

# Refresher course on Standards on Auditing

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# Content



**SA 230** Audit documentation



**SA 260** Communication with those charged with the governance



**SA 265** Communicating deficiencies in internal control to those charged with the governance and management

Ease of doing  
business !!! But not  
ease of audit



*“Success isn’t guaranteed, but  
failure is certain if you aren’t truly  
committed towards your work”*

*.....by Mr. Successful*

# Key to success as Audit Professional.

To be in audit profession, our work should pass all tests of scrutiny.

Does it happen automatically?

Will it happen only by signing partner knowing everything?

Why they are called 'Standards' because there is uniformity of approach

Unless there is evidence, there is no audit and hence there is no success.



# SA 230 Audit Documentation

# Coverage



Key principles of SA 230

Why is Audit Documentation required?

Work-papers to enable independent review

Other key points and observations from regulatory bodies

Key takeaway

*“Audit file should be capable of speaking for itself without the need for any other aids to interpretation”*

Extract from NFRA Report



# Key Principles of SA 230



# Scope & Objective of this SA



## SCOPE

Auditor's responsibility to prepare audit documentation for an audit of financial statements. The specific documentation requirements of other SAs do not limit the application of this SA. Laws or regulations may establish additional documentation requirements.



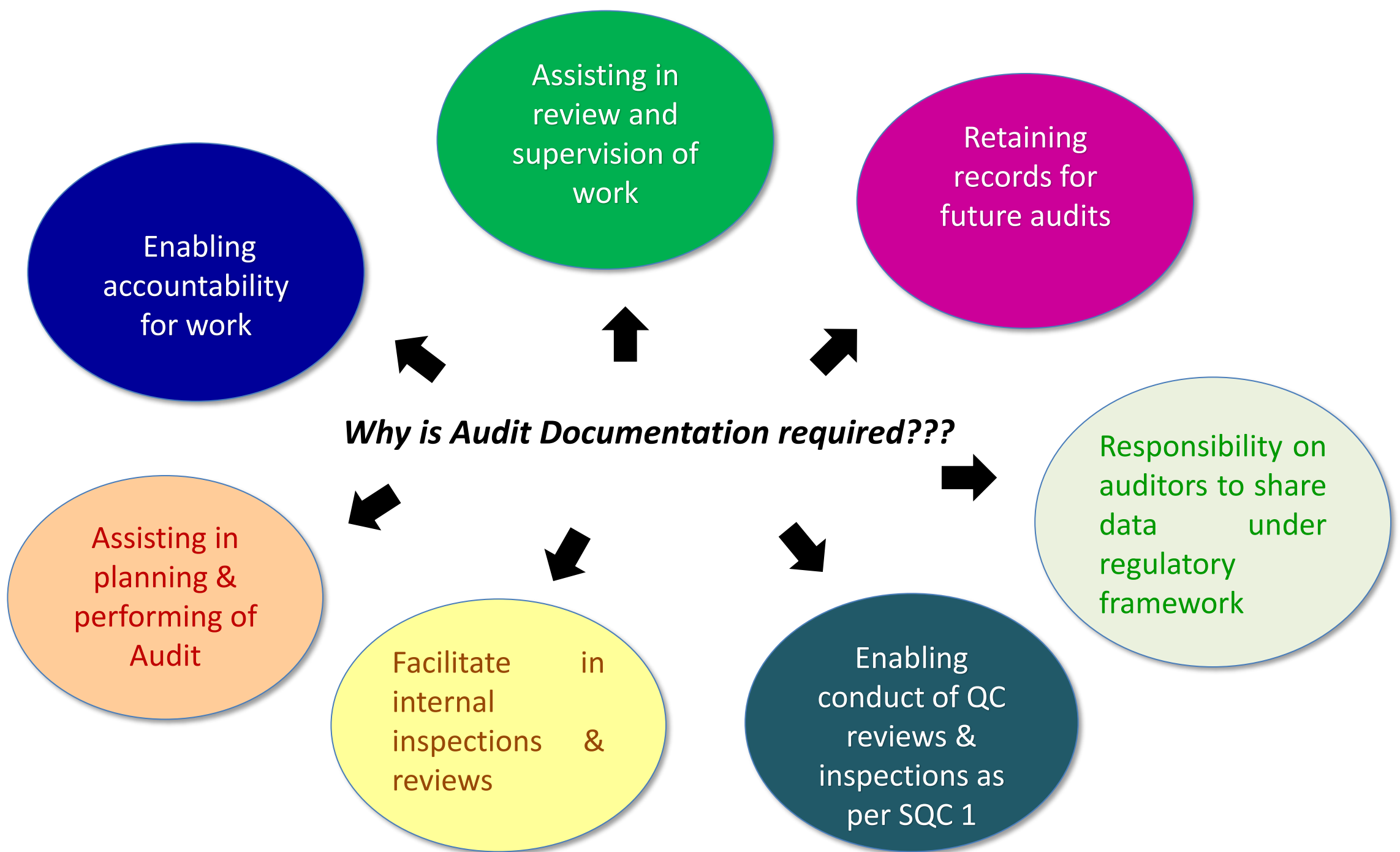
## OBJECTIVE

Prepare documentation that provides:

- A sufficient and appropriate record of the basis for the auditor's report.
- Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

# Relevant Definitions

- **Audit documentation** – The record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached.
- **Audit file** – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
- **Experienced auditor** – 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.



# Work papers to Enable independent review

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

Size, nature & complexity and extent of the audit procedures performed

Outcome of audit procedures and evidence obtained

Key audit matters raised, conclusions reached & professional judgments made to reach to that conclusion

Policies & procedures for assembly and archival of work papers within stipulated time

# Audit Files – Make use of Audit Tool software

## Permanent Audit Files

- Section flaps (for arrangement of papers)
- Client information
- Process related to key areas (including IFC)
- Financial ratios and financial statement including audit reports of last three years
- Secretarial records and agreements

## Current Audit Files

- Section flaps
- Area wise checklist including compliance with Ind AS, AS, CARO, Companies Act, 2013 etc.
- Sampling size and materiality
- Management letter (key points)
- Letter of representation from management
- Review sheets of seniors including remarks for matters resolved

# Extent of Audit documentation

- ❖ Risk
- ❖ Judgement
- ❖ Need of analysis
- ❖ Conclusion less apparent
- ❖ Significance of evidence



**More  
Documentation**

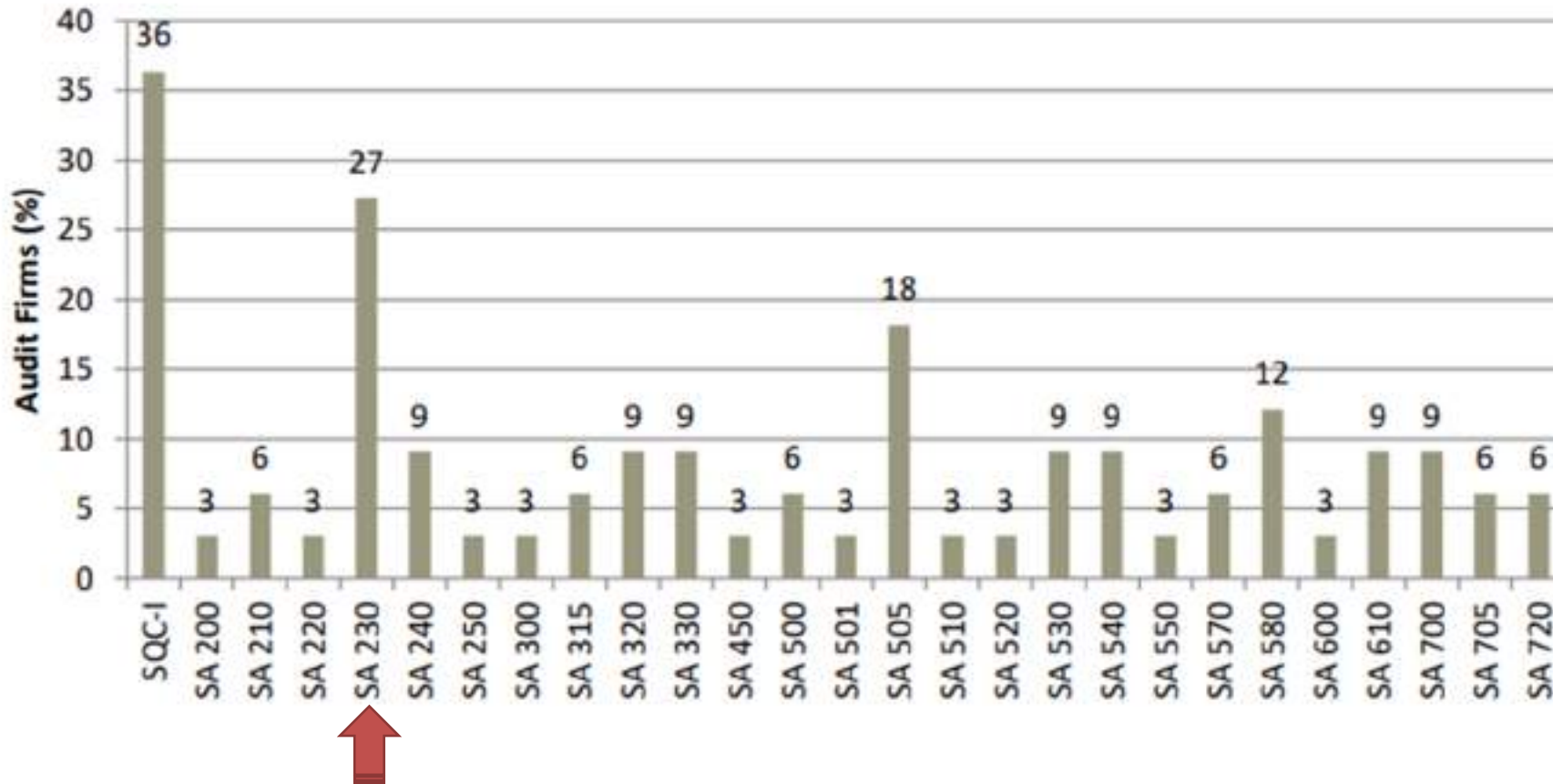
## Other key points

- As per SQC 1, audit documentation is the property of the auditor.
- Group auditor can ask to component auditor for their audit documentation of component entity.
- Tax audit engagement also need to follow the principles of SA 230.



# Observations by Quality Review Board [QRB]

**% of Reviewed Audit Firms having observations on Standards on Auditing (SA) for reviews conducted during FY 2020-21** ←



## Illustrative observations of QRB and NFRA

Inadequate work paper for experience auditor to understand the audit procedures followed

Work papers not linked to any account balance

Control sheet and checklist were missing in file

No bifurcation of records provided by client and generated / prepared by auditor

Inventory physical verification papers and outcome not filed

Certain sections of Balance Sheet were blank like investments

# Audit Quality Maturity Model

(A self-evaluation recommendatory model)

AQMM suggested to have standard format for the documentation of on-going audit that must include the below:

- Business understanding
- Audit sampling
- Materiality determined
- Substantive analytical procedures
- Control evaluation

# Key takeaways for raising the quality bar

**Training personnel** on the *Audit Documentation* standard

Policy of doing audit & documentation **simultaneously**

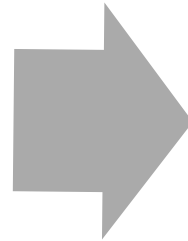
**Follow ups** of documentation matter during internal reviews

Using a **standard format** to ensure proper documentation

Using **checklist** for each area covered in audit engagement

**Repository** of scan and digitally signed financial sets

**If it's Not Documented , It's Not Done.....**  
**Document now, save time later .....**



# Consequences of Non-compliance of Standards.

- Failure to exercise due diligence or gross negligence in the conduct of his practice shall be considered guilty of misconduct mentioned in clause 7 part I of the Second Schedule to the Chartered Accountant Act, 1949
- The requirement section of the SA plays a significant role in determining what constitutes due diligence. The auditor is entirely responsible for the SAs requirements. A strict liability approach has been implemented.
- Failure to act in accordance with the SA, and particularly the unconditionally necessary obligation part thereafter, would constitute both failure to exercise due diligence and, depending upon the circumstances of gross negligence. Compliance with the SAs, however, continues to be the benchmark.



SA 260 & SA 265

# Coverings



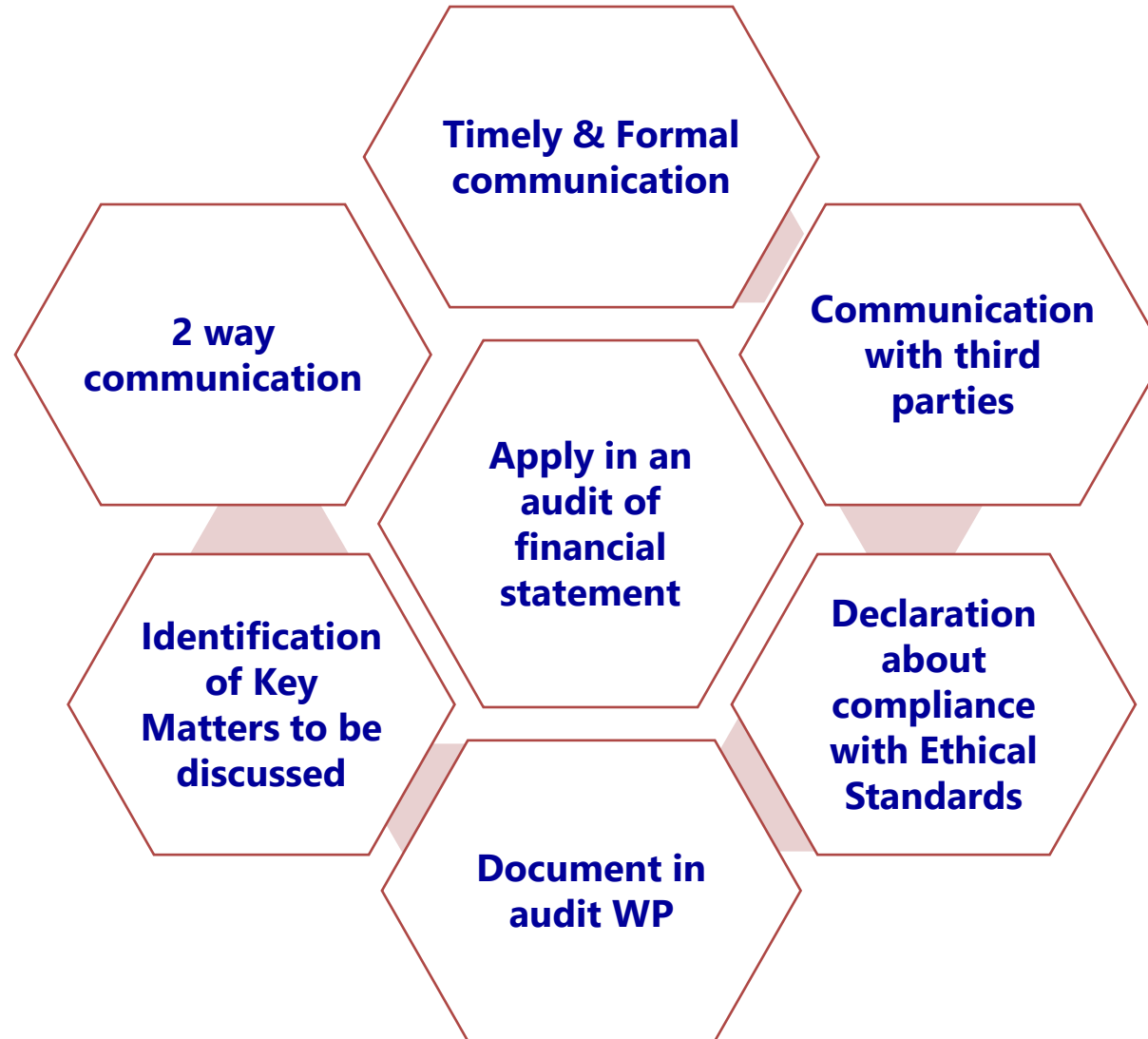
Key principles

Qualitative aspects communicated to TCWG

Case studies



# Key Principles



# Dealing with TCGW

- Person(s) responsible for overseeing the strategic direction and obligations related to accountability of the entity
- Determine the appropriate persons within the entity's governance structure with whom to communicate (para 11)
- Document the names of appropriate persons (SA 230)
- Any communication which is done orally has to be documented (para 23)

# Qualitative aspects communicated to TCWG

## Accounting policies

- Initial selection or change in SAP
- Unique to industry

## Accounting estimates

- Uncertainty
- Actuals vs estimates

## Disclosure in FS

- Contingent liabilities
- Subsequent events

## Related matters

- Non-recurring items
- Unusual transactions

# Case Study 1.

## Facts:

CA 'A' have been appointed as an auditor of JIN Limited, a multinational company dealing in spare parts. During the course of audit, CA faced issues in obtaining the audit information from the management which resulted in delay in closing the audit of financial statement. CA was informed that such delay is due to system issues in generating the information from ERP. Alternate audit procedures were applied for concluding the audit areas.

## How addressed:

CA reported the matter to TCWG about significant delay in receiving the information which resulted into delayed audit closing. Further, auditors communicated the need for improvement in ERP for extracting the information on timely basis.

## Case Study 2.

### Fact:

Auditor raised the point on changes in accounting estimates (like provision for sales discounts based on scheme) and significant variance between the estimate and actual amount. This matter was raised repeatedly with the management and TCWG.

### How addressed:

This was considered as 'Key Audit Matter' to be reported in the audit report as per SA 701 and communicated to management. The audit procedures were accordingly scheduled.

## Case Study 3.

### Fact:

During the course of audit there were certain weakness observed in internal controls in releasing the monthly payment to contract workers and compliances with the labour laws. The attendance data was not captured in systematic manner and statutory compliances for such contract workers were not tracked.

### How addressed:

Statutory auditor have highlighted these matters to the management and TCWG. Based on auditors observation, internal auditors were assigned this as special area for detailed review and compliance.

# Case Study 4.

## Fact:

As per the group policy, data back-up of server was maintained in parent host country. The required extracts / data dumps was being maintained by the Subsidiary Company in India to comply with regulatory requirement.

## How addressed:

Matter was communicated to management to reconsider the existing practice followed for maintaining the back-up of data server outside India. The Company took the legal view to support the practice followed and shared with the auditor.

**If it's important ....  
...it should be communicated to TCWG**







**Thank you**