

SA-230 - Audit Documentation



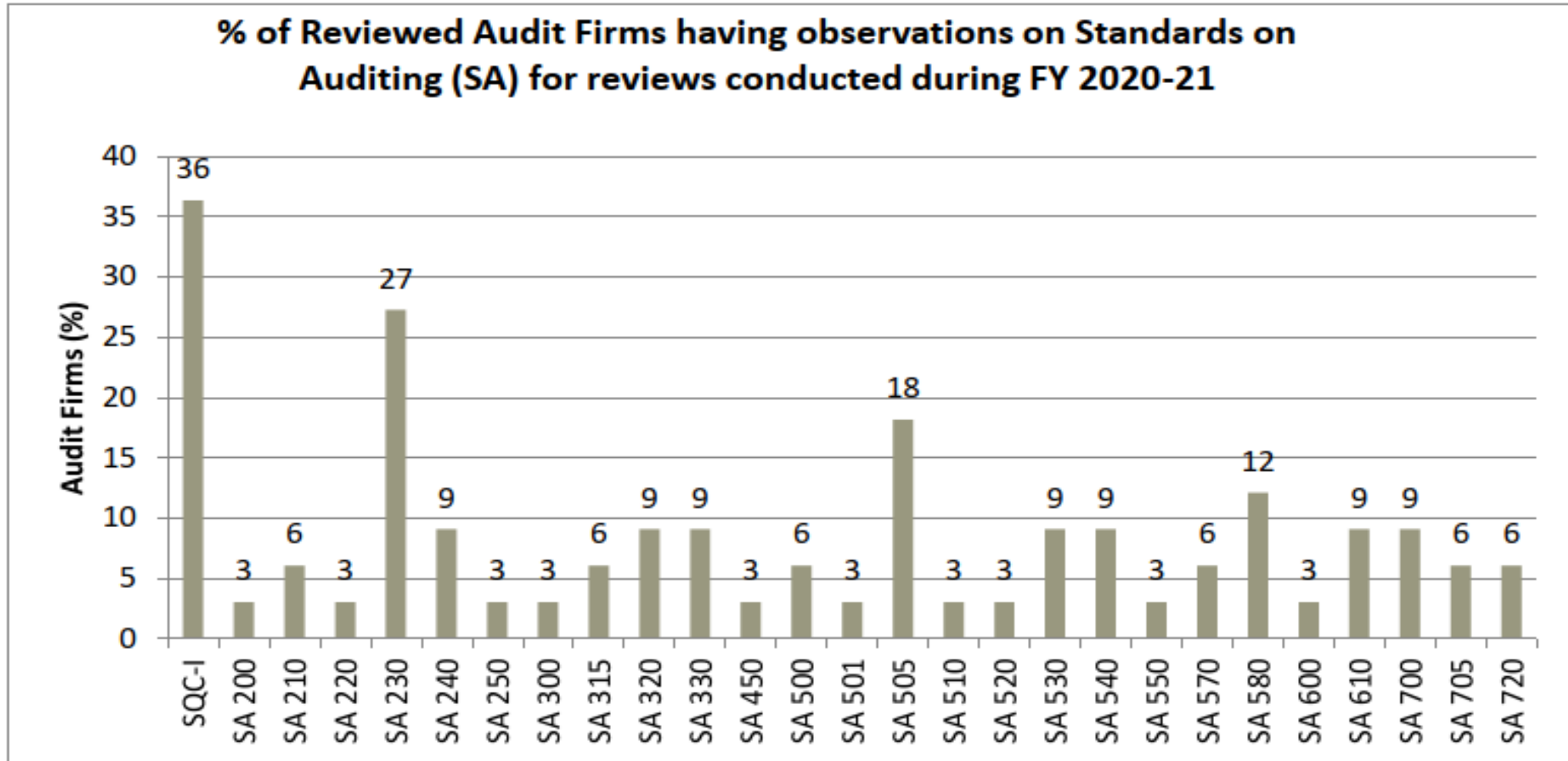
Presented by:
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Peer Review Mandate

Phase	Category of firms covered	Date of implementation
I	Firms which have undertaken Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.	1st April 2022
II	Firms which have undertaken Statutory Audit of unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31st March of immediately preceding financial year OR Firms having 5 or more partners anytime during the immediately preceding financial year.	1st April 2023
III	The firms which have undertaken the Statutory Audit of entities which have raised funds from public or banks or financial institutions of over Fifty Crores rupees during the period under review or of any body corporate including trusts which are covered under public interest entities OR Firms having 4 or more partners may be covered in the Phase 3 of the rollout.	1st April 2024
IV	Firms conducting audits of branches of Public Sector banks OR Firms having 3 or more partners and rendering assurance services.	1st April 2025

Background: Setting the tone

QRB Observation



Background: Setting the tone

NFRA Observation

- ▶ Failure on the part of the auditor to comply with a large number of Standards on Auditing while performing an audit of listed company: Audit conducted in a casual manner. (Non compliance with 16 SA)
 - *The EP was charged with non-compliance to SA 200, SA 210, SA 220, SA 260, SA 265, SA 300, SA 315, SA 320, SA 330, SA 500, SA 505, SA 520, SA 580, SA 700, SA 710 and SA 720.*

CERTAIN POINTS HIGHLIGHTED BY NFRA IN THEIR REPORTS

- ❑ Time recording by Auditor (EP and members of the ET) is mandatory in under Para 9 of SA 230 which requires the auditor to record the **nature, timing and extent** of audit procedures performed in the Audit documentation.
- ❑ The identity and the role of the EP communicated orally to the Management and TCWG, but however no documentation was kept. This is a key communication mandated by SAs and it goes without saying that this had to be in writing. In any case, in the absence of record of oral communication.
- ❑ The Audit Firm had explained that they were not required to keep all agreements that were verified by them during the course of audit in the Audit File. This statement was found to be completely violative of the basic principles underlying audit documentation.
- ❑ Assemble the audit file with in 60 days of signing of audit report which is evident from the fact that he did not send the audit report and financial statement to NFRA along with the Audit file on May 3, 2022 but submitted them only on May 10, 2022 after NFRA advised him on May 05, 2022 to do so.

Legal & Professional Requirements

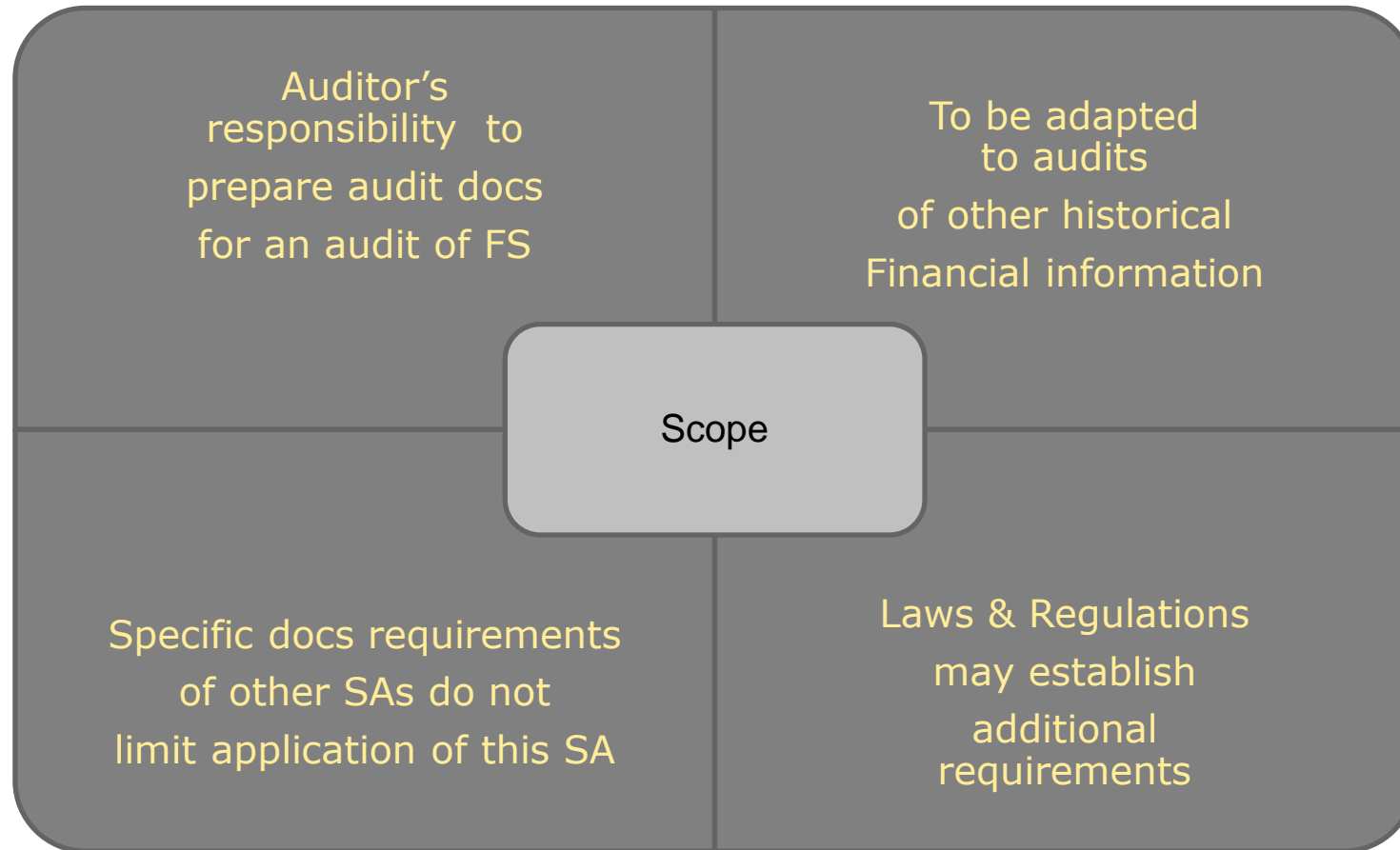
- ❑ Section 143(9) of the Companies Act, 2013 requires that “Auditor **shall** comply with the auditing standards”
- ❑ Second Schedule of the Chartered Accountants Act, 1949 states that a member in practice shall be guilty of professional misconduct, if he fails to invite attention to any material departure from the generally accepted procedure of audit



Overview of SA 230

- Objective**
- Scope**
- Nature & Purpose of Documentation**
- Audit Workpaper**
- Other Documentation**

Scope of SA 230



Definitions

Audit Documentation

Record of:

- audit procedures performed (including audit planning)
- relevant audit evidence obtained and
- conclusions reached the auditor reached

Also known as “working papers”, “work papers”

Audit File

- one or more folders or other storage media
- in physical or electronic form
- containing records that comprise audit documentation for a specific engagement

Experienced Auditor

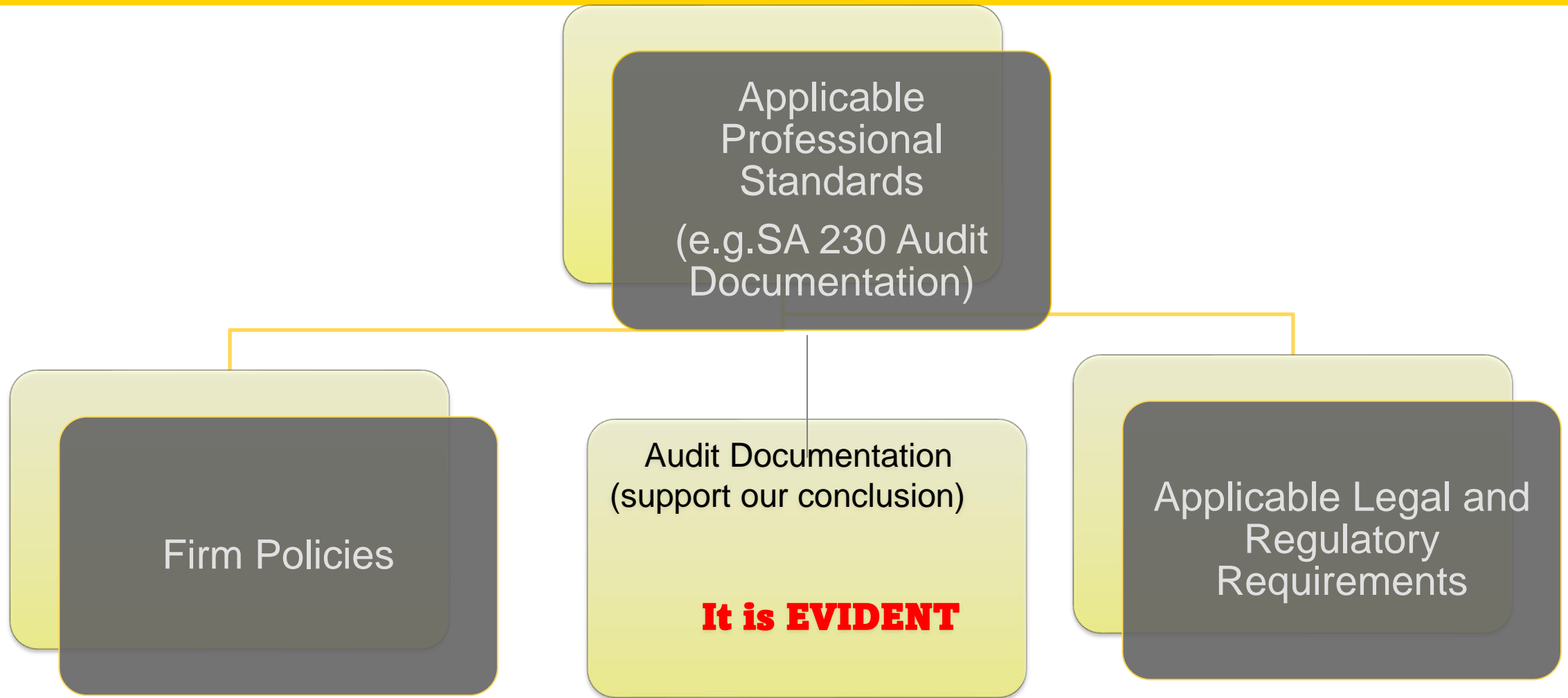
An individual (whether internal or external to firm) having practical audit experience, and a reasonable understanding of:

- audit processes
- SAs and applicable L&R requirements
- business environment in which the entity operates; and
- auditing and financial reporting issues relevant to the entity’s industry

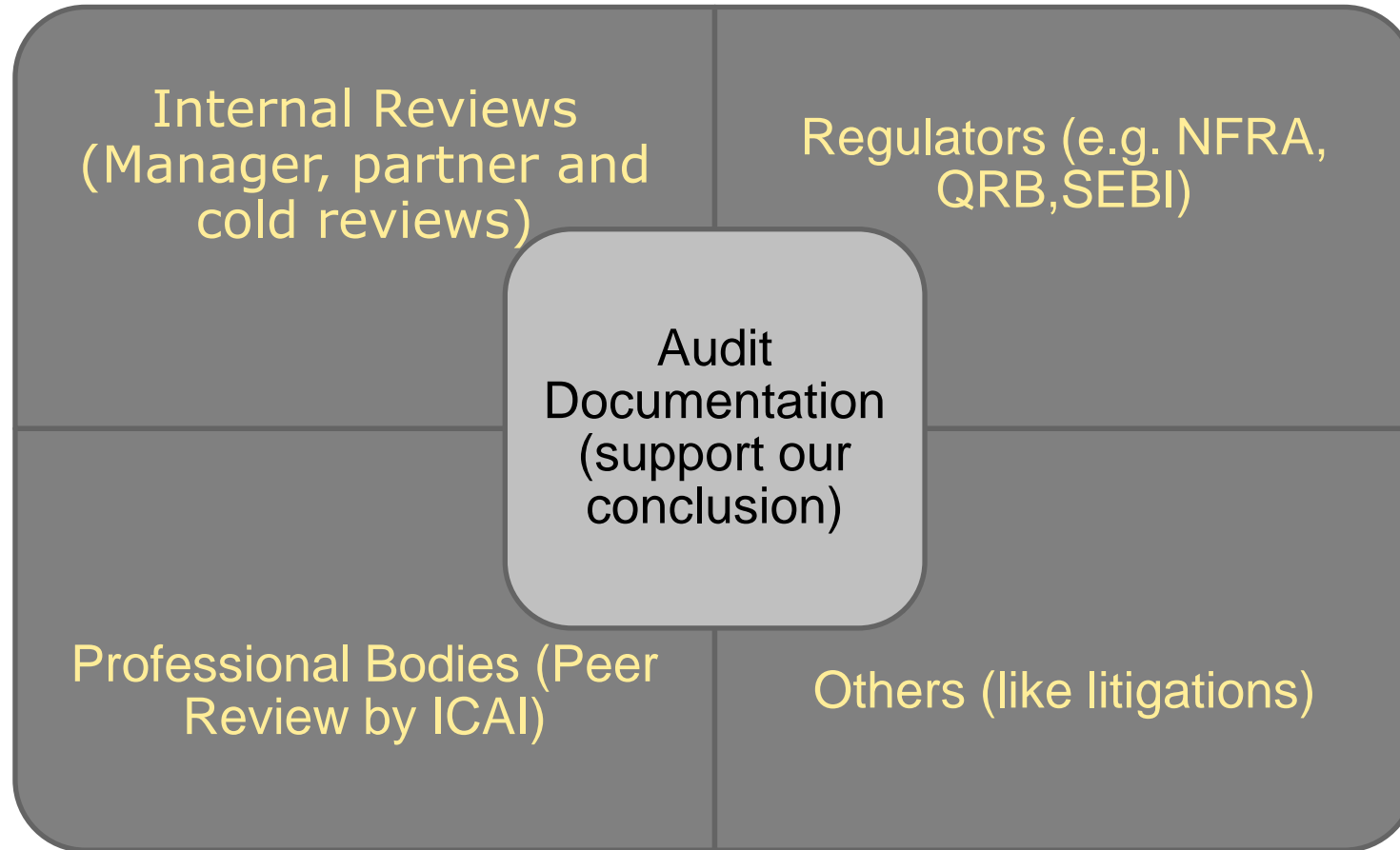
Stage of Audit Documentation



Why is documentation is required(objective)



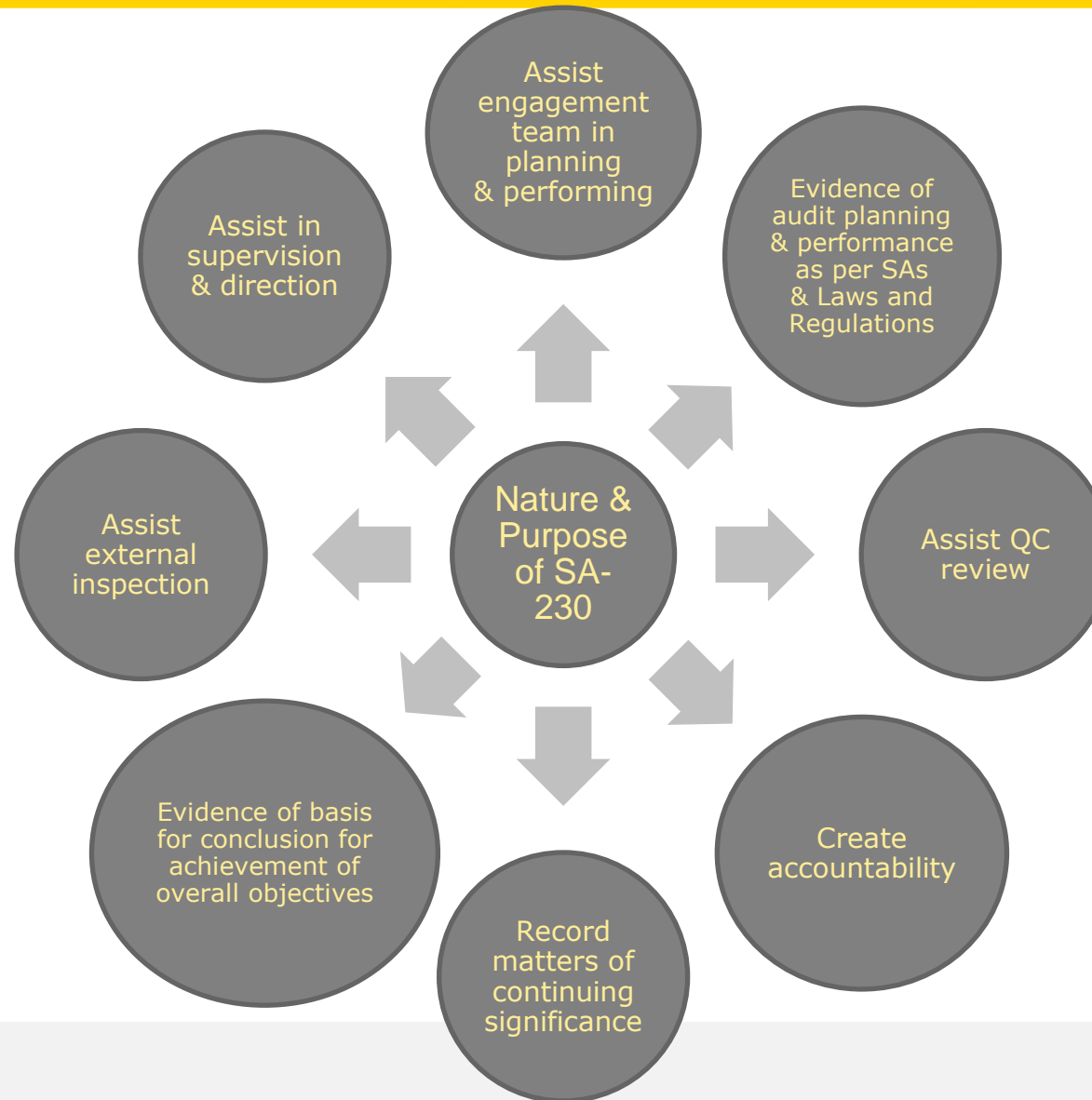
Why is documentation important?



Why is documentation important?

- ▶ Documentation is the backbone of an audit.
- ▶ The work that the auditor performs, the explanations given to the auditor, the conclusions arrived at, all are evidenced by documentation.
- ▶ Inadequate or improper documentation may be considered as deficiency in performing an audit.
- ▶ The auditor may have executed appropriate audit procedures, however, **if there is no documentation to prove**, it may put question on the work done, in case any material misstatement is reported.
- ▶ Improper and incomplete documentation may put the auditor in difficult situations, such as actions from various regulators.

Nature and Purpose of Documentation



Nature and Purpose of Documentation

- ▶ Assists the audit team to plan and perform the audit.
- ▶ Enables the audit team to be accountable for its work.
- ▶ Assists in supervision of the work and enables quality control reviews and inspections.
- ▶ Supports and evidences work done & compliance with standards.
- ▶ Matters of continuing significance are retained for future audits.

Nature and Purpose of Documentation

- ▶ The objective to prepare documentation is that it 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 SAs and applicable legal and regulatory requirements.

Form & Content of Documentation

Depends on factors such as:

- ▶ The size and complexity of the entity
- ▶ The nature of the audit procedures to be performed
- ▶ The identified risk of material misstatement & significance of the audit evidence obtained
- ▶ 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

Form & Content of Documentation

- ▶ Sufficient evidence to allow and **experienced auditor** with no previous connection to the audit engagement to understand:
 - ▶ Audit procedure performed
 - ▶ Evidence obtained
 - ▶ **Significant matters** arising during the audit
 - ▶ Conclusions reached including significant professional judgements made
 - ▶ Who performed the work and when

Significant matters

- ▶ Significant matters are matters which are judged through objective analysis of the facts and circumstances to be significant to audit and include, amongst others:
 - ▶ Significant risks.
 - ▶ Results of audit procedures indicating:
 - ▶ Material misstatements, or
 - ▶ Revision of assessment of the risks.
 - ▶ Significant difficulty in performing necessary audit procedures.
 - ▶ Finding that could result in modification to audit report/EOM
 - ▶ When SA 701 applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

Discussions with Management, TCWG, Others

- Document discussion on significant matters
 - Nature of significant matter discussed
 - Time
 - Participants

- Not restricted to records prepared by auditor:
 - Minutes prepared by client & agreed by auditor

Departure from Relevant Requirement

- ❑ Departure happens in exceptional circumstances only
- ❑ Document:
 - How alternative audit procedures achieve aim of the requirement
 - Reasons for departure
 - Report to draw attention to the departure

Matters Arising After Date of Audit Report

- In exceptional circumstances, auditor performs additional procedures / draws new conclusions, document:
 - Circumstances encountered
 - New/ additional audit procedures performed
 - Audit evidence obtained
 - Conclusions reached
 - Effect on auditor's report
 - Who made/review audit documentation

Form and Content of Documentation

- ▶ Documents are normally segregated into:
- ▶ Permanent Audit File
- ▶ Current Audit File

Permanent Audit File

- ▶ Permanent audit file contains those documents, the use of which is not restricted to one time period and extends to subsequent audits also. Some examples include
 - ❑ MOA & AOA/ Deed/ Bye Laws & Regulations in case of Company/ Firm/ Co-operative Society
 - ❑ Engagement letter, Communication with previous auditor
 - ❑ Constitution of the client and relevant Acts and Statutes.
 - ❑ History & Background of Entity
 - ❑ Organizational Structure of the Client
 - ❑ List of directors/ partners/ trustees/ bankers/ lawyers
 - ❑ Legal documents such as prospectuses, leases sales agreement
 - ❑ Copies of special resolutions, etc.
 - ❑ Contracts, agreements and minutes.

Current Audit File

- ▶ Current audit file contains those documents relevant for that time period of audit. Some examples include:
 - ❑ Engagement letter/Annual reappointment letter/Fee letter
 - ❑ Audit Plan
 - ❑ Working papers containing information like groupings, audit programmes, Queries raised, and explanations received,
 - ❑ Third party confirmations and other documents
 - ❑ Correspondence with other auditors and experts;
 - ❑ Copy of Accounts, annual report,
 - ❑ Management Representation Letter.
 - ❑ Extract from minutes relating to accounting
 - ❑ Communication with TCWG/management letter

What to Document?

▶ The Audit Procedures Applied

- Objectives, Procedures, Results, Conclusions

▶ Details of Tests Performed

- Describe in detail the work performed
- Identify the person who performed the work and those who reviewed it, including the date when these were performed
- Identify significant matters arising during the audit
- Conclusions reached and basis for them
- Source of the amounts and other information
- Properly Index and Cross Reference

▶ Audit procedures performed according to instructions in the **Audit Program**

- Ensures all Procedures in the Audit Program are addressed in audit working papers

What to Document?

- ▶ Only the work auditor has actually performed!
- ▶ Only what is relevant to the audit:
 - Contains analyses, opinion, conclusions.
 - Supports the overall audit opinion.

Nature of Documentation

- ▶ Can be electronic, manual, or other media
- ▶ Examples include:
 - Audit programs
 - Emails with the client
 - Analyses
 - Evidence of test of details on samples of items
 - Letters of confirmation and representation
 - Abstracts or copies of the entity's records (e.g., significant and specific contracts and agreements)
 - Substantive analytical procedures, including development of expectations and investigation of differences

What is not Documentation?

- Entity records (e.g., invoices looked at in testing)
- Superseded working papers/drafts
- Notes that reflect incomplete or preliminary thinking
- Previous copies of documents corrected for typographical or other errors
- Duplicate of documents

If uncertain whether to keep on file as audit documentation – ask the field senior/manager.

Examples where Documentation is not required?

- ❑ The documentation requirement applies only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases where:
 - ❑ The entire SA is not relevant [for example, if an entity does not have an internal audit function, nothing in SA 610 (Revised) is relevant]; or
 - ❑ The requirement is conditional, and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability-SA 705).

Documentation of Small & Less Complex entities

- ▶ Generally, less extensive.
- ▶ Auditor may record various aspects of the audit together in a single document
- ▶ Examples: Understanding the Entity and its internal control, the overall audit strategy and audit plan, materiality

Characteristics of high-quality work-papers

- ▶ There are five essential characteristics of high-quality work-papers that all document preparers should consider throughout the audit process.
- ▶ **Completeness.** Each work-paper should be completely self-standing and self-explanatory.
- ▶ **Accuracy.** High-quality work-papers include statements and computations that are accurate and technically correct.
- ▶ **Organization.** Work-papers should have a logical system of numbering and a reader-friendly layout so a technically competent person unfamiliar with the project could understand the purpose, procedures performed, and results.
- ▶ **Relevance & Conciseness.** Audit work-papers and items included on each work-paper should be relevant to meeting the applicable audit objective.

Specific Documentation Requirements

SA	Title	Paragraphs
210	Agreeing the Terms of Audit Engagements	10-12
220	Quality Control for an Audit of Financial Statements	24-25
230	Audit Documentation	Entire Standard
240	The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements	44-47
250	The Auditor's Responsibilities relating to Laws and Regulations in an Audit of Financial Statements	29
260(R)	Communications with Those Charged with Governance	23
300	Planning and Audit of Financial Statements	11

Characteristics of high-quality work-papers

SA	Title	Paragraphs
315	identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment	32
320	Materiality in Planning and performing an audit	14
330	The Auditor's Responses to Assessed Risks	28-30
450	Evaluation of misstatements identified during the audit	15
540	Auditing Accounting Estimates, including fair value estimates, and related disclosures	23
550	Related Parties	28
610(R)	Using the Work of Internal Auditor	36-37
701	Communicating Key Audit Matters in the Independent Auditor's Report	18
720(R)	Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements	25

Illustrative Working Paper

Illustrative Working Paper Format

XYZ Limited	Audit Firm's name
Nature of Assignment	Article Assistants name
HO/Unit:	
For the period____	Date of audit
	Reviewed by:
Area:	
Sub-area:	
Balance as per Balance Sheet:	
Balance as per General Ledger:	
Difference:	
Reason for difference if any:	
Checking Notes:	
Observations:	
Conclusions:	

SQC 1 & SA 230

- ❑ The auditor should complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report
- ❑ SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
- ❑ An appropriate time limit within which to complete the assembly of the final audit file is ordinary not more than 60 days after the date of the auditor's report
- ❑ Documentation to be preserved for 7 years

Assembly of Final Audit File

- ❑ The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- ❑ Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature.
- ❑ Examples of such changes include:
 - Deleting or discarding superseded documentation
 - Sorting, collating and cross referencing working papers
 - Signing off on *completion checklist relating to the file assembly process*
 - Documenting audit evidence that the auditor has obtained, discussed, and agreed with the relevant members of the engagement team before the date of the auditor's report.

Example of completion checklist relating to the file assembly process (Archival Checklist)

- Finalize evidence

- 0 Resolve remaining document conflicts
- 0 Close all unresolved review notes
- 0 Remove tracked changes from evidence
- 0 Finalize incomplete Canvas form responses
- 0 Resolve Canvas form comments
- 2 Signoff on all evidence
- 0 Unlinked shared evidence
- 0 Rename evidence and temporary files with duplicate file names

- Prepare for archive

- Review temporary files for those modified after the report release date
- Review deleted files for those modified after the report release date
- Finalize hard copy files and folders
- Confirm the accuracy of key engagement dates
Year end date: 12/31/2022
End date of period covered: 12/31/2022
- Confirm the accuracy of engagement codes
Primary engagement code: CD0C2-Group Audit Dec-2022 | 45454117
- Confirm the accuracy of the client code
Client code: [Bureau Veritas Consumer Products Services \(India\) Private Limited](#) | 61177398
- Validate the report type
Is the report(s) qualified in any way and/or does it have emphasis of matter?: Not yet selected
- Ensure changes to the engagement profile are submitted
- Designate overall person in charge
- Unlink this engagement from the group

- Resolve remaining validations

- 0 Accounts summary
- 0 SCOTs summary
- 0 CRA summary
- 1 IT Flow
- 5 Audit plan
- 0 Substantive evaluation matrix
- 0 Documents modified after the report release date
- 0 Unassociated findings
- 0 Independence compliance

- Complete remaining tasks

- 0 Add evidence to open tasks
- 2 Mark tasks complete

Ownership of Audit File

- ❑ Unless otherwise specified by law or regulation, audit documentation is the property of the Auditor.
- ❑ May at his discretion, make portions of, or extracts from, audit documentation available to clients, provided:
 - such disclosure does not undermine the validity of the work performed, or,
 - in the case of assurance engagements, does not undermine the independence of the auditor or of his personnel.

Timely Preparation of Audit Documentation

Prepare Sufficient Appropriate audit documents on a timely basis:

Enhances quality of audit

Facilitates effective review & evaluation of

- Audit evidence
- Conclusions reached before report is finalised

Documents prepared after the audit is less accurate

Key Takeaways

- ❑ Prepare audit documentation on a timely basis duly recording who performed and reviewed audit work and the date/s of completion and review.
- ❑ Prepare audit documentation to understand:
 - Nature, timing and extent of audit procedures to comply with SAs and applicable legal and regulatory requirements;
 - Results of audit procedures performed, and audit evidence obtained; and
 - Significant matters arising during the audit, conclusions reached, and significant professional judgements made.
- ❑ Comply with policies and procedures for assembly and archival of workpapers within stipulated time.
- ❑ Prepare a simple workpaper
- ❑ Practice indexing and cross-referencing concepts using standard workbooks
- ❑ Describe the purpose of the review
- ❑ Describe the Firm review hierarchy

QRB Findings

SA 230 Audit Documentation

- ❑ No preparing proper documentation providing a sufficient and appropriate records of the basis of the auditor's report
- ❑ Not including checklists in the audit documentation for compliance with auditing standards.
- ❑ Not recording in the audit documentation who performed the audit work and the date of such work was completed, who reviewed the work the date and extent of such review.
- ❑ Inadequate documentation for CARO Report
- ❑ Inadequate documentation for audit procedures as required by SA 315, 320,330,500,501, 520,530,620
- ❑ Impairment assessment of property, plant and equipment and intangible assets
- ❑ Compliance of financial covenants imposed by the lenders
- ❑ Analysis and conclusion of contingent liabilities

QRB Findings

SA 230 Audit Documentation

- ❑ Going concern assessment, specifically evaluation of events and conditions triggering going concern and material uncertainty.

- ❑ Inventories:
 - Existence & Valuation
 - Physical verification sheets inventory.
 - Inventory valuation sheets

- ❑ Impairment assessment of financial assets i.e., trade receivables, Inter-corporate loans, investments, etc.

- ❑ External confirmations from banks, financial institutions, vendors, customers, etc.

- ❑ Documentation with respect to internal control with reference to financial statements i.e., process notes, risk control metrics and selecting and testing of controls.

QRB Findings

SA 230 Audit Documentation

- ❑ **Observations with reference to the assembly and retention of audit file:**
 - Audit evidences collected/ obtained were kept on record without linking it to any audit program or account balance;
 - Documents provided by the client and the documents generated/ prepared by the audit team, were not adequately segregated and filed;
 - Inadequate documentation for discussions of significant matters with management or those charged with governance;
 - Delayed assembly of final audit file after the date of auditor's report.

Guidance to Auditors/ Peer Reviewers

- Practitioners' Guide Audit of Small Entities (Revised 2020 Edition)
- Ready Reference on Engagement & Quality Control Standards
- Implementation Guide on SA 230 (2022 edition)
- MCQ on Engagement & Quality Control Standards
- Checklist on Standards on Auditing by WIRC of ICAI

Documentation for Peer Reviewer

- ✓ Practice Units' Expert Consultants List
- ✓ Guidelines of a PU for maintenance of Professional Skepticism
- ✓ Recruitment policy
- ✓ Checklist of Audit program of Reviewee
- ✓ Checklist on general controls observed by PU
 - ✓ Independence
 - ✓ Professional skills and standards
 - ✓ Outside Consultations
 - ✓ Staff Supervision and development
 - ✓ Office Administration
- ✓ Illustrative list of documents to be obtained by PU
- ✓ Illustrative list of certificates to be obtained by PU
- ✓ Specimen Peer Review Report

**Work NOT Documented is
Work NOT Done!**

Thank You



SA 505 - External Confirmation

SA 505: External Confirmations

- External Confirmation means audit evidence obtained as a direct written response to the auditor from a third party in paper form, or by electronic or other medium
- Examples of situations where external confirmation may be useful:
 - o Bank balance & other information from bankers, Accounts receivable balances, Inventory/assets held by third parties, Property Title Deed held by third parties, etc.

Steps for Documentation:

- ❑ Obtain the complete list of parties with value under consideration
- ❑ Select the parties based on the threshold computed
- ❑ Keep track of the parties sent for confirmation with **unique code allocated to these**
- ❑ Compare the results of balances from the confirmation received
- ❑ Call the sender if confirmations **received over e-mails**
- ❑ If confirmation is not received after reminder also, **perform alternate procedures**