

RISK, GOVERNANCE AND AUDIT

CORPORATE LEVEL

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AUDIT DOCUMENTATION

(S.L.Au.S -230)

WRITTEN REPRESENTATIONS

(S.L.Au.S -580)

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

(S.L.Au.S -315)

by

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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 S.L.Au.S 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 evidence obtained based on the procedures performed
- Conclusion reached based on the Evidence 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

WRITTEN REPRESENTATION – (S.L.Au.S – 580)

A) Introduction

Auditors need to devote the full effort to obtain the audit evidences from the external sources. This is because the evidence obtained from the external sources are more reliable than the audit evidence obtain from the internal sources.

However, there are situations where the Auditor is unable to obtain sufficient and appropriate audit evidences from the external sources with regard to material information of the Financial Statements. In that context, Auditor needs to obtain audit evidences from the internal sources. All these evidences need to obtain in the written format.

B) What are Written Representations?

"A written statement by the Management provided to the auditor to confirm certain matters or to support other audit evidences"

Management will provide Written Representation in two occasions

- A) As a response for the questions raised by the Auditor
- B) As a part of the audit requirement

C) Procedures to follow obtaining the Written Representations

- 1) Whether the party, who provide the Management Representation to the Auditor is a party who have an in- depth understanding of the subject matter referred in the Representation.
- 2) Whether the information contain in the Written Representation are in line with the other audit evidences obtain while performing the audit.

In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor needs consider whether the Risk Assessment is appropriate and to determine the impact to the planned audit procedures

D) Requested Written Representations Not Provided

If management does not provide one or more of the requested written representations, the auditor shall:

- (a) Discuss the matter with management.
-](b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- (c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report

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

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

a) **Nature of the entity,**

Auditor should have a thorough understanding about the nature of the entity of which audit has been conducted. Owners of the organization, financing methods, organizational structure, branches if any, current condition of the business operations, financial reporting framework used by the management etc. should be thoroughly examined and gain required knowledge.

b) **Industry, Regulatory and Other External Factors**

The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation. Each and every entity has its own industry and regulatory environment. without having adequate knowledge about this area, auditor cannot identify the possible risks that may arise. Especially when the entity has sound regulatory environment where specific authorities are closely monitoring, auditor should be thorough on the regulatory requirements applicable for the entity being audited. Examples of matters the auditor may consider include.

- Regulatory framework for a regulated industry
- Legislation and regulation that significantly affect the entity's operations
- Government policies currently affecting the conduct of the entity's business, such as monetary, including foreign exchange controls, fiscal, financial incentives and tariffs or trade restriction policies

c) **Internal Controls**

Auditors' understanding on the entities internal control system helps to decide the Risk of Material Misstatements, audit procedures to be performed and to design the overall Audit Plan accordingly. The Auditor should have an overall understanding with regard to the following elements of the Internal Control Systems

Control Environment	The auditor should obtain an understanding on, whether the Management has created and maintained a culture of honesty and ethical behaviour. And, should assess the strengths in the control environment elements
Control Activities	The auditor should obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks.
Risk Assessment	The auditor should obtain an understanding of whether the entity has a process for; • Identifying business risks relevant to financial reporting objectives • Estimating the significance of the risks • Assessing the likelihood of their occurrence • Deciding about actions to address those risks
Information Communication	The auditor should obtain an understanding of the information system, including the related business process, relevant to financial reporting, the significant class of transactions, both IT and manual systems, the related accounting records, the financial reporting process and controls attached to journal entries. The auditor should also obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting including, Communications between management and those charged with governance and external communications
Monitoring	The auditor should obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls .

d) The entity's objectives and strategies and those related business risks that may result in risks of material misstatement.

Objectives are the overall plans of the entity where strategies are the approaches by which, the overall plans of the entity is going to achieve Entity s objectives such as new products/services development, new investments, proposed mergers may have direct impact on the audit and based on that auditor may have to change the audit plan and audit procedures to be performed.

e) The measurement and review of the entity's financial performances,
Such as budgets, forecasts, KPI's

f) The entity's selection and application of accounting policies, including its appropriateness and consistency in the business and industry.

An understanding of the entity's selection and application of accounting policies may encompass such matters as;

The methods the entity uses to account for significant and unusual transactions

The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus

Changes in the entity's accounting policies

Financial reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt such requirements

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 Evidence
- Assisting the Auditor to Plan and Perform the Audit more efficiently and effectively. Enable the Auditor to design and perform further audit procedures
- Assisting the Auditor to provide a high-quality service to the client.

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
- Through observation and inspection
- Having discussion among the Audit Team

Additional Notes



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