

AUDIT DOCUMENTATION

RELEVANT TO CAT PAPER 8

The International Standard on Auditing (ISA) 230 (Redrafted) defines audit documentation (often referred to as 'working papers') as: 'The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditors reached'.

ISA 230 states that the objectives of audit documentation are to provide:

- a sufficient and appropriate record of the basis for the auditor's report
- evidence that the audit was planned and performed in accordance with ISAs, and applicable legal and regulatory requirements.

My previous article, *The Business Risk-based Approach to an Audit and Audit Planning*, published in the May 2008 issue of *student accountant*, covered documenting the overall audit strategy and plan. Other purposes served by audit documentation are to:

- assist in the effective supervision of audit work by supervisors responsible for directing audit staff
- enable audit staff to be accountable for the audit work they carry out
- ensure that a record of matters of significance to future audits is retained
- help facilitate quality control reviews and inspections for audit work
- help facilitate the inspection of audit work in accordance with applicable legal and regulatory requirements.

TIMELINESS, FORM, CONTENTS AND EXTENT OF AUDIT DOCUMENTATION

It should be self-evident that if audit documentation is to serve the purposes described above, then it must be prepared on a timely basis. It is therefore not surprising that timely preparation of audit documentation (working papers) is a mandatory requirement of ISA 230.

As to audit documentation in general, it seems that many students do not fully appreciate the extent to which audit documentation should be prepared, and its form and content. There are no detailed rules in this regard, as no two audits will be the same, and requirements will vary from one audit engagement to another (based, for example, on the size and complexity of the entity). However, ISA 230 clearly indicates that the quality of the

audit documentation for a specific engagement is measured by the extent to which an experienced auditor, having no previous connection with the audit, is able 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 performed, and the audit evidence obtained
- significant matters arising during the audit, the conclusion reached on these, and the significant professional judgements made when reaching those conclusions.

As to the form of audit documentation, audit firms now rely on electronic and other forms of media to record their audit, in addition to traditional paper forms filled in manually. When preparing for an audit exam, students need to be aware of the impact of information and computing technology (ICT) on the preparation of audit documentation. Do not feel intimidated if you lack actual audit work experience in the preparation of audit working papers using ICT (such as file interrogation software). While many audit firms use software programmes to improve the efficiency of their audit work, more common uses of ICT include word processing and spreadsheet applications, e-mail, and the internet. Audit documentation examples include audit programmes, analyses, letters of confirmation, checklists, and correspondence (including e-mail) concerning significant matters.

Just as it is not practical or necessary for auditors to test every transaction in a large population for specified attributes, nor is it practical or necessary for auditors to document all the matters they have considered in carrying out their audit work. Simply put, in an audit file, the audit work documented must be sufficient and appropriate in the circumstances for the matter being considered. When considering what is 'sufficient and appropriate in the circumstances' in order to comply with the requirements of specified ISAs, auditors should consider other

documents included within the audit file. For example, the existence of an auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISA. Similarly, the existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed to the terms of the audit engagement with management. Further evidence that the engagement partner has been adequately involved in the control and performance of the audit may take the form of documentation already filed, containing a summary of the discussions that took place, and instructions issued, at the audit planning meeting and also at subsequent meetings.

In forming an overall judgement as to whether financial statements show a true and fair view, auditors must decide whether there is any material misstatement (caused by error or omission) in the financial statements. In forming such judgement, they must therefore consider and document significant matters arising from the audit. Additionally, where such matters are related to significant professional judgement (on the part of the auditors) they must document the professional judgements made. This requirement – to

document significant matters and the professional judgements made – highlights the matters and explains the auditor's conclusions. It also assists any reviewer of the audit work to evaluate the quality of the judgement exercised, and helps those carrying out subsequent audits when they review matters of continuing significance (for example, when performing a retrospective review of depreciation charges).

ISA 230 suggests that auditors may find it useful (prior to the completion of an audit) to prepare and retain, as part of the audit documentation, a 'completion memorandum'. This memorandum (which is prepared in many audit firms) describes the significant matters identified during the audit and how they were addressed, and includes cross-references to other relevant supporting documentation. A completion memorandum helps auditors focus on the significant matters arising, and on whether all audit objectives have been met in connection with them. It also helps facilitate any subsequent (internal or external) reviews or inspections of the audit work carried out.

As mentioned earlier, one purpose of the preparation of audit documentation is to enable audit staff to be accountable for the audit work they carry out. The duties of individual audit team

members will vary, depending on their level of experience, qualifications, the availability of audit staff, and the time budgeted for the completion of the work. It is therefore imperative that audit staff show which working paper they have prepared and the date of its preparation. Similarly, review staff should mark evidence of their review and record the date of review.

Irrespective of who carries out the audit procedures, it is important that appropriate identifying characteristics of those procedures are recorded when identifying specific items or matters tested. Such characteristics will vary:

- For an observation procedure, the auditor may record the nature of the procedure, where and when it was carried out, the individuals involved, and their respective responsibilities.
- For a procedure requiring the selection of all items with specific attributes in a given population, the auditor may record the score of the procedure, and identify the population (for example, all credit notes issued over a certain monetary amount for specified month).
- For a procedure enquiring into employees of the audited entity, the auditor may record the dates of the inquiries and the job titles of the employees.

Clearly, having set out tests to meet specified audit objectives, test results should be clearly documented. Similarly, the results of investigations into exceptions or inconsistencies must be clearly recorded, so that they can be clearly understood by the reviewer.

Students should understand that audit documentation is not limited solely to records prepared by the auditors. It may include other appropriate records, such as minutes of meetings prepared by the entity's personnel and agreed by the auditor, or perhaps copies of relevant important correspondence addressed to, or sent by employees of the entity.

CONCLUSION

When assessing how important it is for an audit firm to maintain adequate documentation for all audit engagements, students should focus on the extent to which an audit firm relies on working papers prepared. This reliance is not limited to the importance placed on them in allowing the audit firm to arrive at a conclusion about the truth and fairness of financial statements – it extends as well to reliance on the fact that they have been prepared in a professional manner to defend any subsequent allegations that the audit firm has acted negligibly in the event of an alleged audit failure.

By following the procedures and guidance set out in ISA 230, audit firms should be assured that audit documentation has been prepared in a professional manner. ■