

**Implementation Guide to
Standard on Auditing (SA) 230,
Audit Documentation**



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Standards on Auditing issued by the Institute of Chartered Accountants of India are critical in ensuring and enhancing quality in audit engagements. It therefore becomes essential that the auditors properly understand and implement the Standards on Auditing in their audit engagements.

Implementation Guides to Standards on Auditing are an important tool for the auditors for applying the principles enunciated in these Standards in real life audit scenarios.

We all know, audit documentation has always been a critical component of an audit process as it evidences the work done by the auditor. I am happy that the Auditing and Assurance Standards Board has brought out this Implementation Guide on SA 230, "Audit Documentation" for the benefit of the members.

At this juncture, I wish to place my appreciation for CA. Abhijit Bandyopadhyay, Chairman, Auditing and Assurance Standards Board for his proactive initiatives in bringing out guiding literatures on auditing standards and other technical literature on auditing. I hope that these publications will promote understanding and implementation of the Standards among the members.

March 4, 2013
New Delhi

CA. Subodh Kumar Agrawal
President, ICAI

Preface

Robert H Montgomery, a noted authority in auditing, in his book, "Montgomery's Auditing (1912)" said, "*The skills of an accountant can always be ascertained by an inspection of his working papers.*" More than a century has gone by but his words have not lost their relevance. On the contrary, over the years, given the amount of litigation that the auditors have had to face world over, these words have gained significance.

With the ever increasing complexities in the business models and the humungous spread in the global presence of businesses supported by technology, the job of the auditors has become much fraught with professional risks. Professional bodies like the Institute of Chartered Accountants of India (ICAI) are bringing out technical pronouncements in the form of Standards and other guiding literature to help the auditors perform audits in the most effective and efficient manner. It is, however, imperative that the auditors maintain adequate and appropriate audit documentation as an evidence of the work that they perform.

Standard on Auditing (SA) 230, Audit Documentation, issued by ICAI lays down the basic principles that the auditors need to bear in mind while undertaking audit documentation. The basic objective of bringing out this Implementation Guide on SA 230 was to help the members understand those principles appropriately and apply them in practice. The Implementation Guide explains the requirements of the Standard in a question and answer form. It also contains checklists of documentation requirements under the various SAs as also case studies from real life audit situations pertaining to audit documentation and their possible solutions.

At this juncture, I wish to place on record my deep gratitude to CA. S Narasimhan, Chennai and his team comprising CA Janani V and CA Padma T who, despite their extremely pressing professional and other preoccupations, volunteered to write this Implementation Guide and share their valuable experience and knowledge for the benefit of the members, at large.

I am also thankful to CA. Subodh K Agrawal, President, ICAI and CA. K Raghu, Vice President, ICAI for their support to the activities of the Auditing & Assurance Standards Board.

I also wish to place on record my gratitude for my colleagues on the Board during 2012-13 when the Implementation Guide was envisioned as well as my colleagues at the Board for the current term 2013-14, viz., CA. Naveen ND Gupta, Vice Chairman, AASB, CA. Rajkumar S Adukia, CA. Jay Ajit Chhaira, CA. Shrinivas Y Joshi, CA. Sanjeev Maheshwari, CA. Dhinal A Shah, CA. Shiwaji B Zaware, CA. M. Devaraja Reddy, CA. S. Santhana Krishnan, CA. J. Venkateswarlu, CA. Manoj Fadnis, CA. Sanjiv K Chaudhary and CA. Vijay K Gupta for their support and guidance to the Board.

I am sure that the Implementation Guide would be immensely useful to the members.

February 25, 2013
Kolkata

CA. Abhijit Bandyopadhyay
Chairman,
Auditing & Assurance Standards Board

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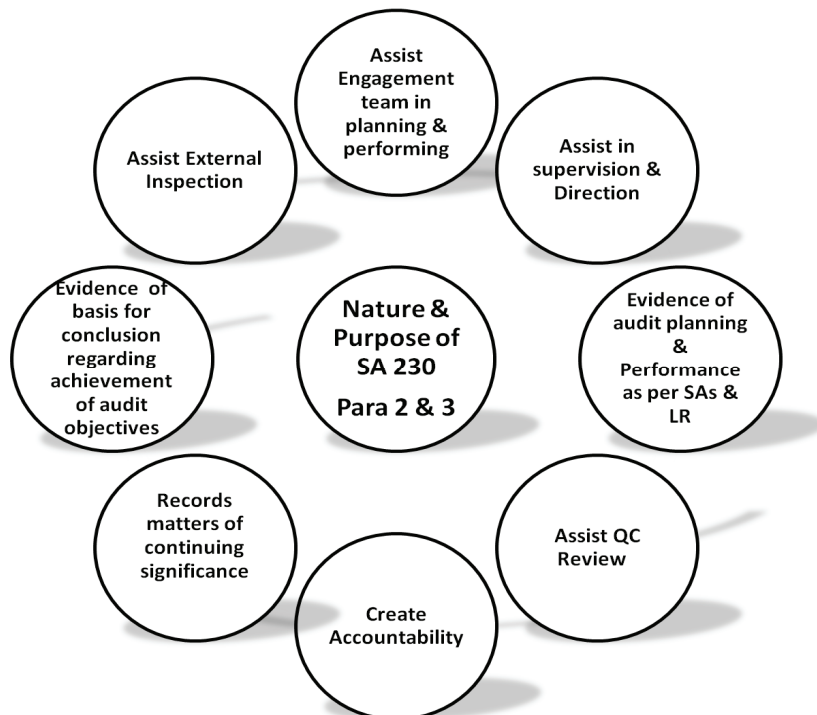
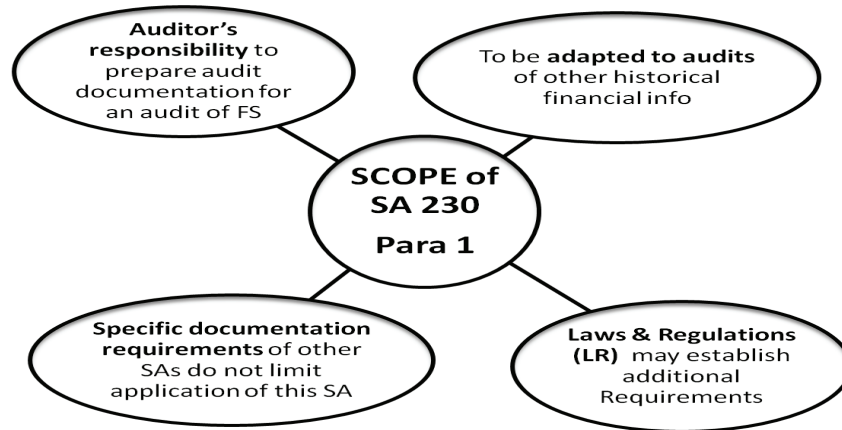
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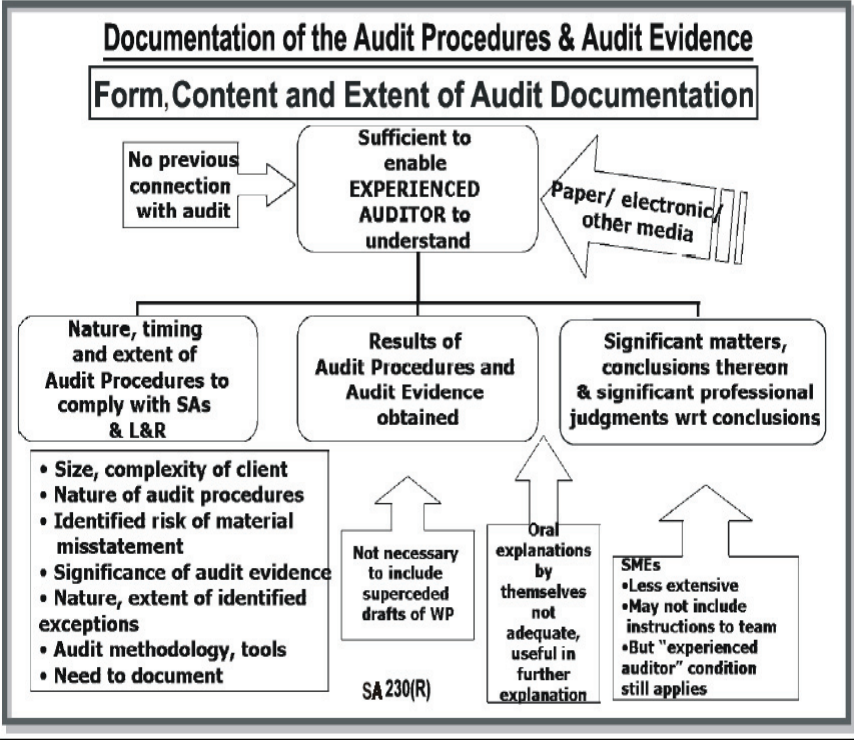
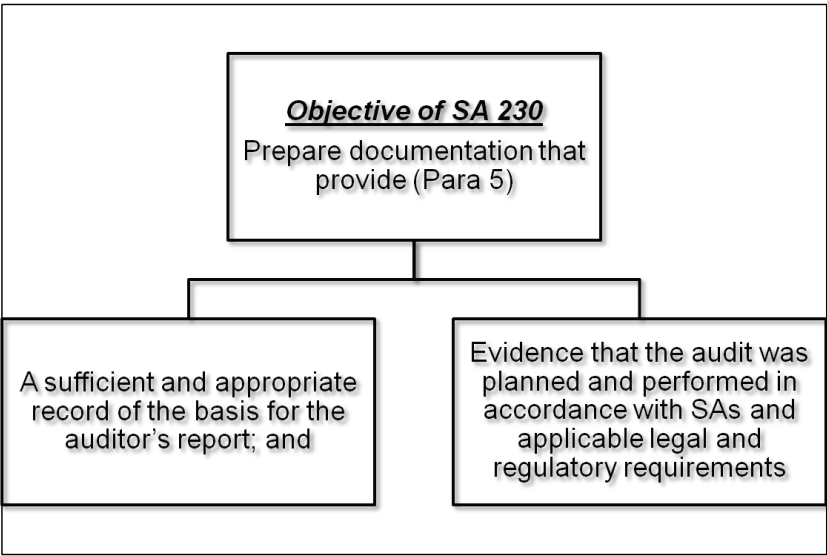
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Chapter 1

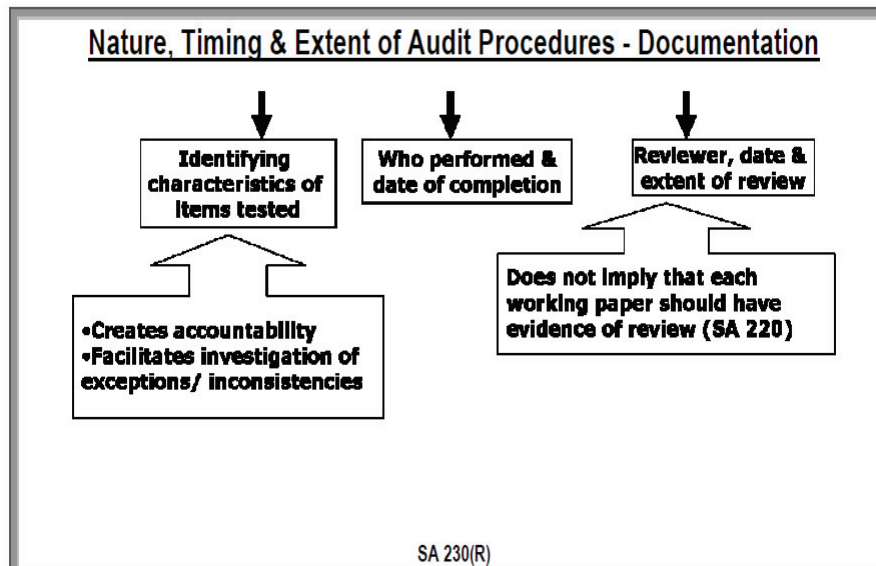
Summary of the Standard



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Summary of the Standard



Chapter 2

Introduction

Concept of Documentation

2.1 *Audit*, according to Spicer and Pegler, “*may be said to be such an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy that the Balance Sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and the Profit or Loss for the financial period, according to the best of his information and the explanations given to him and as shown by the books, and if not, in what respect he is not satisfied.*”

2.2 Though the above definition addresses various aspects of an audit, one of the most important and relevant issues stemming out of this definition is that the auditor needs to “**satisfy himself** that the Balance Sheet (and Profit and loss a/c) is properly drawn up...”, “... **according to best of his information and explanations given to him...**”, “... and if not, “**in what respect he is not satisfied**”.

2.3 An auditor, during the course of his audit may come across various materials in the form of deeds, agreements, contracts, invoices, vouchers, etc which are the supporting materials to evidence the happening of an event/transaction. These are the basis for him to satisfy (or to not satisfy) himself as to whether the Balance Sheet gives a true and fair view of the state of the affairs of the business.(and the Profit and loss a/c of the profit or loss)

2.4 A document is any material which provides evidence of work performed, action taken or the happening of an event. It may be in paper or electronic form. Examples of documents include work papers, signed agreements, videos, pictures, spreadsheets, transcripts, correspondences, etc.

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2.5 Oxford dictionary defines documentation *“as material that provides official information or evidence or that serves as a record; the process of classifying and annotating texts, photographs, etc”*

2.6 ISA 230 issued by the International Auditing and Assurance Standards Board defines audit documentation 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”.*

2.7 SA 230 (Revised) issued by the Institute of Chartered Accountants of India has adopted the same definition.

2.8 Hence, “document”, in the context of audit refers more to that which is required to be maintained by an auditor to record his findings during the course of the audit.

Why is Documentation Important?

2.9 Documentation is considered the backbone of an audit. The work that the auditor performs, the explanations given to the auditor, the conclusions arrived at, are all evidenced by documentation. Poor documentation depicts poor performance in an audit. The auditor may have executed appropriate audit procedures, however, if there is no documentation to prove, it is equal to having not done any work at all. Improper and incomplete documentation, at times, may even put the auditor in embarrassing situations!

2.10 Documentation is essential because:

- It helps in planning an audit
- It assists supervision and review
- It results in better conceptual clarity, clarity of thought and expression
- It facilitates better understanding and helps avoid misconception
- It supports and evidences work performed and compliance with standards

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Form and Content of Documentation

2.11 The form and content of audit documentation should be designed to meet the circumstances of the particular audit. It should satisfy the requirements of the governing standards and substantiate the conclusions arrived at by the auditor.

2.12 The form and content of documentation depends on various factors such as:

- Risk assessment
- Materiality
- Sampling methods, etc

2.13 Documents are segregated into those forming part of the PAF (Permanent Audit File) and CAF (Current 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. E.g. Engagement letter, Communication with previous auditor, Memorandum of Association, Articles of Association, Organization structure, List of directors/partners/ trustees/ bankers/lawyers, etc. On the other hand, a current audit file contains those documents relevant for that time period of audit.

2.14 Typical documentation spans the following:

- Understanding the entity
- Time and cost budgets
- Audit programme
- Risk assessment
- Team discussion
- Working papers pertaining to every significant area
- Conclusions
- Communication with those charged with governance
- Completion
- Manager/Partner review points
- Quality/Engagement quality control review

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2.15 In general, a working paper should contain the following:

- Risk and controls relevant to the area
- Assertions to be tested and satisfied
- Substantive and analytical procedures performed
- Persons performing/reviewing the work
- Dates on which the work was performed/reviewed
- Extent of review
- Documents prepared by client

2.16 Audit documentation may be in the form of physical papers or in electronic form, more commonly referred to as hard copy and soft copy respectively.

Chapter 3

FAQs Relating to SA 230

Q 1. What is the scope of Revised SA 230?

A 1. Revised SA 230 deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The specific documentation requirements of other SAs do not limit the application of Revised SA 230. Laws or regulations may establish additional documentation requirements.

Q 2. What is the nature and purpose of audit documentation?

A 2. Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

As per paragraph 11 of SA 200 (Revised), 'Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing', in conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are

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prepared, in all material respects, in accordance with an applicable financial reporting framework; and

- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Q 3. What are the purposes which may be served by audit documentation?

A 3. Audit documentation serves a number of additional purposes, including the following:

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220 (Revised). As per SA 220 (Revised), 'Quality Control for an Audit of Financial Statements', responsibility of the engagement partner shall include the responsibility for direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and the auditor's report being appropriate in the circumstances, and responsibility for reviews being performed in accordance with the firm's review policies and procedures. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
- Enabling the engagement team to be accountable for its work.

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- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Q 4. What is the effective date of Revised SA 230?

A 4. Revised SA 230 is effective for audits of financial statements for periods beginning on or after April 1, 2009.

Q 5. What is the objective of the auditor under Revised SA 230?

A 5. The objective of the auditor is to prepare documentation that 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.

Q 6. What do you mean by audit documentation?

A 6. The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used). It may be noted that there could be documents provided by client (PBC) which are used to do audit and document checking notes. Then such PBC will not be part of audit documentation unless checking notes are also documented by auditors on the PBC. In those cases, work papers should be clearly marked as PBC.

Q 7. What do you mean by audit file?

A 7. One or more files, in physical or electronic form, meaningfully arranged containing the records that

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comprise the audit documentation for a specific engagement.

Q 8. What do you mean by experienced auditor?

A 8. An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- Audit processes;
- SAs and applicable legal and regulatory requirements;
- The business environment in which the entity operates; and
- Auditing and financial reporting issues relevant to the entity's industry.

Q 9. How would the timely preparation of sufficient and appropriate audit documentation help the auditor?

A 9. The timely preparation of sufficient and appropriate audit documentation helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

Q 10. What would be the Form, Content and Extent of Audit Documentation?

A 10. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
- The results of the audit procedures performed, and

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the audit evidence obtained; and

- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Q 11. What are influential factors for the form, content and extent of audit documentation?

A 11. The form, content and extent of audit documentation depend on factors such as:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- 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.

Q 12. How should the audit documentation be recorded?

A 12. Audit documentation may be recorded on paper or on electronic or other media.

Q 13. What are the examples of the audit documentation?

A 13. Examples of audit documentation include the following:

- Engagement letter
- Audit programmes defined, with details of work carried out and results filled, including planning memorandum
- Analyses of various account balances through comparatives and corroborative.

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- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.
- Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements).

Audit documentation, however, is not a substitute for the entity's accounting records.

Q 14. What would the auditor not include in the audit documentation?

A 14. The auditor need not include in audit documentation:

- Superseded drafts of working papers and financial statements,
- Notes that reflect incompleteness,
- Preliminary thinking,
- Previous copies of documents corrected for typographical or other errors, and
- Duplicates of documents.

Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

Q 15. What would be the audit documentation in case of Smaller Entities?

A 15. The audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the

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engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.

When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality, determined in accordance with SA 320(Revised), 'Materiality in Planning and Performing an Audit', assessed risks, significant matters noted during the audit, and conclusions reached.

Q 16. If the auditor complies with SA 230, will the result be sufficient and appropriate audit documentation?

A 16. In principle, compliance with the requirements of this SA will result in the audit documentation being sufficient and appropriate in the circumstances. Other SAs contain specific documentation requirements that are intended to clarify the application of this SA in the particular circumstances of those SAs.

Q 17. Do the specific documentation requirements of other SAs limit the application of SA 230?

A 17. No, the specific documentation requirements of other SAs do not limit the application of this SA.

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Q 18. What will be the consequence, if there is no audit documentation requirement in any SA?

A 18. The absence of a documentation requirement in any particular SA is not intended to suggest that there is no documentation that needs to be prepared as a result of complying with that SA. Documentation appropriate to the circumstance needs to be maintained.

Q 19. Is it necessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file?

A 19. No, audit documentation provides evidence that the audit complies with SAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, those charged with governance.
- An auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the SAs.
- In relation to requirements that apply generally throughout the audit, there may be a number of

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ways in which compliance with them may be demonstrated within the audit file:

- For example, there may be no single way in which the auditor's professional skepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism in accordance with SAs. Such evidence may include specific procedures performed to corroborate management's responses to the auditor's inquiries.
- Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the SAs may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner's timely involvement in aspects of the audit, such as participation in the team discussion required by SA 315. The discussion among the engagement team about the susceptibility of the entity's financial statements to material misstatement:
 - Provides an opportunity for more experienced engagement team members, including the engagement partner, to share their insights based on their knowledge of the entity.
 - Allows the engagement team members to exchange information about the business risks to which the entity is subject and about how and where the financial statements might be susceptible to material misstatement due to fraud or error.
 - Assists the engagement team members to gain a better understanding of the potential

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for material misstatement of the financial statements in the specific areas assigned to them, and to understand how the results of the audit procedures that they perform may affect other aspects of the audit including the decisions about the nature, timing, and extent of further audit procedures.

- Provides a basis upon which engagement team members communicate and share new information obtained throughout the audit that may affect the assessment of risks of material misstatement or the audit procedures performed to address these risks.
- SA 240 (Revised) provides further requirements and guidance in relation to the discussion among the engagement team about the risks of fraud.

It is not always necessary or practical for the discussion to include all members in a single discussion (as, for example, in a multi-location audit), nor is it necessary for all of the members of the engagement team to be informed of all of the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, specialists and those responsible for the audits of components, while delegating discussion with others, taking account of the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

Q 20. What are the examples of significant matters?

A 20. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

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- Matters that give rise to significant risks. As defined in SA 315, significant risks mean an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.
- Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter paragraph in the auditor's report.

Q 21. What are the important factors in determining the form, content and extent of audit documentation of significant matters?

A 21. An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment. Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits, when reviewing matters of continuing significance (for example, when performing a retrospective review of accounting estimates).

Q 22. Give examples of circumstances in which, it is appropriate to prepare audit documentation relating to the use of professional judgment?

A 22. Some examples of circumstances in which, it is appropriate to prepare audit documentation relating to the

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use of professional judgment include, where the matters and judgments are significant:

- The rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider' certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor's conclusion on the reasonableness of areas of subjective judgments (for example, the reasonableness of significant accounting estimates).
- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross- references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor's consideration of the significant matters. It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor's.

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Q 23. What should the auditor record in documenting the nature, timing and extent of audit procedures performed?

A 23. The auditor should record:

- The identifying characteristics of the specific items or matters tested;
- Who performed the audit work and the date such work was completed; and
- Who reviewed the audit work performed and the date and extent of such review.

SA 220 (Revised) requires the auditor to review the audit work performed through review of the audit documentation. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

Q 24. What purposes do recording the identifying characteristics serve?

A 24. Recording the identifying characteristics serves a number of purposes. For example, it enables the engagement team to be accountable for its work and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the item or matter tested. For example:

- For a detailed test of entity-generated purchase orders, the auditor may identify the documents selected for testing by their dates and unique purchase order numbers.
- For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the

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procedure and identify the population (for example, all journal entries over a specified amount from the journal register).

- For a procedure requiring systematic sampling from a population of documents, the auditor may identify the documents selected by recording their source, the starting point and the sampling interval (for example, a systematic sample of shipping reports selected from the shipping log for the period April 1 to September 30, starting with report number 12345 and selecting every 125th report).
- For a procedure requiring inquiries of specific entity personnel, the auditor may record the dates of the inquiries and the names and job designations of the entity personnel.
- For an observation procedure, the auditor may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.

Q 25. What all should the auditor document?

A 25. The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

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Q 26. What should the auditor document if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter?

A 26. The auditor shall document how the auditor addressed the inconsistency. The requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.

Q 27. What will the auditor do when it is necessary to depart from a relevant requirement in a SA?

A 27. The auditor should document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure, if, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA. The requirements of the SAs are designed to enable the auditor to achieve the objectives specified in the SAs, and thereby the overall objective of the auditor. Accordingly, other than in exceptional circumstances, the SAs call for compliance with each requirement that is relevant in the circumstances of the audit.

Q 28. Under which situation is a documentation requirement not necessary?

A 28. 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

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inability to obtain sufficient appropriate audit evidence, and there is no such inability).

Q 29. What will be the audit documentation, if, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report?

A 29. The auditor is required to document:

- The circumstances encountered;
- The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
- When and by whom the resulting changes to audit documentation were made and reviewed.

Q 30. Give examples of exceptional circumstances – Matters arising after the Date of the Auditor's Report?

A 30. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report. The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in SA 220 (Revised), with the engagement partner taking final responsibility for the changes.

Q 31. Where should the auditor assemble the audit documentation?

A 31. The auditor shall assemble the audit documentation in an audit file.

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Q 32. When should the auditor complete the administrative process of assembling the final audit file?

A 32. 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 ordinarily not more than 60 days after the date of the auditor's report.

Q 33. Whether the administrative process of completion of the assembly of the final audit file after the date of the auditor's report construes as performance of new audit procedures or the drawing of new conclusions? If not, what are the changes permissible in the audit documentation during the final assembly process?

A 33. No, the administrative process of completion of the assembly of the final audit file after the date of the auditor's report does not construes as 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 checklists 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.

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Q 34. What is the retention period for the audit documentation?

A 34. The retention period for audit engagements, as per SQC 1, ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

Q 35. What will be the audit documentation in the circumstances where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed?

A 35. The auditor shall, regardless of the nature of the modifications or additions, document:

- The specific reasons for making them; and
- When and by whom they were made and reviewed.

Q 36. Give an example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed.

A 36. Example is the need to clarify existing audit documentation arising from comments received during monitoring inspections performed by internal or external parties.

Q 37. Who is the owner of the audit documentation?

A 37. Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", issued by the Institute, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He 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

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performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Q 38. Provide the specific audit documentation requirements in each SAs?

A 38. The specific audit documentation requirements in the respective SAs are as follows:

SA 220R: Quality Control for an Audit of Financial Statements

Para Ref.	Issue	Documentation Needed
24.	<ul style="list-style-type: none"> • Compliance with the Relevant Ethical and independence Requirements. • Acceptance and Continuance of client relationship and audit engagements. • Consultations. 	<ul style="list-style-type: none"> • Issues identified with respect to compliance with relevant ethical requirements and how they were resolved. • Confirmation of independence and documenting the same. • Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions. • Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. • The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.
25	Engagement Quality Control Review - Timing and Procedures.	<p>The engagement quality control reviewer document:</p> <ul style="list-style-type: none"> • The procedures required by the firm's policies on engagement

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		<p>quality control review have been performed; and activities performed with respect to this could be documented</p> <ul style="list-style-type: none"> • The engagement quality control review has been completed on or before the date of the auditor’s report; and • The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.
A35	Documentation of Consultations	<p>Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:</p> <ul style="list-style-type: none"> • The issue on which consultation was sought; and • The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

SA 240R: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

<i>Para Ref.</i>	<i>Issue</i>	<i>Documentation Needed</i>
44	<ul style="list-style-type: none"> • Understanding the entity & its environment • Assessment of 	<ul style="list-style-type: none"> • The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity’s financial statements to

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	risks of material misstatements	<p>material misstatement due to fraud; and</p> <ul style="list-style-type: none"> The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.
45	Responses to assessed risks	<ul style="list-style-type: none"> The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and The results of the audit procedures, including those designed to address the risk of management override of controls.
46	Communications	Communications about fraud made to management, those charged with governance, regulators and others.
47	Fraud in revenue recognition	<p>Reasons for concluding the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement,</p> <p>Or checks performed and found satisfactory with reference to the procedures</p>

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SA 250R: Consideration of Laws and Regulations in an Audit of Financial Statements

<i>Para Ref</i>	<i>Issue</i>	<i>Documentation Needed</i>
29	<ul style="list-style-type: none"> • Non compliance - • Discussions 	<ul style="list-style-type: none"> • Identified or suspected non-compliance with laws and regulations. • Results of discussions with : <ul style="list-style-type: none"> ▪ Management; ▪ those charged with governance (where applicable); and ▪ other parties outside the entity.
A21	Non compliance	<ul style="list-style-type: none"> • Documentation may include: <ul style="list-style-type: none"> ▪ Copies of records or documents. ▪ Minutes of discussions held with management, those charged with governance or parties outside the entity.

SA 260R: Communication with Those Charged with Governance

<i>Para Ref</i>	<i>Issue</i>	<i>Documentation Needed</i>
19	Oral & written communications to those charged with governance	<ul style="list-style-type: none"> • Matters required by SA 260R to be communicated are communicated orally, document: <ul style="list-style-type: none"> ▪ The matter; ▪ When communication was made; and

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		<ul style="list-style-type: none"> ▪ To whom communication was made. • Matters required by SA 260R to be communicated are communicated in writing, retain a copy.
A49	Oral communication	May include a copy of minutes prepared by client retained as part of audit documentation where those minutes are an appropriate record of the communication.

SA 300R: Planning an Audit of Financial Statements

Para Ref	Issue	Documentation Needed
11	Planning	<ul style="list-style-type: none"> • The overall audit strategy; • The audit plan; and • Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
A17-A20	<ul style="list-style-type: none"> • Overall audit strategy. • Audit plan. • Significant changes made in the above two. 	<ul style="list-style-type: none"> • In respect of overall audit strategy, document: <ul style="list-style-type: none"> ▪ the key decisions considered necessary to properly plan the audit – scope, timing, conduct of audit; and ▪ communicate significant matters communicated to the engagement team. • May summarize the overall audit strategy in the form of a

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		<p>memorandum.</p> <ul style="list-style-type: none">• Documentation of the audit plan is record of planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.• May use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.• A record of the significant changes to the overall audit strategy and the audit plan should document:<ul style="list-style-type: none">▪ resulting changes to the planned nature, timing and extent of audit procedures.▪ reasons for significant changes were made.▪ overall strategy and audit plan finally adopted for the audit.▪ Response to the significant changes occurring during the audit.• In smaller entities a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity.
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SA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

Para Ref	Issue	Documentation Needed
33(a)	Discussion	<ul style="list-style-type: none"> • The discussion among the engagement team where required by paragraph 10 of SA 315, and the significant decisions reached: <ul style="list-style-type: none"> ▪ the susceptibility of the entity's financial statements to material misstatement; and ▪ the application of the applicable financial reporting framework to the entity's facts and circumstances.
33(b)	Understanding of each of the aspects of the entity and its environment specified in paragraph 11	<ul style="list-style-type: none"> • Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. • The nature of the entity, including: <ul style="list-style-type: none"> ▪ its operations; ▪ its ownership and governance structures; ▪ the types of investments that the entity is making and plans to make, including investments in special purpose entities; and ▪ the way that the entity is structured and how it is financed.

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		<ul style="list-style-type: none"> • Accounting policies selection and application of accounting policies, including the reasons for changes thereto. • Auditor's evaluation of whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. • The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. • The measurement and review of the entity's financial performance.
33(b)	Understanding of each of the internal control components specified in paragraphs 14-23	<ul style="list-style-type: none"> • Control environment – Auditor's evaluation of whether: <ul style="list-style-type: none"> ▪ Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior. ▪ The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control; and ▪ Whether those other components are not undermined by deficiencies

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		<p>in the control environment.</p> <ul style="list-style-type: none">• Entity's risk assessment process for :<ul style="list-style-type: none">▪ Identifying business risks relevant to financial reporting objectives;▪ Estimating the significance of the risks;▪ Assessing the likelihood of their occurrence; and▪ Deciding about actions to address those risks.• Management's failure to identify a risk otherwise expected to have been identified:<ul style="list-style-type: none">▪ Why that process failed to identify it; and▪ Evaluation of whether the process is appropriate to its circumstances or determine whether it represent a significant deficiency in internal control with regard to the entity's risk assessment process.• If the entity has not established such a process or has an <i>ad hoc</i> process:<ul style="list-style-type: none">▪ Discussion with management regarding whether business risks relevant to financial reporting objectives have been identified and how they have been addressed.
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		<ul style="list-style-type: none">• The information system, including the related business processes, relevant to financial reporting, and communication.<ul style="list-style-type: none">▪ Information system, including the related business processes, relevant to financial reporting, including the following areas:<ul style="list-style-type: none">➤ The classes of transactions in the entity's operations that are significant to the financial statements;➤ The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;➤ The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or
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		<p>electronic form;</p> <ul style="list-style-type: none">➤ How the information system captures events and conditions, other than transactions, that are significant to the financial statements;➤ The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and➤ Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. <ul style="list-style-type: none">• Entity's communication of financial reporting roles and responsibilities and significant matters relating to financial reporting, including:<ul style="list-style-type: none">▪ Communications between management and those charged with governance; and▪ External communications, such as those with regulatory authorities.• Control activities relevant to the audit:<ul style="list-style-type: none">▪ Understanding of control activities relevant to the
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		<p>audit; and</p> <ul style="list-style-type: none">▪ Entity's response IT risks. <ul style="list-style-type: none">• Monitoring of controls:<ul style="list-style-type: none">▪ Entity's major activities to monitor internal control over financial reporting; and▪ How the entity initiates remedial actions to deficiencies in its controls.• Understanding of the relevance of the Internal Audit Function:<ul style="list-style-type: none">▪ The nature of the internal audit function's responsibilities and how the internal audit function fits in the entity's organisational structure; and▪ The activities performed, or to be performed, by the internal audit function.• Entities having uncomplicated businesses and processes relevant to financial reporting, documentation:<ul style="list-style-type: none">▪ Simple and brief.▪ Not necessary to document the entirety of the auditor's understanding of the entity and matters related to it.▪ Document only key elements of understanding.▪ Extent of documentation may also reflect the experience and capabilities of the members of the audit
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		<p>engagement team.</p> <ul style="list-style-type: none"> ▪ For recurring audits, certain documentation may be carried forward, updated as necessary to reflect changes in the entity's business or processes.
33(b)	Sources of information from which the understanding was obtained	<ul style="list-style-type: none"> • Sources of the information used in the entity's monitoring activities. • Basis upon which management considers the information to be sufficiently reliable for the purpose.
33(b)	Risk assessment procedures performed	
33(c)	Risks (in terms of para 24 of the standard)	<ul style="list-style-type: none"> • Risks of material misstatement identified and assessed: <ul style="list-style-type: none"> ▪ at the financial statement level; and ▪ at the assertion level.
33(d)	Risks requiring special audit considerations	The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 26-29 of the Standard.

SA 320R: Materiality in Planning and Performing an Audit

Para Ref.	Issue	Documentation Needed
14.(a) & (b)	Materiality for the financial	<ul style="list-style-type: none"> • Materiality for the financial statements as a whole:

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	statements as a whole or materiality level(s) for particular classes of transactions, account balances or disclosures	<ul style="list-style-type: none"> ▪ For establishing the overall audit strategy • Materiality level(s) for particular classes of transactions, account balances or disclosures: <ul style="list-style-type: none"> ▪ Determine materiality level(s) to be applied to particular classes of transactions, account balances or disclosures, which could be expected to influence the economic decisions of the users
14 (c)	Performance materiality	<ul style="list-style-type: none"> • Determine performance materiality: <ul style="list-style-type: none"> ▪ For assessing the risks of material misstatement; and ▪ Determining the nature, timing and extent of further audit procedures.
14 (d)	Revisions as the Audit Progresses	<ul style="list-style-type: none"> • Revise materiality for the financial statements as a whole or materiality level(s) for particular classes of transactions, account balances or disclosures: <ul style="list-style-type: none"> ▪ Be aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. • If the auditor concludes that a lower materiality than that initially determined is appropriate:

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		<ul style="list-style-type: none"> ▪ Determine whether it is necessary to revise performance materiality, and ▪ Whether the nature, timing and extent of the further audit procedures remain appropriate.
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SA 330: The Auditor’s Responses to Assessed Risks

Para Ref	Issue	Documentation Needed
29 (a)	Overall responses	Overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed.
29 (b)	Linkages	Linkage of those procedures with the assessed risks at the assertion level.
29 (c) & A59	Results	<ul style="list-style-type: none"> • The results of the audit procedures, including the conclusions where these are not otherwise clear. <ul style="list-style-type: none"> ▪ The form and extent of audit documentation is a matter of professional judgment, and is influenced by: <ul style="list-style-type: none"> ➤ nature, size and complexity of the entity and its internal control, ➤ availability of information,

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		<p>and</p> <ul style="list-style-type: none"> ➤ audit methodology and technology used in the audit.
30	Operating effectiveness of controls obtained in previous audits	<ul style="list-style-type: none"> • Document the conclusions reached about relying on such controls that were tested in a previous audit.
31.		<ul style="list-style-type: none"> • The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

SA 450 Evaluation of Misstatements Identified during the Audit

<i>Para Ref.</i>	<i>Issue</i>	<i>Documentation Needed</i>
15 & A25.	Uncorrected Misstatements	<ul style="list-style-type: none"> • The amount below which misstatements would be regarded as clearly trivial. • All misstatements accumulated during the audit and whether they have been corrected: <ul style="list-style-type: none"> ▪ Communication with management to correct the misstatement. ▪ Communication with those charged with governance: <ul style="list-style-type: none"> ➤ Uncorrected misstatements; and ➤ Effect that they,

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		<p>individually or in aggregate, may have on the opinion in the auditor's report.</p> <ul style="list-style-type: none">• The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion. Auditor should consider:<ul style="list-style-type: none">▪ The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and▪ The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.• The auditor's documentation of uncorrected misstatements may take into account:<ul style="list-style-type: none">▪ The consideration of the aggregate effect of uncorrected misstatements;▪ The evaluation of whether the materiality level or levels for particular classes of
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		<p>transactions, account balances or disclosures, if any, have been exceeded; and</p> <ul style="list-style-type: none"> ▪ The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants).
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SA 540R: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

<i>Para Ref</i>	<i>Issue</i>	<i>Documentation Needed</i>
23(a)	Auditor's conclusion	<ul style="list-style-type: none"> • The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks.
23(b) and A128	Management bias	<ul style="list-style-type: none"> • Indicators of possible management bias, if any. <ul style="list-style-type: none"> ▪ Assists the auditor in concluding whether the auditor's risk assessment and related responses remain appropriate, and ▪ Evaluating whether the financial statements as a whole are free from material misstatement.

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SA 550R: Related Parties

<i>Para Ref</i>	<i>Issue</i>	<i>Documentation Needed</i>
28	Related parties	<ul style="list-style-type: none">• Names of the identified related parties.• Nature of the related party relationships.

SA 600: Using the Work of Another Auditor

<i>Para Ref</i>	<i>Issue</i>	<i>Documentation Needed</i>
18	Components and component auditors	<ul style="list-style-type: none">• Components whose financial information was audited by other auditors.• Such components' significance to the financial information of the entity as a whole.• Names of the other auditors.• Any conclusions reached that individual components are not material.• Procedures performed and the conclusions reached.• Where component auditor's report is other than unmodified, document how principal auditor has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

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SA610R	Using the Work of Internal Auditors	
<i>Para Ref.</i>	<i>Issue</i>	<i>Documentation Needed</i>
13.	Using the specific work of the internal auditors	<ul style="list-style-type: none">• Conclusions regarding the evaluation of the adequacy of the work of the internal auditors.• Audit procedures performed by the external auditor on that work to determine its adequacy.

Chapter 4 Checklist

S.No.	Particulars	Yes/No/NA	Remarks/WP Ref
1.	Whether the audit documentation is prepared on a timely basis?		
2.	<p>Whether the audit documentation is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the following?</p> <p>(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;</p> <p>(b) The results of the audit procedures performed, and the audit evidence obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.</p>		

Checklist

3.	<p>While documenting the nature, timing and extent of audit procedures performed, whether the following was recorded</p> <p>(a) The identifying characteristics of the specific items or matters tested;</p> <p>(b) Who performed the audit work and the date such work was completed; and</p> <p>(c) Who reviewed the audit work performed and the date and extent of such review</p>		
4.	<p>Whether the document includes discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</p>		
5.	<p>Where it is identified that information is inconsistent with the auditor's final conclusion regarding a significant matter, whether it is documented as to how the inconsistency was addressed?</p>		

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6.	Where it is considered necessary in exceptional circumstances to depart from a relevant requirement in a SA, whether the audit document reflects how the alternative audit procedures performed achieved the aim of that requirement and the reasons for the departure.		
7.	<p>Where in exceptional circumstances, new or additional audit procedures are performed or new conclusions are reached after the date of the audit report, whether the following were documented?</p> <p>(a) The circumstances encountered;</p> <p>(b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and</p> <p>(c) When and by whom the resulting changes to audit documentation were made and reviewed.</p>		
8.	Is it ensured that after the assembly of the final audit file has been completed, no deletion or discard of audit documentation of any nature		

Checklist

	has taken place before the end of its retention period?		
9.	Where it is necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, whether the following were documented? (a) The specific reasons for making them; and (b) When and by whom they were made and reviewed.		

Chapter 5

Case Studies

Case Study 1: Determination of provision (Form and content of documentation)

The client is a software company. During the audit of the accounts for the year ended 31st March 2012, a difference of opinion pertaining to provision for doubtful debts arose. The client had provided Rs. 10 lakhs as provision for doubtful receivables. He is of the opinion that this is sufficient as most of the receivables are from group companies. The auditor challenged this because as per his estimate, it should have been at least Rs. 60 lakhs. After many meetings and arguments, both parties agreed that a provision of Rs. 40 lakhs was appropriate. The audit working papers do not have any record of how the provision was determined. The auditor says that once he was satisfied about the adequacy of provision, he is not required to keep any record on his file.

Is the opinion right?

Analysis and conclusion

As per Para 8 of SA 230, the auditor should prepare audit documentation regarding “Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”

All significant matters arising during the course of the audit need to be documented. Specifically, those pertaining to provisions and estimates where professional judgment is necessary to arrive at a conclusion, should be documented. Some examples of such situations are provision for doubtful debts, useful life of unique technical assets, provision for warranty, etc.

Hence, in the above situation, the auditor and the client have discussed and argued, considering various scenarios, before

Case Studies

arriving at a conclusion on the provision for doubtful debts. Issues debated and discussed at the meetings should be documented. The auditor should also have sufficient evidence to support his conclusion which may include breakup of the doubtful debts, subsequent realization, past history of repayments, etc.

Case Study 2: Documentation of wage settlement (Oral communication)

The client has entered into a retrospective wage settlement agreement during the current financial year. The related wage arrears amount to Rs. 100 crores which is above the relevant materiality levels. Necessary adjustments were made in the books of accounts. Consequently, provision for gratuity has also increased significantly. The same has been provided in the books of accounts.

The auditor is of the opinion that, since all the facts of the case, the subsequent decisions and the adjustment in the books have already been orally communicated to those charged with governance; the same need not be documented.

Is this opinion correct?

Analysis and conclusion

As per Para 10 of SA 230, "The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place."

Judging the significance of a matter requires an objective analysis of the facts and circumstances.

Going by the facts, the case in question is an exceptional item which is to be considered as a significant matter. Hence, though the management/those charged with governance is/are already aware of the issue and its resolution by way of oral discussions, the same will need to be documented. Generally the same may be communicated through the audit committee/ Board Meeting presentation.

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Case Study 3: Cross referencing risk and audit program

The audit team, after due discussions, identified and documented the significant risks pertaining to the organization. The team also had a pre-determined standard audit program for every area of balance sheet and profit and loss.

The audit procedures were performed as per the audit program and the same was documented.

However, risk and the program were not cross referenced. The team is of the opinion that the same need not be done.

Analysis and conclusion

As per SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment", an auditor needs to discuss amongst the team members, understand the entity and its environments, assess the significant risks of the organization and understand the relevant controls in the entity to mitigate such risks. Risks are identified at the financial statement and the assertion level.

As per para 29 of SA 330, "The Auditor's Responses to Assessed Risks", the Overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed and the linkage of those procedures with the assessed risks at the assertion level should be documented.

In the given case, the audit team has identified the risks and the procedures. However, the procedures have not been linked with the assessed risks. Hence, the documentation is not complete.

Case Study 4: Documentation of responses to assertions

Every account balance in the books of accounts needs to be audited based on certain assertions. These include completeness, accuracy, valuation, etc.

The auditor was auditing the accounts of a hotel. Revenue comprising primarily of room revenue and revenue from food and beverages is an assumed risk. While determining the assertions of revenue, the most important assertion identified was "completeness". Checks pertaining to cut off, etc was done to

Case Studies

verify the same. However, the same was not explicitly documented.

Analysis and Conclusion

As per SA 330: The Auditor's Responses to Assessed Risks, the following need to be documented:

- The results of the audit procedures, including the conclusions where these are not otherwise clear.
- The form and extent of audit documentation is a matter of professional judgment, and is influenced by:
 - nature, size and complexity of the entity and its internal control,
 - availability of information, and
 - audit methodology and technology used in the audit.

In the given case, though the risks have been assessed and assertions identified, documentation is not complete if the audit checks in response to assessed risks and conclusion thereof have not been documented.

Case Study 5: Revisions of work papers

The audit team, during the finalization of the audit of a client in the hotel industry, had several revisions in the financial statements. Consequently, the related working papers also underwent numerous changes.

The audit manager is of the opinion that the old papers can be destroyed wherever there were revisions and it is enough to preserve the final version. However, the audit team is of the opinion that all revisions need to be filed for traceability.

Which opinion is right?

Analysis and conclusion

As per Para A22 of SA 230, "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.

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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.”

Hence, old papers which have been revised may be deleted or discarded.

Case Study 6: Audit of inventory (Comprehensiveness and relevance)

During the audit of inventory of a manufacturing company, a working paper had the following details pertaining to finished stock:

Item	Quantity	Rate (Rs.)	Value (Rs.)
A	36,042.80	42.51	15,32,179
B	3,250.00	165.22	5,36,965
C	1,176.50	146.99	1,72,938
D	82.00	2,482.19	2,03,540
E	64.00	1,740.52	1,11,393

As a reviewer identify the missing details.

Analysis and conclusion:

As per Para 9(a), “In documenting the nature, timing and extent of audit procedures performed, the auditor shall record the identifying characteristics of the specific items or matters tested.”

The auditor is expected to record all such information which enables an “experienced auditor” to understand the work done and conclusions reached without the help of the engagement team.

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As per Para 6(c), an experienced auditor is “An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- i. Audit processes;
- ii. SAs and applicable legal and regulatory requirements;
- iii. The business environment in which the entity operates; and
- iv. Auditing and financial reporting issues relevant to the entity’s industry.

Keeping in mind the above, the following essential details are missing in the working paper:

- Unit of Measurement
- Previous year comparative figures
- NRV vs Cost comparison not detailed
- Cost formulae – Current year Vs Previous year
- Excluded costs
- Absorption of fixed overheads
- Quantity reconciliation
- Reference to physical verification paper

The working paper can be called complete only when the above details are incorporated.

Case Study 7: Assembly of final file

The audit team completed the field work and finalization of the audit. Financials and audit report were signed on 10th July 2012. Due to statutory and tax audit pressure, the team was reallocated to another assignment before closure of the audit file. The team attended to the closure of the file after the tax audit season, i.e. 30th September 2012.

Is this in compliance with the requirements of the standard?

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Analysis and conclusion

As per Para 14 of SA 230, "The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report."

Para 74 of SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. Para 75 of SQC 1 says "An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report."

Hence, the file needs to be completed by 10th September 2012.

Case Study 8: The devil called "Microsoft Excel" (Form and Content of documentation)

Working for 2 hours to make a 33MB excel file to a mail friendly size of 886 KB and ensuring that relevant information is not compromised, the auditor was thoroughly dejected trying to fix the problem, without knowing where the problem was.

The auditor was reviewing a report, where significant issues were documented in a word document and related annexures in a spreadsheet. The size of the annexure was 33MB for just 68 sheets. Teams had taken screen shots of ERP sample pages to explain a point (Very good from evidence perspective but not from file size management point of view).

Where is the real problem here?

Analysis and conclusion

After working out permutations and combinations, the problem was successfully identified!

- i. Complete dump of transactions for a period as taken from the ERP was pasted in the spreadsheet with few annexures running to 10000 lines!
- ii. On the annexures, filters were applied to explain the problems. However, the complete data was sitting in the

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annexure without relevance. E.g. The observation reported delay in collection over 5 days from due date and the annexure contained the complete debtors ledger dump with at least 30 columns (many of those columns may not be relevant in context) with appropriate filters applied!

Solution -

- i. Remove unwanted columns, unwanted rows.
- ii. Reduce the image sizes when you copy screen shots into a file.

Documentation in soft copy is good provided a proper trade off is made between Required details and file size.

Case Study 9: Preference share holders redemption (Documentation)

Preference shares issued by A Ltd. in October xx05 are due for redemption on xx10. Preference shares have not been redeemed on due date and negotiations between the parties have not concluded as on audit report date.

The auditor has made a comment on Preference share redemption in Audit report without qualifying audit opinion but has not documented the same in the working papers. Is this correct?

Analysis and conclusion

Preference share redemption is a significant event that will have an impact on cash flows of the company and has been included in "emphasis of matter" paragraph in the audit report. As per para A8 of SA 230, auditor has to document such matters (information on negotiation between preference shareholders and the company) in the working papers.

Case Study 10: Change in risk assessment and audit procedures

A Ltd. Auditors had not considered "Fixed assets" as significant risk area at the Planning stage. During FY 2012, A Ltd. had written off fixed assets with WDV of Rs.10 lacs as these assets could not

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be traced by management. On further inquiry, auditors identified that fixed assets register was not properly updated and critical information such as quantity and serial numbers were not available in fixed asset register. Auditors revised their audit approach and considered “Fixed assets” as significant risk area and modified their audit procedures pertaining to fixed assets verification.

Should auditors document the reason for considering fixed assets as “significant risk” in working papers and the reason for change in audit procedures in working papers?

Analysis and conclusion

As per para A8 of SA 230, where risk assessment is revised and audit procedures are modified, then such changes need to be considered as a significant matter and documented in audit working papers. As a result, the reasons for considering Fixed assets as significant risk and all observations and procedures pertaining to fixed assets needs to be documented in the working papers.

Case Study 11: Acceptance of salary escalation assumption

Management of A Ltd. expects future salary escalation to be about 8% for purpose of computing gratuity liability and leave encashment liability as per actuarial valuation, whereas weighted average salary increase for FY 2012 was about 16% and 17% for FY 2011. Auditors questioned the management on reasonableness of the salary escalation assumption used for computation of the liability.

Management expects the salary escalation to be less compared to previous years as salary level of all employees are in line with market. Management further provided salary increment expected to be given for all employees on payroll as on balance sheet date. Weighted average salary increase computed based on forecast data given by management is 8%.

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Auditors accepted the 8% salary escalation rate but did not document the data and explanation given by the management in working papers. Is this correct?

Analysis and conclusion

Please refer para A9 in SA 230. As salary escalation rate is a significant matter that requires professional judgment, it is critical to document the reason for accepting 8% salary escalation rate in the working papers.

Case Study 12: Purposeful documentation

A firm XYZ was carrying out a government audit. In a government audit, a supplementary report is required to be submitted to the CAG. On review of the report, it was found that for a query requiring the auditor's comments on legal cases, an ageing analysis of the cases had been performed.

Is the same sufficient documentation?

Analysis and conclusion

Documentation must be purposeful.

In the above case, while the auditor had analysed the ageing of the legal cases, information such as the purpose of the case, the amount involved, etc. had not been highlighted and hence becomes insufficient.

Documentation must be done with a purpose and all data does not become information useful in audits.

Case Study 13: Contents of documentation:

While reviewing a work paper on "pre-paid expenses" an auditor noticed that the schedule prepared by the audit team gave the opening balance, debits to the account, credits to the account and closing balance.

Is the same sufficient documentation?

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Analysis and conclusion:

Audit documentation highlights the audit performed by the team. The above documentation process would indicate that the team has taken a short cut to perform the audit.

A pre-paid expense schedule should clearly state, in respect of significant items:

1. Name of item;
2. Total amount paid,
3. Period to which it relates,
4. The pre-paid amount as on Balance Sheet date,
5. Period for which prepayment was done; and
6. The pre-paid amount on the same date of the previous year

Auditor should ensure that proper schedules are obtained from client so as to prepare sufficient work papers. Extracts from ledger by themselves are not adequate audit documentation.

Case Study 14: Documentation should be after a lot of thought and application of mind, and done logically and cogently:

On reviewing an audit report, an experienced auditor observed that godown rent cost had increased in the audit period and the reason stated for the same was "Increase in rates or increase in kgs stored".

Does the same constitute proper documentation?

Analysis and Conclusion:

The use of the word "or" does not make the observation conclusive.

What the writer wanted to convey was probably that in some cases rent is paid on per kg basis and in some cases as fixed rent. Both have increased.

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However use of the word 'or' makes it look like a multiple choice question, requiring the reader/reviewer to take his pick.

Part explanation is not correct.

For example, let us say that there is an increase in salaries on account of new recruitments and also decrease as some people have left. Auditor should ensure both aspects are covered in explanation. You can't just use a part explanation because that sufficiently explains the variation.

Do not leave something on 'materiality' ground if there is a genuine reason which needs to be explained. This happens when salaries of two departments are there (for both underlying agreement being same and the increase on a/c of the new agreement is 25%) and one (admin. dept) has 25% increase and another (sales dept.) 3% increase, you need to explain both variations as otherwise the real reason why it is 13% will not come out;

Explanations must be with figures and not just facts.

Case Study 15: Complete work papers:

When doing an analytical review, the following was observed by an auditor:

Lease rent: The lease rent has reduced as no. of employees has reduced

Analysis and Conclusion:

Audit documentation must be complete.

Work papers must be such that a qualified person with no previous knowledge of the reviewed company should be able to go through the file himself and review it.

In the above case, upon enquiry, it was understood that in a particular division computers were hired for all employees and as the no. of employees in that division had come down, the no. of computers hired had also come down.

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However, the same was not properly highlighted through the work paper.

Case Study 16: Documentation in the eyes of a peer reviewer

The following points were highlighted by a reviewer during the peer review of an audit firm and the auditor's responses to the same.

S.No.	Reviewer	Auditor
1.	Cut off reviews are not documented under revenue	No cut off is applicable in this company.
2.	Going concern – next year projections are not attached or documented	Projected sales are not provided to us.
3.	IT controls are not documented	Company uses Tally which has no controls
4.	Revenue not considered as key /significant/ fraud risk.(in a bank)	No income allocated to us in the Joint auditors' area /responsibilities.
5.	PAR not in file. (Preliminary analytical review)	PAR not relevant as no changes are made to financials during the audit.

Analysis and Conclusion:

Documentation is an essential part of the audit. As per the SA on Audit documentation, an experienced auditor should be able to understand the work papers even without the engagement team being present. The above review points pertain to insufficient documentation and may be handled as follows:

1. **Cut off:** There is no company where cut off is not applicable for revenue. In a manufacturing company it could mean dispatches not billed in the right period; in a

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software company, this could mean revenue of current year postponed to next year or vice versa.

2. **Going concern:** Looking at next one year projections is essential. If the Company has no projections/budget etc the next year projections needs to be discussed at least orally with CFO etc
3. **IT controls:** Precautions taken if the software does not have controls, has to be documented. E.g. Serial no. control over vouchers, Reconciliation of MIS with company accounts, TB signed by CFO periodically, copy of Tally taken on CD, etc.
4. **Joint audit:** If key branches are audited, revenue is certainly covered and needs to be documented as a risk.
5. **Preliminary analytical review:** This is mandatory. In case there is no change in the figures, one can mention the same in the final analytical review.

Appendix

Illustrative Working Paper Format

XYZ Limited	Audit Firms 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:	
1.	
Observations:	
1.	
Conclusions:	