

Audit programs

Audit program are lists of audit procedures to be performed by audit staff in order to obtain sufficient appropriate evidence.

The individual procedures are determined after obtaining an understanding of the accounting system and determining the audit strategy to be followed.

The audit program reflect the understanding of the system and will incorporate a mix of compliance (test of control) and substantive tests that the auditor intend to perform.

The audit program is an important part of the auditors working papers and records a significant part of the audit evidence required to justify the audit opinion.

Purpose of Audit Programs.

- A set of instructions to the audit team
- Assist with planning and performance of the audit.
- A means to control and record the proper execution of the audit work and also to review the audit work.
- A record of the audit procedures to be adopted, the audit objectives, timing, sample size and basis of selection of each criteria.
- Audit evidence to support the auditor opinion.

Types of audit programs

1. Standardized audit programs.

Is a pre-prepared listing of objectives and tests which may be used in any audit. A consistent approach to all audits. Reduce risks that procedures are omitted.

2. Tailored audit programs

Some audit programs need to be tailored to the specific circumstances of an engagement as all clients are different. The design of the audit procedures to be followed match exactly to the actual system of the entity. Reference can be made specifically to particular procedures/documents.

ISA 230 Audit Documentation

The auditor should document matters which are important in providing evidence to support the audit opinion and evidence that the audit was carried out in accordance with ISA.

What are Working Papers?

WP are the material that auditors prepare or obtain and retain in connection with the performance of the audit. It may be in the form of data stored on paper, film, electronic media, or other media. They can also be used in court e.g. in case of negligent audit.

Types of Working Papers

Working papers are usually filed in 2 separate files:

Permanent Audit File (used more than one financial year and file is built only one)

It comprises matters of continuing importance affecting the audit such as:

- Copy of Articles of Association.
- Copy of Memorandum of Association
- Information concerning the legal and organizational structure of the entity.
- Extracts or copies of important legal documents, agreements and minutes.
- Accounting & Internal Control Systems.
- Letter of Engagement
- Bankers
- Legal adviser

Current Audit file (Pertain to a particular financial year)

It relates specifically to the audit of a particular set of accounts:

- Evidence of the planning process.
- Evidence of the auditor's understanding of the accounting and internal control systems.
- Analyses of transactions and balances.
- A record of the nature, timing and extent of audit procedures performed and the results of such procedures.
- An indication as to who performed by assistants was supervised and reviewed.
- Details of procedures applied regarding components whose financial statements are audited by another auditor.
- Letters of representation received from the entity.

Purpose of Working papers

- Assist in the planning and performance of the audit.
- Assist in the supervision and review of audit work.
- Record the audit evidence resulting from the audit work performed to support the auditors opinion.

Importance of working papers.

- Quality control purposes in respect of the audit.
- Assurance: that the work delegated by the audit partner has been properly completed.
- Evidence: that effective audit has been carried out.
- 3Es: increase the economy, efficiency, and effectiveness of the audit.
- Support auditor conclusion: contain sufficiently detailed and up to date facts which justify the reasonableness of the auditor's conclusions.
- Future audits: retain a record of matters of continuing significance to future audits.

Review of working papers

- **Hot review:** WP prepared by an audit staff is reviewed by a more experienced staff during the course of the audit.
- **Post audit review:** the audit manager and partner review the audit file and the FS.
- **Second partner review:** applicable for large and complex audit.
- **Cold review:** a group of experienced staff form a team to review in detail the work performed by an audit team and ensuring that the audit has been conducted in accordance with the firm standard procedures.

Confidentiality of working papers.

- Should not be made available to third parties without client consent.
- Appropriate procedures should be undertaken to maintain confidentiality and safe custody of working papers.
- Should be retained for a sufficient period of time to meet regulatory requirements.

Content

Each audit working paper must be headed with the following information:

- The name of the client.
- The period covered by the audit.
- The subject matter.
- The file reference.
- The initials (signature) of the member of staff who prepared the working paper, and the date on which it was prepared.

- In the case of audit papers prepared by client staff, the date the working papers were received, and the initials of the audit team member who carried out the audit work.
- The initials of the member of staff who reviewed the working papers and the date which the review was carried out.

Some characteristics of a good working paper

- State a clear audit objective.
- State the name of client, subject matter, year/period end.
- State the full extent of the test or audit objective.
- Reference of linked documents.
- How sample size were determined.
- Clearly and objectively state the results of the test.
- The conclusions reached should be consistent with result of the test.
- Main reference.
- Signed and dated by preparer.
- Signed and date by reviewer.
- Standards review by reviewed.

Conclusion

Working papers provide evidence that an effective, efficient, effective and economic audit has been carried out. They should therefore be prepared with care and skill. They should be sufficiently detailed and complete so that an auditor with no previous experience of that audit can understand the working papers in terms of the work completed, the conclusions reached and the reasoning behind these conclusions.

Question June 2000

State 4 matters that you would expect to find recorded in working papers in the permanent audit file and explain their purpose. (8 marks)

- Description of entity business including its product, markets, technical know how, franchise etc. help in the continuity of the audit(interim and final) subsequent years and when there is change in audit team. It helps to understand the client business and assess the reasonableness of transactions in the context of the nature of the business.
- Accounting and internal controls systems: chart of accounts, flowcharts of accounting system, organization.
- Summary of accounting policies: to ensure consistency during technical check of the FS.
- Key ratios and other key performance indicators: this facilitates analytical review and enables to identify trends. This in turn gives us an idea what ratio to expect in the current

year of audit. Analytical procedures are used in planning, detailed substantive and review stages of the audit

- Entity constitutional documents: entity objective, line of business, directors, address of registered office, capital structure.
- Extracts from board minutes that will affect entity more than one year.
- Engagement letter.

Audit trails

- It is important to record (in the working papers file) details of the actual evidence examined in the course of the audit on which the conclusions were drawn.
- Actual evidence can be in the form of matching documents, checking postings, ticking, tallying balances, mathematical checks, examining documents and records.
- Audit trails (e.g. marking in green ink) can be inserted in the client books and records as an evidence that these have been examined in the course of the audit.

Importance of audit trails.

- **Monitor progress**: it facilitates to monitor the progress of the audit on a day by day basis where a procedure is lengthy over several days and or by several members of the audit team.
- **Due care and diligence**: when audit staff know that working papers evidence the work performed by them, they exercise due care that the task is properly performed because of subsequent review.
- **Evidence and performance**: marking documents and records provide evidence to entity management that a thorough audit has been performed. Entity staff are alerted that their work is subject to audit and forces them to perform their work well.
- **Litigation**: act as a proof that the auditor has performed his work with care and diligence in case of litigation about negligent audit.

Question June 2007- SpecsYouCo

The time is now towards the end of the audit, and you are reviewing working papers produced by the audit team. An example of a working paper you have just reviewed is shown below.

Client Name **Specs4You Co**

Year end **30 April**

Page xxxxxxxx

Working paper **Payables transaction testing**

Prepared by

Date

Reviewed by **CW** Date **12 June 2007**

Audit assertion: To make sure that the purchases day book is correct.

Method: Select a sample of 15 purchase orders recorded in the purchase order system. Trace details to the goods received note (GRN), purchase invoice (PI) and the purchase day book (PDB) ensuring that the quantities and prices recorded on the purchase order match those on the GRN, PI and PDB.

Test details: In accordance with audit risk, a sample of purchase orders were selected from a numerically sequenced purchase order system and details traced as stated in the method. Details of items tested can be found on another working paper.

Results: Details of purchase orders were normally correctly recorded through the system. Five purchase orders did not have any associated GRN, PI and were not recorded in the PDB. Further investigation showed that these orders had been cancelled due to a change in spectacle specification. However, this does not appear to be a system weakness as the internal controls do not allow for changes in specification.

Conclusion: Purchase orders are completely recorded in the purchase day book.

Required:

Explain why the working paper shown above does not meet the standards normally expected of a working paper.

Note: You are not required to reproduce the working paper.

(9 marks)

(20 marks)

Answer:

The audit working paper does not meet the standards normally expected in a working paper because:

- The page reference is unclear making it very difficult to either file the working paper in the audit file or locate the working paper should there be queries on it.
- It is not clear what the client year and date is- the year is missing. The working paper could easily be filed in the wrong year's audit file.
- There is no signature of the person who prepared the working paper. This means it is unclear who to address queries to regarding the preparation or contents of the working paper.

- There is evidence of a reviewer's signature. However, given that the reviewer did not query the lack of preparer's signature or other omissions noted below, the effectiveness of the review must be put in question.
- The test objective is vague- it is not clear what 'correct' means for e.g. it would be better to state the objective in terms of assertions such as completeness or accuracy.
- It is not clear how the number for testing was determined. This means it will be very difficult to determine whether sufficient audit evidence was obtained for this test.
- Stating that details of testing can be found on another working paper is insufficient- time will be wasted finding the working paper, if it has, in fact, been included in the audit working paper file.
- Information on the results of the test is unclear- the working paper should clearly state the results of the test without bias. The preparer appears to have used personal judgement which is not appropriate as the opinion should be based on the facts available, not speculation.
- The conclusion provided does not appear to be consistent with the results of the test. Five errors were found therefore it is likely that there are some systems weaknesses.

AUDIT PROGRAMS

Audit programs

Format

Types: (1) Standardised (pre prepared pre written procedures)
(2) Tailored (match to client characteristics, accounting system, risks, etc)

List of audit procedures

Types of audit procedures -
Test of controls, substantive procedures

Objective of the audit procedure
Mix of test (TOC or substantive)

Audit procedures depend on:

(A) Characteristics of entity

Textile Company vs Bank vs Retailing
CMT LTD MCB Jumbo
Manufacturing vs Loan + Treasury POS + Inventory

(B) Understanding of accounting system

Jumbo vs Shop } Both
Cash basis Credit basis } Retailing

(C) Adequacy & effectiveness of IC system

If IC poor, Risk is high, thus need more substantive testing.

Purpose: Obtain sufficient & appropriate audit evidence
Quantity Quality
Support / Justify the audit opinion

- Auditor need to record (ie document)
all relevant audit matters from start till end of audit

ie Keep proper documentation of ALL matters pertaining to audit & justification of audit report

Working papers(WP)-

Support audit conclusion

Justify audit report

- Either : documents, information workings obtained from client
eg past FS, industry data, client Trial Balance, loan agreement of client etc
- OR : Information produced by eg scheduler, workings, audit programs, planning checklist

- OR: Information produced by e.g. scheduler, worklogs, audit programs, planning checklist

- WP : must be retained by EA for 5 years
- WP : must be kept confidential
- WP : Can be hard or soft (i.e electronic media)
- WP produced by EA must
 - be as per ISA
 - meet standard quality of good WP

- WP : must be kept confidential

- : WP : Can be hard or soft (ie electronic media)

- WP produced by EA must

→ be as per ISA

→ meet standard quality of good w/p

- WP : can be filed in either
 - Permanent file
 - current file

current file

WP: can be used in court in cases of negligence

WP: Justify that a professional & effective audit carried out

WP : record all info: Client acceptance,
Planning, audit risks, audit programs,
Trial Balance, audit schedules -
- audit report.

- - - audit report.

