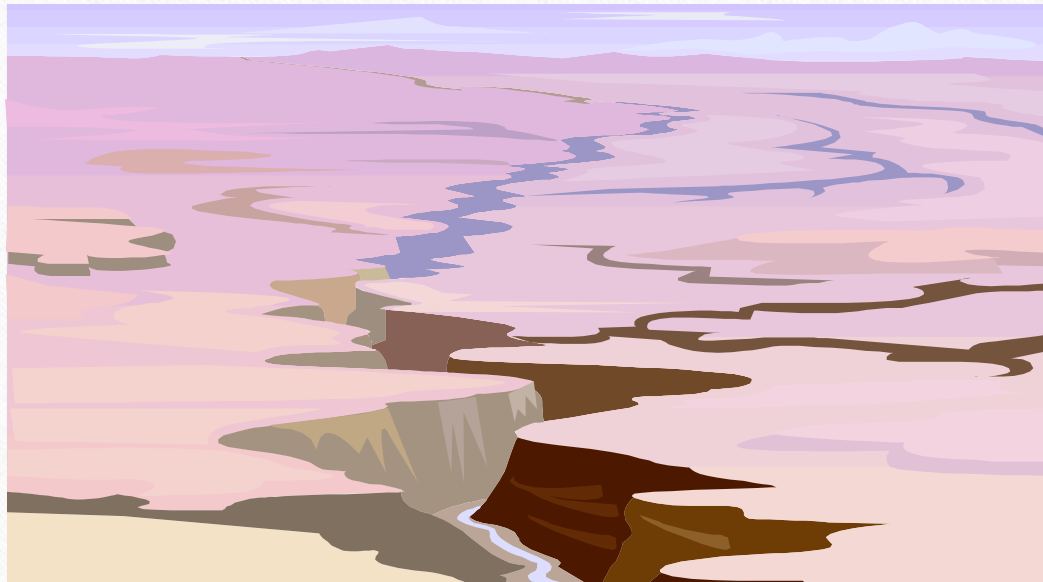


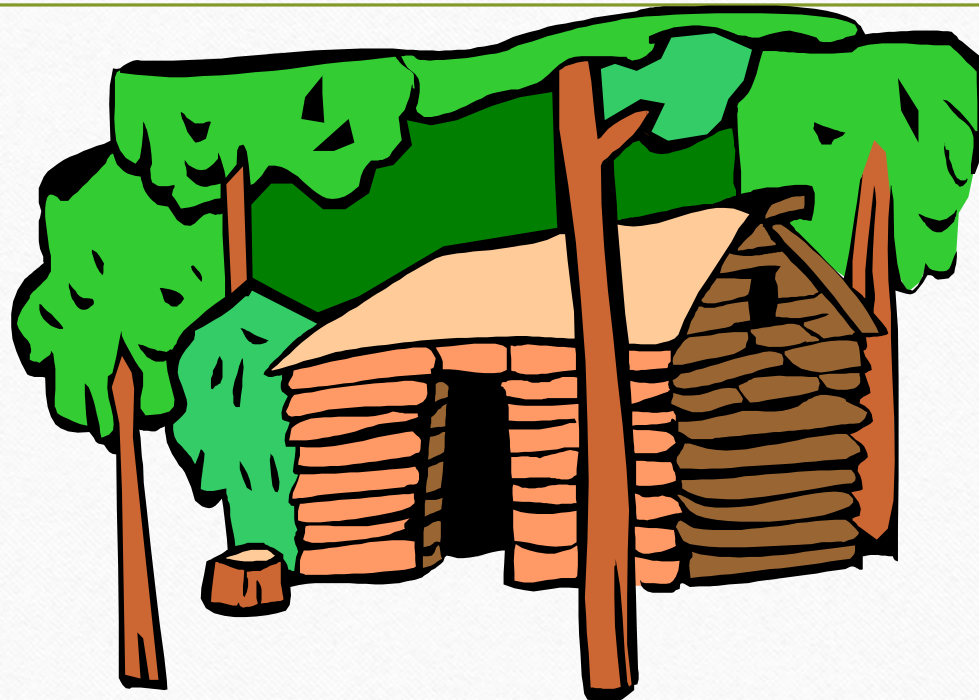
Are you Auditing/Audited on a Fault Line?



Will your Audit Collapse?



Is your Audit made out of Wood?



Or will you Protect Yourself by Building a
Strong Foundation?





And the Foundation is...

“The skill of an accountant can always be ascertained by an inspection of his working papers”

Robert H. Montgomery
Montgomery's Auditing, 1912

Training Programme for Peer Reviewers

Organised by
Peer Review Board of ICAI

Hosted by
Nagpur Branch of WIRC of ICAI

Compliance with Audit Documentation



The Institute of Chartered
Accountants of India
(Setup by an Act of Parliament)

FCA Sunil Bajaj
August 13, 2021



Disclaimer

Practice continues to evolve on many of the issues addressed in this presentation. Although the positions set forth herein reflect our understanding of current practice, changing conditions and the complexity of certain issues require continued review and analysis of the matters discussed.

Information in this presentation does not constitute conclusive authority on any matter discussed, and you are cautioned that relevant developments may occur after this session. Further the views herein are those of an individual and we request you to refer to the full text of the applicable Standard/ Section/ Regulation/ Notification/ Circular etc. before forming your own conclusion.

This material is current as of today i.e. August 13, 2021

Audit Documentation

- “Audit Documentation” defined as “The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “work papers” are also sometimes used”).

Why is it important?

PM Modi: Your signature carries immense faith, please do not break that trust that is placed on you.

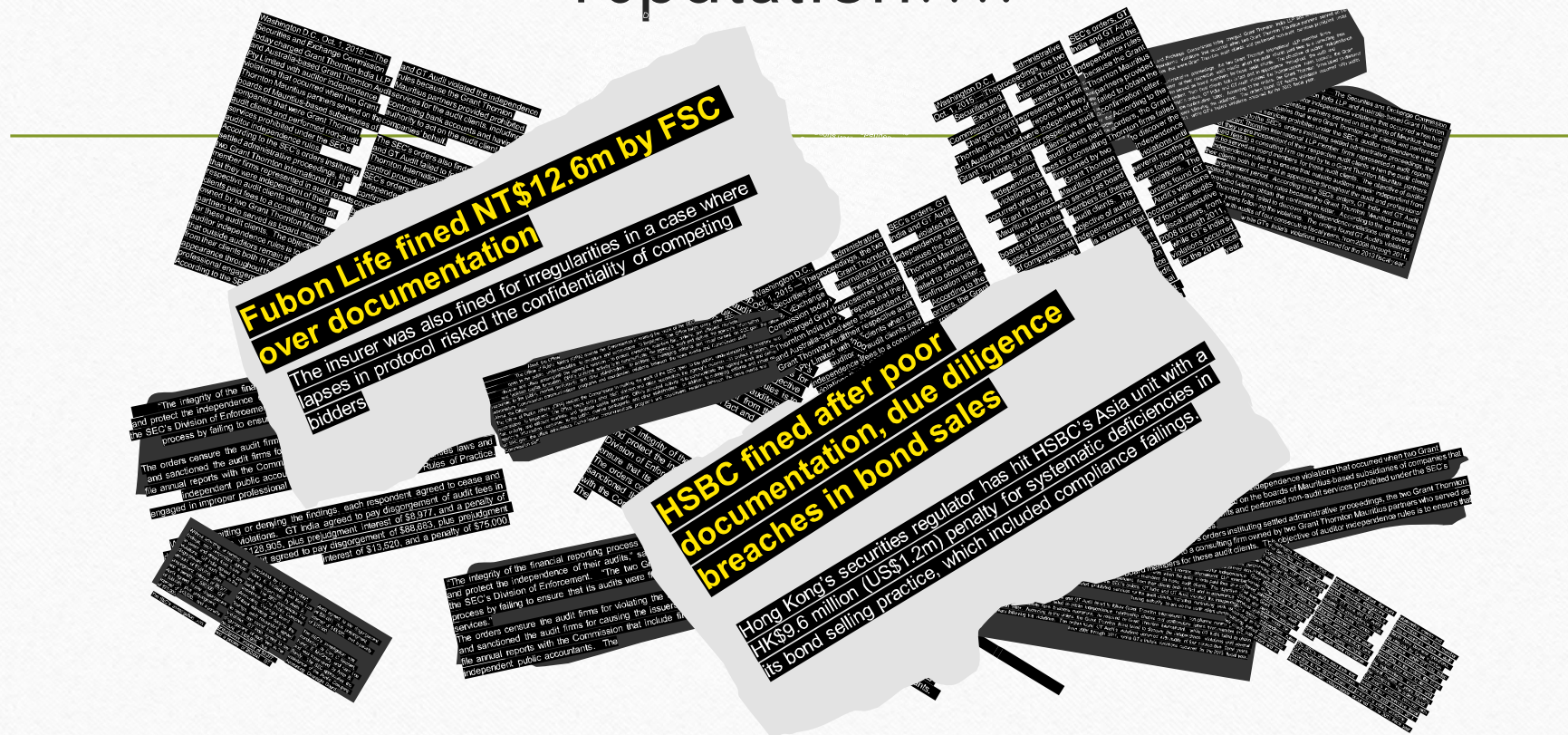
PM Modi: Your signature has the power to help the poor people of our country.

SEBI bars a firm: What is the firm's role in the Satyam scam?

The SEBI held that the firm was complicit with the main perpetrators of the accounting fraud and did not comply with auditing standards



Poor documentation assaults companies reputation....



Fubon Life fined NT\$12.6m by FSC over documentation

The insurer was also fined for irregularities in a case where lapses in protocol risked the confidentiality of competing bidders

HSBC fined after poor documentation, due diligence breaches in bond sales

Hong Kong's securities regulator has hit HSBC's Asia unit with a HK\$9.6 million (US\$1.2m) penalty for systematic failings in its bond selling practice, which included compliance failings.

Audit Scenario

- The onus is on the auditor to “prove” that he was not professionally negligent in the performance of his duty.
- If his work papers do not evidence his having performed a procedure, the assumption is that the audit procedure was not performed
- Scope and resource limitations faced by the auditor is not a defence if he did not give a disclaimer of opinion as required per SA 700.
- Documentation is the only way an auditor can prove to outsiders that he planned and performed an effective audit, however good he might himself consider the audit to have been done.

What has changed ?

ICAI



Peer Review

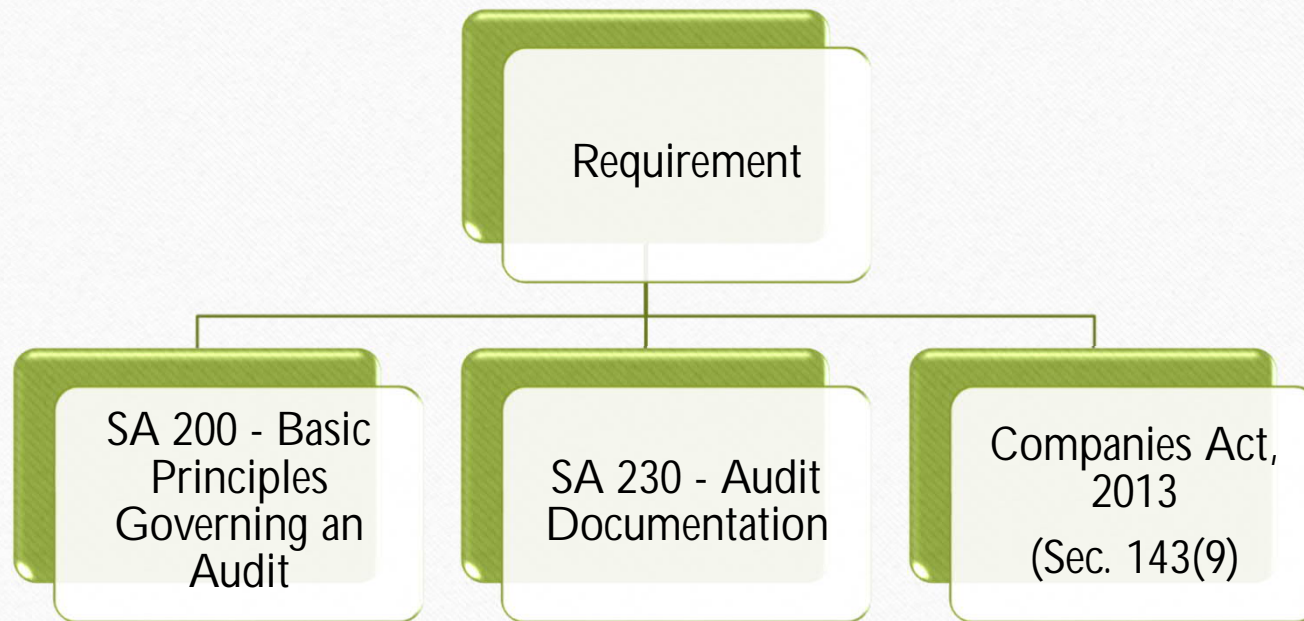
-
- ▶ **Standards and regulators have increased the emphasis on audit quality and the importance of documentation for achieving high quality audits**
 - ▶ **Clear and comprehensive documentation is essential to enhance the quality of the audit and for reviewers to assess compliance**

**Auditor's
Documentation**

**Peer Reviewer's
Documentation**

We are now in an era where Auditors are audited!

Statutory & SA Requirement



SA 200 Basic Principles Governing an Audit

- Para 11 states: The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.
- Para 12 states: The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on a knowledge of the client's business.
- Para 13 states that 'Plans should be made to cover, among other things :-
 - i. Acquiring knowledge of client's accounting systems, other systems, policies and internal control procedures.
 - ii. Establishing the expected degree of reliance to be placed on the internal control.
 - iii. Determining and programming the nature, timing and extent of the audit procedures to be performed.
 - iv. Co-ordinating the work to be performed
- Para 14 states that 'Plans should be further developed and revised as necessary during the course of a audit

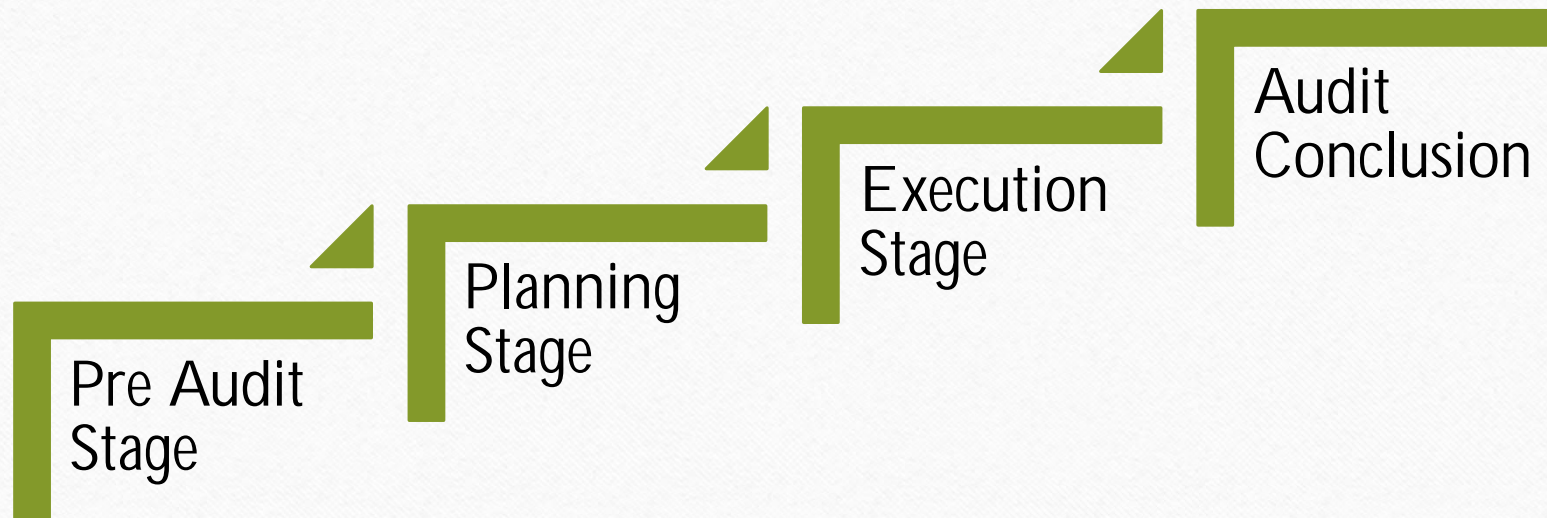
SA 230 Audit Documentation

Audit documentation is completely dedicated towards documentation of the audit procedure.

Section 143(9) of Companies Act, 2013

It requires every Auditor shall comply with the auditing standards.

Stage of Audit Documentation

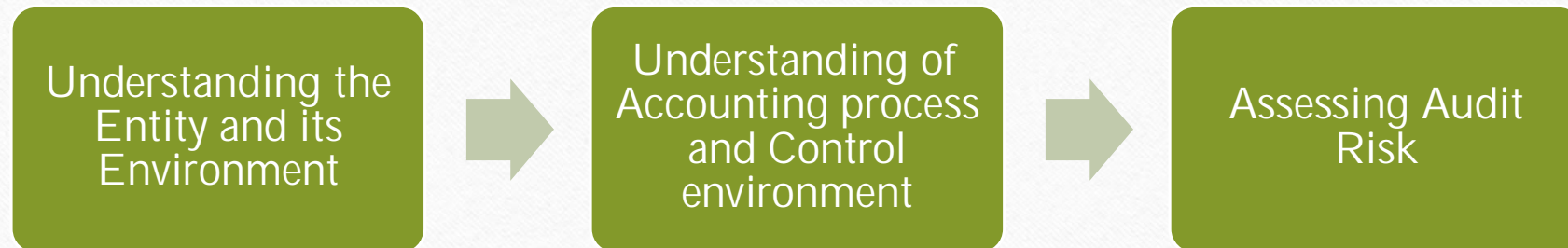


Documentation under Pre Audit Stage

- **Pre-audit documentation mainly comprise of the acquisition of the papers necessary for the Audit purpose such as:**
 - Appointment letter from the appointing body
 - Engagement letter
 - Correspondence letters with the previous auditors;
 - Sharing responsibilities with the other auditors (i.e. Joint-Auditors)

Planning Stage

- **Audit Planning:** Planning an audit involves establishing the overall audit strategy for the engagement and development of an audit plan.



Documentation under Planning Stage

- **Planning stage documentation mainly comprise of:**

- **Audit Plan/Program:** The audit plan converts the audit strategy into a more detailed plan.

The audit plan shall include the following:

- (a) A description of the nature, timing and extent of planned risk assessment procedures;
- (b) A description of the nature, timing and extent of planned further audit procedures at the assertion level;
- (c) Other planned audit procedures required to be carried out for the engagement to comply.

Documentation under Execution Stage

Execution stage is core ground work process under which Auditor needs to obtain sufficient & appropriate audit documentation

Documents included in Execution stage are as under:

Audit Sampling Documents: The Auditor has to document the design, selection of items for testing and evaluation of the results of the Audit Sample.

External Confirmation: The Auditor is required to document the details of the external confirmation sent and results of the external confirmation.

Documentation under Execution Stage

- **Going Concern documentation:** The Auditor should document the risks or the event which can affect the going concern & the conclusion reached by him.
- **Other Auditor Works:** The Principal auditor needs to document the scope of the component auditor/internal auditor, the competency of the component auditor/internal auditor.
- **Accounting Estimates documentation :** The documentation shall include possible management bias and auditor's conclusion regarding the reasonableness of the accounting estimates and disclosure of significant risks.

Documentation under Conclusion Stage

Conclusion stage involves issuance of report by the auditor and presenting his view/conclusion on the audit performed. At this stage document involves:

➤ **Evaluation of Misstatements Identified during the year**

The audit documents shall include the list of trivial misstatements, list of misstatements accumulated during the audit and whether they have been corrected by the management and if not, the impact on the financial statement.

Documentation under Conclusion Stage

➤ **Forming an opinion and Reporting on Financial Statements**

The auditor has to maintain adequate documents for the various opinion arrived like the emphasis of matters, qualified opinion or whether the financial statement are free from any material misstatements.

➤ **Management Representations:** The auditor has to maintain adequate documents in form of Management Representation letters as and when required during the course of audit and at the time of conclusion of audit.

General Guidelines for Audit Documentation

- **Clarity and Understanding**
- **Completeness and Accuracy**
- **Pertinence**
- **Logical Arrangement**
- **Legibility and Neatness**
- **Safety**
- **Initials and Date**
- **Summary of Conclusions**

Checklist for Audit Documentation

S. No.	Particulars
A.	Consent Letter issued for appointment/reappointment
B.	Appointment/reappointment Letter
C.	Communication with previous auditor in case of first appointment
D.	Compliance of requirement of charging minimum fees
E.	Acceptance Letter given
F.	Copy of ADT 1 filed
G.	Engagement Letter
H.	Maintenance and update of Permanent File

S. No.	Particulars
I.	Audit plan and audit programme
J.	Independence documents of audit team members
K.	Communication for external /third party balance confirmation as per SA-505
L.	Compliance of listing agreements for quoted companies
M.	Documentation/back papers regarding:
	1. Indexing of all working papers
	2. Cross referencing of all working papers
	3. Source of checking mentioned in all working papers
	4. Audit queries/memos, their replies and conclusions
	5. Actuarial valuation report
	6. Key audit matters reporting
	7. Internal audit reports
	8. Pending legal matters

S. No.	Particulars
	9. Contingent liabilities
	10. Current Tax calculation
	11. Deferred Tax calculation
	12. Other comprehensive income calculation
	13. Depreciation calculation
	14. Receipts of Government Grants
	15. Section 164(2) of Companies Act, 2013
	16. Analytical review i.e. ratio and variation analysis
	17. Timely transfer of unclaimed /unpaid dividends to IEPF
	18. Cash balance Certificate
	19. Demat Certificate of Investments
	20. NAV Statement of Investments
	21. AOC 4 compliance

S. No.	Particulars
	22. Management Representation Letter
N.	Documentation for:
	1. Internal Financial Control testing
	2. Management Representation Letter for above
O.	Documentation for CARO, 2016 reporting (Applicable for MARCH 2021)
	1. Physical verification programme and report for PPE
	2. Physical verification programme and report for inventory
	3. Pending registration of Title Deeds
	4. Loan agreement/s given /taken
	5. Compliance of Sec. 185, 186 & 189 of Companies Act, 2013
	6. Overdue loans and their recoveries
	7. Acceptance and repayment of public deposits u/s 73 of Companies Act, 2013
	8. Cost audit reports and records

S. No.	Particulars
	9. Undisputed statutory over dues for more than 6 months
	10. Pending disputed statutory dues
	11. Default in repayments of loans
	12. Initial public offer
	13. Fraud matters
	14. Calculation of managerial remuneration u/s 197 of Companies Act, 2013
	15. Related party transactions U/s 177 & 188 of Companies Act, 2013
	16. Private placement of securities u/s 42 of Companies Act, 2013
	17. Non Cash transactions u/s 192 of Companies Act, 2013
	18. Registration certificate u/s 45-IA of RBI 34
P.	Others If Any Specify
Q.	Tax Audit Documentation
	1. Form 3CA, 3CD with Annexures Clauses & Management Representation Letter

S. No.	Particulars
R.	Office System and Procedures and the Training Programme
	1. Register of Articles and their files.
	2. Diary Sheets for work done during the Training period of three years.
	3. Stipend payment system.
	4. Record of Leave taken by staff.
	5. Maintenance of record for time consumed by : Partner, CA qualified, Semi qualified, and Articles in each assignment for costing purpose.
	6. Attendance of Training programme either in-house or through seminars organised by ICAI or other organisation approved by ICAI.
	7. Records of membership fees paid by PU or by the staff.
	8. Paid Staff (CA,s) structured/unstructured Training record (CPE hours records).

S. No.	Particulars
	9. Records of CPE hours of Partners
	10. Declaration of Independence from Partners and each staff including qualified CA's and Articles.
	11. Travelling expenses incurred by staff including partners for billing to client.
	12. Number of Audit under taken by the PU as per ICAI guideline including Tax Audit
S.	Practising units (PU) quality control policies and procedures designed to ensure the compliance of technical, professional and ethical standards and maintenance of quality of assurance service.
T.	Any other matter/s to be specified.

Documentation of Compliance of SQC

S. No.	Particulars
A.	Engagement Documentation
B.	Audit Planning and Risk Assessment
C.	Audit Sampling and Other Selective Testing Procedures
D.	Materiality
E.	Audit Evidence
F.	Quality Control, Ethical Requirement & Independence

General Guidelines for Audit Documentation Checklist

S.No.	Particulars
(a)	Has the PU <i>documented discussions of significant matters</i> with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussion took place? (SA230)
(b)	When information has been identified that is inconsistent with the PU's final conclusion regarding a significant matter, has the PU documented <i>how the inconsistency was addressed?</i> (SA 230)
(c)	Has the PU prepared documentation that <i>provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with Auditing Standards and applicable legal and regulatory requirements?</i> (SA 230)

General Guidelines for Audit Documentation Checklist

S.No.	Particulars
(d)	Has the PU prepared audit documentation:
	(i) on a timely basis; and (SA 230)
	(ii) that is inadequate which would result in an experienced auditor being unable to understand: (SA 230)
(e)	When existing audit documentation has been modified, or new audit documentation has been added after the assembly of the final audit file has been completed, has the PU, regardless of the nature of the modifications or additions, documented:(SA230)
	(i) the specific reasons for making them; and
	(ii) when and by whom they were made and reviewed?
(f)	Has the PU adopted appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation and the needs of the practice in accordance with legal requirements of record retention? (SA 230,200)

General Guidelines for Audit Documentation

Checklist for Audit Evidence

S.No.	Particulars
(a)	Has the PU considered whether external confirmation procedures are to be performed as substantive audit procedures? [SA 500,501,505]
(b)	Has the PU designed and performed audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. [SA501]
(c)	For initial audit engagements, has the PU obtained sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report? (SA 510)

General Guidelines for Audit Documentation

Checklist for Audit Evidence

S.No.	Particulars
(d)	Has the PU determined whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified? (SA710)
(e)	Has the PU obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the PU to draw reasonable conclusions on which to base their opinion? (SA200)
(f)	Has the PU communicated in writing any significant deficiencies in internal control identified during the audit to those charged with governance and, where appropriate, to management, on a timely basis? (SA 265)

General Guidelines for Audit Documentation

Checklist for Audit Evidence

S.No.	Particulars
(g)	Has the PU maintained control over external confirmation requests, ensuring that, among other things, return information for responses are sent directly to the PU? (SA 505]
(h)	Has the PU obtained an understanding of the services provided by a service organization to the client, and has the PU evaluated the design and implementation of the client's internal control relating to these services?(SA 402)



Choice is with us ... always !

Thank You