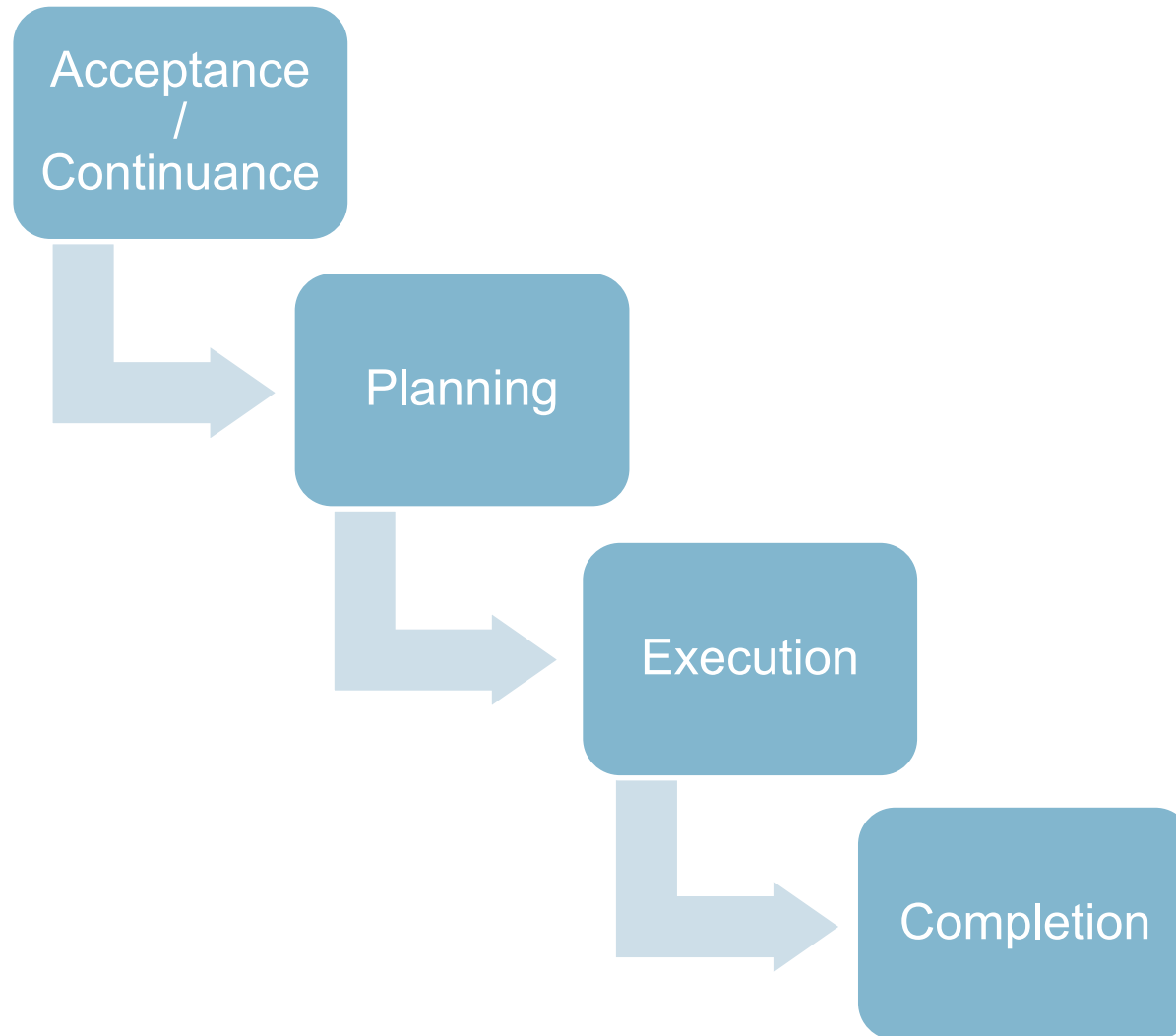
Reasonable assurance :

Sufficient appropriate audit evidence in order to reduce audit risk to an acceptably low level. We are not required to audit every component of the Financial Statements



AUDIT DOCUMENTATION

THE CORE AUDIT WORKFLOW



AUDIT DOCUMENTATION IN THE CORE AUDIT WORKFLOW
- APPLICABLE FROM ACCEPTANCE TO COMPLETION

AUDIT DOCUMENTATION

What is the purpose of Audit documentation?

It is the only way to provide a sufficient and appropriate record for the basis of our auditor's opinion and it is the only evidence that the audit was planned and performed in accordance with SAs

It is also:

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of internal quality control reviews and inspections
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.



AUDIT DOCUMENTATION

What can be the audit documentation?

- Audit programs
- Summary of tests performed
- Summaries of significant matters
- Letters of confirmation and representation
- Checklists
- Analysis
- Memorandum of observations
- Correspondence (including e-mail) concerning significant matters

What can be the audit documentation form?

It could be recorded on paper or on electronic or other media.

AUDIT DOCUMENTATION

The nature, timing and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;

The results of the audit procedures performed, and the audit evidence obtained;

and Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Prepare the documentation of the audit procedures performed and audit evidence obtained that is sufficiently detailed to enable another experienced auditor, having no previous connection with the audit, to understand the form, content, extent of it.



Be careful not to over document in a file.



Documentation of the professional judgements on the significant matters:

- Can assist in explanation of the conclusion.
- Reinforce the quality of the judgement
- Facilitate effective and efficient reviews both internal and external reviews.



AUDIT DOCUMENTATION

It is important to :-

- Record:
 - The identifying characteristics of the specific items or matters tested;
 - Who performed the audit work and the date such work was completed; and
 - Who reviewed the audit work performed and the date and extent of such review.

- Document discussions of significance with management and those charged with governance
 - Nature of the matter, who did we discuss with and where the discussion took place

- Include abstracts or copies of the entity's records, for example, significant and specific contracts and agreements as part of audit documentation wherever necessary.
(Kindly note that It is not a substitute to the audit procedure and must be well referenced).

- Remove draft working papers or superceeded work papers.



ACCEPTANCE & CONTINUANCE

- Analyse and document the decision to either accept or continue a client every year.
- Signed engagement letter at each appointment or reappointment covering scope and fees (frequency would be depending on the period of appointment)

1 Audit Engagement = 1 Audit Engagement Letter

The agreed terms of the audit engagement must be recorded in an audit engagement letter that should be sent to the audited entity for management or those charged with governance to sign it and send it back to the auditor.

Be careful! Starting the work before getting the formal agreement is risky.

Do not assume the engagement letter is applicable for the subsequent year.

- The engagement letter must be tailored for each client.
- Ensure the independence requirements are met.



PLANNING

Why is planning so important?

- Essential for the smooth performance of the audit work and its successful completion.

- It helps ensuring that:
 - We devote appropriate attention to important areas of the audit.
 - We identify and resolve potential problems on a timely basis.
 - We properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
 - Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
 - Assisting, where applicable, in coordination of work done by auditors of components and experts
 - The audit objective is established and achieved;
 - Efficiencies can be achieved.

- It is an Iterative process which evolves throughout the audit depending on the results of the audit work and changes in circumstances at each stage



PLANNING

- **Understand**

How can you perform the planning adequately and be able to perform an effective efficient audit if you do not understand the client's business?

- **Plan**

Time spent planning the approach to the audit will save time performing the detailed work.

PLAN the PLANNING!

- **Think about the risk**

What could go wrong and how can you detect it if it actually has?

Where are the high / low risk areas?

- **Tailor**

- Tailor the audit programs to the client's circumstances.

- Reduce the number of tests where possible. You need sufficient appropriate audit evidence – nothing more!!

- **Communicate**

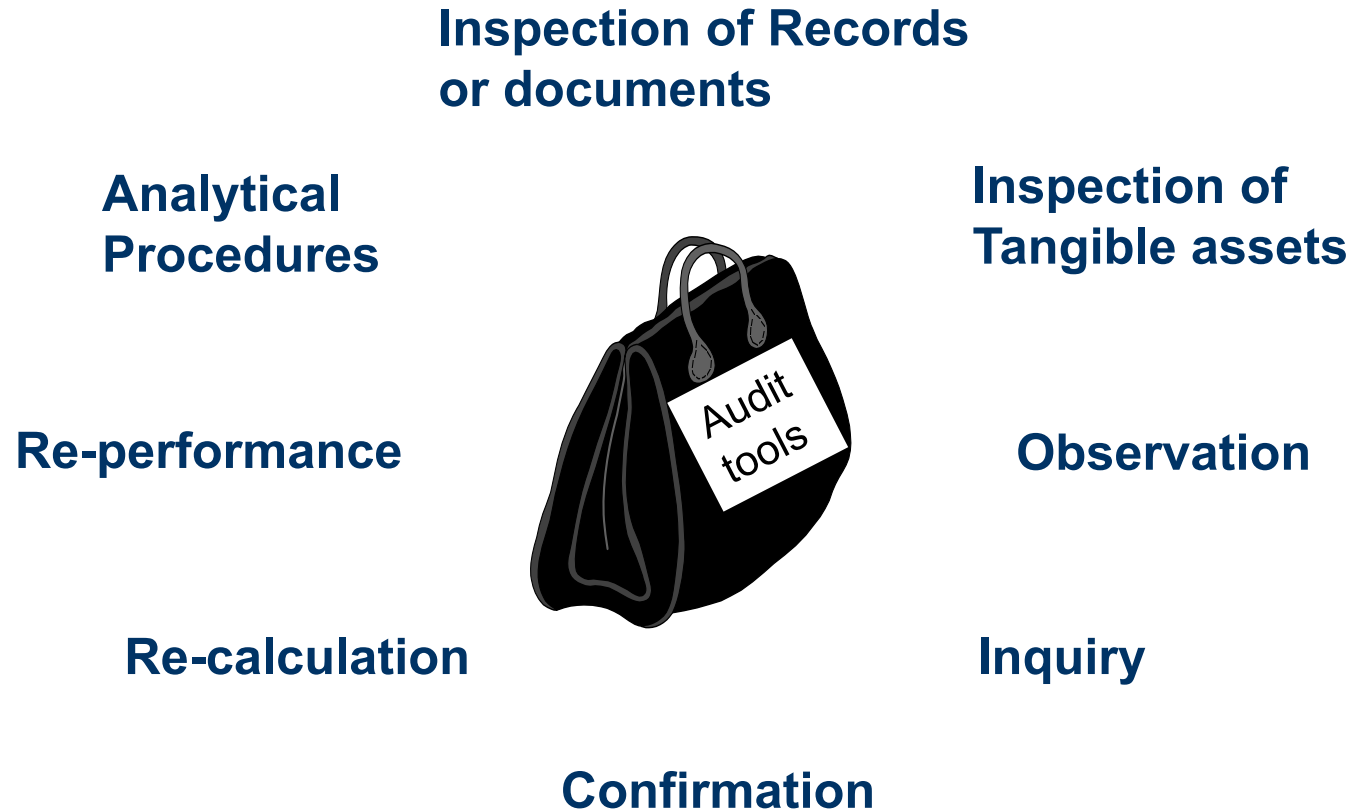
Communicate the plan with all the team members in the team.

- **Follow**

There is no use preparing the audit plan if it is then ignored by those who do the work either because they did not know about it or did not understand it, or because they thought better of it.

FIELDWORK – AUDIT EVIDENCE

Type of audit procedures to gather audit Evidence at this stage





FIELD WORK CONSIDERATIONS

- **Evaluation of the misstatements** identified. Consider inclusion of the unadjusted misstatements in the letter of representation.
- Sufficient appropriate audit evidence to be obtained to draw reasonable conclusions on which to base the audit opinion on the specific area below:
 - Existence and condition of inventory;
 - Completeness of litigation and claims involving the entity; and
 - Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

- **External confirmations**

The reliability of the audit evidence is influenced by its source and by its nature. It is more reliable when obtained from individual sources outside the entity and when obtained by the auditor directly.

Positive confirmation requests are suggested. i.e. the confirming party is requested to respond by saying either they agree or disagree.

- Testing of opening balances
- Use of analytical procedures



COMPLETION

Consistency must be ensured between:

- The audit risks identified at planning stage
- The auditor's planned response to the identified risks at planning stage in the planning memorandum
- The work programs
- The audit procedures actually performed
- The conclusions of the audit procedures actually performed
- The audit opinion

General focus on documentation: **Not documented is not done !**

All working papers must be reviewed by someone more senior than the preparer in order to maintain professional standards and to establish whether the audit file supports the opinion



COMPLETION – SUBSEQUENT EVENTS

OBJECTIVES

- To obtain sufficient appropriate audit evidence about whether **events occurring between the date of the financial statements and the date of the auditor's report** that **require adjustment of, or disclosure in, the financial statements** are appropriately reflected in those financial statements ; and
- To respond appropriately **to facts that become known to the auditor after the date of the auditor's report**, that, **had they been known to the date of the auditor's report**, may have caused the auditor to amend the auditor's report.



COMPLETION – SUBSEQUENT EVENTS

Procedures recommended

- Read minutes of meetings of the board of directors, stockholders, and other authoritative groups held after year-end
- Read interim financial statements; investigate significant changes
- Inquire of management about
 - Significant changes in interim statements
 - Significant contingent liabilities
 - Significant changes in working capital, debt, or owners' equity
 - Status of any tentative items
 - Unusual accounting adjustments made after balance sheet date
- Inquire of management and legal counsel about subsequent events
- Obtain the letter of representation from the Management.



COMPLETION – REPORTING OBLIGATIONS

OBJECTIVES

- To form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

HOW?

- To conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error

BEFORE ISSUING THE STATUTORY AUDIT REPORT(S), ENSURE THAT:

- All the planned audit procedures have been performed
- All the requisite entity documents have been reviewed
- The letter of representation has been obtained
- Demonstrates that the underlying accounting records agree with the financial statements.
- Supports the basis for the auditor's conclusions concerning every relevant financial statement assertion.
- Do not leave outstanding points without a conclusion
- The audit file should be self-explanatory, with the work able to be re-performed by an experienced auditor
- Conclusions must be factual and not vague.



COMPLETION – REPORTING OBLIGATIONS

All working papers show:

- Year-end
- Name of client
- Date of document, date of review
- Name of preparer, name of reviewer
- Explanation of tick marks used
- File Index reference
- Cross-reference if needed
- Comparatives for N-1 and or interim/ pre final
- X-reference to lead schedules / audited trial balance



KEY TO TICKS

Meaning of key to ticks

- ✓ abbreviated notations used on audit work papers
- ✓ to denote auditing actions taken
- ✓ who is performing the testing
- ✓ how they document in their work papers the work they have performed and the conclusions they have reached

Purpose & Importance

- ✓ useful from the reviewer's perspective – internal & external
 - ✓ to see which activities have been completed.
 - ✓ evidence to show which audit steps and the flow of steps performed
 - ✓ documenting all evidences and supporting you received
 - ✓ to make work papers self explanatory
 - ✓ reference for next year
-



KEY TO TICKS

Key Points

- ✓ clearly describe the work performed
- ✓ sufficiently distinct
- ✓ make use of symbols for notes such as ‘*’ ‘#’ ‘@’ or ‘1,2,3..
- ✓ ensure that you have described the ticks

Use of Referencing & Linking

- ✓ Arrange the file properly from working paper to the lead schedule
- ✓ Sequential numbers to all the pages
- ✓ Start from supporting document to main document
- ✓ Supporting document: outward reference on right side of the amount
- ✓ Main Schedule: inward reference on left hand side of the amount



**THANK
YOU!**