

# AUDIT DOCUMENTATION & REPORTING REQUIREMENTS



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# “Document”

- a written or printed paper that bears the original, official, or legal form of something and can be used to furnish decisive evidence or information.



# “Documentation”

- refers to the act or an instance of the supplying of documents or supporting references or records



# “Documentation” in Audit

- refers to 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).



# **Understand the purpose of audit documentation.**



# Audit Documentation

Purpose of audit documentation

Ownership of audit files

Confidentiality of audit files



# Audit Documentation

Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement.



# Audit Documentation

The Sarbanes-Oxley Act requires auditors of public companies to prepare and maintain audit working papers for a period of no less than seven years.





# Documentation



1. Types of Documents
2. Document Vouching
3. Document Tracing



# 1. Types of Documents

Examine supporting evidence in client files.

## Internal Documents

Prepared and used  
within client company.  
Does not go outside the  
client.

## External Documents

Document has been in  
hands of an outside  
party to the  
transaction.  
More reliable  
than internal  
documents.



## 2. Document Vouching

- Examination of documents that support a recorded transaction or amount.
- The direction of testing must be from the recorded item to the supporting document.
- Tests existence or occurrence



Supporting  
Document



Recorded  
Item



### 3. Document Tracing

- The primary test for unrecorded items and therefore tests the completeness assertion.
- The direction of testing must be from the supporting document to the recorded item.



## **Audit documentation serves mainly to:**

- a.** Provide the principal support for the auditor's report, including the representation regarding observance of the standards of fieldwork, which is implicit in the reference in the report to generally accepted auditing standards
- b.** Aid the auditor in the conduct and supervision of the audit.



# Provisions of the CA Act, 1949

- Part I of second schedule to the chartered accountants act 1949
- A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he
  - (5) fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity;



# Provisions of the CA Act, 1949

(6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;



# Provisions of the CA Act, 1949

- (7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (8) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- (9) fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;





# SA230 on Audit documentation issued by The ICAI

- It places an emphasis on the timely preparation of audit documentation
- Establishes a new requirement that the auditor prepare the audit documentation
- If in exceptional circumstances the auditor judges it necessary to depart from relevant ISA requirements



# SA230 on Audit documentation issued by The ICAI

- the auditor complete the assembly of the final audit file on a timely basis after the date of the auditor's report
- the auditor not delete or discard audit documentation after the final audit file has been assembled



# SA230 on Audit documentation issued by The ICAI

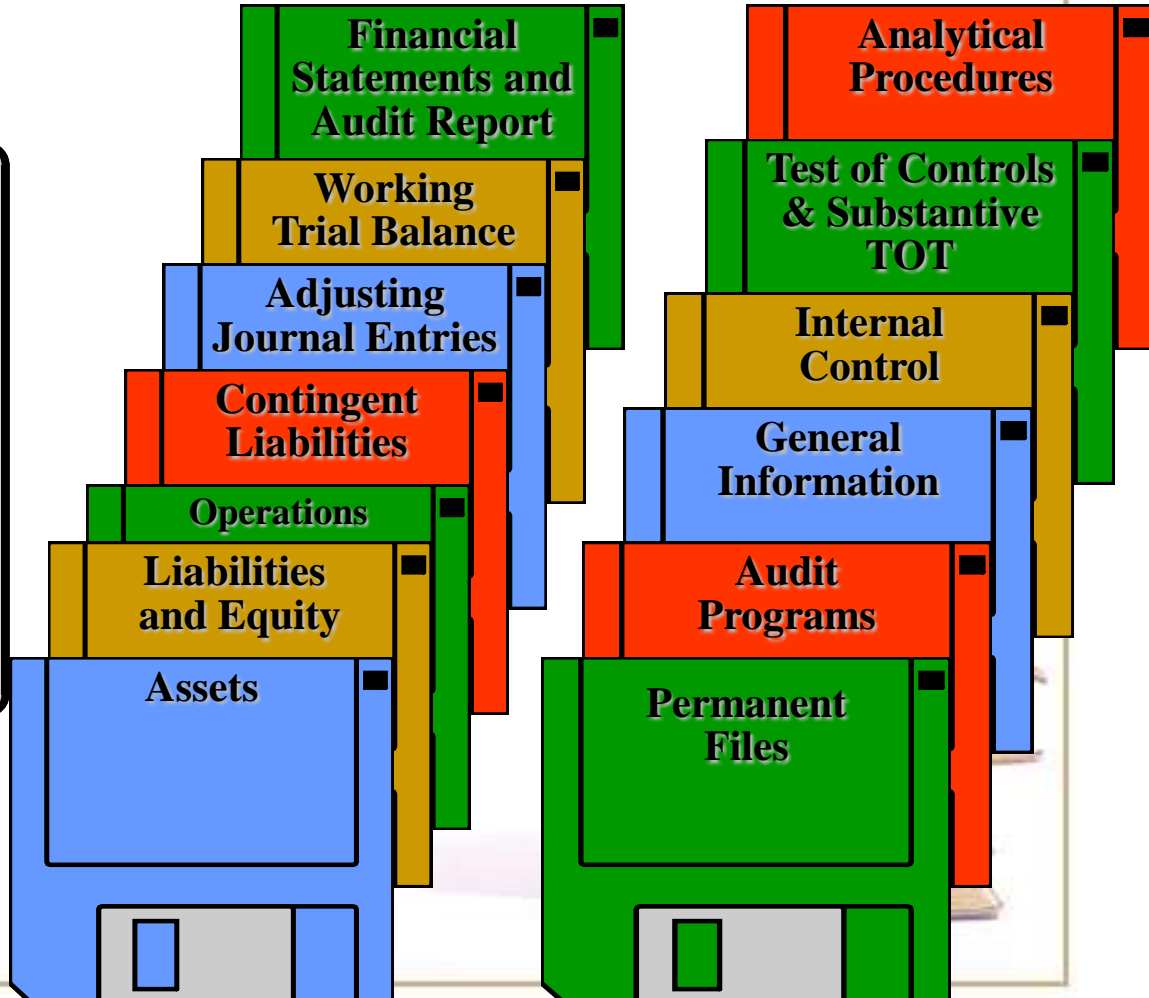
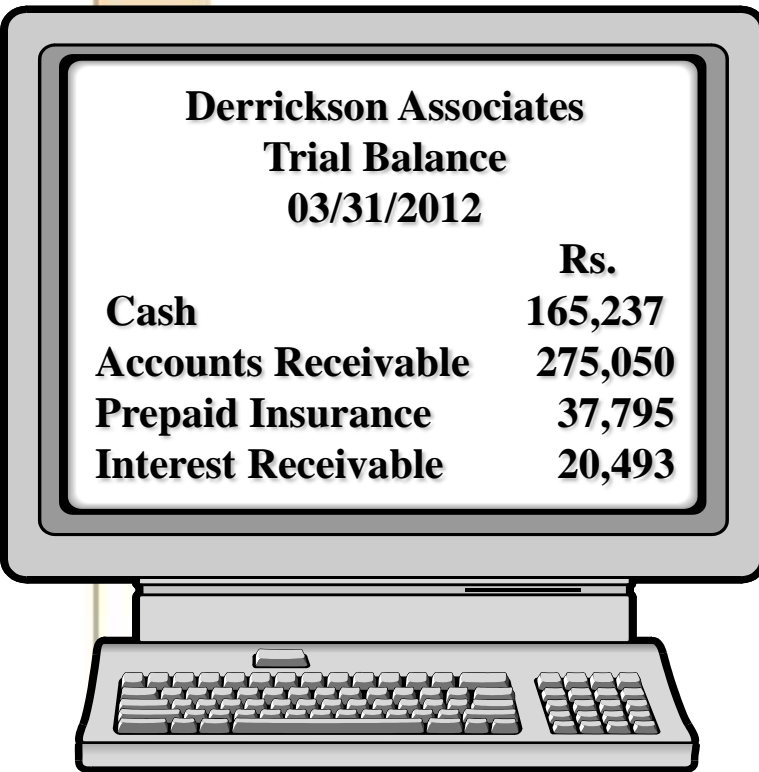
- The standard is effective for audits of financial periods beginning on or after June 15, 2006.
- The revised standard is Effective for audits of financial statements for periods beginning on or after April 1, 2009



# **Prepare organized audit documentation.**



# Audit File Contents and Organization



# Audit Documentation

Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor.

- A. Working Papers Files
- B. Typical Working Paper Format
- C. Storage of Working Papers
- D. Ownership of Working Papers



# A. Working Papers Files

Working papers provide the principal record that the audit has conformed to GAAS. Also provide information for deciding on the proper report.

## Permanent File

Information that is relevant for multiple years on recurring engagements.

## Current File

Information relevant for a given audit client for a particular audit year.



# Permanent Files

These files are intended to contain data of a *historical or continuing nature* pertinent to the current audit.





# Current Files

Audit program

General information

Working trial balance

Adjusting and reclassification entries

Supporting schedules



# Types of Supporting Schedules

Analysis

Trial balance or list

Reconciliation of amounts

Tests of reasonableness



# Types of Supporting Schedules

Summary of procedures

Examination of supporting documents

Informational

Outside documentation

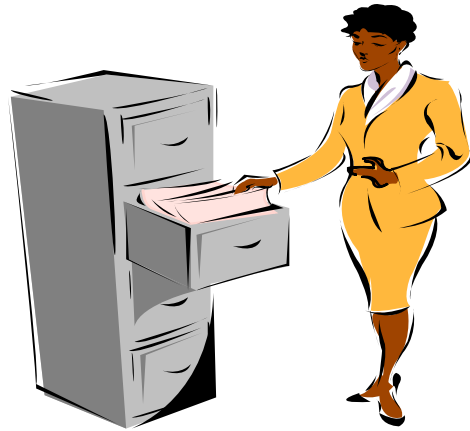


## B. Typical Working Paper Format

- Headings – audit client name, year under audit, etc.
- Indexing – arrange papers in some common order.
- Tick marks – symbols to key a footnote to an item.
- Sign-off – indicates auditors that prepare and review.



# C. Storage of Working Papers



- Working papers of continuing clients are maintained indefinitely.
- Check with legal counsel before discarding any working papers.



## D. Ownership of Working Papers

- The working papers are the auditor's property, not the clients.
- In most cases, an auditor can not reveal information in the working papers without the client's permission.



# Auditor's Responsibility



# Auditor's Responsibility?

- **Prepare and maintain** audit documentation sufficient enough to show that standards of fieldwork have been observed
- **Form and content** should be designed to meet the circumstances of the particular audit documentation ( It depends !)





# Auditor's Responsibility?

- The auditor should adopt **reasonable procedures to retain (maintain)** audit documentation for a period of time sufficient to:
  1. Meet the needs of his or her practice
  2. Satisfy any applicable legal or regulatory requirements for record retention
- The procedures should enable the auditor to access electronic audit documentation throughout the retention period



# Auditor's Responsibility?

- Maintain confidentiality of information- ethical, professional and legal implications
- Prevent unauthorized access to the audit documentation
- **Not** regard audit documentation as a part of, or a substitute for, the client's accounting records



# Examples of Audit Documentation



# Examples of Audit Documentation

- Audit Programs
- Analyses
- Memoranda
- Letters of confirmation and representation
- Abstracts or copies of entity documents
- Schedules or commentaries prepared or obtained by the auditor



# Form of Audit Documentation

- Paper
- Electronic ; CD, Floppy disk, USP, Hard disk
- Other media ! Would this include audio format ?  
Legal implications



# Sufficiency of Audit Documentation

- Sufficient to
  - a. Enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent, and results of auditing procedures performed and evidence obtained ( Example)
  - b. Indicate the engagement team member(s) who performed and reviewed the work ( Example); and
  - c. Show that the accounting records agree or reconcile with the financial statements or other information being reported on (Example)



# Reporting Requirements



# Reporting Requirement 1

- Should the auditor comment on non-applicability of CARO in the audit report of a company to which the Order does not apply?
- As a measure of prudence it is advisable to insert a comment.such as

“This report does not include a statement on the matters specified in the paragraph 4 of the Companies (Auditor’s Report) Order, 2003, issued by the Ministry of Companies Affairs, in terms of section 227 (4A) of the Companies Act, 1956, since in our opinion and according to the information and explanations given to us, the said Order is not applicable to the company.”





## Reporting Requirement 2

- In a situation where one or more of the clauses is not applicable it would be appropriate for the auditor to make suitable comment in his report bringing out the fact of non applicability of a particular clause.



# Reporting Requirement 3

- Should the auditor include management's explanation for any adverse comments?
  - it is not necessary
  - may be advisable to make the comment more meaningful or to convey how true and fair view of the financial statement is not affected
- For instance in case of undisputed statutory dues outstanding for more than six months on the balance sheet date, it would be fair to mention if the amounts were subsequently deposited by the company.



# Reporting Requirement 4

- If any information and explanation necessary for reporting is not received, he should mention that fact both while reporting on the specific question in the Order and also while reporting in terms of sub section (3) of section 227.
- Any adverse comment in the Order having impact on true and fair view may require modification in the audit report (AAS 28).



# Reporting Requirement 5

- As per section 217 of the Act, the Board of Directors are bound to give explanations for the adverse comments in the auditors report.
- CARO is part of the auditor's report hence the directors report should provide explanations / clarifications for adverse comments.



# Why To Learn Standards On Assurance And Other Services

- Our own safety- it is insurance to us
- Peer Review
- Quality Review
- Financial Report Review



# About the Author

- CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.
- In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.
- Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.
- He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.



# About the Author

- He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.
- Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.
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Have Happy auditing  
success

THANK YOU

