

Audit Documentation – S.L.Au.S 230

A) Definition of Audit Documentation

Audit documentation is the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached.

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The primary purpose of the Audit Documentation, is to provide evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the audit and to provide evidence that the audit was planned and performed in accordance with SLAuSs and applicable legal and regulatory requirements.

B) Advantage of having proper documentations

-  Assisting the engagement team to plan and perform the audit
-  Assisting supervisors to direct and supervise the audit work performed
-  Enabling the engagement team to be accountable for its work
-  Enabling to conduct quality reviews
-  Maintaining significantly important information for future audits

C) Content of the Audit Documents

The SLAUS requires working papers to be sufficiently complete and detailed to provide an overall understanding of the audit. Auditors cannot record everything they consider in the audit. Therefore, judgment must be used as to the extent of working papers, based on the following general rule;

What would be necessary to provide an experienced auditor, with no previous connection with the audit, with an understanding of the work performed, the results of audit procedures, audit evidence obtained, significant matters arising during the audit and conclusions reached.

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- Information relating to the Planning of the audit.
- Information relating to the Nature, Timing and the Extent of the Procedures performed.
- Audit evidences obtained based on the procedures performed
- Conclusion reached based on the Evidences obtained.

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The form and content of working papers are affected by matters such as;

-  The size and complexity of the entity.
-  The nature of the audit procedures to be performed.
-  The identified risks of material misstatement.
-  The significance of the audit evidence obtained.
-  The nature and extent of exceptions identified.

D) Audit File

Audit File can be referred as one or more folders or other storage media, in physical or electronic form, where the Auditors kept their documents

Audit Files can be segregated into two categories

- Permanent Audit File
- Current Audit File

Permanent Audit File

This includes information obtained by the auditor in permanent basis, which is applicable to the current year and the subsequent years.

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Current Audit File

This includes information obtained by the auditor in year on year basis, which is applicable to the year under review.

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E) Ownership, Retention and Confidentiality of Audit Documents

The custody and the ownership of the Audit Documents are vested with the Auditor. However the Auditor should protect the Confidentiality of the Information.

After the audit has been completed, the auditor should adopt procedures to maintain the confidentiality and the safe custody of the working papers and retaining them for a period sufficient to meet the needs of the practise

Understanding the Entity and Its Environment – (S.L.Au.S -315)

A) Introduction

The auditor should obtain an understanding of the entity and its environment in order to be able to assess the risks of material misstatements. 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 level, through understanding the entity and its environment, including the entity's internal controls thereby providing a basis for designing and implementing responses to the assessed risk of Material Misstatements.

The Auditor should obtain an understanding on the following areas

1) Nature of the entity, including

-  Its Operations,
-  Its Ownership and the governance structure
-  The way the entity structure and how it is financed
-  The entity's objectives and strategies and those related business risks that may result in risks of material misstatement.
-  The measurement and review of the entity's financial performances
-  The entity's selection and application of accounting policies, including its appropriateness and consistency in the business and industry.

2) Knowledge of the relevant industry, where the entity is fallen into

3) Other External Factors, which has an impact to the entity as well as to the Industry

B) Obtaining the Knowledge of the Busines

C) Sources to obtain Knowledge of the Business

- ✚ Having inquiries from the Management and Employees who involved in the day to day business activities
- ✚ Through the previous experience Auditor gathered with regard to the entity and the industry
- ✚ Having discussion with parties who is having the relevant knowledge about the entity and the industry.
- ✚ Review documents and other related information which is applicable to the entity as well as for the industry
- ✚ Review of Rules and Regulations applicable to the entity as well as for the industry
- ✚ Having discussion with Other Auditors, who provided the services to the entity as well as for the industry

D) Advantages of having Knowledge of the Business

- ✚ Assisting the Auditor to perform the Risk Assessment Procedures and to identify the areas where the problems/issues may occur
- ✚ Assisting the Auditor to evaluate the sufficiency and the appropriateness of the Audit Evidences
- ✚ Assisting the Auditor to Plan and Perform the Audit more efficiently and effectively
- ✚ Assisting the Auditor to provide a high quality service to the client.

Audit Materiality (S.L.Au.S – 320)

A) Introduction and Definition

Materiality for the financial statements as a whole and performance materiality must be calculated at the planning stages of all audits. The calculation or estimation of materiality should be based on experience and judgment of the auditor on the engagement. Materiality for the Financial statements as a whole must be reviewed throughout the audit and revised if necessary.

Omissions or misstatements of items are material, if they could individually or collectively, influence the economic decisions of users to be made based on the financial statements.

Performance materiality means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

B) Determining and Calculation of Materiality and Performance Materiality

During planning, the auditor must establish materiality for the financial statement as a whole, but must also set performance materiality level.

Determining materiality for the financial statements as a whole involves the exercise of professional judgment. Generally, a percentage applied to a chosen benchmark as a starting point for determining materiality for the financial statements as a whole.

The following factors may affect the identification of an appropriate benchmark.

- a) Elements of the financial statements (e.g.: assets, liabilities, equity, revenue, expenses)
- b) Whether there are items on which users tend to focus
- c) Nature of the entity, industry and economic environment
- d) Entity's ownership structure and financing

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C) Importance of Audit Materiality

- Identify and assess the risks of material misstatement
- Determine the nature, timing and extent of further audit procedures
- Determine the amount of audit work necessary to facilitate audit efficiency and effectiveness
- Determine the applicability of accounting standards which normally apply only to material items
- Evaluate uncorrected misstatements during the audit
- Evaluate what level of error is likely to lead to a modified opinion

D) Factors to be consider when deciding the Materiality and the Performance Materiality

- ✚ Nature of the Entity
- ✚ Understanding of the Entities Accounting and Internal Control Systems
- ✚ Complexity of the Operations/Business Activities
- ✚ Elements of the Financial Statements, such as Total Assets, Liabilities, Equity
- ✚ Ownership Structure

E) Application of Audit Materiality

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