



# Audit Working Papers

**By: Tariq Mahmood**  
**FCA, ACMA**



# Today's Key Learnings

- Types of Working Paper Files
- Audit Working Papers - Types and Feature
- Purpose of Audit Working Papers
- Form, Content and Extent of Working Papers
- Key Audit Procedures
- Assembly of Final Audit File
- Importance of Working Papers



# Working Papers and Types



# What are Working Papers?

- Material that auditor prepares in connection with performance of the audit
- Record of Audit Procedures Performed
- Relevant Audit Evidence Obtained
- Conclusions the Auditor Reached
- Also termed as “Audit Documentation”
- **Audit File**
  - One or more folders or other storage media
  - Physical or Electronic Form



# Types of Working Papers Files

- Permanent Audit File
  - Intended to include data of historical or continuing nature pertinent to current examination
  - Client incorporation documents
  - Business Profile
- Current Audit File
  - Scope of Work Performed
  - Evidence and Findings Obtained
  - Audit Judgment Exercised
  - Conclusions reached
- Correspondence File
  - Significant correspondence with senior management
  - Copies of Engagement Letters
  - Significant representations

# Audit Working Papers – Types & Features

- ▶ Audit Administrative Working Papers
  - ▶ Audit Plan
  - ▶ Audit Program
  - ▶ Time Budget etc.
- ▶ Working Trial Balance
- ▶ Lead Schedules
- ▶ Adjusting Journal Entries and Reclassification Entries
- ▶ Supporting Schedules
- ▶ Analysis of Ledger Accounts
- ▶ Reconciliations
- ▶ Computational Working Papers
- ▶ Corroborating Documents

## **Features:**

- Complete and Accurate
- Clear and Understandable
- Relevant to Subject Matter
- Legible and Neat
- Indexed and Cross Referenced
- Key legends and tick marks

# Purpose of Audit Working Papers



# Principal Purpose

- ▶ Evidence Auditor's basis of conclusion
- ▶ Evidence that the audit was planned and performed in accordance with:
  - ▶ ISAs
  - ▶ Applicable legal requirements
  - ▶ Applicable regulatory requirements





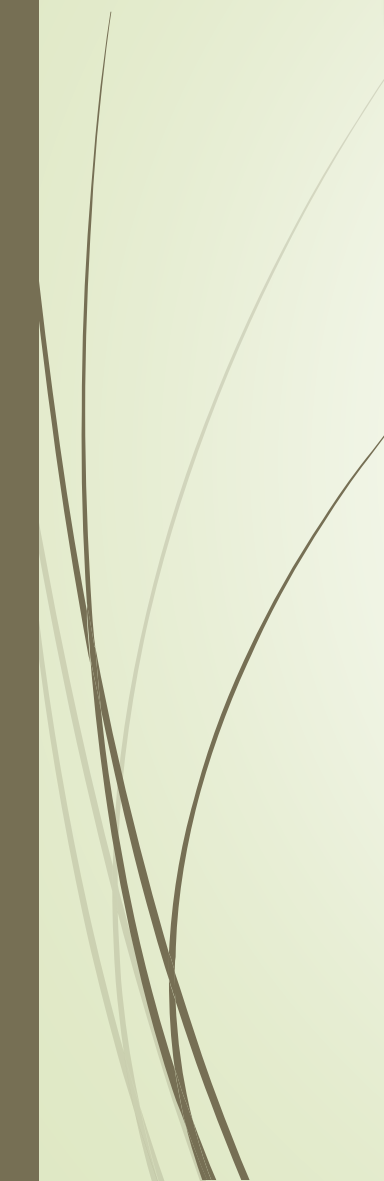


# Principal Purposes

- Basis for planning the audit
- Assist engagement team members responsible for supervision:
  - To direct and supervise the audit work
  - To discharge their review responsibilities
- Enable the engagement team accountable for its work
- Record of significant matters future audits
- Enable conduct of EQAR/EQCR
- Enable conduct of external reviews (legal, regulator etc.)



# Additional Purposes

- A basis for study of patterns and trends
  - Aid in internal staff's professional development
  - Detailed supporting material for use in discussion with operating personnel
  - A source of evidence in litigation and administrative actions
  - A basis for evaluation of audit performance
  - Provide back-up material in support of audit findings
  - Control the audit progress by showing what audit procedures have been performed and what are remaining.
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# Form, Content and Extent of Audit Working Papers





# Factors affecting

- ▶ Factors affecting the form, content and extent are:
  - ▶ Size and complexity of entity
  - ▶ Nature of audit procedures performed
  - ▶ Identified risk of material misstatement
  - ▶ Significance of audit evidence obtained
  - ▶ Nature and extent of exceptions identified
  - ▶ Need to document a conclusion or basis of conclusion
  - ▶ Audit methodology and tools used

# Form of Working Papers

- Data recorded on paper
- Films
- Electronic Media
- Any other media

## For Electronic files:

- Back-up frequently
- Include the file name in footer
- Develop an organization method



# Contents of Audit Working Papers

- ▶ Table of Content
- ▶ Deliverables
  - ▶ Audit Report
  - ▶ Final Financial Statements + Trial Balance
  - ▶ Letters to BOD (Include Financial Statements approval minutes)
  - ▶ Management Letters
  - ▶ Other deliverables, if any
- ▶ EQAR / Referencing of Financial Statements
- ▶ Engagement Letter
- ▶ Representation Letter
- ▶ Audit Completion
  - ▶ Completion Documents
  - ▶ Issues Memoranda
  - ▶ Summaries of Significant Matters
  - ▶ Disclosure Checklist (4<sup>th</sup> or 5<sup>th</sup> Schedule or Applicable IAS)

# Contents of Audit Working Papers

- ▶ Audit Planning
  - ▶ Planning Document
  - ▶ Planning analysis
  - ▶ Materiality Calculations
  - ▶ Responsibility Matrix
- ▶ Risk Assessment Documents including Fraud Risk Assessment
- ▶ Assessment on Other Areas (planning and work done)
  - ▶ Subsequent Events
  - ▶ Going Concern
  - ▶ Compliance with Laws and Regulations
  - ▶ Related Parties
  - ▶ Internal Audit Function
  - ▶ Involvement of Specialists
  - ▶ Others, as required

# Contents of Audit Working Papers

- Discussions
- Correspondence (including emails)
  - Entity Management
  - Third Parties
  - Copy of requirement list submitted and status
  - Other correspondence
- Company Incorporation Documents / updates
- Detailed Head-Wise Working
- Miscellaneous documents



# Structure of Head-Wise Working

- ▶ Lead Schedule
- ▶ Audit Programs
- ▶ Sub-Leads
- ▶ Break-ups and Schedules
- ▶ File Notes / Audit Notes
- ▶ Procedures performed and results thereof
- ▶ Analysis and computations performed
- ▶ Reports of Specialists, if any
- ▶ Confirmation Letters, as applicable
- ▶ Management Certificates / Specific Representations, as applicable
  - ▶ Cash,
  - ▶ Inventory
  - ▶ Others

# Structure of Head-Wise Working

- ▶ Abstracts or copies of entity's records
  - ▶ Partnership deeds / Shareholding agreements
  - ▶ AOA / MOA
  - ▶ Trust Deeds
  - ▶ Lease Agreements
  - ▶ Key Contracts
  - ▶ Policies Manuals (key Extracts)
  - ▶ Minutes of Significant Meetings (Resolution Copies)
  - ▶ Copies of Cut-off documents
  - ▶ Significant calculations by clients
  - ▶ Asset registers / inventory listings, reconciliations etc.
  - ▶ Copies of sample invoices, vouchers
  - ▶ Copies of other supporting documents as required

# Elements of Working Paper

- Name of the Client
- Period Covered by the Audit
- Subject Matter
- Indexing / File Reference
- Initials (signatures of staff who prepared)
- Date when prepared
- Initials (Signature of staff who reviewed)
- Date when reviewed
- In case of working paper prepared by client staff
  - Date the working papers were received
  - Initials of the audit team member who carried out the audit work

# Exceptions and Tick Marks

## ➤ Exceptions

- Audit Exceptions should be documented and explained clearly on each working paper using logical numbering that cross reference to other work papers

## ➤ Tick Mark Legend

- Symbols used by the auditor to indicate the nature and extent of procedure
- Are notations directly on the working papers
- Generally done by hand alongside a specific item
- A concise definition of all tick marks should be included on each audit working paper to clearly describe the work performed

Use tick marks as abbreviations for standard auditing tasks.

For example, *V* means that the item you're reviewing *vouched*. *F*, which stands for *foot* and which means that you confirmed the arithmetic calculations on the work paper or schedule.



# Extent of Audit Procedures and Audit Evidence


Sufficient to enable an experience auditor, having no previous connection with the audit to understand:

- ▶ Nature, timing and extent of audit procedures performed
  - ▶ Identifying characteristics of specific items or matters tested;
    - ▶ Selection Method, Samples selection,
    - ▶ Types of Tests performed, audit procedures performed
  - ▶ Who performed the audit work;
  - ▶ Date such work was completed
  - ▶ Who reviewed the audit work performed and date and extent of such review
- ▶ Results of audit procedures performed
- ▶ Audit evidence obtained

# Types of Audit Procedures

- Physical Examination
- Observation
- Confirmation
- Tracing
- Vouching
- Inspection
- Reconciliation
- Reperformance
- Analytical Procedure
- Inquiry
- Comparison
- Re-calculation





# Discussion on Key Head of Accounts

- Fixed Assets
- Capital Work in Progress
- Investments
- Inventories
- Trade Debtors
- Advances and Deposits
- Prepayments and Other Receivables
- Cash and Bank Balances
- Share Capital
- Reserves
- Deferred Liabilities
- Long Term Liabilities
- Lease Liabilities



# Discussion on Key Head of Accounts

- Trade Creditors
- Accrued Expense
- Other Liabilities
- Contingencies and Commitments
- Revenue
- Cost of Sales
- Other Income
- Administration and General Expenses
- Sales and Marketing Expenses
- Finance Cost
- Cash Flow Working
- Working on Going Concern, if any



# Significant Matters

- ▶ Significant matters arising during audit including:
  - ▶ Matters that give rise to significant risk
  - ▶ Result of audit procedures indicating that:
    - ▶ Financial statements could be materially misstated
    - ▶ Need to revise the previous assessment of the audit risk
  - ▶ Circumstances causing difficulty in applying necessary audit procedures
  - ▶ Findings resulting in modification of audit opinion

## **Document:**

- Conclusion reached thereon; and
- Significant professional judgments made in reaching those conclusions

Important for review and subsequent audits

# Discussions and Inconsistencies

- Discussion of significant matters with:
  - Management
  - Those charged with governance
  - Among engagement team

**Include the nature of significant matters discussed and when and with whom the discussion took place.**

- In case of information identified is inconsistent with the auditor's final conclusion, document how the inconsistency was addressed?

Prepare and retain a summary of significant matters, how they addressed (**Completion Memorandum or Audit Summary Memorandum**)

# Departure from Relevant Requirement

- ▶ In case it is necessary to depart from a relevant requirement in an ISA or other legal and regulatory requirement, document:
  - ▶ Reason for departure
  - ▶ Alternative audit procedures performed
  - ▶ How the alternative procedure achieved the aim of requirement

Documentation requirement applies only to the relevant requirement. A requirement is not relevant only in the cases where:

- The entire ISA is not applicable
- The requirement is conditional and the condition does not exist

## Matters arising after the date of auditor's report

- Auditor performs new or additional audit procedures
- New conclusion is drawn after the date of auditor's report

Subsequent Events

### Document:

- Circumstance encountered
- New or additional procedures performed
- Audit evidence obtained
- Conclusion reached
- Effect on auditor's report
- When and by whom the resulting changes were made and reviewed

## Specific Audit Documentation requirements in ISAs

No.	Title / Brief Description	Para
ISA 210	Agreeing the terms of audit engagement	10-12
ISA 220	Quality Control for an audit of financial statements	24-25
ISA 240	The auditors responsibilities relating to fraud	44-47
ISA 250	Consideration of laws and regulations in an audit	29
ISA 260	Communication with those charged with governance	23
ISA 300	Planning an audit of financial statements	12
ISA 315	Identifying and assessing the risk of material misstatement	32
ISA 320	Materiality in planning and performing an audit	14
ISA 330	The auditor's responses to assessed risk	28-30
ISA 450	Evaluation of misstatements identified during audit	15
ISA 540	Auditing accounting estimates and related disclosures	23
ISA 550	Related parties	28
ISA 600	Special considerations – Audit of Group F/S	50
ISA 610	Using the work of internal auditors	36-37

# Should not be included

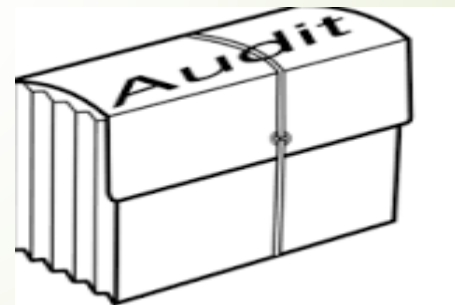
- ▶ What is not required to be included?
  - ▶ Superseded drafts of working papers and financial statements
  - ▶ Notes that reflect incomplete or preliminary thinking
  - ▶ Previous copies of documents corrected for errors
  - ▶ Duplicate documents

**Oral explanations by the auditor**, on their own do not represent adequate support for the work, the auditor performed or the conclusion the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

# Consideration for Small Entities

- ▶ Audit documentation is less extensive
- ▶ In case work performed by engagement partner himself, documents will not include:
  - ▶ Matters required to be documented to inform or instruct engagement team members;
  - ▶ To provide evidence of review by other team members;
- ▶ Audit documentation prepared must be understood by an independent experienced auditor
- ▶ Its helpful to record various aspects of audit together in a single document, with cross references to supporting working papers. Examples are:
  - ▶ Understanding the entity and its internal controls
  - ▶ Overall audit strategy and audit plan
  - ▶ Materiality
  - ▶ Assessed risk, significant matters noted and conclusions

# Assembly of the Final Audit File





# Assembly and changes

- ▶ Assemble the audit documentation in an audit file on timely basis (Ordinarily note more than 60 days from date of audit report)
- ▶ Administrative process and does not involve the performance of new audit procedures or the drawing of new conclusion
- ▶ Changes of administrative nature, to the audit documentation, may be made. E.g.
  - ▶ Deleting / discarding superseded documents
  - ▶ Sorting and collating working papers
  - ▶ Cross-referencing working papers
  - ▶ Signing off on completion checklists relating to final assembly process
  - ▶ Document audit evidences obtained, discussed and agreed with the relevant engagement team members before the date of audit report

# Assembly and changes

- ▶ Not to discard delete the audit documentation once the audit file assembly has been done until retention period
- ▶ In case of necessary modifications or additions after audit file assembly has been done, document:
  - ▶ Specific reasons for making them e.g. need to clarify existing documents arising from comments received from external parties like QCR
  - ▶ When and by whom they were made and reviewed
- ▶ Firms should establish policies and procedures for file assembly and retention period (not less than 5 years)

# Importance of Working Papers



# Audit Working Papers are Important

- Quality Control Purposes in Respect of Audit
- Assurance that the work delegated by the audit partner has been properly completed
- Evidence of effective audit
- Increases the economy and efficiency of audit
- Support audit conclusions
- Contains detailed and up-to-date facts
- Record of matters of continuing significance for future audits
- Relocation of audit staff (leave or any other reason)
- Performance evaluation of staff members





*Thank you*