

SECTION: FINANCIAL AND ACCOUNTING POLICIES AND CORPORATE GOVERNANCE IN THE GLOBAL CONTEXT

THE ROLE OF DOCUMENTATION IN THE AUDIT MISSION

Niculina, Stănescu¹

Abstract

Missions carried out by the auditors are based on extensive documentation consisting of relevant and reliable audit evidence. The audit documentation guarantee the quality of the conducted mission, perform the activities in accordance with International Standards on Auditing, Code of Ethics, rules and decisions issued by the Chamber of Financial Auditors of Romania. All information obtained by the auditor in connection with the audited entity are used as working documents submitted in the dossier of evidence to support the conclusions and expressed opinion. An audit mission without proper documentation is not only a poor quality mission but the impossibility to express an opinion with the possibility to relief the auditor.

Keywords: *financial audit, documentation, quality, credibility, control*

JEL Classification: M48, G32, G38

1. Introduction

In conducting an audit mission the auditors use information and documents that must be sufficient and appropriate. This documents obtained from the client, third parties or prepared by the auditor serve as evidence to justify the deployment of the mission and support the findings, the auditor's opinion and every report issued in accordance with international auditing standards.

The documentation begins with preplanning of the mission, getting preliminary information about the customer (branch of activity, ownership structure, shareholders, problems that the audited entity is facing) and risk analysis in order to determine if the auditor can or can't accept the mission: if it has enough time to accomplish the mission; experience in the client branch; possibility to call collaborators, specialists; if the client is experiencing problems with frequent changes of auditors, accountants or managers; bankruptcy ; incapacity to continue working; and so on.

After approval of the auditor and signing the service contract prepared in accordance with ISA 210 "The terms of the audit mission", the auditor goes to mission planning namely setting the time budget and work plan which will also contain a document of information for the customer on site visits of the auditor and documents requested by him during every stage, preliminary risk assessment and analysis and the audited entity.

Execution of the audit mission means performing audit procedures and obtaining evidence that contain the auditor's judgment on the balance sheet and profit and loss account and also the auditor conclusions formulated based on the tests applied. Conducting the audit mission is both on client site when applying procedures related on observation, inspection, interviewing, worksheets preparation as well as on the audit company site when making recalculations, applying analytical procedures or when assembling audit files or when the audit report is drawn up.

Completion of the audit mission is represented by preparing the audit report, "cold and hot" checking of the audit mission by the quality control and finalizing audit files.

Documentation of the mission must include at least: the letter of statements, audit plan, time budget, declaration of independence, the questionnaire to verify compliance with

¹ Lect.univ.dr., Universitatea „Constantin Brancoveanu” din Pitesti, email: niculina.stanescu@yahoo.com

the mission, permanent file, the current file, worksheets of quality control department, audit report any other worksheets the team needs in order to carry out the mission according to the auditor's professional judgment.

2. The Need and Purpose of the Documentation in the Missions Performed by the Auditor

Each audit company must have written policies and procedures on quality control elements, policies and procedures on the documents that must be prepared by the auditors for each step of the mission.

Policies and procedures of audit companies must ensure the integrity, confidentiality, availability and recovery of mission documentation.

According to the policies and procedures for quality control, audit companies must have written documentation including:

- how to run quality review of the financial audit missions
- Statement on general policy of the audit company
- a quality control manual with policies and procedures
- management responsibility on quality within the company
- the details of identified threats regarding respected ethical principles and applied safe measures
- acceptance and continuity of relations with clients
- a disclaimer for contrary opinion or limited opinion
- withdrawal from relation with a client
- appointment of audit team members
- continuous professional development
- consulting with other auditors or collaborators
- sustain the decision when there are differences of opinion.

According to ISA, the final assembly of case mission file must be carried out within 60 days since the issue of the report, and working sheets and permanent file should be kept for at least seven years to allow those carrying out the verification and monitoring to assess the quality of the missions.

Documents prepared by the auditor must cover all stages of a financial audit:

- Preliminary activities - analysis of the audited entity
- Getting information necessary for understanding the customer: know the branch of activity, visit analyzed entity and manufacturing areas, identification of related parties, identification of disputes, obtain information on legal obligations
- Make preliminary analytical procedures
- Prepare and sign the mission letters
- Prepare the audit strategy and mission plan
- Plan the audit mission
- Time budget for the mission
- Establishing materiality
- Distribution of materiality on accounts
- Assessment of internal control and internal audit
- Assessment of accepted audit risk and inherent risk
- Collect sufficient and appropriate evidence regarding: intangible fixed assets; tangible fixed assets; financial fixed assets; stocks; customers; personal and settlements with employees; settlements with the budget; other obligations; treasury; equity; expenses; income; taxes; group and associates; off-balance sheet accounts; etc - through the application of procedures: verification of documents / records, observation, interviewing/questioning, re-evaluation, re-calculation, reviewing (checking)

- Preparing letters of recommendation
- Direct confirmation: customers, suppliers, banks and insurance
- Application of audit tests on: operations, details of balances, control mechanisms
- Involvement in inventory operation
- Check financial statements and balances
- Review materiality
- Checking subsequent events
- Verification of business continuity
- Review of audit files and worksheets, conclusions
- Establish audit opinion and write the report
- End-mission operations and meeting with the customer (consulting, discussions)
- Establish targets for next mandate

Documents requested by the auditor audit to the client mainly refer to: general ledger, trial balances, tax returns (100, 101, 112, 300, 390), tax register, suppliers analytical sheet, foreign suppliers, suppliers of property and fixed assets, external suppliers, situation on long and short-term loans, guarantees required by the bank, the leasing contract situation, list of obtained loans, list of loans granted within society, list of third parties stocks held by the company, inventory decision, record of inventory lists, list of investments, situation on entrances of fixed assets obtained by renting or leasing, situation of repairs and modernization of assets, situation of given assets, minutes of internal control, records of AGA and CA sessions, internal auditor's report, re-evaluation reports, confirmations, payrolls, etc.

If the auditor performs an internal audit mission, than after drafting the chart and audit procedures, he will prepare documents for:

- mission planning and program preparation and plan of internal audit mission
- risk assessment
- collecting information on all elements connected to the objectives and scope of the mission
- analyzing and assessing information
- examine and assess the relevance and effectiveness of the internal control system ;
- notes on audit team meetings with stakeholders;
- apply of the audit procedures;
- results of analytical procedures based on worksheets for each activity audited: financial accounting, human resources, buying, etc;
- mission final report and management observations;
- communicating the results of the internal audit mission
- follow up of implementation what the auditor recommended
- reviewing work files;
- monitoring mission;

The documents of internal auditor consist on evidence obtained throughout the mission, namely information from entity or third parties and worksheets - made by the auditor on the basis of information obtained - that make up the current file.

The documentation is the basis for revisions (supervision) necessary including for quality control of audit team work and also represents the information in the audit files (permanent, current) for procedures and evidence obtained.

The documents are organized, grouped to meet both regulatory CAFR requirements, the International Standards on Auditing and to ease the auditor's work in drawing conclusions, in reviewing the documents.

The use of standard audit documents increase the efficiency of the audit mission, facilitate the process and contribute to achieving good quality audit mission.

Documentation is made for the duration of an audit and is separated into two files: the current file (annual or exercise file) and permanent file that typically contains general information about the audit client: capital, ownership structure, organization, number of employees, etc.

The work files of the auditor's must include at least the following elements:

- mission letter, statements letter, deficiencies communication letters to management
- service contract between the auditor and the audited entity;
- Drafting and signing auditors Declaration of Independence;
- Worksheets with resolving conflicts of interest, taking safety measures to eliminate ethical incompatibilities, to resolve differences of opinion; draft time budget respecting the minimum number of hours for audits (240 hours);
 - Worksheets on the organization internal control, internal control results
 - Worksheets on the organization of internal audit, internal auditor reports, findings and recommendations
 - Copies of the audited entity financial statements signed and stamped (balance sheet, income statement, cash flow statement, equity situation, notes);
 - The accounting policies prepared in accordance with OMPF 1802/2014
 - Information and worksheets on related party, transactions between the parties
 - Notes of discussions with management
 - Reports / worksheets realized from the person responsible for quality control on monitoring audit missions, compliance with policies and procedures for quality control
 - Worksheets on how the auditor's judgment was applied by choosing the sampling method, the sample used, materiality established
 - Checking the record of penalties, costs and expenses from economic agents in insolvency for which the company joined the list of creditors but also from other business debtors
 - Revaluation of tangible assets - the auditor's worksheets and existence of reports revaluation
 - Participation of the auditor to inventory or not and applying alternative procedures
 - Worksheets with account verification by the auditor, the election sample and documents related to decommissioning, performing and completing the inventory: the decision of the inventory, the declaration of the person in charge, inventory lists, record of the inventory results, etc.
 - List of loans granted inside the establishment, loans to staff
 - Situation of long and short-term borrowings, leasings with time, value, etc.
 - Check taxes: tax on salary income, income tax, VAT, etc. by recalculation and reconciliation documents: payroll - orders - trial balance, record tax - declaration income tax - trial balance, VAT statement - trial balance
 - The valuation of work in progress: significant costs, fair allocation of overheads, accurate reporting of revenue and long term profit production
 - Checking and documenting the adequacy of provisions
 - Worksheets for all procedures related to sections A-U from the Quality Guide

Working documents obtained from the performance of the audit mission are property of the auditor and must be kept in safe conditions respecting the principle of confidentiality. In case the customer wants some worksheets, procedures, tests applied or extracts from documents, they can be made available to the audited entity if there is the written agreement of the audit company.

3. References

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