

# DOCUMENTATION OF THE AUDIT PROCESS

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**Abstract:**

*Documentation plays a key role in achieving the audit mission, both in terms of collecting the evidence that will support the auditor's opinion and in understanding the activities performed by the client.*

*Audit documentation consists of materials (working papers) prepared by and for the auditor, or obtained and retained by him during the audit mission. They are the basis for formulating the audit opinion. However, working files serve as evidence in legal proceedings if the auditor is involved a law case in which his professionalism is contested.*

*The auditor should document the situations that are important in providing evidence to support the audit opinion and evidence which show that the audit was conducted in accordance with the standards.*

**Keywords:** *audit mission, opinion, auditor, document, documentation*

The auditors must draw up a satisfactory audit documentation, a documentation that must be drawn up in good time and offer a clear understanding of the general audit objective, of the utilized audit criteria, of the implemented reasoning, of the attained audit specimens and of the formulated conclusions.

The contents of the work documents refer to recordings of the planning and of the preliminary analysis, of the audit procedures, of the fieldwork and of other documents that are connected to the audit mission.

The connection between the audit activity, the field work of the auditor and the final report is represented by the work documents.

The significance of the work documents is represented by the conclusions of the auditor and of the reasons for which it was reached to those conclusions.

The work documents constitute the basis for elaborating the audit reports, as does the proof for the conclusions and recommendation of the audit.

The audit documentation provides the proof of the foundation for formulating the reasonable conclusions on which to base the auditor's opinion, as well as the proof of the fact that the audit was planned and effectuated accordingly to the International Audit Standards.

The auditor must dispose of an adequate and ample visibility of the base on which the audit conclusions on which he grounds his audit opinion substantiate and of specimens that attests the fact that the audit was effectuated in accordance with the international audit standards and with the applicable legal requirements and regulations<sup>1</sup>.

The auditor draws up work documents through which he provides the following: an ample and adequate evidence of the manner in which the report of the auditor is substantiated; he also proves that the audit was planned and effectuated in accordance with the international audit standards and the in-effect dispositions.

The internal auditor draws up work documents that post up the following: the planning, the examination and the evaluation of how adequate and effective are the

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<sup>1</sup> Financial audit and compliance audit manual – Part 1, Section 1. Framework: The European Account Court, 2012

internal control systems, the utilized audit procedures, the information obtained and the conclusion to which it was reached, the analysis, the reporting and the prosecution.

The internal auditor must revise the afferent work documents as each audit stage from the Audit program is effectuated. The work documents must also represent a foundation for the evaluation of the internal audit quality assurance program and to prove the compliance of the internal audit with the audit standards.

Depending on the mission type, the quantity, the type and the contents of the work documents, they will vary among themselves, but they must be sufficiently developed for: assisting the auditors in their activity, offering an adequate support for the view of the auditor for the activity deployed to be able to be analyzed independently, to encourage a methodological approach towards the deployed activity.

With an eye to effectuating an adequate planning of the audit, the auditor must obtain the reference information, which are retrieved in the work documents. The work documents represent the accounts managed by the auditor, in which the applied procedure, the effectuated tests, the obtained information and the pertinent conclusions highlighted during the mission are registered. The work documents should include all the information that the auditor considers necessary for effectuating an adequate audit operation and for the justification itself of the audit report. The work documents must be drawn up at a high standard for achieving the objective of an audit and are drawn up during the course of the audit activity. The object, the contents and the purpose of the work documents must be as clear as possible without requiring additional explanations.

The standard audit file is indexed on each important section, which, in her turn, is indexed in detail, contributing to the sending to the information from the file.

The requirements that the work documents must satisfy are<sup>2</sup>: to be accurate and complete for supporting the observations, the conclusions and the recommendations formulated by the external public auditors; to be clear and intelligible; to be legible; the information comprised must be restricted to the relevant and useful aspects to the objectives of the audit, in correlation to the established significance limit.

The work files must include at least the following elements<sup>3</sup>:

- The organizational and judicial structure of the entity;
- Excerpts or copies of the documents, the contracts, the important reports and so on;
- The information referring to the branch, the economic and legislative environment in which the entity functions;
- Exemplars regarding the planning process, including the audit program and any alterations of its;
- The description and the evaluation of the bookkeeping and internal control systems;
- The evaluation of the inherent and control risks, as well as any review of them
- The assessments of the auditor (res and the results of the apposition of these procedures;
- The delegated audit tasks, the responsible individuals, the execution term;
- Copies of the communications with other auditors, experts or third parties;

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<sup>2</sup> Regulation regarding the organization and the unfolding of the activities specific to the Account Court, as well as the capitalization of the documents resulted from these activities, published in the Official Gazette of Romania, Part I, No. 547 from July 2014, Point 337

<sup>3</sup> Laurențiu Dobroțeanu, Camelia Liliana Dobroțeanu – Audit. Concepts and practices. A national and international approach. The Economic Publisher, Bucharest, 2002, pg. 99


- Copies of the letters or reports that concern the communicated or discussed-with-the-entity audit issues, including the terms and the stipulations of the commitment and the significant deficiencies of the internal control;
- The statements of the management;
- The conclusions formulated by the auditor with respect to the significant aspects of the audit activity, including the resolution manner of the exceptions or the uncommon issues emerged during the audit's unfolding (in there were any);

The format, the content and the amplitude of the audit documentation depends of factors such as<sup>4</sup>:

- The dimensions and the complexity of the entity;
- The nature of the audit procedures that are about to be effectuated;
- The identified risks of significant distortions;
- The signification of the obtained audit exemplars;
- The nature and the amplitude of the identified exceptions;
- The necessity of documenting a conclusion or a foundation for conclusions, a foundation that cannot be determined immediately from the work documents or from the obtained audit exemplars;
- The utilized methodology and audit instruments;

The work documents must be elaborated by using an adequate decussate references system: from the synthesis of the audit report to the internal audit report, from the internal audit report to the audit program, to the Analysis and Problem Identification Sheet (FIAP in Romanian), Tests, worksheets, justificatory documents. The decussate references system must offer references about the location where the activity has took place.

The record of the work documents is kept in two files, and namely:

 *The current file*

 *The permanent file*

The current file includes data and information afferent to the audited financial exercise conformable to the commitment and must be elaborated in good time, after the completion of the study.

The characteristic elements comprised by **the current file** are the following<sup>5</sup>: □

The terms of the audit commitment;

- Copies of the inspection statements (synthetic, analytical) and of the financial situations;
- The audit plan/programs;
- The memorandum of the audit planning;
- The management representation letter;
- Notes of the meetings, analysis and revisions made within the mission;
- Work documents (sheets) in the format imposed by the personal norms (standards) of the auditor;
- A summary of the unadjusted errors;
- Copies of the tested (sampled) documents;

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<sup>4</sup> Quality control international regulations guide. Audit, Revision, Other Insurance and interfacing services, IASSB, Vol. I, ISA 230 "Audit Documentation" Bucharest, 2013, pg. 152

<sup>5</sup> Emil Culda, - *ISA 230 Documentation, Course support made available for the interns of the Financial Auditors Chamber of Romania*, Cluj-Napoca, 2006, page 20

Also in this file, the analytical procedures are included; the understanding of the internal control and the estimation of the control risk.

The permanent file contains historical data that have continuity in terms of the client's activities, being updated as many times as necessary, with new information of the same nature. The permanent file enables the avoidance of the repetition of some studies each year.

**The permanent file** of the audit mission must comprise the following information:

- **Details of the organization:** The structure of the group; Organizational tables; Exemplars on identity verification; The main activities; Locations; Laws and regulations specific to the client.
- **Accounting systems:** Accounting recordings; Notes and procedures referring to systems; The internal verifications and procedures; Form documents; Any type of tables; Checks and bank orders; The history of the fixed assets.
- **Information referring to planning.**
- **Constitutive documents:** The establishment attestation; Constitutive documents, for example: The establishment document and the constituent documents; The partnership agreement; The judicial power of attorney and the exemption from incomes status.
- **Statutory information:** The copy of the last annual reporting; Directors; Shareholders; Recording of proceedings of a continuous importance; Company researches; Expenses and debentures;
- **Copies of the agreements:** Tenures; Loans, mortgages and debentures; Leasing contracts (financial and operational); Insurances.
- **An epitome of the accounts and information regarding the analytical review:** The annual epitome of the accounts; Indicators: Information regarding the analytical review; Information regarding the sphere of action.

The work documents<sup>6</sup> can be recorded on paper or electronically, or in a carrier of a different nature; They include the following: audit programs; analysis; the description of the issue; epitomes of the important aspects; confirmation and representation letters; verification lists, correspondence (inclusively the electronic one) on the significant aspects. *The format of the audit documents*

“Regardless of the format of the audit documents, which can be presented on both paper or on other carriers, as well as electronically, these must obligatorily comprise, besides the in-fact information (financial-accounting and beyond), the specific footnotes (notes).

The header (the head of the table) – includes the name of the client, the name of the work document, the end of the year date or another reference date of the audited financial exercise, the names (the explanations) from the header, when needed.

The indexing and referencing – represents the process (the operations) through which a connection between the financial situations and the audit documents, as well as between the data and the information from the audit documentation is established.

In the view of the audit documents indexing (abbreviation), a notation system based on letters or numbers is utilized, the sums or the significant elements of the financial situation also having to be “reciprocally” referenced on these documents. In the situation in which the auditor utilizes, at the drawing of a worksheet, the information from other work sheets also, these will be referenced on each work sheet.

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<sup>6</sup> Quality control international regulations guide. Audit, Revision, Other Insurance and interfacing services, IASSB, Vol. I, ISA 230 “Audit Documentation” Bucharest, 2013, pg. 153

**Conclusions:**

The annotations (the notes) constitute simple notation made by the members of the audit team, by the managers and partners alongside an article (a piece of information) or a sum from an audit document).

The symbol of the annotation is generally explained or defined at the end of the audit document, many other auditors and auditing societies utilizing a standard set of such notes.

The work documents are the auditor's property, these containing the documents drawn up by the auditor and the ones put at his disposal by the client.

Even though the auditor holds ownership on the audit documents, he cannot present them to another individual without the consent of the client or without the law allowing it (in some exceptional cases).

An important part in the efficient planning of the audit is constituted by the proper drawing of the worksheets, which must include enough information for responding to the purposes for which they were drawn. In the view of assuring that the objectives were reached, the accounting expertise firms define their own policies and methods for drawing the worksheets<sup>7</sup>.

The auditor must prepare the documentation of the audit mission before the audit report is drawn, documentation that must be kept for a certain period of time.

The drawing in good time of the work documents contributed to the quality increase of the audit mission and facilitates the effective review and evaluation of the audit exemplars obtained and of the conclusion to which it was reached before finalizing the audit report.

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<sup>7</sup> Alvin A. Arens, James K. Loebbecke –” Audit – An integrated approach, Arc Publisher, Chişinău, 2003, pg. 275