This article is about audit working papers. Auditors should prepare and organise their working papers in a manner that helps the auditor carry out an appropriate audit service. The auditor should avoid preparing or accumulating unnecessary working papers, and should therefore avoid making extensive copies of the client’s accounting records. It is worth noting at this stage that it is neither necessary nor practicable for the auditor to document every matter considered during the audit.

Audit documentation needs to be understood for both Papers F8 and P7.

THE AUDITING STANDARDS
ISA 230, Audit Documentation (Revised)
contains the set of standards that deal with working papers. These standards are as follows:

☐ The auditor should prepare, on a timely basis, audit documentation that provides:
  a sufficient appropriate record of the basis for the auditor’s report, and
  evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

☐ The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:
  the 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.

☐ In documenting the nature, timing, and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items or matters being tested.

☐ The auditor should document discussions of significant matters with management and others on a timely basis.

☐ 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 contradictions or inconsistency in forming the final conclusion.

☐ Where, in exceptional circumstances, the auditor judges it necessary to depart from a basic principle or an essential procedure that is relevant in the circumstances of the audit, the auditor should document how the alternative audit procedures performed achieve the objective of the audit, and, unless otherwise clear, the reasons for the departure.

☐ In documenting the nature, timing, and extent of audit procedures performed, the auditor should record:
  a who performed the audit work and the date such work was completed, and
  b who reviewed the audit work and the date and extent of such review.

☐ The auditor should complete the assembly of the final audit file on a timely basis after the date of the auditor’s report.

☐ After the assembly of the final audit file has been completed, the auditor should not delete or discard audit documentation before the end of its retention period.

☐ When the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final file has been completed, the auditor should, regardless of the nature of the modifications or additions, document:
  a when and for whom they were made, and (where applicable) reviewed
  b the specific reasons for making them, and
  c their effect, if any, on the auditor’s conclusions.

☐ When exceptional circumstances arise after the date of the auditor’s report that require the auditor to perform new or additional audit procedures, or that lead the auditor to reach new conclusions, the auditor should document:
  a the circumstances encountered
  b the new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and
  c when and by whom the resulting changes to audit documentation were made, and (where applicable) reviewed.
These standards guide the auditor to produce audit documentation that is of an acceptable standard. Understanding and applying the standards will protect the auditor from unwelcome and unnecessary litigation. ISA 230 (Revised) is more comprehensive than its predecessor and is likely to prove very useful.

**IMPORTANCE OF WORKING PAPERS**

Working papers are important because they:
- are necessary for audit quality control purposes
- provide assurance that the work delegated by the audit partner has been properly completed
- provide evidence that an effective audit has been carried out
- increase the economy, efficiency, and effectiveness of the audit
- contain sufficiently detailed and up-to-date facts which justify the reasonableness of the auditor’s conclusions
- retain a record of matters of continuing significance to future audits.

**AVOIDING UNNECESSARY PAPERS**

Before deciding to prepare a particular audit working paper, the auditor should be satisfied that it is:
necessary either because it will serve an essential or useful purpose in support of the auditor’s report, or because it will provide information needed for tax or other client-related statutory/regulatory purposes

not practicable for the client staff to prepare the working paper, or for the auditor to make copies of papers that the client staff (including internal auditors) have prepared as part of their normal regular duties.

CONTENT
Each audit working paper must be headed with the following information:

- The name of the client
- The period covered by the audit
- The subject matter
- The file reference
- The initials (signature) of the member of staff who prepared the working paper, and the date on which it was prepared
- In the case of audit papers prepared by client staff, the date the working papers were received, and the initials of the audit team member who carried out the audit work
- The initials of the member of staff who reviewed the working papers and the date on which the review was carried out
- Each audit paper should meet the characteristics of a good working paper, as detailed later in this article.

PAPERS PREPARED BY CLIENT
Certain working papers required by the auditor may have already been prepared by client staff. The auditor should make arrangements, whenever possible, for copies of these to be made available to the audit team. If client staff prepare working papers which are to be retained by the auditor, the auditor should agree the form of the working papers with client staff at an early stage in the audit, and include this information in the audit timetable.

When arranging for working papers to be prepared, the auditor should take care to ensure that the working papers will give all the information required. All such working papers should normally be clearly identified as having been prepared by the client. The member of audit staff directly responsible for an audit area in which working papers prepared by client staff are included should sign those papers – this will show that they have been checked and that they can be reviewed by the manager and the partner, and by subsequent reviewers. The signature of the audit team member indicates that the working paper (prepared by client staff) has been ‘audited’.

SOME CHARACTERISTICS OF A GOOD WORKING PAPER
On the basis of the discussion above, a good working paper should meet the requirements of ISA 230 by displaying the following characteristics:

- It should state a clear audit objective, usually in terms of an audit assertion (for example, ‘to ensure the completeness of trade creditors’).
- It should fully state the year/period end (eg 31 October 2006), so that the working paper is not confused with documentation belonging to a different year/period.
- It should state the full extent of the test (ie how many items were tested and how this number was determined). This will enable the preparer, and any subsequent reviewers, to determine the sufficiency of the audit evidence provided by the working paper.
- Where there is necessary reference to another working paper, the full reference of that other working paper must be given. A statement that details of testing can be found on ‘another working paper’ is insufficient.
- The working paper should clearly and objectively state the results of the test, without bias, and based on the facts documented.
- The conclusions reached should be consistent with the results of the test and should be able to withstand independent scrutiny.
- The working paper should be clearly referenced so that it can be filed appropriately and found easily when required at a later date.
- It should be signed by the person who prepares it so that queries can be directed to the appropriate person.

- It should be signed and dated by any person who reviews it, in order to meet the quality control requirements of the review.

The reviewer of audit working papers should ensure that every paper has these characteristics. If any relevant characteristic is judged absent, then this should result in an audit review point (ie a comment by the reviewer directing the original preparer to rectify the fault on the working paper).

CONCLUSION
Working papers provide evidence that an effective, efficient, and economic audit has been carried out. They should therefore be prepared with care and skill. They should be sufficiently detailed and complete so that an auditor with no previous experience of that audit can understand the working papers in terms of the work completed, the conclusions reached, and the reasoning behind these conclusions.

Notes
1 ISA 230 (Revised) became effective for audits of financial information for periods beginning on or after 15 June 2006. It resulted in conforming amendments to ISA 200, ISA 330, and ISQC 1. These conforming amendments are set out in the appendices to those standards.
2 Those shown in bold in the text of the ISA.
3 Paragraph 26 of ISA 220 establishes the requirement for the auditor to review the audit work performed through review of the documentation, which involves the auditor documenting the extent and timing of the reviews. Paragraph 25 of IAS 220 describes the nature of a review of work performed.
4 Each audit firm has its own file numbering and referencing system. Within each system, the best way of numbering working papers is to file them serially in each section and to cross-reference them. Where papers are intended to agree with or support items appearing in the financial statements, or in other working papers in the file, the auditor should normally prepare them so as to make such agreements obvious without the necessity of further investigation and reconciliation.