

AUDIT DOCUMENTATION – SA 230

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EXCERPTS FROM THE SPEECH OF NFRA CHAIRMAN

- Audit documentation is evidence of Auditor's work supporting the conclusions and opinions given in the Audit Report.
- The Audit documentations helps you to justify your work. At a future date you can rely only on the Audit documentation.
- It is an evidence that the due process has been done.
- Auditing should not be just a "Ticking" exercise. The Audit documentation, if done in true spirit, leads to "Thinking Audit" rather than "Ticking Audit".
- Such exercise will bring to the fore the much-needed professional scepticism and analytical mind of Auditors into active play.
- Resignation does not absolve the Auditor of his responsibility to report suspected fraud.

OBJECTIVE AND PURPOSE OF AUDIT DOCUMENTATION

- It is an evidence of Auditor's basis for conclusion drawn in Audit Report.
- It is an evidence that the Audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
- It is an assistance to the engagement team to plan and perform the Audit.
- It helps to fix the accountability.
- It helps to record the matters of continuing significance.
- It assists in quality control review and inspection.
- It follows the basic dictum that "justice should not only be done but should also appear to have been done".

FORM, CONTENT AND EXTENT OF AUDIT DOCUMENTATION

The form of Audit documentation can be either paper documentation or electronic documentation. It depends on –

- Size and complexity of entity.
- Risk assessment, materiality and sampling methods used.
- Nature, timing and extent of Audit procedures to be performed, results obtained, and conclusions reached.
- Audit tools and methodologies used.
- Characteristics of specific items.
- Discussions held with the Management and TCWG.
- Who performed the Audit and who reviewed the work.
- The Audit documentation should be sufficient to enable the Experienced Auditor to understand the same.

OTHER MATTERS RELATED TO DOCUMENTATION

- The Audit file containing all the documentation should be assembled and completed within 60 days after the date of Audit Report.
- The retention period for Audit file is 7 years and the Auditor should not delete or discard any documentation before the end of its retention period.
- The duplicate, discarded or superseded documentation need not be retained.
- Numbering and cross referencing of Audit documentation – especially working papers - is necessary.
- The Audit documentation should be filed properly in permanent Audit file and current Audit file (The requirements are given in Peer Review Manual volume I).
- The Audit documentation is a property of Auditor.

ILLUSTRATIVE AUDIT DOCUMENTATION

- The lists enclosed herewith are just illustrative & some additions / deletions may be made as per requirements & circumstances.
- These lists are prepared from the angle of corporate annual audit. Separate lists may be required for non-corporate audit, tax audit, compilation engagements, Certificates etc.
- In addition to above, lot of other documentation would be required for Peer Review of the Firm – which is not included here.
- ICAI has published 2 booklets named “Practitioners’ Guide to Audit of Small entities” & “Audit Working Papers Templates”. These two documents provide ready reference for audit documentation.

ILLUSTRATIVE AUDIT DOCUMENTATION

Before commencement of Audit

- Appointment letter from the client.
- NOC from previous Auditor.
- Intimation to ROC wherever required.
- Letter of engagement to the client.
- Organisation chart of the client and list of signatories.
- Copy of Memorandum and Articles of Association.
- Copy of previous Balance Sheets.
- Client KYC and risk assessment (pre audit and post audit).

ILLUSTRATIVE AUDIT DOCUMENTATION

Before commencement of Audit

- Client acceptance / continuance evaluation.
- List of branches and places where books are maintained.
- List and copies of various registrations obtained by the client under various laws.

ILLUSTRATIVE AUDIT DOCUMENTATION

During the Audit

- Note on business of the client and Accounting System.
- Note on Internal Control Environment and its testing.
- Note on Accounting Policies of the client.
- Copy of recent ROC record – Master Data, Signatory details and Charges.
- Assessment of going concern.
- Determination of materiality.
- Selection of sample for Audit.
- Accounting Standard applicability chart.
- Company law applicability chart.

ILLUSTRATIVE AUDIT DOCUMENTATION

During the Audit

- Other laws applicability chart.
- Opening and closing Trial balance – in physical copy duly signed.
- Audit program and execution plan with relevant checklists – initial and modified.
- Bank reconciliations and balance confirmation statements – physically and duly signed.
- Stock statement with quantity and valuation – physically and duly signed.
- Cash balance certificate.
- Copies of documents / extracts from the client collected as Audit Evidence.

ILLUSTRATIVE AUDIT DOCUMENTATION

During the Audit

- Copies of external confirmations wherever available.
- Record of Analytical Procedures performed.
- Summaries of accounting estimates used, including fair value estimate.
- Accounting Standard / IND AS compliance report.
- Auditing Standards compliance report (the illustrative checklist for all SAs is given in Peer Review Manual volume I) (The specific Audit documentation requirements in respect of SAs is given in IG to SA 230).

ILLUSTRATIVE AUDIT DOCUMENTATION

Before issuing Audit Report

- Assessment of subsequent events and their impact on Audit Report.
- Compliance checklist for final signature.
- Communication with Management and TCWG and their replies.
- Minutes of the final discussion with the client regarding the Audit Report to be issued – especially related to Key Audit matters (for listed companies), Emphasis of matter and other matters.
- Conclusion writing describing Audit procedures performed and the reason behind reaching the final conclusion.
- Review by another partner.

ILLUSTRATIVE AUDIT DOCUMENTATION

Before issuing Audit Report

- MRL.
- A note on compliance with Laws and Regulations – in consonance with Section 360 of Code of Ethics (NOCLAR) presently applicable only to listed companies.
- Compliance in consonance LODR issued by SEBI.
- Quality Control Review document.

ILLUSTRATIVE AUDIT DOCUMENTATION

Working Papers – Schedule III

Lot of working papers are required to be generated to comply with Schedule III requirements. Certain examples are given below –

- Share capital – ROC record and compliances. List of shareholders holding more than 5%, shares held by promoters.
- Secured Term Loans and Short Term Borrowings – sanctioned letters to identify non-current and current maturity, securities given and terms & conditions.
- Deferred Tax working – worksheet, previous Income Tax returns and current computation of Income.
- List of creditors – separately for MSME and NON-MSME with ageing.

ILLUSTRATIVE AUDIT DOCUMENTATION

Working Papers – Schedule III

- Quarterly stock statements submitted to the bank.
- Returns of duties and taxes submitted – TDS, TCS, GST, etc.
- Actuarial valuation in respect of Gratuity and Leave Encashment.
- Title Deeds for properties held in the client's name and not held in the client's name.
- Copies of Asset addition bills.
- Copies of Investments.
- Copies of FD receipts.
- List of Debtors with ageing.

ILLUSTRATIVE AUDIT DOCUMENTATION

Working Papers – Schedule III

- Confirmations of Loans taken and given.
- Details of Contingent Liabilities.
- Stock working with reference to AS 2 and quantity working.
- Details of working Director's Remuneration.
- Copies of BE in respect of Imports and BL in respect of Exports.
- RPT disclosures.
- Segment Reports.

ILLUSTRATIVE AUDIT DOCUMENTATION

Working Papers – CARO 2020

- Management certificate regarding verification of Fixed Assets and Inventory.
- Copy of Cost Audit Report.
- Copy of Internal Audit Report.
- In case of resignation of previous Auditor, the reasons therefor and ROC compliances.
- CSR working.

IMPORTANCE OF AUDIT DOCUMENTATION

- It is necessary for various reviews of the Audit Firm – like Peer Review, Review by QRB, FRRB, NFRA etc. These Reviewers form their opinion only on the basis of Audit documentation made available to them.
- Proper and complete documentation is our only saviour in case the Audit is challenged in future.
- Human memory is very short lived and prone to remembering irrelevant things. The Audit documentation is the only recourse to remember the events that took place during the course of Audit.
- It is a guideline to the future Audits.

CONCLUSION

It has been a sad story of the profession that the Audit may be conducted rigorously, but not much attention is paid to documentation and the disclosures. This is quite evident from the speech of NFRA Chairperson given in the opening slide.

The documentation collected and prepared is many times haphazard without having any sequence or without understanding the consequences. To give a simile, we construct the house but do not take any efforts to do the finishing work. As a result, everything looks in shambles rather than having a neat and clean image of the work done. (भानुमतिका कुनबा)

CONCLUSION

As a result of our failures in Auditing and documentation, NFRA came into existence as Independent Audit Regulator on 1st October 2018 to do Quality Review of the Audits of listed companies and unlisted public companies (paid up capital > 500 cr. OR turnover > 1,000 cr. OR loans > 500 cr.) conducted by Chartered Accountants.

Hence it is imperative for us to conduct the Audit with full diligence and prepare correct documentation remembering the basic principle of Auditor's scepticism. Always remember two tenets of Auditor's scepticism –

1. Trust but verify.
2. Deny nothing but doubt everything.

THANK YOU