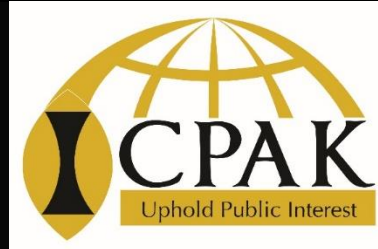


Audit Quality Assurance

Sarova Panafric Hotel – Nairobi

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Audit documentation Inherent audit error risks SME audit

Audit on minimal documented entities

CPA Andrew Rori

Uphold

Public

Interest

Operational Definitions

- Audit documentation is the *principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement.*
- Audit evidence is documented in Audit working papers
 - Focus on ISA 230 - Audit Documentation

Operational Definitions

- Inherent risk is the risk posed by an error or omission in a financial statement due to a factor *other than* a failure of control. In a financial audit, inherent risk is most likely to occur when transactions are complex, or in situations that require a high degree of judgment in regard to financial estimates. This type of risk represents a worst-case scenario because all controls in place have nonetheless failed.
- Inherent risk is one of the risks auditors and analysts must look for when reviewing financial statements, along with control risk and detection risk. When conducting an audit or analyzing a business, the auditor or analyst tries to gain an understanding of the nature of the business while examining control risks and inherent risks.
- If inherent and control risks are considered to be high, an auditor can set the detection risk to a lower level to keep the overall audit risk at a reasonable level.

Risk Assessment

- The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, **through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement**

Risk Assessment procedures and related activities

- The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels.
- **Note: - Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.**

Objective of audit documentation

- *Audit documentation* is the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise.
- Audit documentation also facilitates the planning, performance, and supervision of the engagement, and is the basis for the review of the quality of the work because it provides the reviewer with written documentation of the evidence supporting the auditor's significant conclusions.

Contents

- Records of the planning and performance of the work,
- The procedures performed,
- Evidence obtained, and
- Conclusions reached by the auditor.

Audit documentation also may be referred to as *work papers* or *working papers*

Working Papers

- Audit working papers achieve following objectives:-
 - Aid in the planning, performance, and review of audit work.
 - Provide the principal support for audit report and conclusions.
 - Facilitate third party/supervisory reviews.
 - Provide a basis for evaluating the internal audit activity's quality control program.
 - Document whether engagement objectives were achieved.
 - Support the accuracy and completeness of the work performed.

Working Papers

Characteristics of working papers:-

- i. Complete
- ii. Relevance & Concise
- iii. Accurate
- iv. Organised

Working Papers

Work papers should include the following **key elements**:

- Name of audit area
- Source
- Scope
- Reference
- Sign off
- Tick mark legend
- Exceptions

Parties that use audit documentation

- Audit documentation is reviewed by members of the engagement team performing the work and might be reviewed by others. Reviewers might include, e.g.
 - a) Auditors who are new to an engagement and review the prior year's documentation to understand the work performed as an aid in planning and performing the current engagement.
 - b) Supervisory personnel who review documentation prepared by other members of the engagement team.
 - c) Engagement supervisors and engagement quality reviewers who review documentation to understand how the engagement team reached significant conclusions and whether there is adequate evidential support for those conclusions.

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- d) A successor auditor who reviews a predecessor auditor's audit documentation.
- e) Internal and external inspection teams that review documentation to assess audit quality and compliance with auditing and related professional practice standards; applicable laws, rules, and regulations; and the auditor's own quality control policies.
- f) Others, including advisors engaged by the audit committee or representatives of a party to an acquisition.

REQUIREMENTS

- Audit documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached. Also, the documentation should be appropriately organized to provide a clear link to the significant findings or issues.
- Audit documentation may be in the form of paper, electronic files, or other media.

- The auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.
- Audit documentation must clearly demonstrate that the work was in fact performed.
- This documentation requirement applies to the work of all those who participate in the engagement as well as to the work of specialists the auditor uses as evidential matter in evaluating relevant financial statement assertions.

Bear minimum standard:

- Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:
 - a) To understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and
 - b) To determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.
- ***Note: An experienced auditor has a reasonable understanding of audit activities and has studied the company's industry as well as the accounting and auditing issues relevant to the industry.***

Nature & extent of documentation

In determining the nature and extent of the documentation for a financial statement assertion, the auditor should consider the following factors:

- Nature of the auditing procedure;
- Risk of material misstatement associated with the assertion;
- Extent of judgment required in performing the work and evaluating the results, for example, accounting estimates require greater judgment and commensurately more extensive documentation;
- Significance of the evidence obtained to the assertion being tested;
- Responsibility to document a conclusion not readily determinable from the documentation of the procedures performed or evidence obtained.

Documenting significant findings

- *Significant findings or issues* are substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached, and include, but are not limited to, the following:
 - a) Significant matters involving the selection, application, and consistency of accounting principles, including related disclosures
 - b) Results of auditing procedures that indicate a need for significant modification of planned auditing procedures, the existence of material misstatements (including omissions in the financial statements), the existence of significant deficiencies, or material weaknesses in internal control over financial reporting.

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- c) Accumulated misstatements and evaluation of uncorrected misstatements, including the quantitative and qualitative factors the auditor considered to be relevant to the evaluation
- d) Disagreements among members of the engagement team or with others consulted on the engagement about final conclusions reached on significant accounting or auditing matters, including the basis for the final resolution of those disagreements. If an engagement team member disagrees with the final conclusions reached, he or she should document that disagreement

Contd....

- e) Circumstances that cause significant difficulty in applying auditing procedures.
- f) Significant changes in the auditor's risk assessments, including risks that were not identified previously, and the modifications to audit procedures or additional audit procedures performed in response to those changes
- g) Any matters that could result in modification of the auditor's report.

RETENTION AND SUBSEQUENT CHANGES TO AUDIT DOCUMENTATION

- The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements, unless a longer period of time is required by law.
- Prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report.

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- Circumstances may require additions to audit documentation after the report release date.
- Audit documentation must not be deleted or discarded after the documentation completion date, however, information may be added.
- Any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.

Documentation to have in file

- A list of significant risks, the auditor's responses, and the results of the auditor's related procedures.
- Sufficient information relating to any significant findings or issues that are inconsistent with or contradict the final conclusions.
- Any findings affecting the consolidating or combining of accounts in the consolidated financial statements.
- Sufficient information to enable the office issuing the auditor's report to agree or to reconcile the financial statement amounts audited by the other auditor to the information underlying the consolidated financial statements.

Documentation to have in file

- A schedule of accumulated misstatements, including a description of the nature and cause of each accumulated misstatement, and an evaluation of uncorrected misstatements, including the quantitative and qualitative factors the auditor considered to be relevant to the evaluation.
- All significant deficiencies and material weaknesses in internal control over financial reporting, including a clear distinction between those two categories.
- Letters of representations from management.
- All matters to be communicated to the audit committee.