



Audit Documentation

Internal Audit Refresher

Introduction to the Speaker

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- Member of the Institute since 2012 (M No. 526472)
- Served in the space of Internal Audit, Process enhancement, SOX Audits throughout my career.
- Worked in almost every Industry (Food & Beverage, Consumer Durables, Media & Entertainment, Automobile, Restaurants, Telecom Infra, etc.)
- Have been part of Consulting for the initial 15 years and moved to Industry recently. Served the following companies:

 **legrand**® Currently heading the Internal Controls and Compliances for 'Group Legrand India'



Served various client as Internal Audit Manager at PwC, Risk Assurance Services (now Risk Consulting) for ~ 4 years



Started as Intern at SNB and served various responsibilities till the position of client manager for 11 years

Brands worked with:



MARKS &
SPENCER



Canon



SONY



Boston
Scientific

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What is Audit Documentation

'Audit Documentation' is guided by SIA-330. Audit documentation is also referred by terms such as "work papers" or "working papers"

*"Internal Audit Documentation" refers to the **written record (electronic or otherwise) of***

- *the internal audit **procedures** performed,*
- *the **relevant audit evidence** obtained, and*
- ***conclusions** reached by the Internal Auditor on the basis of such procedures and evidence."*

While Audit evidence is dealt by SIA 320, **this standard (SIA-330) explains key requirements in the process of collection, retention and subsequent review of internal audit evidence**

Objectives of Documentation

The objectives of preparing complete and sufficient audit documentation is to:

- (a) **validate** the **audit findings** and **support the basis on which** audit observations are made and **conclusions** reached from those findings;*
- (b) **aid in the supervision and review** of the internal audit work; and*
- (c) establish that work performed is in **conformance with** the applicable **pronouncements of the ICAI.***

The overall objective of preparing audit documentation is to **allow the internal auditor to form an opinion on the outcome of the assignment. The internal audit documentation must stand on its own and not require any follow-up clarifications** or additional information to arrive at the same conclusions.

Content of Documentation / Working Papers

- Agreed scope of work
- Audit procedure (duly completed Risk Control Matrix / individual working paper)
- Sampling Methodology, Schedule and Timelines
- Excel workings (or equivalent) of analytics performed, power BI, Tools
- Audit evidence (all sample documents, etc)
- Information collected (policies, etc)
- Minutes of meetings (preferably along with evidence of circulation)
- Email correspondences (Audit confirmations, management comment receipt, etc)
- Audit conclusion along with trail for all changes (Issue Sheet, Draft Report, Management Presentation, Final Report)

The above documentation is to be completed before issuance of final report.

The documents should be:

- a. sufficient and complete to avoid the need for follow-up inquiry;
- b. useful and relevant to the objectives of the audit procedure;
- c. undergo at least one level of review or approval; and
- d. dependable and reliable to allow a peer reviewer to reach the same conclusion.
- e. Should be custody of the Internal Auditor
- f. Should be saved in appropriate manner before release of final report

Audit Scope

Audit scope should be tightly stitched to define the boundaries of Audit

Illustrative Audit scope for Procurement Audit is as below:

- Control over Vendor Master
- Vendor Selection
- Price Fixation
- Contracting – Signing and renewals
- Purchase order controls (including approvals)
- Material receiving controls
- Control over credit notes
- Retrospective price adjustments

Content of a Working Paper for an Area

Illustrative Working paper for control over Vendor code creation

- **Objective:** Ensure Vendor codes creation is done after KYC validation and internal approval.
- **Risks:** Vendor master may be created without KYC document / approval
- **Existing Controls:** Purchase team obtains the mandated documents as per KYC documents mandated in Purchase manual. Vendor code creation form is filled in. Code creation is approved by purchase head and Finance controller. Code is created by IT team. Only IT team has access to master creation in ERP.
- **Audit Check:**
 - Verify if only IT team has access to master creation.
 - Extract listing of all new vendor code created in ERP. For sample 30 transactions validate if supporting document and approval is available.
 - Verify details match with the documents.
 - Verify if customer code creation for is approved as per delegation of authority.
- **Data obtained along with source:**
 - ERP vendor master creation rights (from SAP),
 - Listing of masters created during audit period (from SAP),
 - supporting against 30 samples
- **Observations identified:**
 - Mismatch in PAN no in 2 out of 30 instance
 - Cancelled cheque not available against 3 instance
 - 1 case not approved as per DoA
 - 2 user other than IT have access to master creation. However, no master created using the said 2 ID.
- **Performer:** Divya

Reviewer: Mukund

Supporting to be retained in audit file:

- The document alongside to be signed physically / confirmed over email by maker and reviewer
- Check sheet suggesting result of samples as per sampling methodology

Sample no	Vendor code	Approval obtained	PAN	GST Cert.	Cancelled Cheque	Address proof
1	23347	✗ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>
2	28796	✓ <input type="checkbox"/>	✗ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>
....	...	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>	✓ <input type="checkbox"/>

- KYC documents and approvals
- Access right report highlighting the depart of each user and the exceptions thereof
- Documents to be serially numbered (if in hard copy)
- Each audit observations in Final report to be tagged with Serial no (in case of hard copy file) / folder path (Soft copy file)

Content of a Working Paper for an area (Contd..)

Different ways of maintaining audit working paper

- Hard copy working paper (previous slide)
- Soft copy Risk Control Matrix (RCM)
- Audit tool

Illustrative RCM for Vendor Code creation

Objective	Risks	Control	Audit Check	Data obtained along with source:	Observations identified	Maker	Reviewer
Ensure Vendor codes creation is done after KYC validation and internal approval.	Vendor master may be created without KYC document / approval	Purchase team obtains the mandated documents as per KYC documents mandated in Purchase manual. Vendor code creation form is filled in. Code creation is approved by purchase head and Finance controller. Code is created by IT team. Only IT team has access to master creation in ERP.	<ul style="list-style-type: none"> •Verify if only IT team has access to master creation. •Extract listing of all new vendor code created in ERP. For sample 30 transactions validate if supporting document and approval is available. •Verify details match with the documents. •Verify if customer code creation for is approved as per delegation of authority. 	<ul style="list-style-type: none"> •ERP vendor master creation rights (from SAP), •Listing of masters created during audit period (from SAP), •supporting against 30 samples 	<ul style="list-style-type: none"> •Mismatch in PAN no in 2 out of 30 instance •Cancelled cheque not available against 3 instance •1 case not approved as per DoA •2 user other than IT have access to master creation. However, no master created using the said 2 ID. 		

Supporting to be retained in audit file:

- The RCM to be signed physically / confirmed over email by maker and reviewer. Retained in file (soft copy / hard copy)
- Check sheet suggesting result of samples as per sampling methodology
- KYC documents and approvals
- Access right report highlighting the depart of each user and the exceptions thereof
- Documents to be serially numbered (if in hard copy)
- Each audit observations in Final report to be tagged with Serial no (in case of hard copy file) / folder path (Soft copy file)

Other components of Working Paper

Let's deliberate on importance of each of the aspect

- Data Analytics performed (through a specialized audit tool, Excel workings, etc)
- Audit evidence (all sample documents, etc)
- Information collected (policies, etc)
- Minutes of meetings (preferably along with evidence of circulation)
- Email correspondences (Audit confirmations, management comment receipt, etc)

Audit conclusions

- Issue Sheet
- Draft Report
- Management Presentation
- Final Report

It is important to note that trail of changes made (issue being dropped / materially changed) should be available in the working paper.



Other components of Working Paper

Additional documentation in case of external auditor / Consulting firm

- Letter of Engagement (LoE)
- Conflict declaration from team members involved in conduct of internal audit.

Timeliness in Audit Documentation

Not only availability but timeliness of documentation is of immense importance:

- (a) Before start of work
- (b) During fieldwork
- (c) At closure

Famous Indian saying for Accountants

"pahle likh aur piichhe de , bhuul pade kaagaz se le"

Use for Audit Documentation

The audit documentation / working papers can be used in the following manner:

- (a) Evidence the through conduct of Internal Audit in the event of subsequent fraud being highlighted in the same area (becomes further important in case of third party consulting firm)
- (b) Peer review requirement for ICAI
- (c) Used in investigation / forensic audit / courts if the perpetrator wilfully destroys evidence.

FAQ(s)

- Are 'Working Papers' required only for observation identified?
- Why not just document the Audit check and outcome as part of working paper?
- Why do we need to document objectives in working paper?

Best Practices in the digital world

- Define and educate the team members on methodology of organizing folders and content of each folder. Illustration below:
 - **General** (Audit Programme,
 - **Reference** (Company policies, past reports, etc.)
 - **Correspondence** (all / atleast important emails)
 - **Base Data** (unedited base files received from ERP / auditee)
 - **Working Paper** (Audit subarea wise folder, working paper, analysis,
 - **Audit Conclusions** (Issue List, draft report, management presentation, final report)
- Organize the whole work on organization's cloud drive which resolves:
 - Data transfer from separated team member's laptop
 - Audit trail of the work performed (version history of all working file gets retained)
 - Laptop getting corrupt / stolen
 - Team member going rogue – say deleting the entire soft copy data
 - Base data remains available to all team members once extracted
 - Team members can work parallely on audit report



Thankyou