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**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

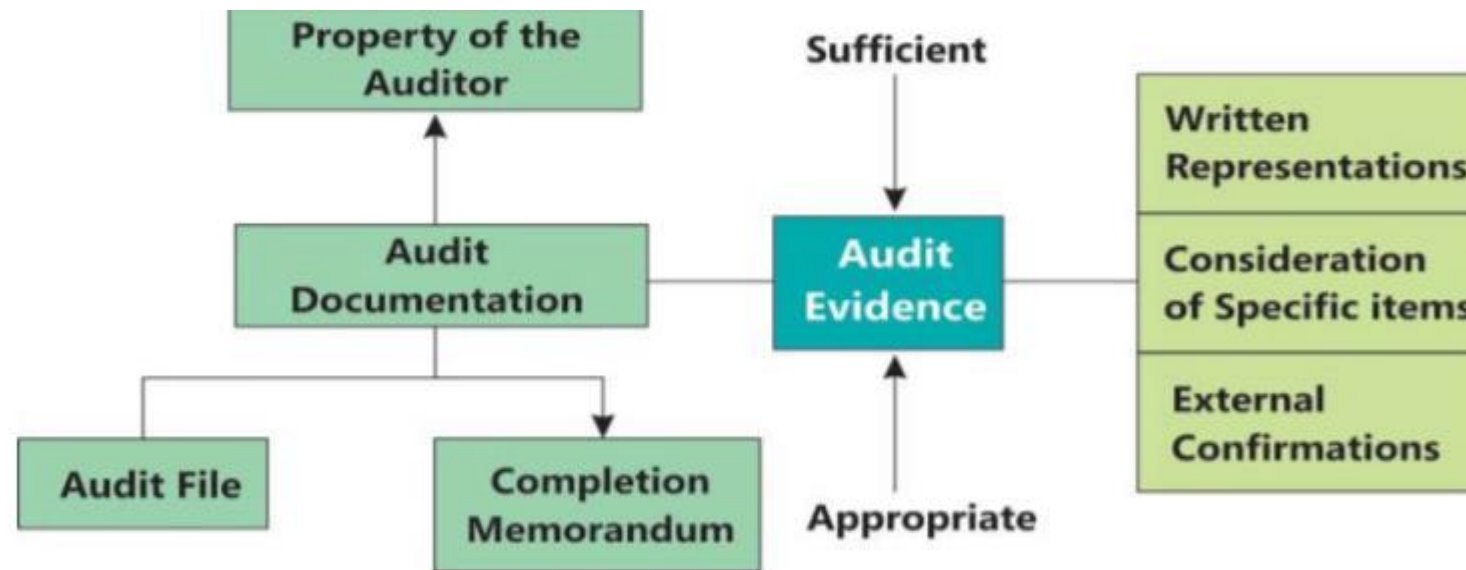
**INTERMEDIATE LEVEL
PAPER 6: AUDITING & ASSURANCE**

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CHAPTER : 3

AUDIT DOCUMENTATION AND AUDIT EVIDENCE





SA 230 : AUDIT DOCUMENTATION

The record of **audit procedures** performed



relevant **audit evidence** obtained



and **conclusions** the auditor reached



Objective of the Auditor

- To prepare documentation that provides:
- a) A sufficient and appropriate record of the basis for the auditor's report; and
- b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.



AUDIT DOCUMENTATION AS EVIDENCE

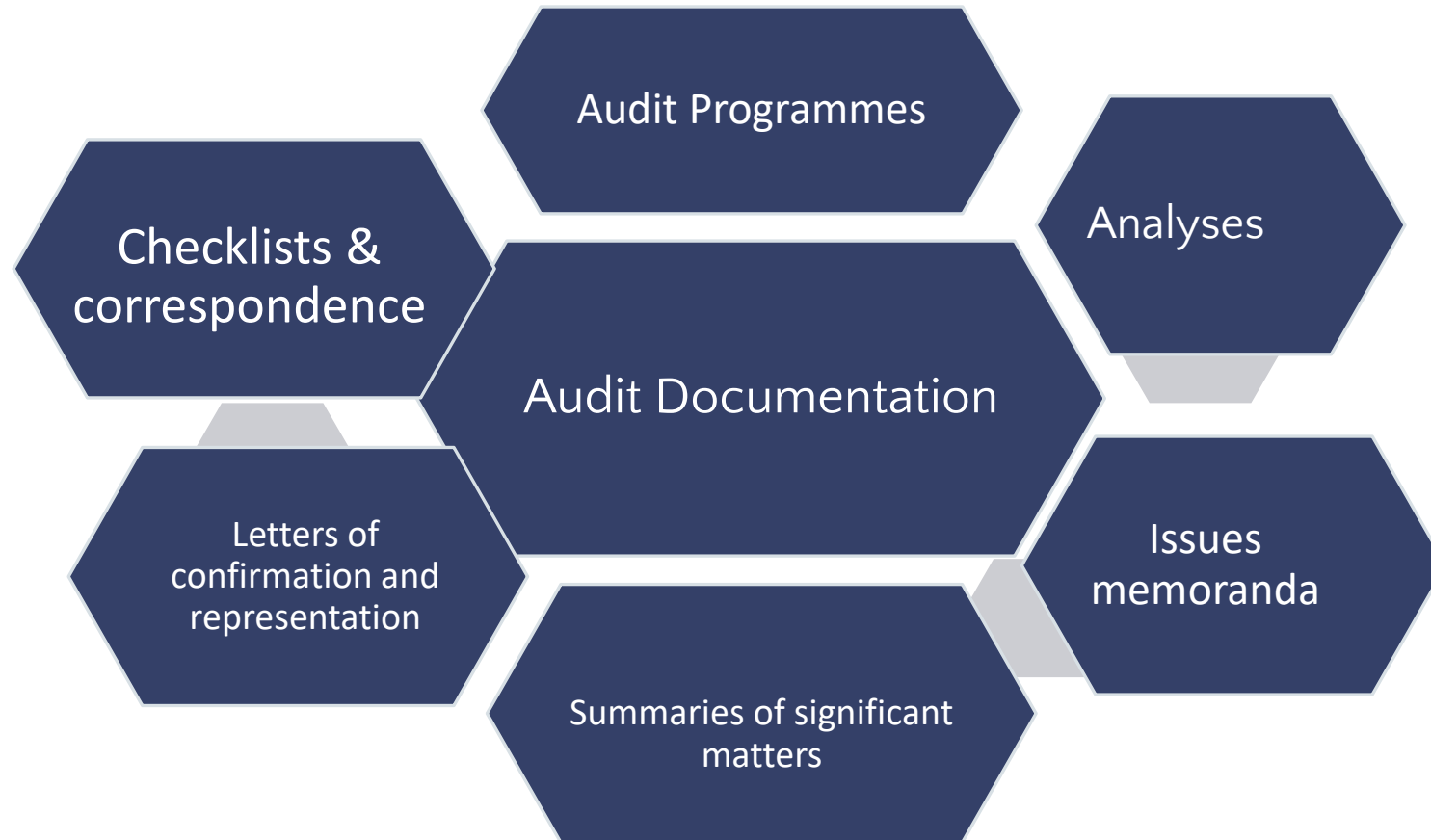


Audit Documentation provides:

- Evidence of **auditor's** basis for the conclusion and
- Evidence that the **audit was planned and performed** as per **legal requirements**.



EXAMPLES OF AUDIT EVIDENCE





AUDIT FILE

One or more folders or other storage media

in physical or electronic form

containing the record

that comprise the audit documentation for a specific engagement.



IMPORTANT ASPECTS REGARDING AUDIT FILE

- ❖ To be completed in not more than 60 days after the date of the auditors report.
- ❖ Only administrative changes can be made.
- ❖ Auditors shall not delete or discard the audit documentation before 7 years from the date of auditors report.



COMPLETION MEMORANDUM (Audit Documentation Summary)

- ❑ It is a part of the audit documentation.
- ❑ It **describes** significant matters identified during the audit and how they were addressed.
- ❑ It facilitates **effective and efficient review and inspection** of audit documentation.
- ❑ It assists auditor's **consideration** of the **significant matters**.

Other Points related to Audit Documentation

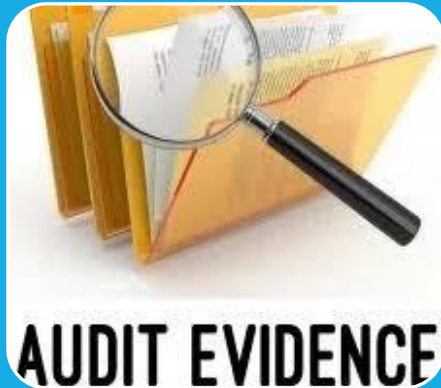
Purpose of Audit Documentation

Form, Content and Extent of Audit Documentation

Documentation of Significant Matters and Related Significant Professional Judgements



SA 500: AUDIT EVIDENCE



- The **information** used by the auditor
- in arriving at the **conclusions**
- on which the **auditor's opinion** is based

Includes:

- . Information contained in accounting records.
- . Other information.

Objective of the Auditor

- To design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.



Sufficient and Appropriate Audit Evidence

Sufficiency

- Is the measure of **quantity** of audit evidence.

Appropriateness

- Is the measure of **quality** of evidence and its **relevance** to a particular assertion and **reliability**.



HOW TO OBTAIN AUDIT EVIDENCE: By Performing Audit Procedures



- By performing Risk assessment procedures.
- By performing further audit procedures comprising test of controls and substantive procedures.



AUDIT PROCEDURES



Risk Assessment Procedures

- ❖ Refers to the audit procedures performed
- ❖ to obtain an understanding of the entity and its environment
- ❖ **including the entity's internal control,**
- ❖ to identify and assess the risks of material misstatement
- ❖ **whether due to fraud or error,**
- ❖ **at the financial statement and assertion levels.**

Further Audit Procedures

- ❖ Further Audit Procedures refers to the audit procedures comprising of:
 - ✓ Test of Controls and
 - ✓ Substantive Procedures
- ❖ Substantive Procedures comprise of:
 - ☐ Test of Details
 - ☐ Analytical Procedures
- ❖ Test of Details comprise of
 - ✓ Test of Transactions (Vouching)
 - ✓ Test of Balances (Verification)



TEST OF CONTROLS

- ❖ **Audit procedure** designed
- ❖ **to evaluate the operative effectiveness of controls**
- ❖ **in preventing or detecting and correcting, material misstatements at the assertion level.**



Important Aspects with respect to Test of Controls

- When to perform Test of Controls
- Nature and Extent of Test of Controls
- Timing of Test of Controls
- Using Audit Evidence Obtained in Previous Audits
- Specific inquiries by auditor when deviations from Controls are detected



SUBSTANTIVE PROCEDURES

- ❑ Audit Procedures designed
- ❑ to detect material misstatement at the assertion level.

- ❖ It comprise of
 - ❑ Test of details and
 - ❑ Substantive Analytical Procedures.



Important Aspects with respect to Substantive Procedures

- Substantive Procedures related to the **Financial Statement Closing Process.**
- Substantive Procedures Responsive to **Significant Risks**
- **External Confirmation** as Substantive Procedures

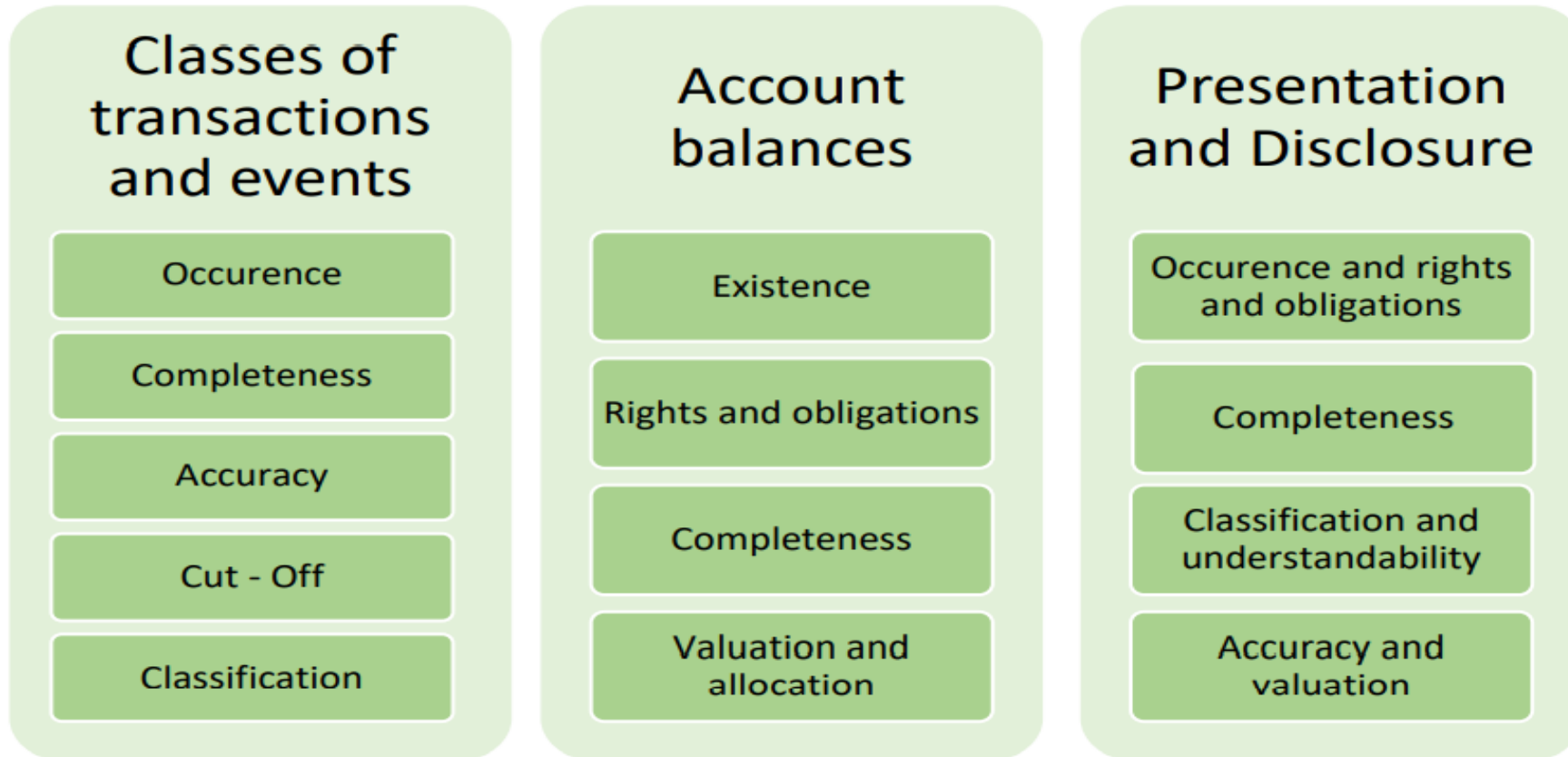


ASSERTION

- ✓ **Representations** by management,
- ✓ explicit or otherwise,
- ✓ that are embodied in the financial statements,
- ✓ **as used by the auditor**
- ✓ to consider the different types of potential misstatements that may occur.

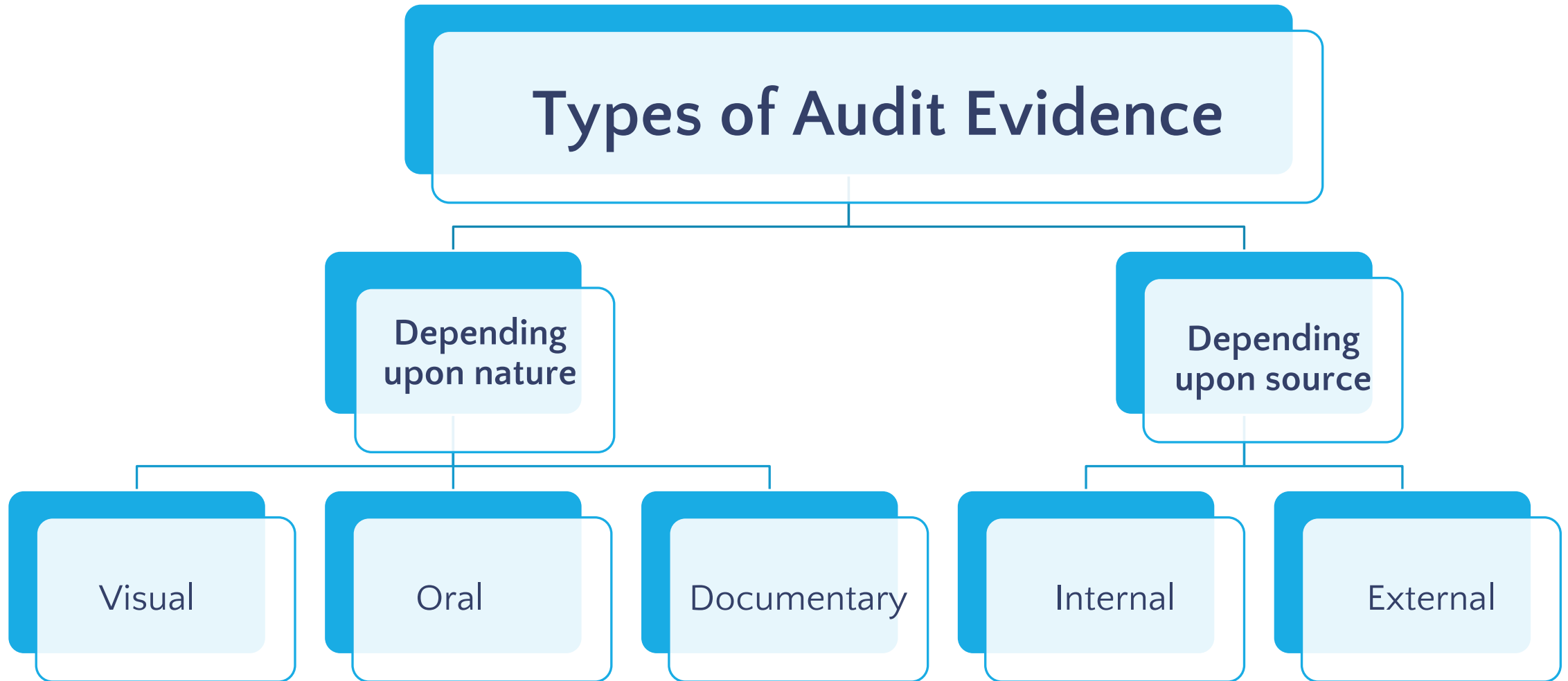


ASSERTIONS





Types of Audit Evidence

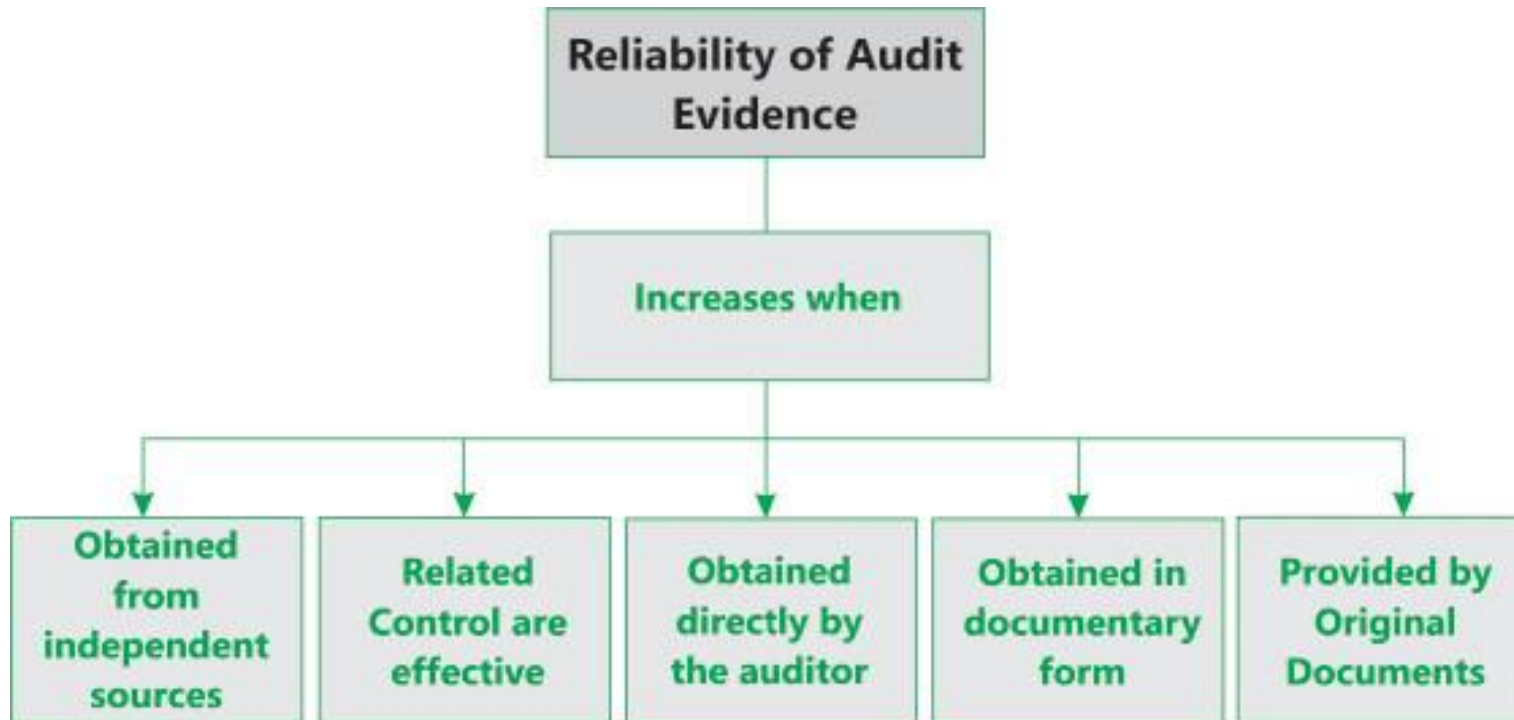


Relevance and Reliability of Audit Evidence

Relevance: Relevance deals with the logical connection with, or bearing upon, the purpose of audit procedures and, where appropriate, the assertion under consideration.

Reliability: Reliability of Audit Evidence is influenced by its source and its nature and the circumstances under which it is obtained.

Reliability of Audit Evidence



SA 580: WRITTEN REPRESENTATIONS

- ❖ Written representations may be defined as a
 - **written statement by management**
 - **provided to the auditor**
 - **to confirm certain matters or to support other audit evidence.**
- ❖ Written representations in this context **do not include financial statements, the assertions** therein, or supporting books and records.

Some important points with respect to Written Representations

- ❖ Written representations provide necessary audit evidence,
 - **they do not provide sufficient and appropriate** audit evidence on their own.

- ❖ The objectives of auditors are:
 - To obtain written representations
 - To support other evidence
 - To respond appropriately

❖ The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned .

❖ Written representations are requested from those responsible for the preparation and presentation of the financial statements

❖ The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements and about information provided and completeness of transactions.

❖ Other Written Representations.

❖ Date of and period(s) covered by Written Representations.

❖ Form of Written Representations.

❖ Doubt as to the reliability of Written Representations/
Requested Written Representations not provided.

SA 501: Audit Evidence- Specific Considerations for Selected Items

- ❖ The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:
 - (a) Existence and condition of inventory;
 - (b) Completeness of litigation and claims involving the entity; and
 - (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

SA 505: External Confirmation

- ❖ External confirmation may be defined
- ❖ as an audit evidence obtained as a
- ❖ **direct written response**
- ❖ **to the auditor**
- ❖ **from a third party** (the confirming party),
- ❖ in paper form, or by electronic or other medium.

- ❖ **Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
- ❖ **Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
- ❖ **Non-response** – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
- ❖ **Exception** – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

The exception need to be assessed to the entire population after analyzing the reason for difference.

External Confirmation Procedures

- ❖ When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:
 - (a) **Determining the information** to be confirmed or requested;
 - (b) **Selecting** the appropriate **confirming party**;
 - (c) **Designing the confirmation requests**, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
 - (d) **Sending the requests**, including **follow-up** requests when applicable, to the confirming party.

Management's Refusal to Allow the Auditor to Send a Confirmation Request

- ❖ If management refuses to allow the auditor to send a confirmation request, the auditor shall:
 - (a) **Inquire** as to **management's reasons** for the refusal, and seek audit evidence as to **their validity and reasonableness**;
 - (b) **Evaluate the implications** of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the **risk of fraud**, and on the nature, timing and extent of other audit procedures; and
 - (c) **Perform alternative audit procedures** designed to obtain relevant and reliable audit evidence.

SA 510: Initial Audit Engagements- Opening Balances

- ❖ An engagement in which either:
 - (i) The financial statements for the prior period **were not audited**; or
 - (ii) The financial statements for the prior period were **audited by a predecessor auditor**.

In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to **obtain sufficient appropriate audit evidence about whether:**

(a) **Opening balances contain misstatements** that materially affect the current period's financial statements; and

(b) **Appropriate accounting policies** reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Audit Procedures regarding Opening Balances

- ❖ The auditor shall **read the most recent financial statements**, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
- ❖ The auditor shall **obtain sufficient appropriate audit evidence** about whether the **opening balances contain misstatements** that materially affect the current period's financial statements by:
 - (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
 - (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and

(c) Performing one or more of the following:

- (i) Where the prior year financial statements were audited, **perusing the copies of the audited financial statements** including the other relevant documents relating to the prior period financial statements;
- (ii) **Evaluating** whether **audit procedures performed in the current period** provide evidence relevant to the opening balances; or
- (iii) **Performing specific audit procedures** to obtain evidence regarding the opening balances.

Some other important points

- ❖ Relevant information in the predecessor's auditor's report.
- ❖ Audit conclusions and reporting in relation to opening balances.
- ❖ Consistency of Accounting Policies.
- ❖ Modification to the Opinion in the predecessor auditor's report.

SA 550: Related Parties

A party that is either:

- (i) A related party as defined in the applicable financial reporting framework ; or
- (ii) Where the applicable financial reporting framework establishes minimal or no related party requirements:
 - (a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - (b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - (c) Another entity that is under common control with the reporting entity through having:
 - Common controlling ownership;
 - Owners who are close family members; or
 - Common key management.

Responsibilities of the Auditor

- ❖ There are specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and effects on the financial statements.
- ❖ The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions or balances.
- ❖ The auditor needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions:
 - (a) Achieve a true and fair presentation ; or
 - (b) Are not misleading (for compliance frameworks).
- ❖ In addition, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether fraud risk factors are present as required by SA 240. This is because fraud may be more easily committed through related parties.

CONCEPT OF TRUE AND FAIR

- ❖ The concept of true and fair is a fundamental concept in auditing
- ❖ SA 700 “Forming an Opinion and Reporting on Financial Statements”, requires the auditor to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and express clearly that opinion through a written report that also describes the basis for the opinion.
- ❖ The auditor is required to express his opinion on the financial statements that, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Company.

❖ What constitutes a 'true and fair' view is a matter of an auditor's judgment in the particular circumstances of a case. In more specific terms, to ensure true and fair view, an auditor has to see:

- (i) that the assets are neither undervalued or overvalued, according to the applicable accounting principles,
- (ii) no material asset is omitted;
- (iii) the charge, if any, on assets are disclosed;
- (iv) material liabilities should not be omitted;
- (v) the profit and loss account and balance sheet discloses all the matters required to be disclosed;
- (vi) accounting policies have been followed consistently; and
- (vii) all unusual, exceptional or non-recurring items have been disclosed separately.

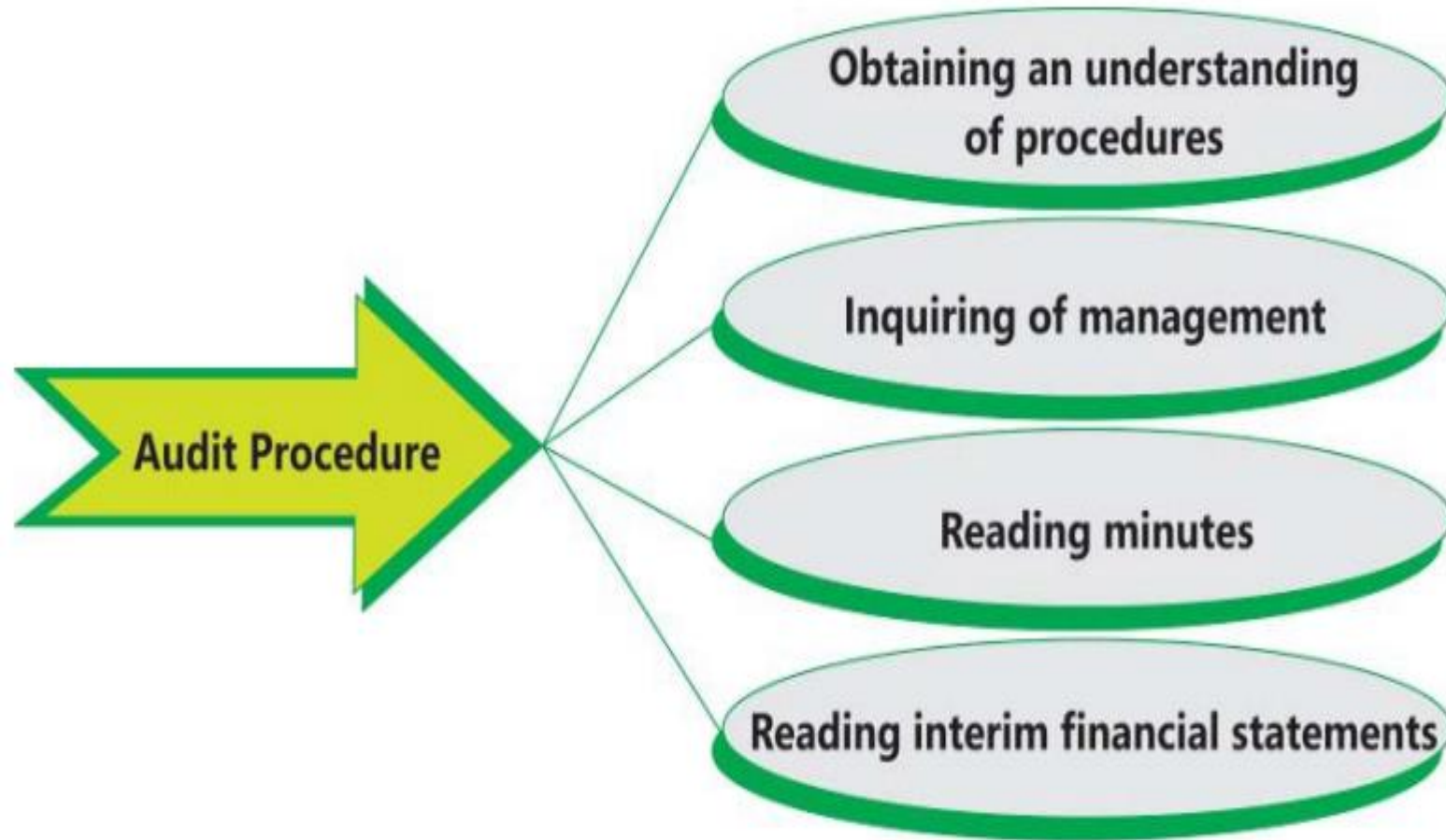
SA 560: Subsequent Events

Subsequent events are:

- ❖ Events occurring between the date of the financial statements and the date of the auditor's report,
- ❖ and facts that become known to the auditor after the date of the auditor's report.

The objectives of the auditor are to:

- (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and
- (b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.



Some other important points

- ❖ Written Representation with respect to the subsequent events.
- ❖ Auditors obligations regarding subsequent events.

SA 570: Going Concern

- ❖ Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.
- ❖ When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Objectives of the auditor regarding going concern

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To report in accordance with this SA.

Responsibilities of the Auditor

- ❖ The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.
- ❖ However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern.
- ❖ The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Some other important points

- ❖ Risk Assessment Procedures and Related Activities.
- ❖ Remaining alert throughout the audit for audit evidence about events & conditions.
- ❖ Events & Conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- ❖ Additional audit procedures when events & conditions are identified.
- ❖ Implications for the Auditor's report.

Thank You

*The PPT used in the classes are only for reference. Students should refer to the ICAI module.