

# **DOCUMENTATION OF AUDIT EVIDENCE AND AUDIT COMPLETION**

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# ISA 230-REQUIREMENT ON DOCUMENTATION

- ISA 230 requires an auditor to prepare audit documentation that is sufficient and appropriate to support the basis for the Auditor's report and confirm that the audit process was planned and performed in accordance to ISAs and applicable legal and regulatory requirements.

# Nature and purpose of audit evidence-ISA 500

- Audit evidence – Audit evidence is all the information the auditor relies on in determining the nature his audit opinion
- It includes the information contained in the accounting records underlying the financial statements and other information.

# Characteristics of good audit evidence

- Competence – the degree to which evidence can be considered trustworthy.
- Sufficiency – amount of evidence is enough to form a reasonable opinion.
- Relevance – must pertain to the audit objective being tested.
- Independence – evidence from outside the client is a stronger form of evidence

# Audit procedures for obtaining Audit Evidence

- Inspection-Examining records or documents  
An example of inspection used as a test of controls is inspection of records or documents for evidence of authorization.
- Physical examination-To verify that assets actually exist



# Assertions under classes of transactions and events for the period being audited-usually P & L Items

Financial statement assertion	Audit objective
Occurrence	To form an opinion as to whether transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	To form an opinion as to whether all transactions and events that should have been recorded have been recorded.
Accuracy	To form an opinion as to whether amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	To form an opinion as to whether transactions and events have been recorded in the correct accounting period.
Classification	To form an opinion as to whether transactions and events have been recorded in the proper accounts.

# Assertions about Account balances at period end-usually balance sheet items

Financial statement assertion	Audit objective
Existence	To form an opinion as to whether assets, liabilities, and equity interests exist.
Rights and obligations (Ownership)	To form an opinion as to whether the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
Completeness	To form an opinion as to whether all assets, liabilities and equity interests that should have been recorded have been recorded.
Valuation and allocation	To form an opinion as to whether assets, liabilities, and equity interests are



# Assertions about presentation and disclosure

- Occurrence: This means that transactions and events actually took place
- Rights and obligations: Confirming that the company has a right to its assets and actually owns them Completeness: That all transactions have been recorded in the financial statements
- Classification and understandability: This means that Items are properly classified and disclosure given

# Cont... Assertions about presentation and disclosure

- Accuracy and valuation: Accuracy means that amounts and other data relating to transactions and events have been recorded at the correct amounts – ie at the amounts appearing in the source documents

# The link between the audit procedures and audit objective

- When designing and performing audit procedures to verify specific financial statements assertions, the auditor needs to consider whether the procedures are suitable to meet the audit objective and should select those that either in isolation or combination can provide sufficient appropriate evidence.

# Audit procedures for obtaining Audit Evidence

- External Confirmations-For example, the auditor may seek direct confirmation of receivables or payables by communicating with debtors through circularization.
- Recalculation-checking the mathematical accuracy of documents or records for example recalculating depreciation

# Audit procedures for obtaining audit Evidence

- Analytical Procedures-Include investigation of fluctuations and relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- Observation-Looking at a process or procedure being performed
- Inquiries of the Client
- Reperformance

# Documenting audit evidence-ISA

## 230

Working papers provide the principal record that the audit has conformed to ISAs.  
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 FILE CONTENTS

The permanent file contains the following

- Professional enquiry letter and response from the outgoing auditor
- Copy of resolutions for re appointment of the auditor
- The Engagement letter
- Copies of previous years audited financial statements
- Memorandum and Articles of Association

# PERMANENT FILE CONTENTS

- Statutory information about the firm
- Client company background and history
- Client company's certificate of incorporation/registration



# Typical Working Paper Format

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Headings – audit client name, year under audit, etc.

Indexing – arrange papers in some common order.

Sign-off – indicates auditors that prepare and review.

# Characteristics of a good working paper

- Should clearly state the audit objective usually in the terms of an audit assertion
- Fully state the year/period end
- State the full extent of the tests .i.e how many items were tested and how this number was determined
- Where there is necessary reference to another working papers
- The working paper should state the results of the test

# Characteristics of a good working paper

- The conclusions reached should be consistent with the results of the test
- The working paper should be clearly referenced and traceable
- Should be signed by the person who prepared it
- Should be signed and dated by the reviewer

# REVIEW OF AUDIT-ISA 220

- All audit work should be subject to review. This is a basic quality control requirement of ISA 220, *Quality Control for an Audit of Financial Statements*, and serves to ensure that sufficient appropriate audit evidence has been obtained in respect of transactions and balances included in the financial statements.

- In conducting a file review, the reviewer should consider the sufficiency of evidence obtained and may need to propose further audit procedures if evidence is found to be insufficient or contradictory. ISA 230, *Audit Documentation* requires that documentation of the review process includes who reviewed the audit work completed and the date and extent of such review.

# Audit Completion

- Refers to those steps which are taken by the auditor after the routine checking and verification of accounting records has been completed, in order to enable him to wind-up his examination and report.

- At the completion stage the auditor reviews the evidence obtained during the audit together with the final version of the financial statements with the objective of forming the auditor's opinion.
- Completion stage normally involves the following activities:

# COMPLETION PROCEDURE

1. Review the Post balance sheet events
2. Financial statement review
3. Obtaining letter of representation
4. Sending letter to management
5. Forwarding points for consideration at subsequent audit
6. Maintaining errors and omission summery



# **POST BALANCE SHEET EVENTS**

## **1. POST BALANCE SHEET EVENTS-ISA 560**

Those events, favorable or unfavorable, that occurs between the Balance Sheet date and the date on which the financial statement are authorized to issue are called **Post Balance Sheet Events**. Events classified into two categories:

**Adjusting Events.**

# Period Covered by Subsequent Events Review

**Client's ending  
balance sheet  
date**

**Audit  
opinion  
date**

**Date client  
issues financial  
statements**



**Period to which review for  
subsequent events applies**

**Period for  
processing  
the financial  
statements**

# Types of Subsequent Events

1

Those that have a direct effect on the financial statements and require adjustment-Adjusting Event

2

Those that have *no* direct effect on the financial statements but for which disclosure is advisable- non Adjusting events

## CONT.....

- The auditor should perform the procedures designed to obtain sufficient audit evidence that all events up to the date of the auditor's report that must require adjustments, or disclosure in, the financial statement have been identified.

# Review of Financial Statement

## **2. Review of Financial Statement**

- The auditor should review the financial statement in such a manner that he may be able to:
  - draw conclusions from the order evidence obtained by him
  - to give him a reasonable basis of his opinion on the financial statements.
- The auditor should satisfy himself as to whether:
  - i. Financial Statement have been drawn up in accordance with the reporting framework which are consistent and appropriate to the enterprise.

# COMPLETION PROCEDURE

- ii. The results of operation, states of affairs of the financial position, other information reflected in the financial statement and the directors report are comparable.
- iii. All matters have been properly disclosed and classified.
- iv. Financial Statement comply to the statutory requirements to the regulation and constitution of the enterprise.

# Obtaining Letter of Representation ISA-580.10

## 3. Obtaining Letter of Representation ISA-580.10

- It confirming the various representation made by management in respect of matters which are material and for which the auditor has not been able to obtain sufficient independent evidence.
- It should be consistent with other available advance given by management.
- It should either be recorded in the minutes of the board meeting or formally approved by the board of directors.
- Directors should acknowledge in the letter their responsibilities for the preparation of financial statement.

# Communicating audit findings to the management-ISA 265

- Communicate to the management/or those in charge of governance through a Management Letter
- Include the significant findings , impact of the weaknesses and recommendation of how the entity can cover the weakness



# Communicate with the Audit Committee and Management

- Communicate fraud and illegal acts
- Communicate internal control deficiencies
- Other communication with audit committee

## Points Carried to Subsequent Audit

### 5. Points Carried to Subsequent Audit

- All the unsettled points have to be taken up at the next period and settled with the client at the start of next audit.
- Auditor have to maintain adequate record of all such items.

# Issue the Audit Report

The audit report is the only thing that most users see in the audit process, and the consequences of issuing an inappropriate report can be severe.

# Remember

If it is not documented it was not done



**END**

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Questions

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