

2009

*Practice  
Note*

**26** *(Revised)*

December

**GUIDANCE ON SMALLER ENTITY  
AUDIT DOCUMENTATION**

The Auditing Practices  
Board

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- standards and guidance for the work of reporting accountants in connection with investment circulars; and
- standards and guidance for auditors' and reporting accountants' integrity, objectivity and independence,

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## PRACTICE NOTE 26

# GUIDANCE ON SMALLER ENTITY AUDIT DOCUMENTATION (REVISED)

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## Introduction

1. This Practice Note provides guidance to auditors on the application of documentation requirements contained within the clarified International Standards on Auditing (ISAs) (UK and Ireland)<sup>1</sup> to the audit of financial statements of smaller entities in an efficient manner. It should be read in conjunction with the ISAs (UK and Ireland). It is not intended to be comprehensive guidance on the application of ISAs (UK and Ireland) to smaller audits<sup>2</sup>.
2. The guidance in this Practice Note is directed to auditors of smaller, simpler entities. Typically these would be entities where:
  - ownership is concentrated in a small number of individuals (sometimes a single individual) who are actively involved in managing the business; and
  - the operations are uncomplicated with few sources of income and activities; and
  - business processes and accounting systems are simple; and
  - internal controls are relatively few and may be informal.

Such entities are likely to include companies which are exempt from audit but which choose nonetheless to have a voluntary audit, small subsidiary companies, other smaller entities such as charities, as well as larger entities that are also relatively simple. However, a more detailed and rigorous approach may be necessary in smaller entities with complex operations or in respect of complex and subjective matters.

3. The guidance focuses on areas where feedback on the original implementation of the ISAs (UK and Ireland) in 2004 identified that further guidance on audit documentation could be helpful. For example, there can be uncertainty about the extent of documentation required to evidence the auditor's understanding of the entity, especially with regard to internal control<sup>3</sup>.

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- 1 The clarified ISAs (UK and Ireland) were issued by the APB in October 2009 and are effective for audits of financial statements for periods ending on or after 15 December 2010.
  - 2 The ISAs (UK and Ireland) also include guidance on considerations specific to smaller entities which may assist in the application of the standards.
  - 3 ISA (UK and Ireland) 315 requires the auditor to document key elements of understanding obtained regarding:
    - relevant industry, regulatory and other external factors including the applicable financial reporting framework;
    - the nature of the entity;
    - the entity's selection and application of accounting policies;
    - the entity's objectives and strategies;
    - the means by which the entity's financial performance is measured and reviewed; and
    - each of the internal control components (the control environment, the entity's risk assessment process, the information system, control activities, and monitoring controls).

4. There are many different ways in which audit documentation can be prepared to meet the requirements of ISA (UK and Ireland). The examples which are included in Appendix B to this document are illustrative of some of the possible ways in which compliance with the documentation requirements can be achieved. However, these illustrative examples are not mandatory.

#### **Purposes of audit documentation**

5. ISA (UK and Ireland) 230, "Audit Documentation," states that the objective of the auditor is to prepare documentation that provides:
  - (a) A sufficient and appropriate record of the basis for the auditor's report; and
  - (b) Evidence that the audit was planned and performed in accordance with ISAs (UK and Ireland) and applicable legal and regulatory requirements.
6. ISA (UK and Ireland) 230 explains that, in principle, compliance with the requirements of it will result in the audit documentation being sufficient and appropriate in the circumstances.
7. Some of the other ISAs (UK and Ireland) contain specific documentation requirements that are intended to clarify the application of ISA (UK and Ireland) 230 in the particular circumstances of those other standards. The absence of a documentation requirement in any particular ISA (UK and Ireland) is not intended to suggest that there is no documentation that will be prepared as a result of complying with that standard.
8. Importantly, ISA (UK and Ireland) 230 also explains that it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file (e.g. the existence of an adequately documented audit plan demonstrates that the auditor has planned the audit).
9. The auditor is required to prepare audit documentation on a timely basis. ISA (UK and Ireland) 230 explains that preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.
10. In addition to the objectives in paragraph 5, audit documentation serves a number of additional purposes, including:
  - assisting the engagement team to plan and perform the audit;

- assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA (UK and Ireland) 220, “Quality Control for an Audit of Financial Statements”;
  - enabling the engagement team to be accountable for its work;
  - retaining a record of matters of continuing significance to future audits;
  - enabling the conduct of quality control reviews and inspections in accordance with International Standard on Quality Control (ISQC) (UK and Ireland) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”; and
  - enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
11. Complying with the documentation requirements of the ISAs (UK and Ireland) can also assist the auditor’s consideration of the issues associated with significant matters arising during the audit. This often enhances the quality of the reasoning followed, the judgments made and the conclusions reached. In the UK and Ireland external monitoring of audits has consistently emphasised the need for high quality documentation of the rationale for the key audit judgments made in reaching the audit opinion. As noted in paragraph 13 below, documentation of significant professional judgements made in reaching important conclusions is now clearly identified as a requirement in ISA (UK and Ireland) 230.

### **Special considerations in the documentation of a smaller entity audit**

12. The nature and extent of audit documentation that is appropriate for an audit of a smaller entity is influenced by special considerations which arise from:
- the qualitative indicators of a simpler entity as set out in paragraph 2:
    - concentration of ownership and management;
    - uncomplicated operations;
    - simple accounting systems; and
    - relatively small number and informal nature of controls; and
  - the characteristics of a typical smaller entity audit team and the way in which they carry out the audit work, including:
    - the nature of the professional relationship between smaller entities and their auditors;
    - relatively small team size;
    - the use of proprietary audit systems.

13. Notwithstanding these special considerations, an audit of the financial statements for a smaller entity must still comply with the ISAs (UK and Ireland) and all audit documentation must be prepared in sufficient detail to enable an experienced auditor, having no previous connection with the audit, to understand:
- (a) The nature, timing, and extent of the audit procedures performed to comply with the ISAs (UK and Ireland) and applicable legal and regulatory requirements;
  - (b) The results of the audit procedures performed, and the audit evidence obtained; and
  - (c) Significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.

*Concentration of ownership and management*

14. The ownership of a smaller entity is often concentrated in a small number of individuals, one or more of whom are actively involved in managing the business on a day-to-day basis. In these circumstances, the auditor's documentation of the entity's ownership and governance arrangements is likely to be relatively brief.
15. Particular consideration and documentation may be needed of matters, such as family and other close relationships, which may impact the auditor's risk assessments in relation to related parties.

*Uncomplicated operations*

16. Smaller entities often have a limited range of products or services and operate from a limited number of locations, with the consequence that their processes and structures are uncomplicated. In circumstances where an entity's business, processes and structures are uncomplicated, the documentation of the auditor's understanding of such an entity's operations and of the relevant industry, regulatory and other external factors required under ISA (UK and Ireland) 315 is likely to be simple in form and relatively brief.
17. This understanding may be documented using, for example, free-form narrative notes or by completing a structured form. The notes may be maintained separately or incorporated in the documentation of the overall audit strategy required by ISA (UK and Ireland) 300.
18. To comply with the ISAs (UK and Ireland), it is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it. Key elements of the understanding documented by the auditor include those on which the auditor has based the assessment of the risks of material misstatement in the financial statements.

*Simple accounting systems*

19. Most smaller entities have a relatively uncomplicated accounting process. They are likely to employ few, if any, personnel solely engaged in record-keeping and there will be limited opportunities for segregation of duties.

20. Bookkeeping procedures and accounting records are often simple and there are usually no documented descriptions of accounting policies or procedures. Smaller entities are likely to use an off-the-shelf accounting package in producing their accounts. Understanding of the accounting package in question, including that gained from other audits, can help the auditor to identify and focus on areas of risk of misstatement that arise from the accounting system.
21. The audit documentation associated with the accounting system is likely to be relatively simple, focussing on how the main transaction cycles operate (including how a transaction originates and gets recorded) and highlighting the risks of material misstatement that arise from the nature of the systems in place<sup>4</sup>.

*Relatively small number and informal nature of controls*

22. In the audit of a smaller entity, the auditor may decide that most of the audit evidence will be obtained from substantive tests of detail. Notwithstanding this, as part of the process of assessing the risks of material misstatement, the auditor is required by ISA (UK and Ireland) 315 to obtain and document an understanding of the components of the entity's internal control relevant to the audit (including, for example, the control environment, information systems relevant to financial reporting, and control activities).
23. Size and economic considerations in smaller entities often reduce the opportunity for formal control activities, although some basic control activities are likely to exist for the main transaction cycles such as revenues, purchases and employment costs. Management's direct control over key decisions and the ability to intervene personally at any time to ensure an appropriate response to changing circumstances are often important features of the management of any entrepreneurial venture. For example, management's sole authority for granting credit to customers and approving significant purchases can provide strong control over those important account balances and transactions, lessening or removing the need for more detailed control activities. Furthermore, management often has a personal interest in safeguarding the assets of the entity, measuring its performance and controlling its activities, and so they will apply their own controls and develop their own key indicators of performance.
24. However, the dominant position of management in a smaller entity may be abused and can result in the override of controls and inaccurate accounting records. Furthermore, personal and business objectives can be inextricably linked in the mind of the owner-manager, which increases audit risk. For example, personal tax planning considerations

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<sup>4</sup> Auditors of UK companies will be conscious of their responsibilities under Section 498 of the Companies Act 2006 to carry out such investigations as will enable them to form an opinion as to whether adequate accounting records have been kept by the company. Equivalent requirements for the Republic of Ireland relate to proper books of account and are contained in section 193 of the Companies Act 1990.

might be important and could provide management with the motivation to bias the financial statements.

25. The extent and nature of management's involvement in internal control in a smaller entity is likely to be a key aspect in the documentation of the auditor's understanding of the entity and assessment of risk, including, for example:
- The evaluation of the control environment, including consideration of the attitude and motives of management based on prior year experience and the observation of management's actions during the audit.
  - Specific control activities relevant to the audit. These are likely to be limited but may include management's direct involvement in, and/or supervision of, controls that mitigate risks of material misstatement.
  - The key indicators used by management for evaluating financial performance.

*Nature of the professional relationship between smaller entities and their auditors*

26. Management of a smaller entity often need professional advice and assistance on a wide range of accounting and related financial and business issues which are not available "in-house", and it is common for the audit firm to provide non-audit services including accounting and taxation services. These services can enable the auditor to obtain useful information about the entity and about its objectives and strategies and the management style and ethos, as well as helping to keep the understanding of the entity up to date and so plan the audit efficiently.
27. In circumstances where the audit firm provides non-audit services, the auditor bears in mind the need to maintain objectivity when forming and expressing an opinion on the financial statements. When forming an opinion, but before issuing the report on the financial statements, the audit engagement partner reaches and documents an overall conclusion<sup>5</sup> that any threats to objectivity and independence have been properly addressed in accordance with APB Ethical Standards including, where appropriate, ES – Provisions Available for Small Entities<sup>6</sup>.
28. The documentation considerations associated with providing non-audit services include the following:

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5 As required by paragraphs 48 and 64 of ES 1.

6 ES – Provisions Available for Small Entities provides alternative provisions for auditors of Small Entities (size criteria for Small Entities are set out in paragraph 4) to apply in respect of certain threats arising from economic dependence and the provision of non-audit services and allows the option of exemptions from certain requirements in ES 1 to 5.

- To achieve completeness of 'audit documentation', any information, gained as a result of the provision of other services, which is used as audit evidence needs to be incorporated or cross-referenced into the audit documentation.
- The auditor's assessment of his or her objectivity and independence is documented, including a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level<sup>7</sup>.
- The respective responsibilities of the directors (or equivalent) and the auditor are documented in an engagement letter. This is particularly important where the audit firm is involved in the preparation of the financial statements.

*Relatively small audit team size*

29. Audits of smaller entities may be conducted by small audit teams, possibly involving the audit engagement partner working with one audit assistant (or without any audit assistants).
30. ISA (UK and Ireland) 230 explains that the audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement described in paragraph 13 above to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.
31. However, as the size of the engagement team increases, or where more inexperienced team members are introduced, more detailed documentation may assist the team in obtaining an appropriate understanding of the entity. There may also be more reviews performed in compliance with quality control policies and procedures, although the format of documentation for these reviews is not affected by the audit team size.
32. ISA (UK and Ireland) 230 suggests that when preparing audit documentation, the auditor of a smaller entity may find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality determined in accordance with ISA (UK and

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<sup>7</sup> As required by ES 1, paragraph 64, and ES 5, paragraph 37.

Ireland) 320, “Materiality in Planning and Performing an Audit”, assessed risks, significant matters noted during the audit, and conclusions reached.

*Use of proprietary audit systems*

33. Where the auditor of a smaller entity operates in a small practice, it is likely that use will be made of an audit methodology and/or audit software provided by an external supplier (proprietary systems). Proprietary systems are usually designed to deal with a wide variety of client situations. To be used efficiently and effectively, the auditor needs to think carefully about how the system should be tailored to each individual client entity.
34. Documentation of the understanding of the entity including its controls is usually embedded into proprietary systems by use of optional check lists or ‘white space’ techniques. A risk exists that less experienced staff might think that it is compulsory to comply with all elements of these systems, without tailoring the approach to the needs of the particular entity, and thereby prepare excessive, and often irrelevant and costly, audit documentation. Proper training and supervision of junior staff and communication within the engagement team can help to overcome this risk.
35. Even where a proprietary system is used, a free-form planning memorandum can be a good way of documenting the auditor’s understanding of the business and the basis for the risk assessments made. Such a memorandum can then easily be updated from one year to the next.

**Audit documentation requirements in ISAs (UK and Ireland)**

36. In addition to ISA (UK and Ireland) 230, several other ISAs (UK and Ireland) set out further specific audit requirements and guidance in relation to audit documentation.
37. Taking these requirements into account, the key matters to document are summarised in the table in Appendix A to the extent they apply in the context of the engagement. The requirements are summarised by audit phase:
  - general;
  - engagement acceptance and continuation;
  - planning the audit;
  - procedures performed in response to assessed risks;
  - completion and review of the audit; and
  - the auditor’s report.
38. Where requirements are clearly not applicable, there is no need to include any references to them in the audit working papers. For example, where the entity uses no service organisations, there is no need to include any reference to ISA (UK and Ireland) 402.

*Assembly of the final audit file*

39. ISA (UK and Ireland) 230 and ISQC (UK and Ireland) 1 also set out specific requirements and guidance in relation to the assembly of the final audit file and the confidentiality, safe custody, integrity, accessibility and retrievability and retention of engagement documentation.
40. With respect to individual engagements, ISA (UK and Ireland) 230 requires that:
- The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report (paragraphs 14 and A21-A22).
  - After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period (paragraphs 15 and A23).
  - In circumstances other than those envisaged in paragraph 13<sup>8</sup> of ISA (UK and Ireland) 230 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:
    - (a) The specific reasons for making them; and
    - (b) When and by whom they were made, and reviewed (paragraphs 16 and A24).

*Changes to documentation after the date of the auditor's report*

41. ISA (UK and Ireland) 230 recognises that in exceptional circumstances it may be necessary to change audit documentation after the date of the auditor's report. For example, when the auditor subsequently discovers facts that existed at the date of the auditor's report that, had the auditor been aware of them at the time, might have affected the auditor's report.
42. When such exceptional circumstances arise, requiring the auditor to perform new or additional audit procedures or leading the auditor to reach new conclusions, the auditor is required to document:
- (a) The circumstances encountered;
  - (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
  - (c) When and by whom the resulting changes to audit documentation were made, and reviewed (paragraphs 13 and A20).

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8 Paragraph 13 of ISA (UK and Ireland) 230 addresses exceptional circumstances where the auditor performs new or additional audit procedures.

**Appendix A – Summary of documentation requirements and guidance in ISAs (UK and Ireland)**

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
<b>General</b>			
– Identification of who performed audit work	ISA (UK and Ireland) 230, “Audit Documentation” 9(b)	Who performed the audit work and the date it was completed	
– Departures, if any, from a relevant requirement in an ISA (UK and Ireland)	ISA (UK and Ireland) 230 12	How the alternative procedures performed achieve the aim of that requirement and the reasons for the departure <sup>10</sup>	
– Audit procedures performed	ISA (UK and Ireland) 230 8	Sufficient detail to enable an experienced auditor, having no previous connection with the audit, to understand <sup>11</sup> : (a) The nature, timing, and extent of the audit procedures performed to comply with the ISAs (UK and Ireland) and applicable legal and regulatory requirements;	Example 11

9 This summarises the specific requirements in the ISAs (UK and Ireland), with footnote links to particular related guidance. It is necessary to refer to the relevant paragraphs in the standards for the full details of the specific documentation requirements and related guidance. UK and Ireland “pluses” in the standards are highlighted by shading.

10 ISA (UK and Ireland) 230 indicates that this documentation requirement does not apply to requirements that are not relevant in the circumstances, e.g. those relating to internal audit where there is no such function, or where a requirement is conditional and the condition does not exist (paragraph A19).

11 ISA (UK and Ireland) 230 indicates that the auditor need not include superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents (paragraph A4).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		(b) The results of the audit procedures performed and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.	
– Consideration of ethical requirements and, in particular, independence	ISA (UK and Ireland) 220 “Quality Control for an Audit of Financial Statements” 24(a), 24(b)	Issues identified with respect to compliance with ethical requirements and how they were resolved. Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions within the firm that support these conclusions.	
<b>Engagement acceptance and continuation</b>			
– Acceptance and continuance	ISA (UK and Ireland) 220 24(c)  ISQC (UK and Ireland) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” 27(c)	Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. If issues are identified relating to a decision to accept or continue a client relationship or specific engagement, how those issues were resolved.	

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
<p>– Terms of the engagement</p>	<p>ISA (UK and Ireland) 210, “Agreeing the Terms of Audit Engagements”  10</p>	<p>The agreed terms of the engagement are required to be recorded in an engagement letter or other suitable form of contract and include<sup>12</sup>:</p> <ul style="list-style-type: none"> <li>(a) The objective and scope of the audit;</li> <li>(b) The responsibilities of the auditor;</li> <li>(c) The responsibilities of management<sup>13</sup>;</li> <li>(d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and</li> <li>(e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.</li> </ul>	

12 Paragraph 11 of ISA (UK and Ireland) 210, indicates that if law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b) (see footnote 13). The guidance in ISA (UK and Ireland) 210 sets out further matters that the auditor may make reference to.

13 Paragraph 6(b) of ISA (UK and Ireland) 210 identifies those responsibilities of management where the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibility.

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
<b>Planning the audit</b>			
– Overall audit strategy	ISA (UK and Ireland) 300, “Planning an Audit of Financial Statements” 8, 12(a), 12(c)	<p>The key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team (e.g. regarding the overall scope, timing and conduct of the audit). Any significant changes made during the audit, the reasons therefore, and the overall strategy finally adopted; reflecting the appropriate response to the significant changes occurring during the audit.</p> <p>Paragraph 8<sup>14</sup> requires that in establishing the overall audit strategy, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Identify the characteristics of the engagement that define its scope;</li> <li>(b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;</li> </ul>	Examples 1 and 2

14 The guidance in ISA (UK and Ireland) 300 indicates that a suitable brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 8 (paragraphs A11 and A19). The Appendix to the standard lists examples of considerations in establishing the overall audit strategy.

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<ul style="list-style-type: none"> <li>(c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;</li> <li>(d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and</li> <li>(e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.</li> </ul>	
<p>– Materiality</p>	<p>ISA (UK and Ireland) 320, "Materiality in Planning and Performing and Audit" 14</p>	<p>The following amounts and the factors considered in their determination:</p> <ul style="list-style-type: none"> <li>(a) Materiality for the financial statements as a whole;</li> <li>(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;</li> <li>(c) Performance materiality; and</li> <li>(d) Any revision of (a)-(c) as the audit progressed.</li> </ul>	<p>Examples 1 and 2</p>

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
<p>– Audit plan, including procedures to respond to assessed risks</p>	<p>ISA (UK and Ireland) 300 9, 12(b), 12(c)</p>	<p>A description of<sup>15</sup>:</p> <ul style="list-style-type: none"> <li>(a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA (UK and Ireland) 315.</li> <li>(b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA (UK and Ireland) 330.</li> <li>(c) Other planned audit procedures that are required to be carried out so that the engagement complies with the ISAs (UK and Ireland).</li> </ul> <p>Any significant changes made during the audit, the reasons therefore, and the audit plan finally adopted; reflecting the appropriate response to the significant changes during the audit.</p>	

<sup>15</sup> The guidance in ISA (UK and Ireland) 300 indicates that the auditor may use standard audit programs or audit completion checklists tailored as needed to reflect the particular engagement circumstances (paragraph A17).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
<p>– Use of an auditor’s expert</p>	<p>ISA (UK and Ireland) 620, “Using the Work of an Auditor’s Expert” 11</p>	<p>The standard specifies matters to be agreed with the auditor’s expert, in writing when appropriate<sup>16</sup>.</p> <p>Whilst not stipulated in the standard, it is reasonable to expect that copies of any such written agreements will be included in the audit documentation.</p> <p>The matters to be agreed are:</p> <ul style="list-style-type: none"> <li>(a) The nature, scope and objectives of that expert’s work;</li> <li>(b) The respective roles and responsibilities of the auditor and that expert;</li> <li>(c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and</li> <li>(d) The need for the auditor’s expert to observe confidentiality requirements.</li> </ul>	

<sup>16</sup> The guidance in ISA (UK and Ireland) 620 indicates that matters relating to the nature, timing and extent of audit procedures may affect the level of detail and formality of the agreement with the auditor’s external expert, including whether it is appropriate that the agreement be in writing (paragraph A24). The guidance also indicates that the agreement between the auditor and an auditor’s external expert is often in the form of an engagement letter – the Appendix to the standard indicates matters that may be included in such an engagement letter, or in any other form of agreement with an external expert (paragraph A25).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
– Understanding of the entity and its environment	ISA (UK and Ireland) 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment" 32(b)	<p>Key elements of the understanding obtained regarding<sup>17</sup>:</p> <ul style="list-style-type: none"> <li>(a) Relevant industry, regulatory, and other external factors, including the applicable financial reporting framework.</li> <li>(b) Nature of the entity, including: <ul style="list-style-type: none"> <li>(i) its operations;</li> <li>(ii) its ownership and governance structures;</li> <li>(iii) the types of investments that the entity is making and plans to make, including investments in special purpose entities; and</li> <li>(iv) the way the entity is structured and how it is financed.</li> </ul> </li> <li>(c) Selection and application of accounting policies, including the reasons for changes thereto.</li> <li>(d) Objectives and strategies and those related</li> </ul>	Examples 3 and 4 (re (a) to (e))

17 The guidance in ISA (UK and Ireland) 315 indicates that the manner in which these matters are documented is for the auditor to determine using professional judgment. For example, in audits of small entities the documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan. Similarly, for example, the results of the risk assessment may be documented separately, or may be documented as part of the auditor's documentation of further procedures (see below re paragraph 28 of ISA (UK and Ireland) 330) (paragraph A131).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>business risks that may result in risks of material misstatement.</p> <p>(e) Measurement and review of the entity's financial performance.<sup>18</sup></p> <p>(f) Internal control, including:</p> <ul style="list-style-type: none"> <li>(i) The control environment.</li> <li>(ii) The entity's risk assessment process.</li> <li>(iii) The information system, including the related business processes, relevant to financial reporting, and communication.</li> <li>(iv) Control activities relevant to the audit.</li> <li>(v) Monitoring of controls.</li> </ul> <p>The sources of information from which the understanding was obtained.</p> <p>The risk assessment procedures performed. These are required to include (para 6):</p> <ul style="list-style-type: none"> <li>• Inquiries of management and others within the</li> </ul>	<p>Examples 6 and 7 (re (f))</p>

18 Smaller entities often do not have processes to measure and review financial performance. However, enquiries of management may reveal that they rely on certain key indicators for evaluating financial performance and taking appropriate evidence.

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.</p> <ul style="list-style-type: none"> <li>• Analytical procedures.</li> <li>• Observation and inspection.</li> </ul>	
<p>– Use of a service organisation by the audited entity</p>	<p>ISA (UK and Ireland) 402, "Audit Considerations Relating to an Entity Using a Service Organisation"</p> <p><i>This standard does not include any explicit documentation requirements. However, paragraph 9 stipulates matters the auditor obtains an understanding of, when an entity uses a service organisation, in meeting the requirements of paragraph 11 of ISA (UK and Ireland) 315. Paragraph 32(b) of ISA (UK and Ireland) 315 requires the auditor to document the key elements of the understanding of the entity identified in paragraph 11.</i></p>	<p>(a) The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;</p> <p>(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;</p> <p>(c) The degree of interaction between the activities of the service organisation and those of the user entity; and</p> <p>(d) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the</p>	

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>activities undertaken by the service organisation.</p> <p>(e) If the service organisation maintains all or part of a user entity's accounting records, whether those arrangements impact the work the auditor performs to fulfil reporting responsibilities in relation to accounting records that are established in law or regulation.</p>	
<p>– Assessment of the risks of material misstatement and, in particular, those risks related to fraud<sup>19</sup></p>	<p>ISA (UK and Ireland) 315 32(a), 32(c), 32(d)</p> <p>ISA (UK and Ireland) 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” 44(a), 44(b), 47</p>	<p>The discussion among the engagement team regarding the susceptibility of the entity’s financial statements to material misstatement due to error or fraud, the application of the applicable financial reporting framework to the entity’s facts and circumstances, and the significant decisions reached<sup>20</sup>.</p> <p>The identified and assessed risks of material misstatements, due to error or fraud, at the financial statement</p>	<p>Example 5 (re planning meeting)</p> <p>Examples 8 and 9 (re risk assessment)</p>

19 ISA (UK and Ireland) 240 expands on the standards and guidance in ISAs (UK and Ireland) 315 and 330. Presenting ISA (UK Ireland) 240 separately, rather than embodying its content in ISAs (UK and Ireland) 315 and 330, emphasises the importance of the auditor’s responsibility to consider fraud in an audit of financial statements. To comply with the requirements of ISA (UK and Ireland) 240, matters related to fraud need to be identifiable as such.

20 The requirement for there to be a discussion among the engagement team does not apply where the audit is carried out entirely by the engagement partner.

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>level and at the assertion level.</p> <p>Significant risks identified, if any, and the related controls about which the auditor has obtained an understanding.</p> <p>The risks identified, and the related controls evaluated, where it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures.</p> <p>If the auditor has concluded that there is not a significant risk due to fraud related to revenue recognition, the reasons for that conclusion.</p>	
<b>Procedures performed in response to assessed risks</b>			
<p>– Overall responses and specific procedures</p>	<p>ISA (UK and Ireland) 330, “The Auditor’s Responses to Assessed Risks” 28(a), 28(b)</p> <p>ISA (UK and Ireland) 240 45(a)</p>	<p>The overall responses to address the assessed risks of material misstatements due to error or fraud at the financial statement level, and the nature, timing and extent of further audit procedures performed.</p> <p>The linkage of those procedures with the assessed risks of material misstatement due to error or fraud at the assertion level.</p>	<p>Examples 8 and 9 re overall responses</p>

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
	ISA (UK and Ireland) 330 29	If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.	
– Identifying characteristics of the specific matters or items being tested	ISA (UK and Ireland) 230 9(a)	In documenting the nature, timing and extent of audit procedures performed – the identifying characteristics of the specific items or matters tested <sup>21</sup> .	
– Results	ISA (UK and Ireland) 330 28(c) ISA (UK and Ireland) 240 45(b)	Results, and conclusions where not otherwise clear, of audit procedures performed, including those designed to address the risk of management override of controls.	
– Agreement of financial statements to accounting records	ISA (UK and Ireland) 330 30	Demonstration that the financial statements agree or reconcile with the underlying accounting records.	
– Discussion of significant matters with management or others	ISA (UK and Ireland) 230 10	The significant matters discussed with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the	

<sup>21</sup> Identifying characteristics will vary with the nature of the audit procedure and the item or matter being tested. Paragraph A12 of ISA (UK and Ireland) 230 gives examples.

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		discussions took place <sup>22</sup> .	
– Information that is inconsistent with the auditor’s final conclusion regarding a significant matter	ISA (UK and Ireland) 230 11	How the auditor addressed the inconsistency <sup>23</sup> .	
– Non compliance, if any, with laws and regulations	ISA (UK and Ireland) 250 Section A, “Consideration of Laws and Regulations in an Audit of Financial Statements” 29  Section B: “The Auditor’s Right and Duty to Report to Regulators in the Financial Sector”  13, 16, A30	Identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity <sup>24</sup> .  Some laws and regulations in the UK and Ireland impose a responsibility on the auditor to report actual or suspected non-compliances to an appropriate authority (e.g. in relation to money laundering offences). Other matters may be reported to an appropriate authority in the public interest <sup>25</sup> .	

22 The guidance in ISA (UK and Ireland) 230 indicates that the documentation may include records, such as agreed minutes, prepared by the entity. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity (paragraph A14).

23 The guidance in ISA (UK and Ireland) 230 indicates that the auditor does not need to retain documentation that is incorrect or superseded (paragraph A15).

24 The guidance in ISA (UK and Ireland) 250, Section A, indicates that the documentation may include copies of records and documents, and minutes of discussions with management, those charged with governance or parties outside the entity (paragraph A21).

25 The guidance in ISA (UK and Ireland) 250, Section A, indicates that where the auditor becomes aware of a suspected or actual instance of non-compliance with law or regulations, which does not give rise

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>Whilst not stipulated in the standard, it is reasonable to expect that copies of any such reports will be included in the audit documentation.</p> <p>Again, whilst not stipulated in the standard, it is reasonable to expect that copies of any reports made to a regulator will be included in the audit documentation. When the initial report is made orally, the auditor is required to make a contemporaneous written record of the report and to confirm the matter in writing to the regulator. Matters to be included when making or confirming a report direct to a regulator are set out in paragraph 16 of the requirements.</p> <p>The guidance in paragraph A30 indicates that where matters may be reportable to a regulator the auditor needs to ensure that the facts and the basis for the auditor's decision (whether to report or not) is adequately</p>	

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to a statutory duty to report to an appropriate authority the auditor considers whether the matter may be one that ought to be reported to a proper authority, in the public interest. If, having considered any views expressed on behalf of the entity and in the light of any legal advice obtained the auditor concludes that the matter ought to be reported to an appropriate authority in the public interest, the auditor notifies those charged with governance in writing of the view and, if the entity does not voluntarily do so itself or is unable to provide evidence that the matter has been reported, the auditor reports it (paragraphs A19-4 and A19-5).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		documented, such that the reasons for that decision may be clearly demonstrated should the need to do so arise in future.	
– Accounting estimates	ISA (UK and Ireland) 540, "Auditing Accounting Estimates Including Fair Value Accounting Estimates and Related Disclosures" 23	The basis for the auditor's conclusions about the reasonableness of accounting estimates (and their disclosure) that give rise to significant risks.  Indicators of possible management bias, if any.	Example 10
– Related parties	ISA (UK and Ireland) 550, "Related Parties" 28	The names of identified related parties and the nature of the related party relationships.	
– Groups	ISA (UK and Ireland) 600, "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)" 50	(a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.  (b) The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of	Example 13 (re (a) and (b))

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>relevant parts of the component auditors' audit documentation and conclusions thereon.</p> <p>The guidance in paragraph A66-1 of ISA (UK and Ireland) 600 explains that in the UK the Companies Act 2006 requires that group auditors review for the purposes of the group audit the audit work conducted by other persons and record that review.</p> <p>(c) Written communications between the group engagement team and the component auditors about the group engagement team's requirements.</p>	
<p>– Internal audit</p>	<p>ISA (UK and Ireland) 610, "Using the Work of Internal Auditors" 13</p>	<p>If the external auditor uses specific work of internal auditors, the external auditor shall include in the audit documentation the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work.</p>	

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
– Concerns, if any, about going concern	ISA (UK and Ireland) 570, “Going Concern”  A19-2  ISA (UK and Ireland) 230  8(c), A8	The guidance in these two standards makes clear that in complying with the requirements of ISA (UK and Ireland) 230, paragraph 8(c), to document significant matters arising during the audit, the auditor documents concerns (if any) about the entity’s ability to continue as a going concern.	Example 11
– Directors’ report	ISA (UK and Ireland) 720  Section B, “The Auditor’s Statutory Reporting Responsibility in Relation to Directors’ Reports”  12	Results of procedures performed to assess whether the information in the directors’ report is consistent with the financial statements, including details of any material inconsistencies identified and how they were resolved.  The conclusion reached as to whether the information in the directors’ report is consistent with the financial statements.	
<b>Completion and review of the audit</b>			
– Consultation on difficult or contentious matters	ISA (UK and Ireland) 220  24(d)	Nature and scope of, and conclusions resulting from, consultations <sup>26</sup> .	

<sup>26</sup> The guidance in ISA (UK and Ireland) 220 indicates that documentation that is sufficiently complete and detailed contributes to an understanding of the issue and the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented (paragraph A35).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
– Differences of opinion between members of the engagement team and/or others consulted	ISQC (UK and Ireland) 1 44(a)	The conclusions reached.	
– Evaluation of misstatements	ISA (UK and Ireland) 450, “Evaluation of Misstatements Identified During the Audit”  15	(a) The amount below which misstatements would be regarded as clearly trivial; (b) All misstatements accumulated during the audit and whether they have been corrected; and (c) The auditor’s conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.	Example 12
– Communications, if any, about fraud	ISA (UK and Ireland) 240  46	Communications about fraud with management, those charged with governance, regulators and others.	

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
– Significant deficiencies in internal control	ISA (UK and Ireland) 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management" 9, 10(a), 11	Significant deficiencies in internal control are required to be communicated in writing to those charged with governance. They should also be communicated in writing to an appropriate level of management unless it would be inappropriate to communicate directly to management in the circumstances <sup>27</sup> .  Such written communications are required to include:  (a) A description of the deficiencies and an explanation of their potential effects; and (b) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that: (i) The purpose of the audit was for the auditor to express an opinion on the financial statements;	

<sup>27</sup> The guidance in ISA (UK and Ireland) 265 indicates that the level of detail at which to communicate significant deficiencies is a matter of the auditor's professional judgment in the circumstances. In the case of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of larger entities (paragraphs A15 and A18).

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		<p>(ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and</p> <p>(iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.</p>	

**Example documentation: for illustrative purposes only**

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
– Communications with those charged with governance	ISA (UK and Ireland) 260 “Communication with Those Charged With Governance” 23	Matters required to be communicated by ISA (UK and Ireland) 260 that are communicated orally, including when and to whom they were communicated <sup>28</sup> .  Copies of communications made in writing (e.g. regarding significant deficiencies in internal control – see above).	
– Identification of reviewer	ISA (UK and Ireland) 230 9(c)	Who reviewed the audit work and the date and extent of the review <sup>29</sup> .	
– Engagement Quality Control Review <sup>30</sup>	ISQC (UK and Ireland) 1 42  ISA (UK and Ireland) 220 25	Confirmation that:  (a) The procedures required by the firm’s policies on engagement quality control review have been performed.  (b) The engagement quality control review has been completed on or before the date of the auditor’s report.	

28 The guidance in ISA (UK and Ireland) 260 indicates that this documentation may take the form of a copy of minutes prepared by the entity where those minutes are an appropriate record of the communication (paragraph A45).

29 The guidance in ISA (UK and Ireland) 230 indicates that the requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed (paragraph A13).

30 Engagement quality control reviews are not required for all audits. Further requirements on the nature and scope of these reviews are set out in paragraphs 35 to 41 of ISQC (UK and Ireland) 1, and paragraphs 19 to 21 of ISA (UK and Ireland) 220.

**Example documentation: for illustrative purposes only**

Subject Matter	ISA/ISQC (UK and Ireland) paragraphs setting out requirements	Key matters to document <sup>9</sup>	Example documentation included in this PN
		(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.	
– Management representations	ISA (UK and Ireland) 580, “Written Representations”	Written representations from management <sup>31</sup> .	
<b>The auditor’s report</b>			
	ISA (UK and Ireland) 700, “The Auditor’s Report on Financial Statements”	Whilst not addressed by ISA (UK and Ireland) 700, it is reasonable to presume that the auditor will keep a copy of the auditor’s report.	

<sup>31</sup> The guidance in ISA (UK and Ireland) 580 indicates that In view of their importance, it is appropriate for written representations that are critical to obtaining sufficient appropriate audit evidence to be provided by those charged with governance rather than the entity’s management (paragraph A2-1).

***Example documentation: for illustrative purposes only***

**Appendix B – Illustrative examples of audit documentation**

This appendix includes a number of illustrative examples of audit documentation. The examples focus on:

- (i) Elements of audit planning, including understanding of the entity, internal control and risk assessment. These represent the areas where most “new” requirements were added as a result of the introduction of ISAs (UK and Ireland) in 2004 and feedback indicated that further guidance on documentation would be particularly helpful.
- (ii) Some of the documentation requirements introduced in the clarified ISAs (UK and Ireland) for audits of financial statements for periods ending on or after 15 December 2010. These examples cover materiality, evaluation of misstatements, and aspects of the planning memorandum for a group audit.
- (iii) Audit procedures performed on an accounting estimate.
- (iv) The auditor’s conclusions on going concern.

There are a number of different ways in which the audit documentation requirements can be fulfilled. The examples illustrate this by demonstrating more than one technique in a number of areas for the audit of a fictitious company, Bulls Hotel and Restaurant Limited (with the exception of Example 13, which illustrates a group of companies). The examples do not represent a comprehensive set of audit working papers and do not necessarily identify all the risks associated with a business of the nature described. They are not intended to set a minimum standard of documentation and other approaches to documentation can be used in practice. For example, it would be possible to prepare one planning document covering all of the matters dealt with in examples 1 to 9. The level of documentation necessary on an audit will vary depending on the circumstances of the entity and the risks relating to a particular area.

Explanations are written out in full in these examples. Shorter bullet point lists, employing abbreviations, may be suitable in some circumstances provided that the meaning is unambiguous.

**Example documentation: for illustrative purposes only**

<b>Area of documentation</b>	<b>Illustrative approach</b>	<b>Page</b>
Audit strategy	Example 1 – Audit strategy memorandum Example 2 – Audit strategy referencing other documents on file	36 40
Understanding the entity	Example 3 – Free-form notes Example 4 - Based on a checklist	42 46
Audit team planning meeting	Example 5 – Excerpt from meeting using a pre-set agenda	51
Controls documentation	Example 6 – Free-form notes Example 7 – Based on a checklist and systems diagrams	55 60
Risk assessment	Example 8 – Based on risks Example 9 – Based on assertions	64 66
Audit working papers	Example 10 – Property valuation Example 11 – Going concern	68 70
Completion	Example 12 – Evaluation of misstatements identified during the audit	72

Example relating to a different case study entity:

Group audits	Example 13 – Excerpt from group planning memorandum	74
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*Example documentation: for illustrative purposes only*

## Example 1 – Audit strategy memorandum<sup>1</sup>

**Client:** Bulls Restaurant and Hotel Limited

**Year end:** 31 January 20X1

### Characteristics of the engagement

- Small private company registered in England and Wales.
- Family company with two non-family shareholders and a number of related party transactions during the year.
- Accounts are prepared under the FRSSE.
- Accounting services, including payroll, provided by the part-time bookkeeper.

The permanent file documentation provides further information on understanding the business, the control environment and internal controls.

### Timing of reporting

- Year end is 31<sup>st</sup> January.
- Audit fieldwork during May.
- Partner to meet with directors to discuss results and accounts signed in mid-June.

### Significant factors

#### *Materiality*

#### *Materiality for the financial statements as a whole*

Materiality for the financial statements as a whole has been set at £13,500. This is based on 5% of an estimated profit before tax figure<sup>2</sup> of £270,000, which is a consistent basis to that used in previous audits. An unadjusted profit before tax figure is appropriate as there are no exceptional items affecting profit before tax and the levels of directors' remuneration are not abnormally high.

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1 Documentation requirement at ISA (UK and Ireland) 300 paragraph 12(a) and ISA (UK and Ireland) 320 paragraph 14.

2 Profit before tax has been used in this example, but other bases (for example, turnover or balance sheet totals) and other percentages may be appropriate based on the auditor's judgment.

**Example documentation: for illustrative purposes only***Lower levels of materiality for specific items*

Users of the accounts are the shareholders and the bank. A lower level of materiality has been set in respect of the following classes of transactions, account balances and disclosures:

- Transactions between the company and individual family owners (relevant to the non-family shareholders) £6,000

*Performance materiality*

In assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures performance materiality has been set at £10,000 (and £5,000 for transactions between the company and individual family owners). This is judged to be sufficient as, on the basis of past audit errors (which have been primarily of a cut-off nature), there is a low probability that the aggregate of uncorrected and undetected misstatements will exceed the overall materiality.

**Internal control**

- No past history of management override of controls. Audit staff will be briefed to remain alert to this risk.
- Managements' attitude towards internal control is very positive
- There are particular internal controls that we can plan to rely on.
- These are documented in the systems information (Ref: C43).

**Results of previous audit**

No matters were identified during the previous audit to suggest a significant change in audit approach is needed.

**Developments in the business**

The audit manager held a preliminary meeting with management on 18<sup>th</sup> January. The purpose of this meeting was to:

- discuss the nature, timing and extent of the audit work; and
- enquire whether there have been any developments in the business since the last audit that may impact the audit of the current period.

There have been no significant changes in the business activities since the last audit and no changes in the client's staff. The current poor economic climate has led to a downturn in trading (turnover reduced by 10% to £2.7m), but the directors believe the

**Example documentation: for illustrative purposes only**

company is still performing relatively well given the circumstances and are confident that the ability to continue as a going concern is not threatened.

The Freehold property was re-valued last year. However, in light of general falls in property values since then the client believes that a significant reduction in value should be recognised in the accounts this year.

**Risk assessment procedures performed**

A preliminary analytical review of the December 20X0 management accounts was carried out (ref B34). The figures reflect a downturn in the current year’s trading levels (consistent with fall in occupancy levels). No unusual relationships were identified in gross profit figures and business appears to be continuing as normal.

The significant risks are:

- Property valuation;
- Incomplete sales recording due to high volume of cash transactions.

Further details on these risks and other matters giving rise to significant risks and how they will be addressed are documented in the Understanding of the Entity (Ref: AB2).

**Nature, timing and extent of resources allocated**

Paul Cox has been the audit engagement partner for the past eight years. Sarah Cole has been the audit manager since the audit for the year ended 20W7. The main audit work this year will be carried out by a student in their final year of training.

The audit timetable is as follows:

Planning	<ul style="list-style-type: none"> <li>• Amend audit strategy</li> <li>• Update permanent file information</li> <li>• Prepare audit programs</li> </ul>	2 days	January 20X1
Stock-count	Junior member of staff to attend	1 day	1 February 20X1
Final audit	This will commence with the audit team planning meeting in the office before transferring to the client’s premises Manager review Partner review	2 weeks	Commencing 10 May 20X1 19 May 20X1 21 May 20X1
Sign-off	Final meeting with client for approval of the accounts and signature Signing the audit report		Provisional date – 2 June 20X1 Mid-June 20X1

***Example documentation: for illustrative purposes only***

Prepared by Sarah Cole      Date 18<sup>th</sup> January 20X1  
Approved by Paul Cox      Date 20<sup>th</sup> January 20X1

***No revisions to these items were found to be necessary during the course of the audit.***

Sarah Cole      Date 19<sup>th</sup> May 20X1  
Paul Cox      Date 21<sup>st</sup> May 20X1

*Example documentation: for illustrative purposes only*

## Example 2 – Audit strategy referencing other documents on file<sup>3</sup>

Client:	Bulls Restaurant and Hotel Limited
Year end:	31 January 20X1
Prepared by:	Sarah Cole
Approved by:	Paul Cox 20 <sup>th</sup> January 20X1
Information sources	Meeting with management on 18 January 20x1

Factors to consider	Notes	Ref
<b>Characteristics of the engagement</b>		
<ul style="list-style-type: none"> <li>Financial reporting framework</li> <li>Industry specific reporting requirements</li> <li>Need for expert</li> </ul>	Small family company. Accounts prepared using the FRSSE. Further detail is in understanding the business	AB1
<b>Reporting objectives, timing of the audit and nature of communications</b>		
<ul style="list-style-type: none"> <li>Reporting timetable</li> <li>Meetings with management and those charged with governance</li> <li>Audit team communications</li> </ul>	Accounts to be signed by mid-June. Sign off meeting with directors provisionally arranged for 2 June 20X1 Stock count 1 February 20x1. Audit team planning meeting 10 May 20x1. Manager review at client site 19 May 20x1. Partner review in the office 21 May 20x1.	
<b>Significant factors</b>		
<ul style="list-style-type: none"> <li>Determination of materiality considering turnover, PBT and net assets</li> </ul>	<b>Materiality:</b> Financial statements as a whole £13,500 <b>Specific items</b> Transactions with family members £6,000 <b>Performance materiality:</b> Financial statements as a whole £ 10,000	AB10

<sup>3</sup> Documentation requirement at ISA (UK and Ireland) 300, paragraph 12(a) and ISA (UK and Ireland) 320, paragraph 14.

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
	Specific items: Transactions with family members	£5,000
<b>Result of preliminary engagement activities</b>		
<ul style="list-style-type: none"> <li>• Areas with high risk of material misstatement</li> <li>• Results of previous audits</li> <li>• Internal control</li> <li>• Significant business and other developments</li> </ul>	<p>December 20X0 management accounts reflect a downturn in trading (consistent with fall in occupancy levels). No unusual relationships were identified in gross profit figures and business is continuing as normal.</p> <p>The significant risks are:</p> <ul style="list-style-type: none"> <li>• Property valuation;</li> <li>• Incomplete sales recording due to high volume of cash transactions.</li> </ul> <p>See notes in understanding the business.</p> <p>No matters in previous audit suggesting a significant change in audit approach is needed.</p> <p>See controls documentation.</p> <p>No significant changes in business activities.</p>	<p>B34</p> <p>AB2</p> <p>C43</p>
<b>Nature and extent of resources</b>		
<ul style="list-style-type: none"> <li>• Engagement team</li> <li>• Budget</li> </ul>	<p>Engagement partner – Paul Cox</p> <p>Audit manager – Sarah Cole</p> <p>In-charge – Richard Cannon</p> <p>Total budgeted costs – £15,000</p>	AD6

***No revisions to these items were found to be necessary during the course of the audit.***

Sarah Cole      Date 19<sup>th</sup> May 20X1

Paul Cox        Date 21<sup>st</sup> May 20X1

*Example documentation: for illustrative purposes only*

## **Example 3 – Free-form notes of Understanding the entity<sup>4</sup>**

**Client:** Bulls Restaurant and Hotel Limited

**Year end:** 31 January 20X1

### *Nature of the entity*

Bulls Restaurant and Hotel Limited is a company that owns and operates a restaurant and hotel property in Manchester city centre. This property comprises a three storey building (wine bar on the ground floor, restaurant on the first floor and ballroom on the top floor) and an adjoining luxury hotel property of 10 en-suite rooms and 2 large family suites.

The company qualifies as a small company:

- Turnover is £3 million.
- Balance sheet total is £3.5 million.
- There are 25 permanent employees and a pool of approximately 15 casual staff who are used when special events are held.

The accounts have been audited for many years, despite an exemption being available prior to a property revaluation in 20X0. The directors chose to have a voluntary audit for a number of reasons. In particular, Lisa Swann (one of the shareholders) suggested it would be valuable from a control viewpoint and in order that future expansion might be eased. Once the property was reflected at its current market value in the accounts, the audit exemption was no longer available.

Revenue is generated from two sources – Food and Beverage (the wine bar, restaurant and function room) (70%) and Room revenue from the hotel (30%). A high proportion of transactions are cash based, which leads to a fraud risk that revenue is understated.

A local brewer supplies all alcohol and soft drinks – long established relationship. The hotel business is reliant on travel agent and internet related bookings.

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4 Documentation requirement at ISA (UK and Ireland) 315, paragraph 32(b).

**Example documentation: for illustrative purposes only**

*Industry factors*

Regeneration of Manchester city centre brought in a large number of competitors a few years ago. Occupancy rates of 80% and average room rate were maintained during this time but this resulted in a squeeze on margins as costs of supply increased.

Customers are now demanding a higher quality dining experience. Bulls is set up to provide this, and are not planning to apply for a change in their licence in order to be able to open later (currently 11 p.m. in the wine bar, 12 midnight in the restaurant and 1 a.m. in the function suite) in order to maintain their current clientele.

The business is subject to seasonal variation. This is most pronounced during December, when Christmas events increase turnover by over 100% and casual staff are employed for a large proportion of the time during this month.

*Regulatory factors*

- Environmental health inspections continue to be thorough and turn up areas for improvement.
- National minimum wage legislation is relevant.
- Tax treatment of gratuity payments was under dispute, but has now been agreed by HMRC.
- Health and Safety at work and fire safety legislation is relevant – there are a number of hazardous environments, especially in kitchen areas.
- A premises licence is held for the sale and supply of alcohol and provision of entertainment.

*Ownership and governance*

Single company owned by two family shareholders with a number of other shareholders. The directors and shareholders are as follows:

			Shareholding
Directors:	Fred Bull	Brother	40%
	Jo Giles	Sister	40%
Other shareholders:	Terry Bull	Father	10%
	Mark Quinn	Family friend	5%
	Lisa Swann	Family friend	5%

The directors are in a dominant position. However, past experience indicates that the non-director shareholders have an active involvement in the business and their

**Example documentation: for illustrative purposes only**

professional capacities (a surveyor and accountant) help to prevent the directors from being able to abuse their position.

*Related parties*

A number of large functions have been held at the hotel for family and friends of the directors in the past. These have typically been invoiced at reduced rates compared to other customers, but have not been material and payments have been received promptly.

Terry Bull runs a local meat distribution company – Melville Foods. Much of the fresh meat used in the restaurant and for functions are supplied by this company, representing approximately 20% of the food costs of the company.

*Fixed assets*

The freehold property is continually refurbished in order to maintain its value.

*Organisational structure and financing*

Company originally set up with share finance and bank loans (now repaid). The company has an overdraft facility of £50,000. The maximum amount of this facility that is utilised during a year is typically £25,000. Annual meetings are held with a bank representative at which time the overdraft limit and covenants and any other loan facilities required for the forthcoming year are agreed.

*Accounting policies*

The company follows the FRSSSE. The directors revalued the property last year and now need to keep this valuation up to date.

*Objectives and strategies and related business risks*

The operations have remained unchanged for a number of years, including the IT (EPOS and accounting) infrastructure. Management want to raise the standard of the restaurant and gain higher quality ratings in hotel and restaurant listings. Directors are researching the possibility of a second (rural) location: they propose to fund such expansion largely through bank finance.

*Measurement and review of financial performance*

Management review monthly management accounts prepared by a part-time bookkeeper, that include a comparison with budgets which are prepared by the directors. KPIs include occupancy, average room rate, covers served, turnover and rooms, food and beverage gross profit margins. Following a squeeze on margins a few years ago these have been steady for a number of years.

Originally prepared by Sarah Cole Date June 20w8

**Example documentation: for illustrative purposes only**

Sources of information referred to:

- discussion with Fred Bull and Jo Giles;
- share register;
- review of financial statements;
- management accounts;
- review of debtor and creditor listings; and
- company website (accessed on 16 June 20W8).

Updated for 20X1 audit by Sarah Cole Date January 20X1

Continuing relevance of the information above confirmed by discussion on 18<sup>th</sup> January with Fred Bull and Stacey Burrows, the bookkeeper.

***Impact on the audit – risks of material misstatement relevant to audit for the year ended 31 January 20X1***

***At the Financial Statement Level***

1. *No pervasive risks of material misstatement have been identified. The assessment of risk at the financial statement level is “low”.*

***At the Assertion Level***

2. *Family company means related party transactions likely to occur, but may not be classified as such (R102).*
3. *Possible unrecorded liabilities resulting from fines and other liabilities arising from reviews by EHOs and HMRC – in the past few years there has been a potential liability relating to the tax treatment of gratuity payments (R101).*
4. *The directors believe that there has been a material change in the value of the property since it was re-valued last year for the first time. They will provide an estimated value for use in the accounts. **This constitutes a significant risk** (R103).*
5. *There is a high level of cash transactions leading to a potential loss through misappropriation. **This constitutes a significant risk** (R104).*

*Example documentation: for illustrative purposes only*

## Example 4 – Understanding the entity based on a checklist<sup>5</sup>

Client:	Bulls Restaurant and Hotel Limited
Year end:	31 January 20X1
Objective:	To obtain an understanding of the entity and its environment sufficient to identify and assess the risks of material misstatement of the financial statements
Method:	Review notes from prior year audit, make enquiries of management, review recent industry press and management accounts.
Information sources:	Share register, management accounts, debtor and creditor listings, company website (accessed 16 June 20 <sup>9</sup> W8)

Factors to consider	Notes	Ref
<b>Industry, regulatory and other external factors</b>		
<b>Industry conditions</b>		
<ul style="list-style-type: none"> <li>Market and competition</li> <li>Cyclical/seasonal activity</li> <li>Product technology</li> <li>Energy supply and cost</li> </ul>	<p>The company owns and operates a restaurant and hotel. Regeneration in Manchester brought in a large number of competitors and it is still a competitive market. Occupancy rates of 80% and average room rates have been maintained, but margins are tight.</p> <p>Customers are demanding a higher quality dining experience. Bulls is set up to provide this but it needs to be worked at in order to maintain this profile.</p> <p>The business is subject to seasonal variation. This is most pronounced during December when Christmas events increase turnover by over 100% and casual</p>	

<sup>5</sup> Documentation requirement at ISA (UK and Ireland) 315, paragraph 32(b).

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
	staff are employed for a large part of the month.	
<b>Regulatory environment</b>		
<ul style="list-style-type: none"> <li>• Accounting principles and industry specific practices</li> <li>• Legislation and regulation</li> <li>• Taxation</li> <li>• Government policies</li> <li>• Environmental requirements</li> </ul>	<p>Environmental health inspections continue to be thorough and highlight areas for improvement.</p> <p>National minimum wage, fire safety and health and safety legislation are relevant.</p> <p>Tax treatment of gratuity payments was under dispute but is now agreed by HMRC.</p> <p>Premises licence held.</p>	R101
<b>Other factors affecting the business</b>		
<ul style="list-style-type: none"> <li>• General level of economic activity</li> <li>• Interest rates</li> <li>• Inflation</li> </ul>	The company has maintained performance during the current year and management accounts and forecasts indicate a small profit for the year is likely.	
<b>Nature of the entity</b>		
<b>Business operations</b>		
<ul style="list-style-type: none"> <li>• Nature of revenue sources</li> <li>• Products, services and markets</li> <li>• Conduct of operations</li> <li>• Alliances, joint ventures and outsourcing activities</li> <li>• Involvement in e-commerce</li> <li>• Geographic dispersion</li> <li>• Industry segmentation</li> <li>• Key customers</li> <li>• Important suppliers</li> <li>• Employment</li> <li>• Research and development activities</li> </ul>	<p>Revenue is generated from two sources – the wine bar, restaurant and function room (70%) and rooms in the hotel (30%). A high proportion of these are cash transactions.</p> <p>A local brewer supplies all alcohol and soft drinks and this is a long established relationship. The hotel business is reliant on travel agent and internet related bookings.</p> <p>This is a family company so related party transactions are likely to occur but</p>	R102

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
<ul style="list-style-type: none"> <li>• Related parties</li> </ul>	<p>may not be classified as such. One family shareholder runs Melville Foods which supplies meat to Bulls, representing approximately 20% of the food costs of the company.</p>	
<b>Investments</b>		
<ul style="list-style-type: none"> <li>• Acquisitions/mergers/disposals</li> <li>• Securities and loans</li> <li>• Capital investment activities</li> <li>• Investments in non-consolidated entities</li> </ul>	<p>The freehold property is continually refurbished to maintain value.</p>	
<b>Financing</b>		
<ul style="list-style-type: none"> <li>• Group structure</li> <li>• Debt structure</li> <li>• Leasing</li> <li>• Beneficial owners</li> <li>• Related parties</li> <li>• Use of derivative financial instruments</li> </ul>	<p>80% of the issued share capital is held by the directors (J Bull and J Giles) who are brother and sister. Three non-director shareholders each own 5-10% share capital and are effective in preventing management abusing their position. The company was originally set up with share finance and bank loans (now repaid) and now has an overdraft facility of £50K. The facility is fully utilised a couple of times a year but typically runs at £25K.</p>	
<b>Financial Reporting</b>		
<ul style="list-style-type: none"> <li>• Accounting principles and industry specific practices</li> <li>• Revenue recognition practices</li> <li>• Fair value accounting</li> <li>• Inventories</li> <li>• Foreign currency</li> <li>• Industry specific categories</li> </ul>	<p>The company follows the FRSSE. The directors revalued the property for the first time last year and now this value must be kept up to date.</p>	R103

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
<ul style="list-style-type: none"> <li>• Unusual or complex transactions</li> <li>• Financial statement presentation and disclosure</li> </ul>		
<b>Objective and strategies and related business risks</b>		
<p>How does the client address industry, regulatory and other external factors:</p> <ul style="list-style-type: none"> <li>• Industry developments</li> <li>• New products and services</li> <li>• Expansion of the business</li> <li>• New accounting requirements</li> <li>• Regulatory requirements</li> <li>• Current and prospective financing requirements</li> <li>• Use of IT</li> </ul> <p>What effect will implementing this strategy have on the entity?</p>	<p>The operations have remained unchanged for a number of years, including the IT (EPOS and accounting) infrastructure. The management wish to raise the standard of the restaurant and gain higher quality ratings in hotel and restaurant listings. The board are researching the possibility of a second rural location.</p>	
<b>Measurement and review of the entity's financial performance</b>		
<ul style="list-style-type: none"> <li>• Key ratios and operating statistics</li> <li>• Key performance indicators</li> <li>• Employee performance measures and incentives</li> <li>• Trends</li> <li>• Use of forecasts, budgets and variance analysis</li> <li>• Analyst and credit rating reports</li> <li>• Competitor analysis</li> <li>• Period on period financial performance</li> </ul>	<p>Management review monthly accounts prepared by a part-time bookkeeper which include comparison with budgets. KPIs include occupancy, average room rate, turnover and gross profit margin. These have been steady for a number of years.</p>	

**Example documentation: for illustrative purposes only**

**Risks of material misstatement arising from Understanding the Entity**

*No pervasive risks of material misstatement have been identified. The assessment of risk at the financial statement level is "low".*

*R101 – Possible unrecorded liabilities resulting from fines and other liabilities arising from reviews by EHOs and HMRC – in the past few years there has been a potential liability relating to the tax treatment of gratuity payments.*

*R102 – Family company means related party transactions likely to occur, but may not be classified as such.*

*R103 – The high value of property and the need for an annual review for any material change in value represents a significant accounting estimate.*

***This constitutes a significant risk.***

*R104 – There is a high level of cash transactions leading to a potential loss through misappropriation. ***This constitutes a significant risk.****



**Example documentation: for illustrative purposes only**

**1. Notes of team discussion on consideration of any known external and internal factors that may result in fraud:**

- (a) Due to the nature of the business there is a risk of cash and liquor stock theft (R104, R105).
- (b) Generally, culture/environment is good with internal controls in place, but audit staff need to remain alert to management override of controls.
- (c) Segregation of duties in place over sales with responsibilities split between restaurant manager, receptionist and bookkeeper.
- (d) While management are in a dominant position, two directors' signatures are required on all cheques and non-director shareholders are actively involved in the business.
- (e) Purchases from and sales to related parties (directors and Melville Foods) could be made not at arms length (R102).
- (f) Fred Bull has complained about the amount of corporation tax and VAT the company is paying and has asked whether there are ways it could be reduced. He indicated, however, that he would not want the company to mislead HMRC deliberately and risk penalties (R106).

**2. Team response to the assessed risks of material misstatement due to fraud including any additional work required**

- (a) Addressed in audit work on sales completeness.
- (b) Confirm control consciousness of management by observation during the audit and be alert for management override of controls when testing journal entries and accounting estimates. Identify any transactions outside the normal course of business.
- (c) Ensure that split of responsibilities is maintained by observation and walkthrough tests.
- (d) Review Board meeting minutes to confirm attendance of non-director shareholders.
- (e) Review invoicing for functions held for directors (unlikely to be material) and review invoices from Melville Foods.
- (f) Remain alert for mis-accounting, particularly in relation to matters affecting tax, e.g. expenditure v capital.

**Example documentation: for illustrative purposes only****B. Susceptibility of the financial statements to material misstatements due to error**

The term 'error' refers to an unintentional misstatement in the financial statements, including the omission of an amount or a disclosure, such as:

- A mistake in gathering or processing data from which financial statements are prepared;
- An incorrect accounting estimate arising from oversight or misinterpretation of facts; or
- A mistake in the application of accounting principles relating to measurement, recognition, classification, presentation or disclosure.

**1. Notes of team discussion on consideration of any known external and internal factors that may result in error**

- (a) Large number of small transactions so generally if errors arise should be small.
- (b) Some manual processes, e.g. transfer of till rolls to spreadsheet, which could result in error. If material should be identified by sales review (R201).
- (c) Lack of preparation of debtors listing could lead to errors arising due to bad debts not being identified (R202).

**2. Team response to the assessed risks of material misstatement due to error together with additional testing required**

- (a) Generally susceptibility to error is low, subject to items b) and c) identified above.
- (b) Unlikely to result in material misstatement: ensure that bank reconciliation control is operating effectively.
- (c) Request directors to compile a year-end debtors listing and match invoices to cash received after year end.

**Example documentation: for illustrative purposes only**

**C. Communication with other team members**

The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.

*As all team members were present at the meeting, no further communication required.*

**OVERALL CONCLUSION**  
**(subject to points carried forward in the final notes)**

*Specific risks of material misstatement and responses are noted above and have been recorded in risk assessment work papers. There is a limited risk of material misstatement at the financial statement level as there are few external users of the financial statements, the business is well-controlled and related parties are limited to family members.*

**Signed:** *P Cox*  
.....

**Date:** *14th May 20X1*  
.....

*Example documentation: for illustrative purposes only*

## Example 6 – Free-form notes of controls documentation<sup>7</sup>

Client: Bulls Restaurant and Hotel Limited  
Year end: 31 January 20X1

### *Control environment*

Directors' meetings are held on a bi-monthly basis, where management accounts are reviewed and business operational matters are discussed. Non-director shareholders (including a professional accountant and surveyor) are personal friends or family of the two main directors and are invited to these meetings. A high level of reliance is placed on the part-time bookkeeper and the restaurant manager, who have been with the company for a number of years, and no significant problems with their work have been encountered in previous audits. The bookkeeper is a member of the Institute of Certified Bookkeepers.

Management's attitude to internal control is a very positive one. The two directors make a point of reviewing the records of the previous day's sales with key staff and holding regular staff meetings to emphasise the importance of maintaining both quality and control.

### *Risk assessment process*

No formal process in place. Directors have an understanding of the key risks to the business:

- |                     |   |
|---------------------|---|
| Reputational risks: | <ul style="list-style-type: none"> <li>○ Possible failure of health and safety systems, resulting in poor reputation and possible fines or requirements for capital investment (R101).</li> <li>○ Loss of customers resulting from poor reviews or experience of "loutish behaviour" (R301).</li> </ul> |
|---------------------|---|

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<sup>7</sup> Documentation requirement at ISA (UK and Ireland) 315 paragraph 32(b).

**Example documentation: for illustrative purposes only**

- Financial risks:
- Losses due to stock shrinkage (R105).
  - High level of cash transactions leading to potential loss through misappropriation (R104).
  - Poor cash flow management (R302).
  - Credit facilities given to corporate clients who are not credit-worthy (R303).

**Information system**

Food and beverage transactions are recorded on EPOS terminals in situ. Room revenue is generated from a separate hotel computer system. All revenues are totalled daily and input manually to the ACT accounting system. All systems have been in place for a number of years. ACT has been experienced at a number of other small clients in the firm.

**Monitoring controls**

Formal monitoring controls consist of:

- The directors review the monthly stock-take information and follow up any shrinkage with bar staff.
- The monthly bank reconciliation is reviewed by one of the directors.

Originally prepared by Sarah Cole Date June 20<sup>08</sup>

Continuing relevance of the information above confirmed by discussion with Fred Bull and Stacey Burrows, the bookkeeper. These monitoring controls have been found by previous audits to have operated effectively in prior years. They will be tested again this year.

Internal control notes updated

for 20X1 audit by Sarah Cole Date January 20X1

**Impact on the audit – risks of material misstatement relevant to audit for the year ended 31 January 20X1**

A high volume of cash transactions (combined with manual transfers of information from till rolls to a spreadsheet summary and then to the accounting

**Example documentation: for illustrative purposes only**

system) increases the risks of inaccuracies in the sales cycles for all sources of revenue.

*Information system and control activities – extract from notes relevant to sales cycle*

This is an extract of information from the permanent audit file, which is relevant only to liquor sales in the wine bar, restaurant and function room.

***Liquor sales******Sources of income***

*Wine bar (40%), restaurant (35%), function room (25%)*

***Methods of recording orders***

*Alcoholic and soft drinks are all served from the bar areas in the wine bar, restaurant and function room. In the wine bar and function room these are dealt either:*

- On a cash basis, where details of the drinks served are input to the EPOS system terminal and payment is made by the customer at the time of serving.*
- On credit, where a tab is opened on the EPOS terminal and either a credit card is retained behind the bar for use in settling the account when the guests are leaving or an invoice is made up on the following day from the details recorded.*

*In the restaurant, the orders are input to a waiter's terminal by waiting staff and paid for by the guest at the end of the meal. Drinks are served from the bar area in accordance with what has been input to the system.*

***Method of ensuring all sales are recorded***

*At the end of each day (or shift), all EPOS terminal till rolls are printed. A Z-reading is taken and the hash total at the bottom of the till roll is reconciled to the previous Z-reading. Beverage sales totals are input from the till rolls to a summary spreadsheet maintained by the restaurant manager, together with an analysis of credit card and cash takings and amounts to be invoiced.*

**Example documentation: for illustrative purposes only**

Invoices are made up for credit sales in the function room by the restaurant manager or one of the directors using the information recorded by the EPOS terminal. These are handwritten and are taken from a pad with pre-printed serial numbers.

***Accounting records and method of use***

Information on sales totals is taken from the spreadsheet maintained by the restaurant manager and input directly to the ACT accounting system on a weekly basis by the bookkeeper.

At the end of each month an independent stocktake is carried out on all bar stocks (excluding hotel mini-bar stock). Closing stock values are input to the general ledger and gross profit margins monitored by the directors. Any variations in stock shrinkage from the norm are followed up with bar staff.

The bookkeeper reconciles the cash and credit card receipts with cash banked and receipts recorded on the bank statements. She also maintains a file of all unpaid invoices from the function room and where cash is received in the post, this is matched to these invoices. The file is reviewed on an ad hoc basis by one of the directors and clients are chased for payment where appropriate.

***Impact on the audit – risks of material misstatement***

R104 There is a fraud risk arising from the possible misappropriation of cash when cash sales are not input to an EPOS terminal. ***This is a significant risk.*** In relation to this, the independent monthly stocktake provides a mitigating control by highlighting stock shrinkages that are outside the norm (follow up of shrinkages has led to staff being dismissed in the past). ***This control will be tested.***

R201 A high volume of cash transactions (combined with manual transfers of information from till rolls to a spreadsheet summary and then to the accounting system) increases the risks of inaccuracies in the sales cycle.

**Example documentation: for illustrative purposes only**

R202 No debtors listing is maintained and follow up of unpaid invoices is done on an ad hoc basis. This leads to a risk that bad debts are not provided for – past experience suggests a reluctance to accept that particular debts are “bad”. Christmas and New Year functions are material and some debtors relating to this period are still outstanding two months after the year end.

R203 Deposit invoices raised in advance of a function may be treated as sales at the time of invoicing rather than the date of the function, creating a possible cut-off error.

Originally prepared by Sarah Cole Date June 20<sup>th</sup> 08

Continuing relevance of the information above confirmed by discussion with Fred Bull and Stacey Burrows, the bookkeeper.

Updated for 20X1 audit by Sarah Cole Date January 20X1

*Example documentation: for illustrative purposes only*

## Example 7 – Controls documentation based on a checklist and systems diagrams<sup>8</sup>

Client: Bulls Restaurant and Hotel Limited  
 Year end: 31 January 20X1  
 Objective: To obtain an understanding of internal control sufficient to identify and assess the risks of material misstatement of the financial statements  
 Method: Review notes from prior year audit, make enquiries of management and perform walk through tests on transaction cycles.

Factors to consider	Notes	Ref
<b>Control environment</b>		
<ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Management's attitude to internal controls is a very positive one. Directors make a point of reviewing the records of the previous day's sales with key staff and holding regular staff meetings to emphasise the importance of maintaining both quality and control.</p> <p>Directors' meetings are held every two months where management accounts are reviewed and business operational matters are discussed. Non-director shareholders (including a professional accountant and surveyor) are invited to these meetings.</p> <p>A high level of reliance is placed on the part time bookkeeper and the restaurant manager (both have been with the co. for a number of years and no significant problems encountered in previous audits). The bookkeeper is a member of the Institute of Certified Bookkeepers.</p>	

<sup>8</sup> Documentation requirement at ISA (UK and Ireland) 315, paragraph 32(b).

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
<b>Entity's risk assessment process</b>		
<ul style="list-style-type: none"> <li>• Changes in operating environment</li> <li>• New personnel or information systems</li> <li>• Rapid growth</li> <li>• New technology, business models, products or activities</li> <li>• Corporate restructurings</li> <li>• Expanded foreign ops</li> <li>• New accounting pronouncements</li> </ul>	<p>No formal process is in place. Directors have an understanding of the key risks to the business:</p> <ul style="list-style-type: none"> <li>• reputational risk (due to the failure of HES systems &amp; loss of customers from poor reviews), and</li> <li>• financial risks (due to stock shrinkage, misappropriation of cash, poor cash flow management and bad debts).</li> </ul>	
<b>Information system</b>		
<ul style="list-style-type: none"> <li>• Infrastructure and software</li> <li>• Document individual transaction cycles</li> <li>• Individual roles and responsibilities</li> <li>• Financial and accounting manuals</li> </ul>	<p>Food and beverage transactions recorded on EPOS terminals in situ. Room revenue is generated from a separate hotel computer system. Sales totals are taken from each system daily and input manually to the ACT accounting system. ACT accounting system is used by bookkeeper to prepare trial balance information.</p>	R201
<b>Control activities</b>		
<ul style="list-style-type: none"> <li>• Performance reviews</li> <li>• Information processing</li> <li>• Physical controls</li> <li>• Segregation of duties</li> </ul>	<p>See systems documentation on transaction cycles in Profit and Loss section:</p> <ul style="list-style-type: none"> <li>• Sales, Purchases, Payroll</li> </ul> <p>Segregation of duties in place over sales with responsibilities split between restaurant manager, receptionist and bookkeeper.</p>	P20-23

**Example documentation: for illustrative purposes only**

Factors to consider	Notes	Ref
<b>Monitoring of controls</b>		
<ul style="list-style-type: none"> <li>• Ongoing activities</li> <li>• Separate evaluations</li> <li>• Internal audit</li> <li>• Use of external information</li> </ul>	<p>Directors review monthly stock takes and follow up any shrinkage with bar staff. The monthly bank reconciliation is reviewed by one of the directors. These monitoring controls have been found by previous audits to have operated effectively in prior years. They will be tested again this year.</p>	

**Risks of material misstatement arising from Components of internal control**

*R201 – A high volume of transactions (combined with manual transfers of information from till rolls to a spreadsheet summary and then to the accounting system) increases the risks of inaccuracies in the sales cycle.*

*Arising from systems documentation of beverage sales at P20:*

*R104 – There is a fraud risk arising from the possible misappropriation of cash when cash sales are not input to an EPOS terminal. **This is a significant risk.** In relation to this the independent monthly stocktake provides a mitigating control by highlighting stock shrinkages that are outside the norm (follow up of shrinkages has led to staff being dismissed in the past). **This control will be tested.***

Ref: P20

**Example documentation: for illustrative purposes only**

Beverage sales cycle – systems documentation

Transaction initiation and processing	Responsibility	Frequency	Controls in place over assertions	Risk
<pre> graph TD     A[Details of F&amp;B input to EPOS. Master price list held in system and applied to each item automatically.] --&gt; B[Payment made by customer and input to EPOS.]     B --&gt; C[Sales totals taken from till rolls and input to spreadsheet.]     C --&gt; D[Spreadsheet information used to update ACT.]     E[Function room invoices prepared for credit sales from customer and notes on pricing kept in function diary.] -.-&gt; C                     </pre>	<p>Bar and restaurant staff</p> <p>Bar and restaurant staff</p> <p>Restaurant manager</p> <p>Bookkeeper</p>	<p>As F&amp;B are ordered</p> <p>When F&amp;B ordered or customer leaves</p> <p>At end of each shift</p> <p>Weekly</p>	<p>C – No detailed control in place. Directors review daily sales totals and follow up where lower than expected. O, A, L – Customer would complain if not served with F&amp;B ordered or charged more than expected.</p> <p>C – Directors review gross margins and monthly stock take and follow up any shrinkages with bar staff. O, A – total for cash taken is reconciled to total charges at the end of each shift and followed up by restaurant manager</p> <p>C, F – Manager logs till roll from each terminal and checks Z-totals. Directors review daily sales totals and follow up where lower than expected. Function room invoices pre-numbered. O, A – Bank reconciliation performed monthly, reviewed by director.</p> <p>C, O, A – Bank reconciliation performed monthly, reviewed by director.</p>	<p>R104- Misappropriation of cash at point of sale</p> <p>R201 – Manual posting errors</p>

Key to assertions: O = Occurrence, C = Completeness, A = Accuracy, F = Cutoff, L = Classification

Example documentation: for illustrative purposes only

## Example 8 – Risk assessment based on risks<sup>9</sup>

Beverage sales and debtors cycle  
SALES and TRADE DEBTORS – SUMMARY of RISKS OF MATERIAL MISSTATEMENT and  
AUDIT RESPONSE

Risk of material misstatement identified	Significant risk? (this is a fraud risk?)	Mitigating internal controls	Likelihood of risk resulting in material misstatement	Assertions impacted	Audit procedures <i>These procedures are specific to this example only. They are not exhaustive and will not necessarily be useful in relation to similar risks in other circumstances.</i>	Audit program reference
R104 – Misappropriation of cash at point of sale	✓ (this is a fraud risk)	Independent monthly stocktake to identify abnormal stock shrinkages	High	<b>Sales:</b> Completeness <b>Debtors:</b> Completeness	Review records of monthly stocktakes. Ascertain follow-up taken where margins out of line with expectation.	
R201 – Manual posting errors from till rolls and invoices to ACT via spreadsheet		Monthly bank reconciliation will identify cash received but no sale posted	Med	<b>Sales:</b> Completeness, Accuracy, Classification <b>Debtors:</b> Valuation	Review monthly bank reconciliations and ensure outstanding items clear during following month. For sample of dates, check sales totals from till rolls and invoices to spreadsheets and accounting system.	

9 Documentation requirements at ISA (UK and Ireland) 315, paragraph 32(c) and (d), ISA (UK and Ireland) 240, paragraph 44(b) and 45(a), ISA (UK and Ireland) 330, paragraph 28(a) and (b).

**Example documentation: for illustrative purposes only**

Risk of material misstatement identified	Significant risk?	Mitigating internal controls	Likelihood of risk resulting in material misstatement	Assertions impacted	Audit procedures <i>These procedures are specific to this example only. They are not exhaustive and will not necessarily be useful in relation to similar risks in other circumstances.</i>	Audit program reference
R202 – Bad debts not provided for or written off			Med	<b>Debtors:</b> Valuation	From client debtor listing match invoices to cash received after year end or include in discussion of bad debts.	
R203 – Sales not recorded or re-recorded in wrong period			Med	<b>Sales:</b> Completeness, Cutoff <b>Debtors:</b> Completeness	Check sample of function diary entries back to invoices to confirm sales recorded.  Check sample of invoices back to function diary to confirm sales recorded in the correct period.	

Example documentation: for illustrative purposes only

## Example 9 – Risk assessment based on assertions<sup>10</sup>

**Beverage sales and debtors cycle**  
**SALES and TRADE DEBTORS – RISK ASSESSMENT and AUDIT APPROACH SUMMARY**

<p><b>As a result of the issues considered during the planning, note here the risks of material misstatement associated with the audit of this section:</b></p> <p>R204 (H) Due to the nature of the business there is a fraud risk of cash pilferage. Cash sales might not be input to EPOS at the point of sale and cash relating to these unrecorded sales stolen by bar and restaurant staff. <b>This is a significant risk.</b></p> <p>R201 (M) Manual transfer of amounts from invoices, till rolls and spreadsheets could create errors.</p> <p>R202 (M) No debtors listing is maintained by the client with follow up of unpaid invoices not done systematically and bad debts not provided for.</p> <p>R203 (M) Sales recorded in wrong period</p>	
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Assertion	Risks of material misstatement	Control in operation	Tests of control (programme reference)	Substantive procedures (programme reference)
<b>Sales</b>				
Occurrence	None		These procedures are specific to this example only. They are not exhaustive and will not necessarily be useful in relation to similar risks in other circumstances.	
Completeness	Risk – i.e. liquor sales	Monthly independent stocktake and review by directors will pick up significant amounts of pilferage.	Review records of monthly stocktakes. Ascertain follow up taken where margins out of the with expectation (TC 2).	Check sample of function diary entries back to invoices to confirm sales recorded.

10 Documentation requirements at ISA (UK and Ireland) 315, paragraph 32(c) and (d), ISA (UK and Ireland) 240, paragraph 44(b) and 45(a), ISA (UK and Ireland) 330, paragraph 28(a) and (b).

**Example documentation: for illustrative purposes only**

Assertion	Risks of material misstatement	Control in operation	Tests of control	Substantive procedures
			<p><i>These procedures are specific to this example only. They are not exhaustive and will not necessarily be useful in relation to similar risks in other circumstances.</i></p>	
	R201	<p>Monthly bank reconciliation will identify cash received but no sale posted</p>	<p>Review monthly bank reconciliations and ensure outstanding items clear during following month (TD 6).</p>	<p>For sample of dates, check sales totals from till rolls and invoices to spreadsheets and accounting system (ST 4)</p>
Accuracy	R201	<p>See above – monthly bank reconciliation</p>	<p>See above – review monthly bank reconciliations</p>	<p>See above – test postings for a sample of dates</p>
Cut off	R203	<p>Pre-numbered function room invoices</p>		<p>Check sample of invoices back to function diary to confirm sales recorded in the correct period (ST 7)</p>
Classification	R201	<p>See above – monthly bank reconciliation</p>	<p>See above – review monthly bank reconciliations</p>	<p>See above – test postings for a sample of dates</p>
<b>Debtors</b>				
Existence	None			
Rights and obligations	None			
Completeness	R104, R201, R203	<p>See above – independent stocktake and gross profit review, monthly bank reconciliation and pre-numbered invoices</p>	<p>See above – review records of monthly stocktakes and review monthly bank reconciliations</p>	<p>See above – test postings for a sample of dates and check sample of invoices back to function diary</p>
Valuation and allocation	R201	<p>See above – monthly bank reconciliation</p>	<p>See above – review monthly bank reconciliations</p>	<p>See above – test postings for a sample of dates</p>
	R202	<p>None</p>		<p>Flow client debtor listing match invoices to cash received after year end and on include in discussion of bad debts (DT 5)</p>

*Example documentation: for illustrative purposes only*

## Example 10 – Audit working paper: property valuation<sup>11</sup>

**Client:** Bulls Restaurant and Hotel Limited

**Year end:** 31 January 20X1

Prepared by: Sarah Cole Date: 18 May 20X1

Reviewed by: Paul Cox Date: 21 May 20X1

The freehold property was valued by XYZ surveyors last year at £2.5 million. Once revalued, the FRSSSE requires a fixed asset to be carried at its market value at the balance sheet date. As property prices generally have reduced over the past year, the likely decline in the value of the property has been identified as a significant risk. Management confirm that they believe that there has been a material change in value this year, which should be recognised in the accounts.

Mark Quinn, a shareholder who is a qualified surveyor (confirmed with current list of RICS members) with a practice specialising in commercial property, has provided an estimate of the current value at £2 million. This was arrived at on the basis of his knowledge of a similar type of hotel property located outside the Manchester city centre being sold for £2.3 million in December 20X0. It was adjusted downwards due to that property being in better condition and slightly larger. The reduction in value of £500,000 has been properly accounted for and taken to the statement of recognised gains and losses in the accounts as it reverses a previous revaluation upwards.

While FRS15 requires an internal revaluation to be reviewed by an external qualified valuer, the FRSSSE requires a revaluation to be undertaken by an experienced valuer and does not specify an external valuation. Bulls have therefore not engaged an external expert to advise on market value.

Work undertaken during the audit:

1. The basis for this estimate is set out in working paper E12. We have checked the sale price of the Manchester property, reviewed the sales particulars and discussed the assumptions underlying this estimate with Mark and they seem reasonable. Alternative assumptions were also discussed.

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<sup>11</sup> Documentation requirement at ISA (UK and Ireland) 540, paragraph 23.

**Example documentation: for illustrative purposes only**

2. A range of possible values for the property was constructed from the following sources of information:

<i>Source of information</i>		<i>Possible valuation</i>
UK Quarterly Property Index	UK commercial property fell by 24% in 20X0	£1.9 million
XYZ Surveyors report on local property mkt.	12% fall in value for commercial property in Manchester over past year	£2.2 million
Christie & Co survey of hotel and pub property market	17.5% fall in values of hotels, restaurants and pubs in North of England to September 20X0	£2.06 million

3. Disclosures made in the accounts in connection with the fixed asset valuation and the movement on the revaluation reserve were reviewed. These make it clear that there is estimation uncertainty and that the current value is based on an internal estimate.
4. The valuation of the property will be included as a specific item in the written representation.

**Conclusion:**

- The market value falls within a reasonable range.
- Even though the valuation has been performed by a shareholder director, there is no evidence to suggest that the valuation is biased.
- There is adequate disclosure of the estimation uncertainty in the financial statements.

*Example documentation: for illustrative purposes only*

## Example 11 – Audit working paper: going concern<sup>12</sup>

**Client:** Bulls Restaurant and Hotel Limited

**Year end:** 31 January 20X1

Prepared by: Richard Cannon Date: 18 May 20X1

Reviewed by: Sarah Cole Date: 19 May 20X1

Trading during the current economic conditions has been 10% down on previous years, although Bulls have been able to reduce costs. Management have prepared a cash flow forecast for the 12 months from the year end date (1 February 20X1 to 31 January 20X2) – file ref. L12. This exercise involved the shareholder, Lisa Swann (who is an accountant), in addition to Fred and Jo. It formed the basis of a discussion with the company's bankers at a meeting in February X1 where the overdraft facility was agreed for a further year to 28 February 20X2.

Work undertaken during the audit:

1. Discussed with management their plans for the company for the 18 months to 31 July 20X2 (more than 12 months after the expected date of approval of the accounts). They expect that there will be no further deterioration in trading levels, meaning that the maximum overdraft during the period will be £30,000, which is £20,000 short of the current overdraft facility. Budgets prepared by management in the past have proved to be reasonably accurate.
2. Reviewed figures included in the cash flow forecast for 12 months to 31 January 20X2. These have been prepared on the basis of:
  - Trading at January 20X1 levels continuing until late in 20X1, when a slow recovery is assumed.
  - Gross profit margins being maintained at recently experienced levels.
  - Previously planned expansion being delayed until late in 20X2 at the earliest.
3. Compared cash flow forecasts for the first three months of the year to actual results. No significant differences noted in turnover and gross profit margins.

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<sup>12</sup> Documentation requirement at ISA (UK and Ireland) 230 paragraph 8(c) – significant matters arising during the audit.

***Example documentation: for illustrative purposes only***

4. Obtained a copy of the letter to the company agreeing the overdraft facilities to 28 February 20X2 (ref. F40). The directors have stated that they have no reason to believe that the overdraft facility (which is not dependent on the property valuation) will not be successfully renegotiated in February 20X2.

Conclusion: Although the current economic outlook is uncertain there are no indications that Bulls will not continue in operational existence for at least one year from the date of approval of the accounts. Disclosures made in the financial statements in connection with this matter are clear and understandable.

*Example documentation: for illustrative purposes only*

## Example 12 – Evaluation of misstatements identified during the audit<sup>13</sup>

**Client:** Bulls Restaurant and Hotel Limited

**Year end:** 31 January 20X1

All errors identified during audit testing are documented within the relevant audit papers. Misstatements below £100 are considered to be clearly trivial and have not been recorded below.

### Schedule of audit adjustments

#### Adjusted

Errors which have been adjusted in the financial statements have a combined net effect of increasing profit by £995:

	Balance Sheet		Profit & loss		Cross reference
	Dr £	Cr £	Dr £	Cr £	
1 Profit and loss – administrative expenses			350		D24
Creditors – accruals		350			
<i>Being under-accrual for electricity</i>					
2 Creditors – taxation	2,345				L65
Profit and loss – taxation				2,345	
<i>Being adjustment to tax computation</i>					
3 Profit and loss – administrative expenses			1,000		D41
Creditors – accruals		1,000			
<i>Being under-accrual for liquor licence fine</i>					
<b>Impact on profit – increase</b>				<b><u>995</u></b>	

<sup>13</sup> Documentation requirement at ISA (UK and Ireland) 450, paragraph 15.

**Example documentation: for illustrative purposes only****Unadjusted**

The following error was also identified during our audit work.

	Balance Sheet		Profit & loss		Cross reference
	Dr	Cr	Dr	Cr	
	£	£	£	£	
1 Profit and loss – administrative expenses			5,000		F33
Debtors – trade debtors		5,000			
<i>Being unprovided amount on disputed debt</i>					
<b>Impact on profit for the year – decrease</b>			<b><u>5,000</u></b>		

When the bad debt was discussed with Fred Bull, there was a difference of view about the recoverability of this debtor balance and he decided not to adjust for it within the financial statements. We consider this to be over-optimistic. However, the impact is not material to the financial statements and the unadjusted misstatement from last year in respect of holiday pay (£3,580) has reversed through the profit and loss account this year, so mitigating the current year impact.

A written confirmation that the directors do not wish to make an adjustment to the financial statements in this respect and their reasons for not doing so are included in the letter of written representation (ref P13).

**Overall conclusion**

Uncorrected misstatements are not material, either individually or in aggregate.

*Example documentation: for illustrative purposes only*

## **Example 13 – Extract from Group planning memorandum<sup>14</sup>**

*This is an example for a different company to that illustrated elsewhere in this Practice Note. Although the group is small, they have chosen to produce group accounts and to have these audited although not all the subsidiaries need to be audited.*

### **Group audit approach**

Group materiality is set at £22,500. Performance materiality for the group accounts is £20,000 and materiality for the subsidiary audits is £15,000. We will audit the parent company's holdings of investments in the subsidiaries to a materiality of £15,000. The approach for each of the subsidiary companies is set out on the following page.

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14 Documentation requirement at ISA (UK and Ireland) 600, paragraph 50(a) and (b).

**Example documentation: for illustrative purposes only**

Component	Revenue – £m	Profit – £'000	Significant risks		Type of work	Auditors	Extent of involvement
			Individual financial significance	Significant risks			
Sub 1	2.0	100	✓		Full audit to materiality of £15,000	Network firm	<ul style="list-style-type: none"> <li>• Phone call at planning stage to component management to understand developments in the business.</li> <li>• Phone network firm at planning stage to discuss and agree risk assessment.</li> <li>• Request memorandum from other audit firm regarding audit findings in respect of significant risks.</li> </ul>
Sub 2	2.5	300	✓		Full audit to materiality of £15,000	Other auditors	<ul style="list-style-type: none"> <li>• Meet component management at planning stage.</li> <li>• Meet other audit firm at planning stage to consider risks and review firm's risk documentation.</li> <li>• Review working papers at year end.</li> </ul>
Sub 3	0.5	(10)			Review of financial statements	Group	–
Sub 4	0.4	20		✓	Audit of investments	Group	–
Sub 5	0.1	10			Analytical procedures at group level	Group	–
	5.5	450					

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