

Documenting An Audit Of Financial Statements Based On International Auditing Standards

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Abstract – The article discusses International Auditing Standard No. 230, entitled "Auditor's Working Papers", which plays an important role in practical audit activities. It is noted that the audit is planned and conducted in accordance with international standards and relevant legal and regulatory requirements.

The article highlights the importance of the auditor's preparation of working papers in the development of the auditor's work plan, in the course of direct audit procedures and in the process of completing the audit and documenting its results, as well as the auditor's report.

Keywords – International Standards on Auditing, Auditor's Working Papers, Audit File, Current Documents, Permanent Documents, Special Documents, Classification of Audit Working Papers, Symbols, Indexes, Financial Statements, Non-Conformity Accounting, Quality Control, Storage of Audit Documents, Audit Procedures procedures

I. INTRODUCTION

One of the most important steps in conducting an audit of financial statements is to document the audit process that has taken place. Documentation of the audit not only confirms the level of completeness of the audit engagement, but also indicates that it was planned in accordance with international standards, how well it was conducted by qualified professionals, and how much evidence they collected for the audit opinion. Documentation is an important requirement for conducting audit practice, and the conditions for compliance with this requirement are set out in International Standard on Auditing No. 230, entitled “Audit Documentation”. This International Standard on Auditing sets out the auditor's obligation to prepare audit documentation for the audit of financial statements. Due to the importance of this issue, the cases in which the audit is not regulated by this standard are further highlighted in the following International Standards on Auditing (2) :

- Agreeing the Terms of Audit Engagements, Paragraphs 10-12 of the International Standard on Auditing No. 210;
- Quality Control for an Audit of Financial Statements, Paragraphs 24–25 of the International Standard on Auditing No. 220;
- The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements , Paragraphs 44-47 of the International Standard on Auditing No. 240;
- Consideration of laws and regulations in an audit of financial statements Paragraph 29 of the International Standard on Auditing No. 250;
- The Auditor's Communication with Those Charged with Governance ,Paragraph 23 of the International Standard on Auditing No. 260;
- Planning an Audit of Financial Statements, Paragraph 12 of the International Standard on Auditing No. 300;
- Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, Paragraph 32 of the International Standard on Auditing No. 315;
- Materiality in Planning and Performing an Audit, Paragraph 14 of the International Standard on Auditing No. 320;
- The Auditor's Responses to Assessed Risks, Paragraphs 28-30 of the International Standard on Auditing No. 330;

- Evaluation of Misstatements Identified during the Audit, Paragraph 15 of the International Standard on Auditing No. 450;
- Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, Paragraph 23 of the International Standard on Auditing No. 540;
- Related Parties , Paragraph 28 of the International Standard on Auditing No. 550;
- “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors, Paragraph 50 of the International Standard on Auditing No. 600;
- Using the Work of Internal Auditors, Paragraph 13 of the International Standard on Auditing No. 610.

II. RESEARCH METHODS

The International Standards on Auditing referred to above will be intended to clarify the application of documentation requirements in cases where these standards apply. However, they do not limit the application of International Standards on Auditing No. 230. In addition, the absence of specific requirements in any International Standards on Auditing to document the audit evidence obtained under this standard does not mean that it is not necessary to document the work performed.

The form and content of the auditor's report, which is the final document of the audit of financial statements, is set out in International Auditing Standards No. 700, Formation and final Conclusions on Financial Statements, and International Auditing Standards No. 705, Modification of Opinions in Financial Statements, and other standards governing this process.

The auditor's working papers are set out in International Standard on Auditing No. 230, "Audit Documentation" according to which the auditor's working papers are documents that record the audit procedures performed, the relevant audit evidence obtained and the auditor's conclusions(3). An example is audit programs for audit documentation; analyzes; notes on problematic issues;

a summary of important issues; confirmation letters and submissions, checklists, such as important correspondence (including email). Working documents are used for planning, monitoring, quality control of the work performed by the auditor, as well as for registering audit evidence obtained to confirm his opinion

III. RESEARCH RESULTS AND THEIR DISCUSSION

The auditor's working papers are kept in the audit file. An audit file is an electronic file or other storage medium containing written information containing audit documents related to a specific agreement. The audit file includes a set of current, permanent, and special documents.

The CURRENT DOCUMENT SET is a list of documents, materials and issues collected during an ongoing audit, identified during an ongoing audit and subject to review during that audit.

The PERMANENT DOCUMENT COLLECTION stores information used in audits for a long time.

In practice, most audit firms keep documents in this collection in the following areas:

- Organizational information about the client
 - information on shareholders (property owners)
 - information on the heads of corporations
 - location of the management office
 - corporate charter, founding agreement, certificate, license and patent
- copies ...
- Information on the activities of the corporation
 - The main types of activity, its branches, subsidiaries
 - Laws and regulations related to the business of the enterprise, the features of taxation
 - Information on the history of the corporation
 - Aggregate data on previous performance
 - information on key employees of the administration
 - information on the features of accounting and internal control
 - Scheme of organization of corporate governance
 - Schematic of corporate business processes
 - Document flow chart in the corporation
 - Description of the cooperation agreement with the client
 - Copies of contracts for audits and other services
 - description of special audit requirements
 - Reference for audit services
 - customer contact information

- Customer service bank details
- information on the corporate lawyer
- information about the client's insurance company
- information on the main auditor and support staff of the project

SPECIAL DOCUMENT COLLECTION. Copies of decrees and resolutions of the President and the Government of the Republic of Uzbekistan issued specifically for the industry or enterprise, copies of correspondence with government and regulatory agencies, the State Tax Inspectorate, published in the press, technological documents, instructions, articles describing the industry

The grouping of audit working papers in audit practice is shown in the following diagram.

Drawing 1. Grouping of auditor working papers

Grouping signs	Description of the auditor's working papers
Depending on the time of use	● Long - lasting use ● Short-term use
According to sources	● Documents received from third parties ● Documents received from the client company ● Documents prepared by the auditor
According to the appointment	● Commentary documents ● Informational documents ● Invoice documents ● Analytical documents
According to the level of standardization	● Standard forms of documents ● Non- standard forms of documents
According to the form of presentation	● Graphs ● Tables ● Text documents ● Combined documents
On the technique of creating	● Documents created manually ● Documents created using technology

Source: 5. Konkov V.I. Basic audit. Moscow, Institute of Economics and Law. 2017th year

One of the main requirements for the auditor's working papers is the timely preparation of audit documents. This helps to improve the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and the conclusions reached prior to the formation of the auditor's opinion. The documentation performed after the audit is completed may be less accurate than the documentation prepared during the audit.

Due to the importance of the auditor's working papers in audit practice, the ISA sets a number of requirements for their form, content and scope. Audit documentation can be created on paper, electronically or in other media. Working papers should be so complete and exhaustive that the other auditor who introduces them has an understanding of the audit, and the information should be understandable.

In practice, the cases to be documented for each audit object, their form and scope are determined by the audit organizations themselves. In carrying out this process, they should take into account the following factors that affect the form, content and scope of audit documentation in accordance with Paragraph A2 of the International Standard on Auditing No. 230:

- the size and complexity of the business entity;
- the nature of the audit procedures performed;
- the risks identified in the report as material misstatements;
- the significance of the audit evidence obtained;
- the nature and extent of the identified exceptions;
- the need to document certain conclusions or observations that are not clearly visible or identifiable from the work performed or the audit evidence obtained.
- used audit methods and tools, etc...

In order for an auditor's working paper to be formalized, it must have at least the following details in accordance with Article 10 of International Auditing Standard No. 230:

- name of the document;
- name of the business entity;
- the period of the audit;
- the date of audit procedures or document preparation;
- the content of the document;
- signature of the person who drew up the document, First & Last Name;
- signature of the person who checked the document, First & Last Name.

Another important requirement for the auditor's working papers is that the source of the information contained in them should be indicated. In some cases, symbols are used in the auditor's working papers. In such cases, their contents should be disclosed at the bottom of the document. For example:

- √ - mix verified with report
- W- the mix is verified against the ledger
- ! - the information should be checked
- ? - no information
- F - information generated to compile a summary report etc (6)

Samples of conventional signs, the content and procedure for their use are set out in the internal documents of audit organizations, and all employees are required to comply with this rule.

In addition, in order to facilitate the use of international audit practice and the process of compiling documents into files, audit organizations are advised to put a unique index (code) on each working document (7). In practice, the use of indexes (codes) consisting of letters and numbers is widely used. In this case, too, the management of the audit organization develops a list of working documents to be compiled during the audit of financial statements, their indexes (codes) and the procedure for their use. For example,

- "FA" index for working documents on the audit of fixed assets;
- "CT" index for working documents prepared for audit of cash transactions;
- "RE" index can be assigned to working documents prepared for the audit of remuneration of employees of the company.

Accordingly, if the documents related to the "FA" index are coded, they will look like this:

- FA1 - documents on the right of ownership of fixed assets;
 - FA2 - documents on the receipt of fixed assets;
 - FA3 - documents on internal movement of fixed assets and etc.
- The documents related to the "CT" index are:

- CT 1 - documents on cash receipts;
- CT 2 - documents on cash expenditure transactions;
- CT 3 - documents related to cash reports and etc.

In the process of preparing the working papers, all auditors of the audit organization will have to use the indices and codes approved by the internal document in the audit of financial statements.

ISA No. 230 emphasizes the need to pay special attention to documenting significant issues that arise during the audit of financial statements and relevant professional considerations. Paragraph A8 of this standard cites the following as examples of important issues

- Issues that pose significant risks.
- The results of the audit procedures indicate which (a) the financial statements may be materially misstated, or (b) the auditor's prior assessment of significant misstatement risks needs to be modified and the auditor's response to those risks.
- Circumstances that create significant difficulties for the auditor in applying the required audit procedures.
- Information that may lead to a modification of the auditor's opinion or the inclusion of an explanation in the audit report.

The auditor should document the discussion of important issues with management, corporate governance officials, etc., including the nature of the important issues discussed and when and with whom the discussions took place. Documentation is not limited to documents prepared by the auditor in this regard, but may include other relevant documents, such as minutes of meetings prepared by the employee of the business entity and agreed with the auditor. Other people to whom the auditor may discuss important matters may be external parties, such as the entity's management and those who provide professional advice to the entity.

If the auditor identifies information that is inconsistent with the auditor's final opinion on a material matter, he should document that fact in the context of how he responded.

In practice, differences in some areas of financial reporting audits are documented in the form of a "Notes of incompatibility", which is an auditor's working paper, a sample of which is provided below.

AUDITORY ORGANIZATION LLC "XYZ"
AUDITOR'S WORKING DOCUMENTS
NOTICE OF INCOMPATIBILITY

Customer:	"Sharq" Joint Stock Company				
Agreement:	11.03.2020 year № 03-2020	Executor:	Radjibaev F.P	Was created:	10.03.2020 year
The period of the audit	From 01.01.2019 to 31.12.2019	Verifier:	Aliev F.B	Was checked:	11.03.2020 year

Topic: Recognition of income

INCOMPATIBILITY: A study of the documents for January 2020 after the balance sheet date revealed a document worth 120 million soums, which should be included in the income for December 2019, but the data are included in the January 2020 income. Name of the normative document in which the case of non-compliance is determined: Conceptual bases of financial reporting	
Incompatibility level:	<u>Significant</u> <u>Non significant</u>
The head of the department was familiarized	signature 29.03.2020 year date
Auditor	signature 29.03.2020 year date
MAKING CHANGES (to be completed by the head of the department) Scheduled completion date: 02.04.2020 year Head of department	
	signature 29.03.2020 year date

CONFIRMATION OF THE CORRECTION OF INCOMPATIBILITY	
Eliminated:	<u>Yes</u> No
Auditor's conclusion: As of December 2019, the company's related income was increased by 120 million soums as a result of the adjustment. The auditor has identified appropriate procedures for restating the final financial results and taxes. Eliminated date: 03.04.2020 year Date the copy of the document was submitted to the head of the company: 03.04.2020 year Auditor	
	signature 03.04.2020 year date

Working paper used (not used) in the auditor's report

The head of the audit group Aliev F.B.

In practice, even after the date of the audit of the financial statements and the date of submission of the audit report to the client, there may be events and incidents that led to the preparation of the auditor's working papers. If the divided financial statement has the power to require correction, it will need to be documented very carefully and placed in the audit file.

International Standards for Quality Control No. 1 requires audit firms to establish policies and procedures for the timely completion of the collection of audit files. In practice, the audit file generated by the audit of financial statements may have the following appearance.

SECTION I. REPORT

- A - Auditor's report
- B - Written information prepared as a result of the audit of the head of the business entity
- C - An explanatory letter attached to the financial statements of the business entity
- D - Statement of financial position and appendices to it
- E - Statement of profit or loss and other comprehensive income
- F - Cash flow statement and appendices to it
- G - Statement of changes in equity and appendices to it
- H - Documents relating to events after the date of issue of the auditor's report.

SECTION II. COMPLETION OF WORK

- A - A request form prepared by the head of the audit team confirming the completion of the audit.
- B - A questionnaire signed by a business entity with an assessment of the work of the head of the audit group and auditors.
- C - Quality control questionnaire conducted by the responsible person of the audit organization during and after the audit.
- D - List of Delayed Jobs
- E - Reviews and guidelines for next year's audit
- F - Correspondence with the management of the business entity
- G - Acceptance and transfer certificates and other financial documents with the business entity

SECTION III. WORK PLANNING

- A - Audit planning information
- B - Agreement with a business entity (Mandatory letter of consent of the audit organization to audit
 - 1. C - Information on the activities of an economic entity
 - 2. D - Checklist for describing the business entity's accounting system
- E - A checklist of changes in the business entity's accounting system
- F - Description of the means of the internal control system of an economic entity and a checklist for their assessment
- G - Information about the software used by the business entity
- H - Overall audit plan

SECTION IV. CONSIDERATIONS ON THE PERFORMANCE OF THE WORK

- A - List of important issues
- B - Detected deviations table
- C - Working documents collected for written information to be submitted to the head of the business entity
- D - Documents related to the analysis of the duration of the business entity

SECTION V. AUDIT PROCEDURES USED

- A - On the audit of fixed assets
- B - On the audit of intangible assets
- C - On the audit of financial investments
- D - On the audit of inventories
- E - On the audit of salaries and related deductions
- F - On the audit of receivables
- G - On a cash audit
- H - On private equity audit
- I - On the audit of debt funds
- J - On the audit of accounts payable
- K - Audit of product sales, work performed and services rendered
- L - Audit of operating income and other income and expenses
- M - On the audit of operating expenses, operating expenses and financial operating expenses
- N - On the audit of taxes and mandatory deductions
- O - Audit of financial results
- R - On the audit of events and happenings after the balance sheet date

SECTION VI. AUXILIARY FORMS

- A - Audit strategy

- B - Documents related to checking the effectiveness of internal control tools
- S - Selection determination tables
- D - Forms of documentation of in-depth analytical procedures
- E - Schedule of working time spent for the audit and etc.

The auditor after the date of the auditor's report should complete all administrative processes for collecting audit documentation for the audit file.

The appropriate time to complete the formation of the final audit file is usually no more than 60 days after the date of the audit report.

Audit organizations may make changes to the audit files of the financial statements of business entities as soon as they have new or clarified information about them. However, it is not allowed to discard or destroy any document from the audit file formed on the basis of the audit of financial statements until the expiration of the period specified in the legislation on its storage and international standards (ISA No. 230, paragraphs 15-A23).

International Standards for Quality Control No. 1 requires audit organizations to establish policies and procedures for the storage of information obtained in the course of an audit, taking into account the confidentiality of the information obtained. In global audit practice, the retention period of an auditor's working papers is usually not less than five years from the date the audit opinion is issued. The same period is recognized in the Law of the Republic of Uzbekistan "On auditing" (1).

The last issue we need to consider on this topic is the signing of the auditor's working papers. International auditing standards do not require the auditor to sign all working papers. International Standard on Auditing No. 700, Commenting and Concluding on Financial Statements, shall be signed by the auditor on behalf of the audit organization, or on behalf of the auditor, or on behalf of the audit organization and the auditor, in accordance with the laws of the country where the audit is performed.

According to the Law of the Republic of Uzbekistan "On auditing activities", the audit report must be signed by the auditor (auditors), the head of the audit organization and certified by the seal of the audit organization (if it has) (1).

Hence, the question of whether or not to sign other working papers of the auditor is governed by the internal standards of each audit firm.

IV. CONCLUSION

In conclusion, the auditor's working papers confirm that the audits were planned, conducted by qualified professionals in accordance with international auditing standards, that sufficient audit evidence was gathered to support the auditor's opinion, and that all of them were duly documented.

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