

ISA 230 – Audit Documentation

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Auditor should identify **sufficient, reliable, relevant and useful information** to provide factual basis for audit opinions.

Documentation is
not just a piece of
paper.
It is an **Audit
Evidence**

Objective

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 and applicable legal and regulatory requirements.

Definitions in ISA 230

- (a) **Audit documentation** – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).
- (b) **Audit file** – One / more folders or other storage media, in physical / electronic form, containing records that comprise the audit documentation for a specific engagement.
- (c) **Experienced auditor** – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:
 - (i) Audit processes;
 - (ii) ISAs and applicable legal and regulatory requirements;
 - (iii) The entity’s business environment; and
 - (iv) Auditing and financial reporting issues relevant to the entity’s industry.

Purpose

1. Increasing the economy, efficiency and effectiveness of the audit.
2. Assisting the audit team in documenting the overall audit strategy & planning/performing the audit
3. Facilitating the direction, supervision and review of the audit work
4. Recording the audit evidence generated by the audit procedures that are undertaken to justify and support the auditor's opinion
5. Enabling the engagement team to be accountable for its work

Purpose – continued

6. Retaining record of matters of continuing significance relevant to future audits
7. Enabling an experienced auditor, having no connection with the audit, to understand the audit process and its conclusions.
8. Facilitating the quality control reviews and inspections for audit work in accordance with ISQC 1 review

What's its importance?

- ▶ Initially, W/Ps provide a framework for **planning** the audit, then for **conducting and recording** the audit and finally for **showing the key evidence** that **supports the conclusions** reached and the audit opinion.
- ▶ *So* – Documentation prepared at the time the **work is performed** is likely more accurate than that prepared subsequently.

It enhances the **quality** of the audit and facilitates the **effective review and evaluation** of the audit evidence obtained

What's its importance? – continued

- ▶ It also facilitates the **conclusion** reached before the auditor's report is finalized.
- ▶ In this context **working papers will facilitate ensuring following matters:**
 - **Conclusions** drawn are consistent with audit work;
 - **Errors** and irregularities found are documented;
 - Proposed audit **adjustments** have been recorded;
 - Points of **further investigation** are noted;

Issues raised by regulators regarding the documentation

- ▶ Worldwide regulators complain about being poor
- ▶ Too much documentation in some established and low risk areas and not enough in other difficult areas
- ▶ Poor evidence of link between risk/control analysis and procedures performed – problems identified but not addressed
- ▶ Sample sizes being cut, materiality levels being raised, analytical procedures not being used much
Without documenting the justification of this –big issues

Documentation – Real Problem

- ▶ **Excessive documentation** for compliance purposes is real problem – keeps auditors from engaging with the client
- ▶ **Largely a product** of inefficient audit methodologies – leading to under/ over-auditing
- ▶ **Poor documentation** by auditors – for example
 - **Keeping interesting but irrelevant information** on the file
 - **Full documents** rather than extracts
 - **Not making use of facilities** for electronic cross-referencing
 - **Poor checklists** used indiscriminately without thought

Form, Content & Extent

Working papers should be **sufficiently** complete and detailed – (Documentation of Good Quality)

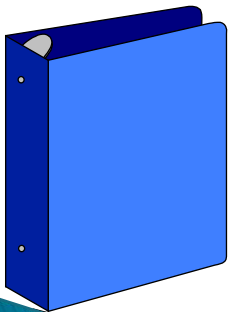
HOW? the extent to which an experienced auditor, having no previous connection with the audit, is able to understand:

- ▶ **The NET**– nature, timing, and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;
- ▶ **The results** of the audit procedures and the audit evidence obtained; and
- ▶ **Significant matters** arising during the audit and the **conclusions reached** thereon & the significant professional judgment used.

Then the Sufficiency of Audit Documentation

- Enable an experienced auditor to understand the work performed and the significant conclusions reached
- Identify who performed & reviewed the work
- Show that the accounting agree or reconcile to the financial statements

- ▶ **Audit documentation should include all significant audit findings and the actions taken to address them**



Types of Audit Documentation

They may be recorded on **paper** or on **electronic** or other **media**.

Examples of audit documentation include:

- ▶ Audit programs.
- ▶ Analyses.
- ▶ Work Lead Schedules
- ▶ Issues memoranda.
- ▶ Summaries of significant matters.
- ▶ Letters of confirmation and representation.
- ▶ Checklists.
- ▶ Correspondence (including e-mail/notes of oral conversation) concerning significant matters.

Types of Audit Documentation

- ▶ The auditor may include abstracts or copies of the entity's records

(for example, significant and specific contracts and agreements) as part of audit documentation.

Audit documentation, however, is not a substitute for the entity's accounting records.

The auditor needs not include in audit documentation Superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

What makes W/P self-explanatory?

- ▶ Working paper are signed, dated and indexed;
- ▶ All subsidiaries are cross referenced;
- ▶ Lead schedule agree with trial balance and financial statements;
- ▶ Work has been done in accordance with audit program;
- ▶ Time spent has been recorded;

Factors to Consider

In determining the form, content and extent of audit documentation, the following factors (not inclusive); *no matter what type of client we are auditing*, should be considered:

- ▶ **The nature** of the engagement (e.g. listed, private or public sector entity) and procedures to be performed to support
- ▶ **the report given** (e.g. audit, assurance, review).
- ▶ **The nature, size and complexity** of the entity, its environment and controls.
- ▶ **The identified risks** of material misstatement in the financial statements.
- ▶ **The reliance** to be placed on control effectiveness.

Factors to Consider (continued)

- ▶ **The extent of judgment required** in carrying out the work and evaluating the results.
- ▶ **The audit methodology and tools used** (e.g. computer assisted audit techniques).
- ▶ **Standardization**
- ▶ **The extent of schedules, analyses and other documentation prepared** by the entity.
- ▶ **The significance** of the evidence obtained.
- ▶ The nature and extent of **exceptions** identified.
- ▶ The need and extent for **direction, supervision and review** of :
 - **tasks** assigned to assistants.
 - the **audit team**

- ▶ It is, however, neither necessary nor practicable to document every matter the auditor considers during the audit.
- ▶ **Oral explanations** by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation (ISA 230 para A5)

If it's not documented ... it wasn't done!

Standardization

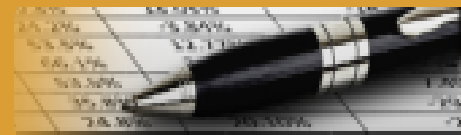
It is common practice for audit firms to use standard preprinted documentation on audit engagements. For example:

- ▶ Audit completion disclosure and other checklists.
- ▶ Internal Control Questionnaires/Evaluation Questionnaires.
- ▶ Audit programs.
- ▶ Specimen letters (e.g. written representations from management).
- ▶ Indices for standard organization of working papers.

Standardization

- ▶ Wherever standard documentation is used it is essential that the documentation is:
 - tailored for each individual client (e.g. work programs to address assessed risks; written representations to reflect different circumstances); and
 - kept up-to-date for changes in ISA, IFRS, laws and regulations (e.g. IFRS checklist, engagement letters).

Example 1 Standardisation



Suggest THREE advantages and THREE disadvantages of standardising audit working papers.

Solution

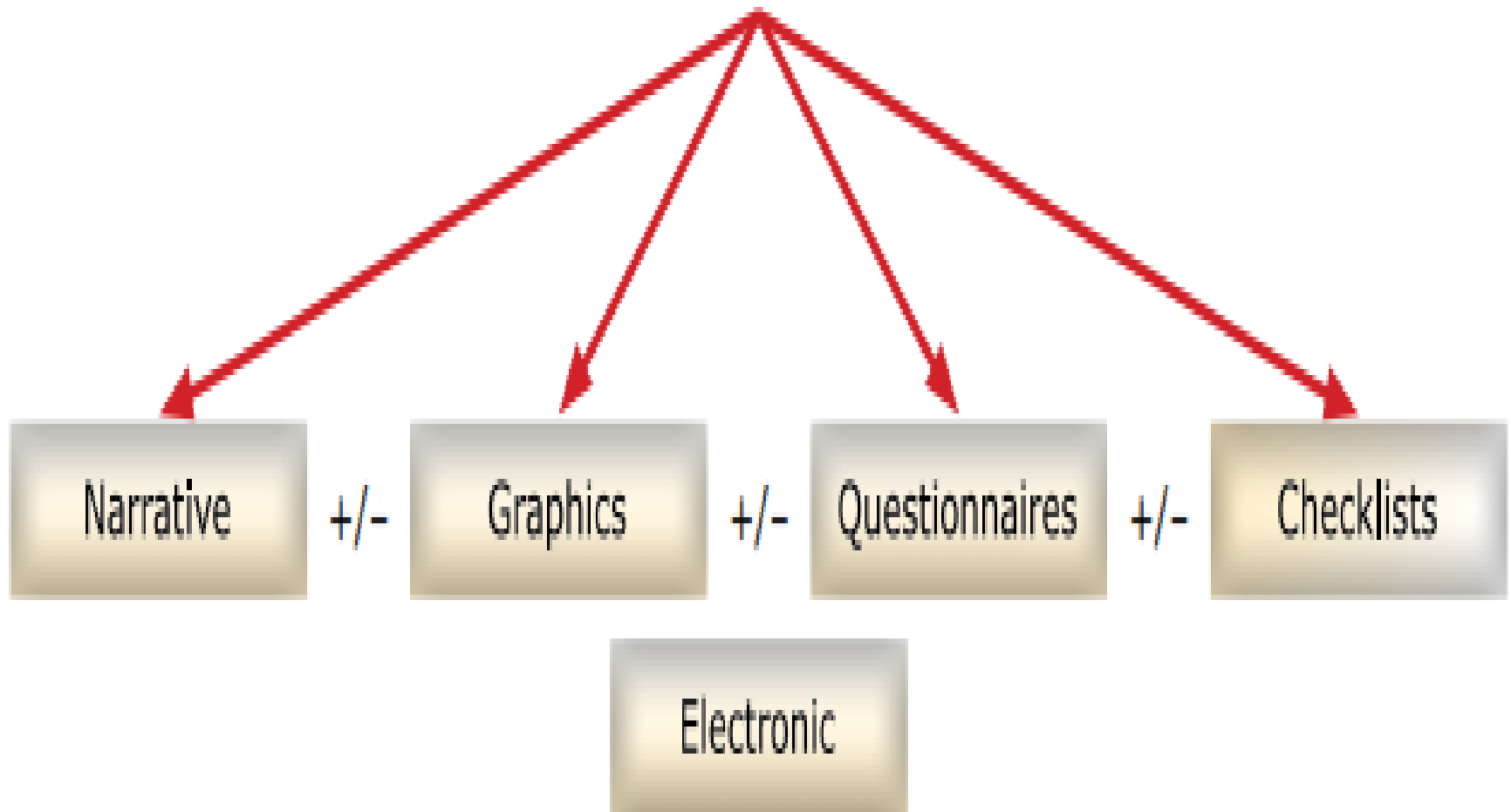
Advantages:



Disadvantages:



Documentation Techniques



Qualities of Good WP

Working paper should be **sufficiently complete and detailed enough** to provide over all understanding of the audit: (*Characteristics*)

- ▶ Clear
- ▶ Complete
- ▶ Accurate
- ▶ Well indexed
- ▶ Relevant
- ▶ Concise
- ▶ Neat
- ▶ Informative

Content

▶ Permanent File: (PF)


- Keeps information for multiple years on recurring engagements that is relevant to the audit and the client's business, are of continuing importance to the audit process and provide a history of significant audit related matters.
- They should be updated every year to check relevance & any changes

▶ Current File: (CF)

- Information that is of direct relevance to the current audit (at whatever stage).

Standard indices may be used for both permanent and current audit files. These are usually tailored (e.g. by circling the references used).*

Illustration 1 Current Audit Index File



A	Audit control papers
A1	Financial statements
A2	Audit completion checklist
A3	Review schedules
A4	Points forward to next year
A5	Time record and budget
B	Overall audit plan
C	Intangible assets
D	Tangible non-current (fixed) assets
E	Investments
F	Inventories (Stock)
G	Receivables (Debtors)
H	Cash
J	Payables (Creditors)
K	Provisions and contingencies
L	Taxation
M	Capital and reserves
N	Statement of comprehensive income
P	Revenue
Q	Purchases
R	Wages and salaries
S	Extended trial balance and adjustments to profit

*Alternative referencing systems might include *separate sections for interim audit working papers, systems work or analytical procedures.*

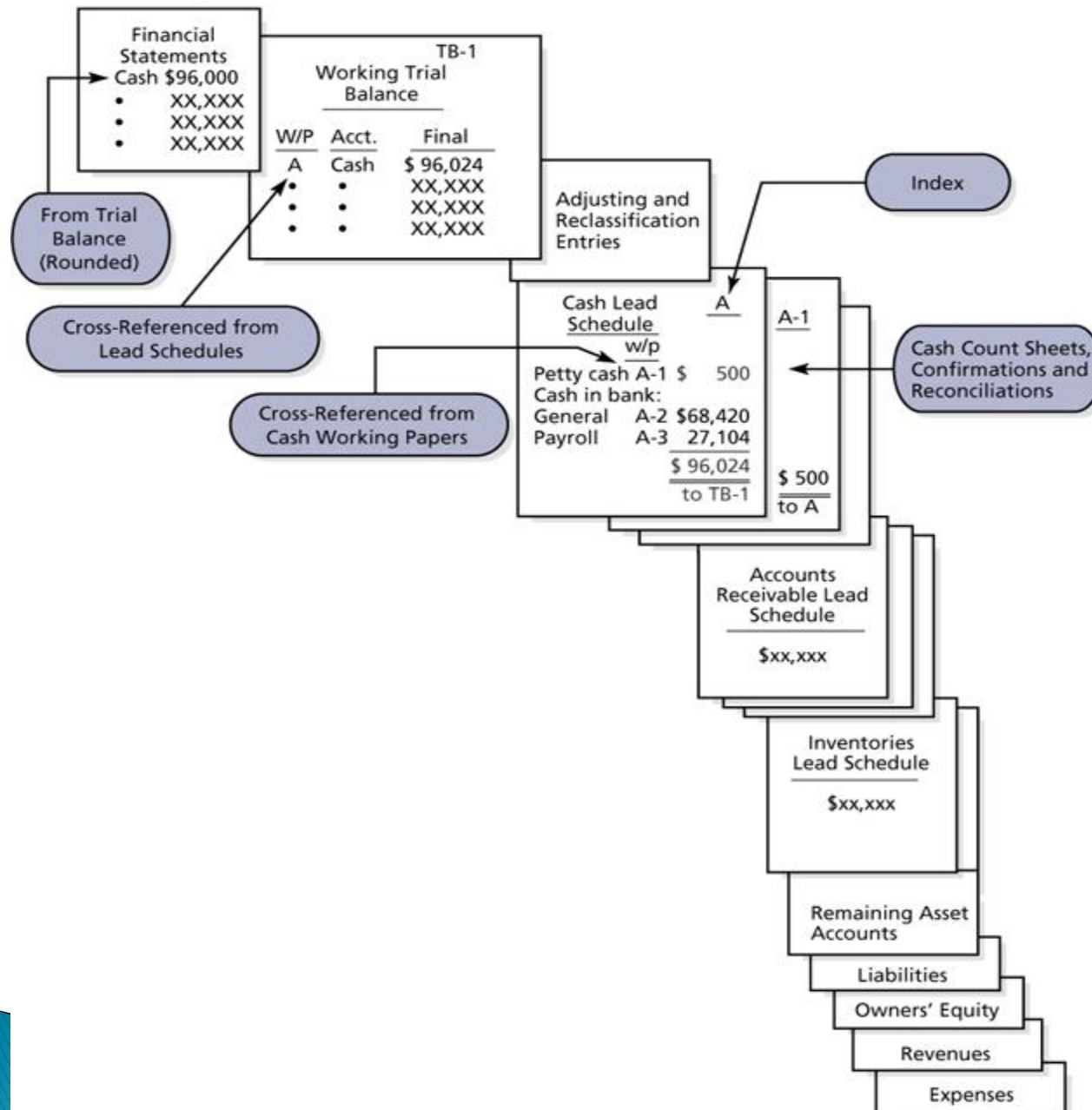
Documents retained in PF

- ▶ Statutory material and legal documentation
- ▶ The rules and regulations of the Business entity
- ▶ Copies of documents of continuing importance (e.g. letter of engagement if not yearly signed)
- ▶ Addresses of the registered office and other premises
- ▶ List of books and other records and where they are kept
- ▶ History of the organization
- ▶ List of important accounting matters
- ▶ Other Information of a continuing nature.

Documents retained in CF

- ▶ A copy of the financial statements
- ▶ An index to the file
- ▶ A description of the internal control system
- ▶ An audit program
- ▶ A schedule for the Lead sheets (BS & IS) with the comparative amounts of PY
- ▶ Letters of representation
- ▶ Conclusions reached by the auditor concerning significant aspects of the audit
- ▶ A statutory checklist
- ▶ Anything else that contributes to the audit evidence for the current year's audit.

FIGURE 5.7 Organization of the Current Files



Working Paper Elements

- ▶ Headings*
- ▶ Indexing – arrange papers in some common order.
- ▶ Tick marks – symbols to key a footnote to an item.
- ▶ Sign-off – indicates auditors that prepare and review (initials) and the date of preparation/review

- Client name
- Year end
- Subject of working paper
(Completeness of Revenue)

Elements of WP

- ▶ **Reference:** A logical work paper number cross referenced to audit program steps and issues should be included.
- ▶ **Tick mark legend:** A concise definition of all tick marks (symbols) should be included on each audit work paper to clearly describe the work performed during the engagement.
- ▶ **Sign off:** The preparer's signature provides evidence of completion and accountability, which is an essential piece of third party quality review.
- ▶ **Exceptions:** Audit exceptions should be documented and explained clearly on each work paper using logical numbering that cross reference to other work papers.

FIGURE 5.8 Preparation of a Working Paper

Working Paper Heading	Reviewer's Initials and Date	Preparer's Initials and Date	Index
Maine Company, Inc. Allowance for Uncollectible Accounts March 31, 20X3		V.M.A. May 6, X3	C-5 B.J.D. April 24, X3
Balance per ledger, Mar. 31, X2			22,881.75 ✓
Deduct: Write-offs during fiscal 20X3			
June 18, X2 Morgan Desk Co.	6,581.44 ⁿ		14,623.04
Feb. 12, X3 Baker Cabinet Co.	8,041.60 ⁿ		8,258.71
			6,589.81
Add: Provision for year ended Mar. 31, X3 based on aged trial balance of trade accounts receivable at Mar. 31, X3			14,848.52 ✓
Balance per ledger, Mar. 31, X2			5,151.48 to TB-5-2
A.J.E. 7 — to increase allowances based on tests of collectibility and analytical procedures on C-6		Adjusting Entry Cross-Referenced to Adjusting Entries Working Paper (below)	
Adjusted balance Mar. 31, X3			20,000.00 ✓ F to C
F Footed.	Explanation of Audit Work Performed		
n Examined Controller's authorization for write-off.			
✓ Agreed to general ledger.			
Auditors' Conclusion → Based on the results of the tests of collectibility and analytical procedures on C-6, the adjusted balance of the allowance for uncollectible accounts appears to be adequate to value the accounts receivable at net realizable value.			Cross-Referenced to Accounts Receivable Lead Schedule
		B.J.D. V.M.A.	

Maine Company, Inc. Adjusting Journal Entries March 31, 20X3			TB-5-2 V. M. A 4/26/X3	
Working Paper Reference	Account No.	Account Title and Explanation	Dr.	Cr.
C-5	524 126	Uncollectible Accounts Expenses Allowance for Uncollectible Accounts	5,151.48	5,151.48
		To increase the allowance for uncollectible accounts to amount considered necessary based on test work performed.		

The following is a supporting schedule showing the work completed by the auditor when testing the client's depreciation charge for non-current assets:

Client: Hawk Co **Prepared by:** M.C **Date:** 17 Feb 2015
Period: Y/e 31 Dec 2014 **Reviewed by:** **Date:**
Subject: Non-current assets deprecation reconciliation

		\$	\$
Y/e 31 Dec 2013 Charge			
Plus: Effect of 2014 Additions:			64,520 <i>a</i>
Warehouse equipment	\$41,600 ✓	@ 20% <i>a</i>	8,320
Delivery vehicles	\$31,950 ✓	@ 25% <i>a</i>	7,990
Motor cars	\$19,709 ✓	@ 33 $\frac{1}{3}$ % <i>a</i>	6,570
Fixtures and fittings	\$17,202 ✓	@ 10% <i>a</i>	1,720
Less: Effect of 2014 Disposals			
Warehouse equipment	\$18,250 <i>d</i>	@ 20% <i>a</i>	(3,650)
Delivery vehicles	\$11,570 <i>d</i>	@ 25% <i>a</i>	(2,890)
Motor cars	\$10,800 <i>d</i>	@ 33 $\frac{1}{3}$ % <i>a</i>	(3,600)
Fixtures and fittings	\$2,124 <i>d</i>	@ 10% <i>a</i>	(210)
			<hr/> 78,770
Difference (immaterial)			<hr/> 330
Y/e 31 Dec 2014 Charge			<hr/> <hr/> 79,100

Key

- a* Agreed to prior year accounts
- ✓ Per schedule of additions
- d* Per schedule of disposals

Significant Matters

- ▶ All significant matters must be clearly recorded.
- ▶ Examples of significant matters include:
 - matters that result in material risks (*Revenue is always an example*);
 - details indicating that the financial statements may be materially misstated;
 - the need to revise previous assessments of risks and material misstatements;
 - factors that cause difficulty in applying ISA; and
 - findings that could result in a modification to the auditor's opinion and the reasons why, or why not, it was modified.

Significant Matters – continued

- ▶ It is usual for details of significant matters and how they were addressed to be recorded in a summary document (ex: *partner review notes or completion memorandum – Summary Review Memorandum*) or that includes cross-references to other relevant supporting audit documentation that provides such information.
- ▶ Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits.
- ▶ Further, the preparation of such a summary may assist the auditor's consideration of the significant matters.

Significant Matters – continued

- ▶ The auditor should document discussions of significant matters with management and others on a timely basis.
- ▶ Where a detail is to be relied upon in reaching a conclusion on a significant matter, a written representation from the client must be obtained
- ▶ If the auditor has identified information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor should document how the auditor addressed the contradiction or inconsistency in forming the final conclusion.

Assembly of the Final Audit File

- ▶ The auditor should complete the assembly of the final audit file **on a timely basis** after the date of the auditor's report.
- ▶ As ISA 230 & ISQC1 indicates, **60 days after the date of the auditor's report** is ordinarily an appropriate time limit within which to complete the assembly of the final audit file.
- ▶ The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.

Assembly of the Final Audit File

Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature.

Examples of such changes include:

- ▶ Deleting or discarding superseded documentation.
- ▶ Sorting, collating and cross-referencing working papers.
- ▶ Signing off on completion checklists relating to the file assembly process.
- ▶ Documenting audit evidence that the auditor has obtained discussed and agreed with the relevant members of the audit team before the date of the auditor's report.

Retention of WP

- ▶ Working papers should be retained for a period sufficient to meet the needs of **the audit practice and in accordance with legal and professional requirements.**
- ▶ The IAASB requires at least 5 years.

In Lebanon??

- ▶ ISA 230 only sets out general principles. It does not suggest a minimum or maximum period for retention

Ownership of Working Papers

- ▶ All documents relating to clients are confidential & the auditor should secure Safe Custody of the WP
- ▶ **The working papers are the auditor's property, not the clients.**
- ▶ In most cases, an auditor cannot reveal information in the working papers without the client's permission.
- ▶ Portions of or extracts from working papers may be made available to the client at the discretion of the auditor.
- ▶ ***working papers are not a substitute for the client's accounting records.***

Thank You for Your Attention

Any Questions?

Bassam D. Sobh

