



CNK & Associates LLP

Chartered Accountants

Capacity Building Measures of Practitioners with special focus on Working Paper Management on Tax Audit, Company Audit and GST Audit

Working Paper Management on Company Audit

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Today's Agenda



- What are work papers and importance
 - SQC 1
 - SA 230
 - NFRA Orders
- Use of electronic signatures
- Effective work papers (practical experience)
- Examples of Audit documents
- Walk through of audit process
- Folder management and Sample work papers
- Practical Issues during COVID times

Need for Working Papers:



- Handbook of Auditing Pronouncements issued by the ICAI states that:
 - *“While discharging their attest function, it will be the duty of the members of the Institute to ensure that the Standards are followed in the audit of financial information covered by the audit report. If for any reason a member has not been able to perform an audit in accordance with the same, his report should draw attention to the material departures therefrom”*
- Enshrined in the Chartered Accounts Act, 1949
- The Code of Ethics
- Compliance with Standard on Auditing (SA) and Companies Act, 2013
- Peer Review, FRRB and QRB
- ICAI Disciplinary Mechanism
- NFRA, SEBI and other regulators

Standards on Quality Control (SQC 1)



- Establish a system of quality control designed to provide that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.
 - SQC should consist of policies designed to achieve the objectives set out above and the procedures necessary to implement and monitor compliance with those policies.
 - This SQC applies to all firms. (nature, procedures developed will depend on the size and operating characteristics of the firm, and whether it is part of a network.)

Standards on Quality Control (SQC 1)



- Engagement Documentation: The record of work performed, results obtained, and conclusions reached. **“working papers” or “workpapers”**.
- **Completion of the Assembly of Final Engagement Files**: The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.
- **Law & regulations can prescribe time limits (for assembly of engagement files)**, however if they don't, the firm must, relative to the nature of the respective engagement, set time limits for completion of the assembly of final audit engagement files. However, ordinarily, the **time limit is 60 days** from the date of the audit report.

Working Papers in Electronic Environment

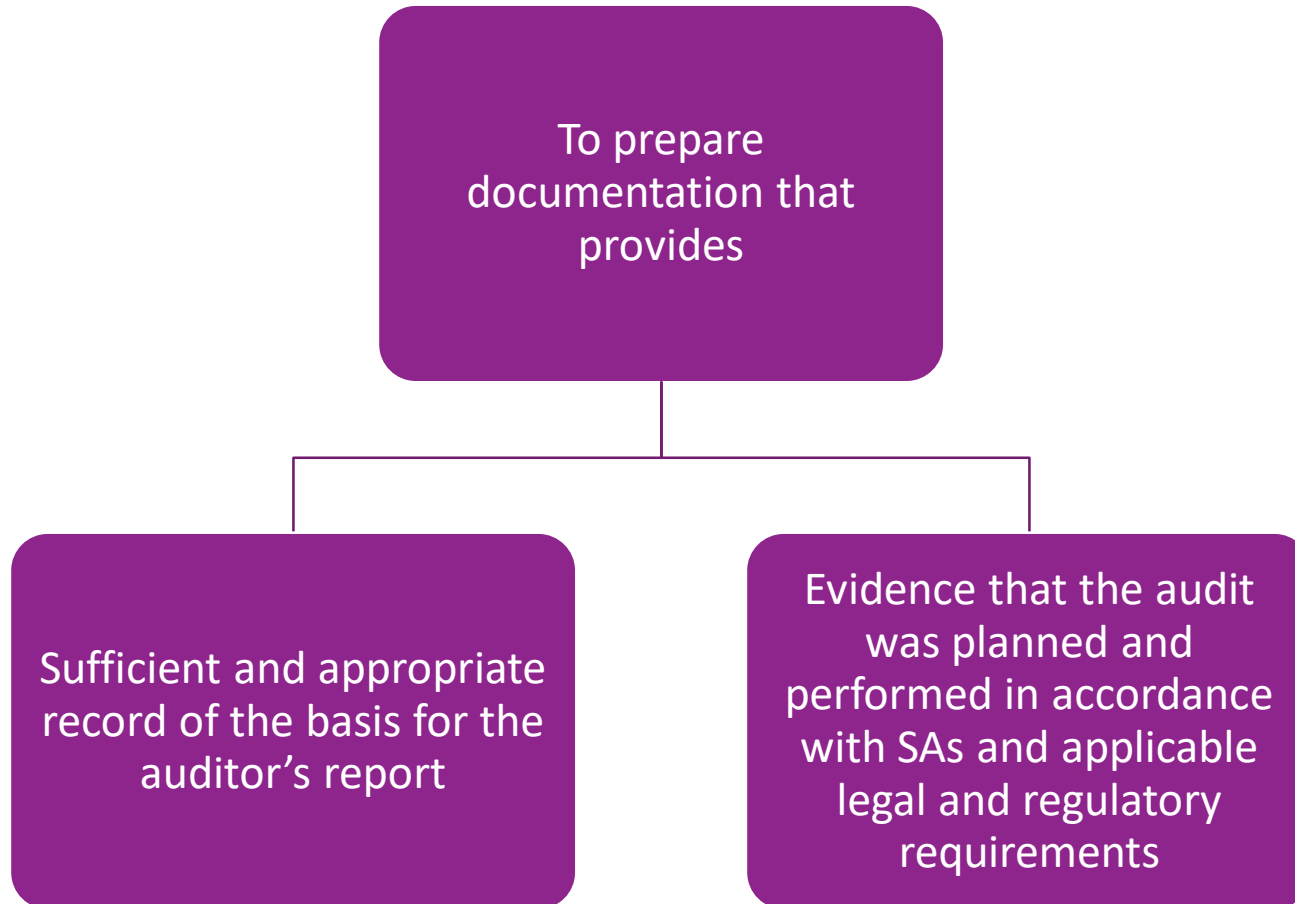


- To establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
- Designing and implementing appropriate controls for engagement documentation to:
 - Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet;
 - Prevent unauthorized changes to the engagement documentation;
 - Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.



- **Some of the controls designed and implementable (to maintain confidentiality, safe custody, integrity, accessibility and retrievability) :**
 - The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.
 - Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
 - Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during engagement, and collating it at the end of engagement.
 - Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

Objectives of SA 230 - Audit Documentation



Nature and Purpose of work papers



- Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements
 - 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
 - Enabling the engagement team to be accountable for its work
 - Retaining a record of matters of continuing significance to future audits
 - Enabling the conduct of quality control reviews and inspections in accordance with SQC
 - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements



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

Robert H Montgomery, Montgomery's Auditing, 1912



- Sec 132 of Companies Act, 2013 Constitution of National Financial Reporting Authority (NFRA) – recommend, monitor compliance ASs/SAs, oversee the quality of service of the professions and suggest measures required for improvement in quality of service.
- Power to investigate matters of professional and other misconduct by firm/member of ICAI.
- Powers of a civil court – including inspection of books of accounts, other documents, summoning, examining and enforcing attendance of professionals etc.
- Imposing penalty and debarring firms/chartered accountants from being appointed as auditors or internal auditors or valuation services



- Rule 8 of the NFRA Rules, 2018, provides that, for the purpose of monitoring and enforcing compliance with auditing standards under the Act, the NFRA may –
 - review working papers (including audit plan and other documents) and communications related to the audit;
 - evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
 - perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.



- *The auditor is required to 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 the audit evidence obtained; and significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. **The audit documentation, therefore, should be adequate in itself for all purposes.***

Certain points highlighted by NFRA in their Reports



- Time recording by Auditor (EP and members of the ET) is mandatory in under Para 9 of SA 230 which requires the auditor to record the nature, **timing** and extent of audit procedures performed in the Audit documentation.
- The identity and the role of the EP communicated orally to the Management and TCWG, but however no documentation was kept. This is a key communication mandated by SAs and it goes without saying that this had to be in writing. In any case, in the absence of record of oral communication.
- The Audit Firm had explained that they were not required to keep all agreements that were verified by them during the course of audit in the Audit File. This statement was found to be completely violative of the basic principles underlying audit documentation.
- The mandatory requirements of the SAs have to be considered holistically and harmoniously. It is not acceptable to look at any single extract from the SAs that ignores the overall context.

UDIN Applicability



Obtaining UDIN mandatory from 1st July 2019

- Auditor's Opinion/Reports issued by the Practicing Chartered Accountant under any Statute w.r.t. any entity or any person (e.g.: Transfer Price Audit, VAT Audit, Company Audit, Trust Audit, Society Audit, etc.,
- Valuation Reports
- Quarterly Review Reports
- Limited Review Report
- Information System Audit
- Forensic Audit
- Revenue / Credit / Stock Audit
- Borrower Monitoring Assignments
- GST Audit reports
- Concurrent / Internal Audit and the like
- Any report of what so ever nature issued including Transfer Price Study Report, Viability Study Report, Diligence Report, Due Diligence Report, Management Report, etc.

Use of Electronic Signatures



- Announcement of AASB of ICAI dated 13 April 2020
- Paragraph 46 of SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements”. Para A57 containing application guidance of SA 700(Revised) states as under: *“In some cases, law or regulation may allow for the use of electronic signatures in the auditor’s report.”*
- AASB also examined provisions of the Information Technology Act, 2000
- *Accordingly, the members of ICAI may use electronic signature for signing audit reports, all reports issued pursuant to any attestation engagement and certificates.*
- However, the members need to ensure compliance with all the requirements relating to signature prescribed in the relevant law or regulation, Standards on Auditing and relevant announcements/ clarifications issued by ICAI on the matter including the requirement to mention UDIN.
- *Requirement to mention UDIN is applicable both for manually and digitally signed reports/certificates including certificates uploaded online.*

Communication with retiring auditor



- Announcement dated 1st May 2020
 - Due to the existing constraint of communication through abovementioned modes, it has been decided that the members may **communicate with the Retiring Auditor vide E-mail, provided an acknowledgement of such communication is received from the Retiring Auditor's E-mail address registered with the Institute or his last known official E-mail address.**
 - Such acknowledgement of communication would be deemed as valid evidence of positive delivery of communication.



- **What to document**

- Audit procedures performed
- Relevant audit evidence obtained
- Significant matters & how they were resolved
- Discussion with management/ engagement team
- Engagement quality control review
- Audit conclusions reached

- **Mode of documentation**

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



- **How much to document??**

Enough to:

- Assist in planning and performing
- Record matters of continuing significance
- Create accountability
- Assist external inspection
- Assist supervision and direction
- Assist quality control review

- **When to document?**

- Timely manner (docs prepared after audit are less accurate)
- Within 60 days of completion of audit (SQC 1)
- Retain for 7 years from the date of audit report



- Assemble the audit documentation in an audit file on a timely basis after the date of the auditor's report.
- Not delete or discard audit documentation of any nature before the end of its retention period.
- Modification or addition in existing audit documentation:
 - The specific reasons for making them; and
 - When and by whom they were made and reviewed
- Regardless of the nature

Permanent Audit File



- KYC & Risk assessment of the potential client
- Letter of Initial Engagement and correspondence with retiring auditor.
- Constitution of the client and relevant Acts and Statutes.
- History & Background of Entity
- List of Directors, locations & other details of business
- Organisation structure and nature of business.
- Contracts, agreements and minutes.
- Details of accounting policies & system, flowcharts, etc.
- Details of other Professional Advisor's list like solicitors, Credit rating Agency etc.
- Other details of permanent nature

Current Audit File



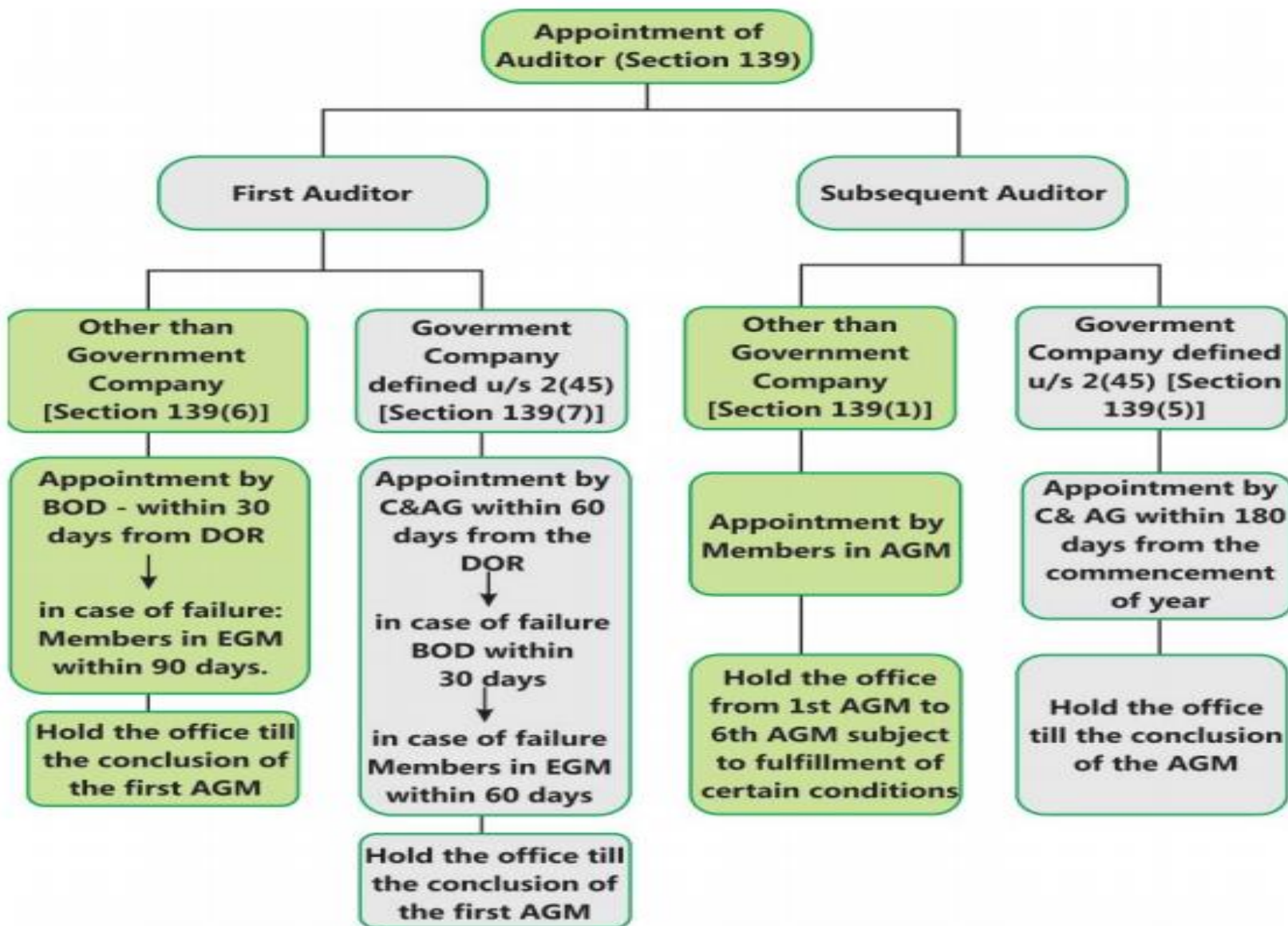
- Annual reappointment letter
- Engagement letter
- Audit Plan
- Working papers containing information like groupings, audit programmes, Queries raised and explanations received,
- Third party confirmations and other documents
- Correspondence with other auditors and experts;
- Copy of Accounts, annual report,
- Management Representation Letter.
- Extract from minutes relating to accounting
- Communication with TCWG/management letter



**WHY DID AUDIT TRAINEE
CROSSED THE RAOD???**



**HE CHECKED THE FILE,
AND THATS WHAT SENIOR
DID LAST YEAR**



Appointment of Auditor



- Steps and Documentation:
 - Offer Letter (Client to Auditor)
 - Consent and eligibility Letter (Auditor to Client)
 - Appointment Letter with CTC of related resolution (Client to Auditor)
 - Seeking NOC from Previous Auditor
 - Receipt of NOC from Previous Auditor
 - Acceptance Letter (Auditor to Client)
 - Engagement Letter as per SA 210 (Signed by both)

Relevant Guidelines



- Schedule 1 Part I to the Chartered Accountants Act: Professional misconduct in relation to Chartered Accountants in practice:
 - **Clause (8)** accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.
 - **Clause (9)** Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 139, 140 and 142 read with Section 141 of the Companies Act, 2013, in respect of such appointment have been duly complied with.
- **SA 210: Agreeing the Terms of Audit Engagement:**
 - The auditor shall agree the terms of the audit engagement with management or TCWG and the same shall be documented

Planning an Audit



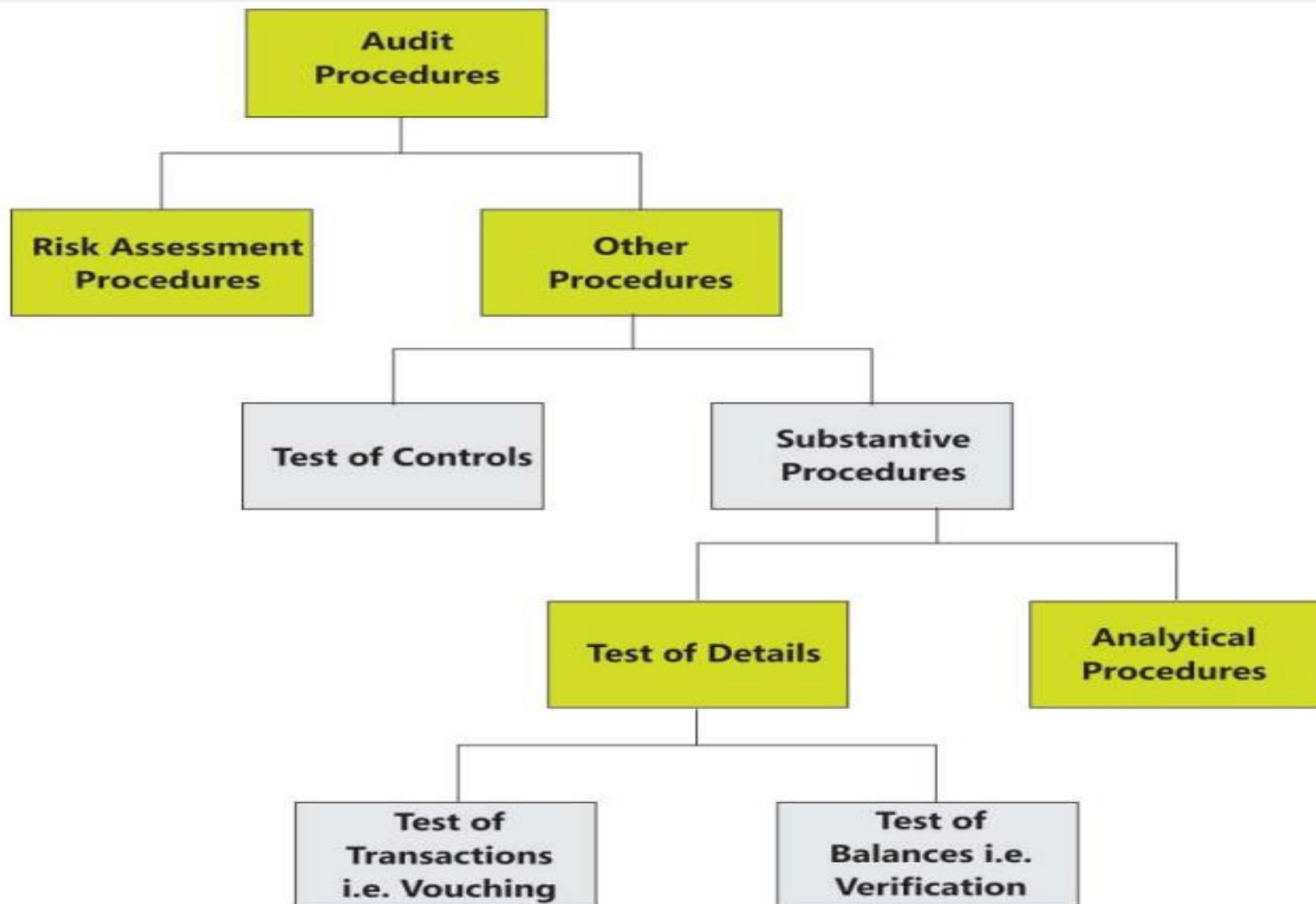
- As per SA 300 Planning an Audit of Financial Statements, auditor to Document:
 - The overall audit strategy;
 - The audit plan; and
 - Any significant changes made to above, with reasons
 - Audit Programme

Determining Materiality



- Auditor to determine materiality as per SA 320 **Materiality in Planning and Performing an Audit**
- Auditor's determination of materiality is a matter of professional judgment
- [Refer Materiality Template](#)

Audit Procedures



SA 505: External Confirmations



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

Steps for Documentation:

- Use of third party service provider, providing services of obtaining external confirmations
- Document the sending of Confirmation to third party
- Document the receipt of Confirmation along with reconciliation of differences.

SA 530: Audit Sampling



- Audit sampling: refers to the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population
- Population: refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- Refer Work Paper on Sampling

Examples of Certain Work Papers



- Opening Tracing
- ROC
- Share Capital
- Trade Payables
- Property, plant and equipment
- Cash and cash equivalents
- Audit Sampling
- Rent Expense

SA 720: Auditor's Responsibility relating to Other Information:



- This Standard on Auditing (SA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information, included in an entity's annual report.
- Requires the auditor to read and consider if the other information is materially inconsistent with the financial statements.

Examples of SA 720 (revised):



Matters to be Included

- ✓ Management Report & Commentary
- ✓ Chairman's Statement
- ✓ Corporate Governance Statements
- ✓ General Description of Business Environment & Outlook

Matters Not to be included

- × Separate industry or regulatory reports
- × Corporate Social Responsibility Reports
- × Sustainability Reports
- × Diversity & equal opportunity reports



Addition of Other Information paragraph:

- To be shown **after the key audit matters** paragraph in the Auditor's report.
- The Company's Board of Directors is responsible for the preparation of the other information.
- The other information comprises the information included in the Board's Report including Annexures to Board's Report and Shareholder's Information, but does not include the financial statements and our auditor's report thereon.
- It should be stated that "Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon".
- We need to read this information and consider whether the other information is materially inconsistent with the financial statement and report the same.



"Yes! Our financial data is PERFECT; nobody touch ANYTHING until the auditors leave!"

Issues in Auditing during COVID times



- Difficulty in sharing large data through emails;
- Previous year files not available during audit and review;
- Synchronising and collecting the data becomes difficult when more team members working on same audit;
- Reliance on documents through emails only;
- Difficulty while reviewing audits virtually;
- Email – storage and size issues
- Connectivity and other infrastructure issues
- Difficulty in signing of documents
- Hard copy management & completion of audit files
- Folder management and saving data on central server
- Confidentiality issues

CNK & Associates LLP

Chartered Accountants



Thank You!!!

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