

Chapter 24

AUDIT DOCUMENTATION

1. The purpose of audit documentation

Audit documentation fulfills the following very important purposes:

- To show that the audit work has been done properly. An audit really means collecting sufficient appropriate evidence that will support the auditor's opinion on the financial statements. It is essential that this evidence is recorded so that, if need be, the auditor can demonstrate that a proper audit was carried out.
- To enable senior staff to review the work of junior staff. The review process is essential in carrying out a competent audit: the work of junior staff is reviewed by their supervisor, the supervisor's work is reviewed by the manager, and finally the partner, who will sign the audit report, will review everyone else's work. Review is not possible without recording the work carried out and evidence obtained.
- To help the audit team in future years. An immensely useful planning exercise at the start of the audit is to examine last year's file. Were there problems? Were there any errors? How did last year's audit team go about gathering evidence?
- To encourage a methodical, high-quality approach. The audit documentation contains information documenting the client's accounting system, the tests that have to be performed (eg select 20 invoices at random and ensure that they are authorised). As each part of the audit is completed the audit program is signed off by the person who carried it out. Outstanding matters are easy to see.

2. The types of audit file

There are two types of audit file:

- Permanent audit file: this contains information that does not change a lot such as a description of the accounting system, names and addresses of the company's bankers and lawyers, organisation charts, memoranda and articles of association (the company's constitution). Also a history of the ratios used in analytical procedures will be maintained so that trends can be seen.
- Current audit file: this contains the financial statements being audited and details all the audit work that has been carried out to collect sufficient appropriate audit evidence about those financial statements.



3. Structure of the current audit file

The amounts on the financial statements are referenced to section of the file (separate sections for non-current assets, inventory, receivables, payables etc). Within this section the make-up of the figures are examined and the work carried out on each figure is recorded in detail on working papers.

Statement of financial position as at 31/12/2015

	\$000	\$000
Non-current assets		
Machinery	<i>Ref F1</i>	2,000
Current assets		
Vehicles	1,400	
Office equipment	<u>1,300</u>	
	4,700	
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Machinery	<i>F1</i>	\$'000
Cost		
b/f	<i>Agreed to last yr's c/f</i>	3,800
Additions	<i>REF F2</i>	1,200
Disposals	<i>REF F3</i>	<u>(1,000)</u>
c/f		<u>200</u>
4,000		
Depreciation		
b/f	<i>Agreed to last yr's c/f</i>	2,200
Disposals	<i>REF F4</i>	(1,000)
Charge	<i>REF F5</i>	<u>800</u>
c/f		<u>2,000</u>
NBV	<i>SOFP</i>	<u>2,000</u>

Schedule F2 would show the work done to verify additions

Schedule F3 would show the work done to verify disposals

Schedule F4 would show the work done to verify depreciation on disposals

Schedule F5 would show the work done to verify the depreciation charge



4. Typical contents of working papers

- Title
- Date prepared
- Person who prepared the paper and their signature
- References to other schedules
- Purpose of the audit tests being performed
- Precise details of work performed, such as invoices examined, assets inspected, calculations re-performed.
- Conclusion from the work performed
- Reviewers signatures and date of review



