

Audit Documentation and Compliance

23 April 2017



This Could Happen to You...



Can you please
show me where is
this documented?

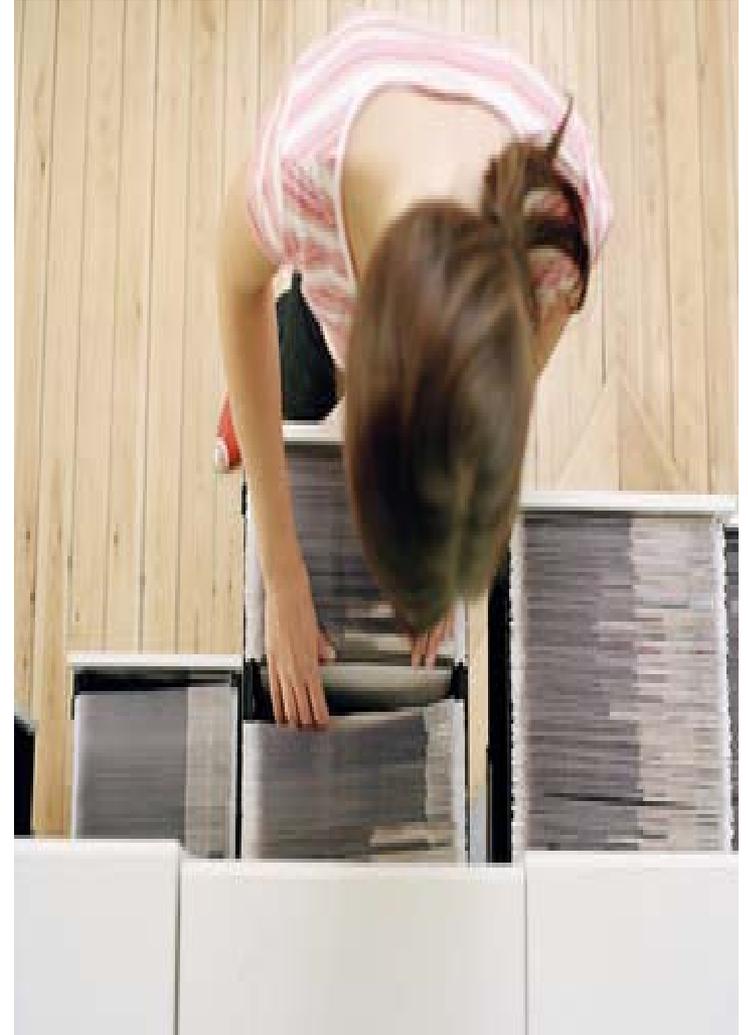
**Work not documented is work
'not done'**

**Document work to the level that
another auditor could re-perform it
without having to ask questions**

A century old adage which continues to be relevant....

‘The skills of an accountant can always be ascertained by an inspection of his working papers’.

Robert H Montgomery in his book -
‘Montgomery’s Auditing (1912)’



Definition – Audit File

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



Certain firms use an electronic audit file for documentation

Why documentation is important

- Helps in planning an audit
- Assists supervision and review
- Results in better clarity of concept, thought and expression
- Effectuates team accountability for work performed
- Supports and evidences work performed and aids compliance with financial reporting standards
- Continuing significance to future audits
- Quality control reviews and inspections in accordance with applicable legal, regulatory or other requirements – QRB, Peer Review, litigation etc.

Requirements of SA 230 – Audit Documentation

SA 230 requires an auditor to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's conclusion about the achievement of the audit objective; and
- (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

We are required to prepare audit documentation on a **timely** basis.

Audit Documentation - Definition



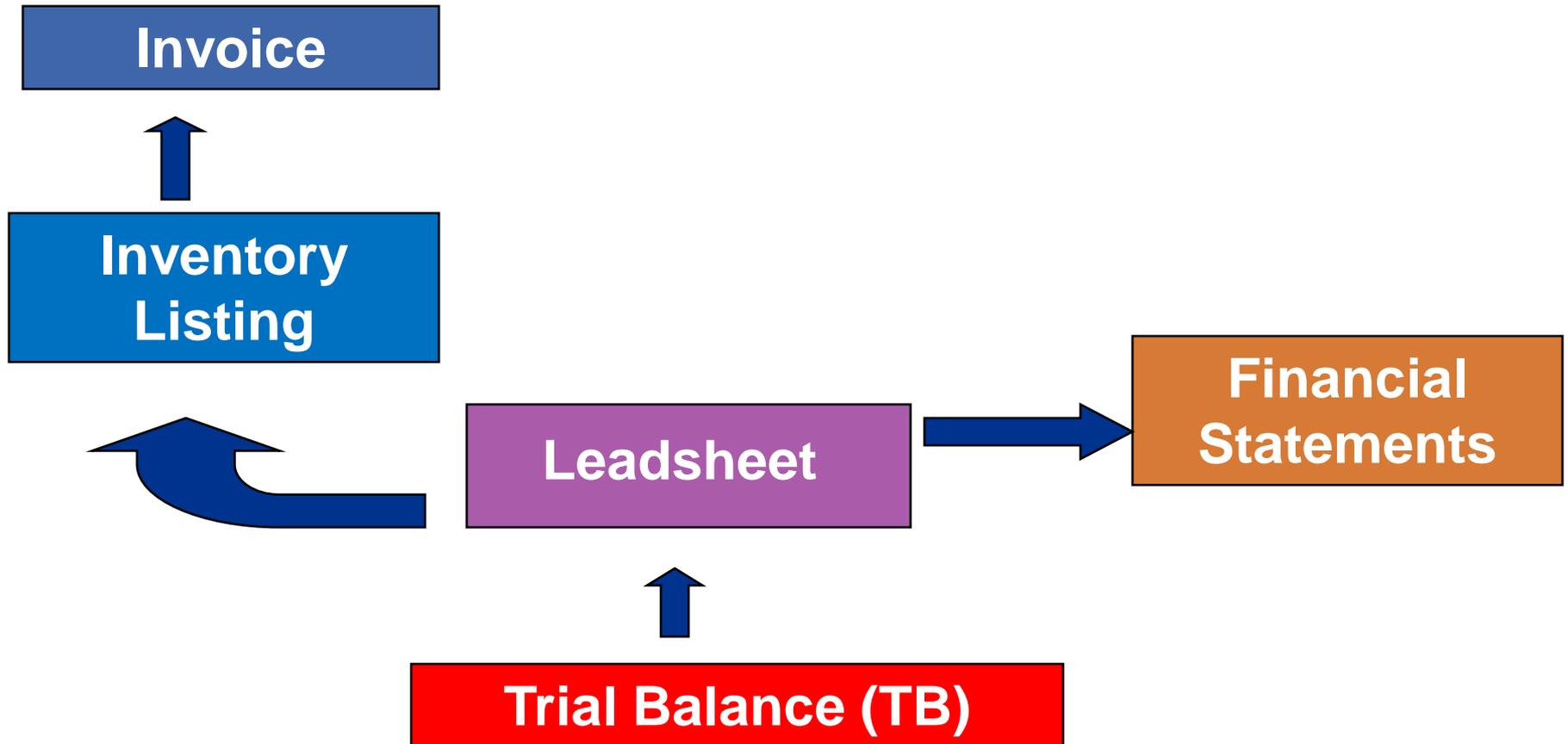
- The record of:
 - *audit procedures* performed,
 - relevant *audit evidence* obtained, and
 - *conclusions* reached.

The Auditor shall...

...prepare audit documentation that is sufficient to enable an **experienced auditor**, having no previous connection with the audit, to understand:

- (a) the nature, timing and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
- (b) the results of audit procedures performed and audit evidence obtained; and
- (c) significant findings and issues arising during the audit, actions taken to address them (including additional audit evidence obtained), the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

The Audit Trail



Form, content and extent of documentation

- The size and complexity of the entity
- Nature of audit procedures performed
- Risk of material misstatement
- Significance of audit evidence obtained
- Nature and extent of exceptions identified
- Conclusions and basis of conclusions
- Audit methodology and tools used

Audit documentation includes...

- Engagement letters
- Audit programme
- Summary of significant matters
- Confirmations and representations
- Checklists
- Abstract or copies of entity's records

What Else May Be Present On Our Audit Documentation?

- Client name and Year-end
- Heading/Purpose of the document
- Identifying characteristics of specific items tested
- Who performed the work and when it was completed
- Who reviewed the work and when it was reviewed
- Minutes of planning meeting
- Discussion on significant matters with management, those charged with governance, including the nature of the matters discussed and when and with whom such discussions took place (minutes of opening and closing meeting)
- Quality/Engagement quality control review

What Else May Be Present On Our Audit Documentation?

- Significant issues or decisions
- Summary of findings
- If in exceptional circumstances, auditor judges it necessary to depart from a relevant requirement in a SA, he is required to document how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure
- Matters arising after the date of the audit report -
 - if in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:
 - the circumstances encountered, procedures performed, evidence obtained, conclusions reached and their effect on the audit report.
 - When and by whom were the resulting changes to audit documentation were made and reviewed

What Else May Be Present On Our Audit Documentation?

- Post assembly of final audit file, auditor shall not delete or discard audit documentation of any nature before the end of its retention period
- Modification of existing audit documentation or addition of new documentation after assembly of the final audit file is completed, auditor needs to document -
 - the specific reasons for making them, and
 - When and by whom were they made and reviewed.

Audit Documentation

- Documentation needs to be contemporaneous – documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time when such work is performed
- It is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made in an audit
- Documentation of professional judgments made, where significant serves to explain the auditor's conclusions and reinforces the quality of the judgment, for instance -
 - evaluation of outcome of significant litigations and contingencies
 - retrospective review of accounting estimates
 - environmental provisions for a chemical company or provision of actuarially determined liabilities in an insurance company

Audit Documentation

- Documentation should identify the specific items or matters tested, the preparer and the reviewer of such test work.
 - Detailed testing of purchase orders – identify the documents selected by the PO numbers and the date
 - Selection/review of items over a specific threshold from a given population – document the scope of the procedure and identify the population– for example all journal entries over a specific amount
 - Use of systematic sampling – document the sampling methodology and the testing plan
 - Enquiries of personnel – document details such as date, persons enquired etc.
 - Observation procedure- process of observation, relevant individuals and their responsibilities, where and when was the observation carried out etc.

Tick Mark Examples

 Added:

 Cross added:

 Agree to GL:

 Agrees to:

 Calculated:

 Disagrees:

 Agrees to check:

 Agrees to invoice:

 Agree to prior:

Excluded documents

- Superseded drafts
- Notes that reflect incomplete or preliminary thinking
- Previous copies of documents
- Duplicate documents

Drawing conclusions

- We usually do not conclude on individual documents of test work
- Audit evidence is cumulative and one document usually only provides a portion of the audit evidence
- Conclusions on whether sufficient and appropriate audit evidence have been obtained are documented in the Audit Program and are used to decide on audit opinion

Audit File Assembly Requirement (60 days Rule)



- The auditor is required to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file as of a date ordinarily not more than 60 calendar days from the date of the auditor's report.
- File assembly does not involve performance of new procedures or drawing new conclusions after the date of the audit report

Documentation on electronic media

- Audit documentation is done using documentation software written in compliance with auditing standards.
- Advancements in telecommunications has enabled teams working across multiple locations/geographies to remotely access the same electronic audit documentation file and document the work performed for their respective client location.
- Significant economies on a year-on-year basis, as the base documentation relating to IT systems, processes, audit programs needs to be done only once at the time of set up of the electronic audit file
- Ability to roll-forward the existing file

Documentation on electronic media

- Restrictive access rights to the audit file
- Enabling audit trail by way of sign off of completion of the work performed by the team member and its review by manager/partner
- Enabling reminders to owners of the file for pending documentation
- Compulsory archiving of files post expiry of the mandatory close-out period
- Avoid repetitive documentation, ease in acquainting of new team members with the client's background
- Reduction in storage costs (for physical files)

Question for you?

- Are oral explanations by the auditor an adequate enough to support the work performed or conclusions reached?
- Is there a standard template that would serve as an evidence of auditor's professional skepticism?
- How would audit documentation evidence involvement of the audit partner throughout the course of the audit?

Question for you?

- ABC Private Ltd (ABCPL) is a wholly owned Indian subsidiary of ABC Inc. USA. XYZ & Co are the auditors for ABCPL. The financial statements of ABCPL for the year ended 31 March 2016 were audited and signed off by XYZ on 30 June 2016. During the month of September 2016, the internal auditors deciphered that a fraud involving misappropriation of Company's funds was being committed by the MD of ABCPL over the last four years. The internal auditors reported a potential loss of Rs.10 crores on this account. ABC Inc. has initiated legal proceedings against the MD and appointed an independent investigating agency to unearth the extent of fraud.
 - ABC Inc. in their capacity as owners and the engaging party, also directed XYZ & Co. to share their work papers with the investigating agency. Is this request tenable?
 - SFIO has suo moto initiated an enquiry in the aforesaid fraud and has directed XYZ & Co. to share their work papers. Is this tenable?

Ownership and period of retention

- Unless otherwise specified by law or regulation, audit documentation is property of the auditor.
- Auditor may at his discretion make available, prepare portion of, make extracts available to client, provided this does not undermine validity of documentation or independence of the auditor
- As per the provisions of the Chartered Accountants Act, 1949, and regulations made thereunder, the minimum period of retention of working papers is seven years from the date of the auditor's report or if later the date of the group auditor's report

What Can I Do to Maintain the Confidentiality of Audit Documentation?

- Do not leave audit documentation/laptop unattended
- Delete/shred information when no longer needed
- Use encrypted USB flash/hard drives
- Do not share audit documentation without appropriate permission – requirements of ICAI Code of Conduct



Emerging trends, threats and opportunities

- Robots are coming to the accounting industry
 - There's been quite a lot of speculation recently that the growing sophistication and pervasiveness of artificial intelligence will decimate the ranks of the professional services industry, with accounting particularly endangered.
- Advancement of technology impacting accounting and auditing
 - A 2013 Oxford University study reveals that accountants and auditors are among the most threatened by computers
http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf
 - A 2013 McKinsey report states that 86 percent of the work done by bookkeepers, accountants, and auditing clerks, had the technical potential to be automated
<http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/Where-machines-could-replace-humans-and-where-they-cant-yet>

Emerging trends, threats and opportunities

- Artificial Intelligence – ‘Watson’ IBM’s supercomputer has been able to read and retain millions of pages of medical journals and research in a way that a human doctor cannot.

Machine is able to produce potential diagnoses, even the rare ones that might not come to mind immediately, in record time once armed with a person’s symptoms.

Still, in the end, a human doctor is needed to ask the relevant questions and add the judgment that a machine can’t offer.

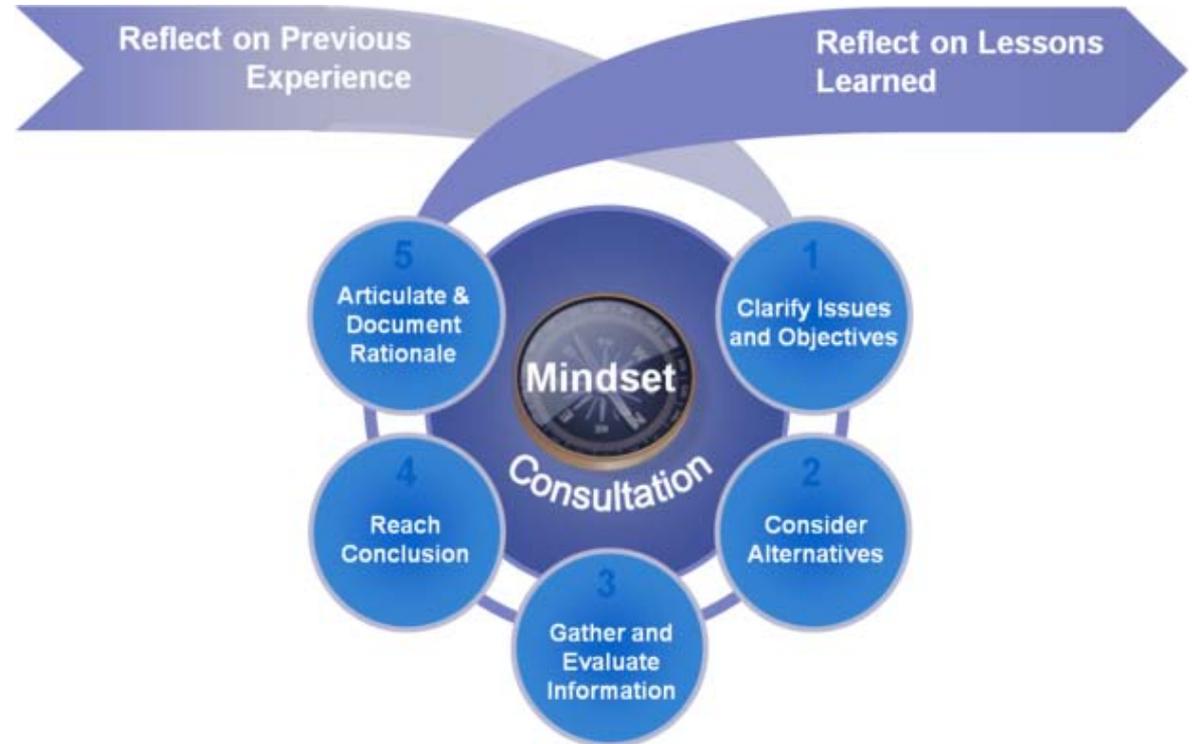
- In the future of accounting, humans will be the end users of the information generated by Artificial Intelligence (AI) in the same way that doctors are.
- Accountants will offer the human judgment that can’t be automated:
 - What is material here?
 - What new insight does this mean for the client’s business?

Emerging trends, threats and opportunities

- Many firms globally as well as in India have started using Data & Analytics (D&A) in audit. Possible considerations in audit documentation could be:
 - Form and extent of documentation
 - Documentation of exceptions
 - Efficiency versus effectiveness

Reminder...

- When performing your audit procedures, applying the elements of critical thinking in the Professional Judgment Process helps to meet the audit documentation requirements we just discussed.





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Thank you