

Revision of ISA 230 “Documentation” – Issues Paper

Introduction

OBJECTIVES

1. The objectives of this project are to revise and update ISA 230 taking into account the following relevant developments:
 - The increasing number of documentation principles and guidance in other new or revised ISAs, and the resulting need to clarify the role of ISA 230.
 - Revisions in a number of national standard setters’ documentation standards subsequent to the original issuance of ISA 230, and the need to minimize substantive differences for convergence purposes.
 - The conforming changes necessitated by the proposed Audit Risk Standards.
 - The need to address comments raised by IOSCO as a result of their recent review of extant ISA 230.
 - The increasing computerization of the audit working paper preparation process, including use of e-mail and the internet, resulting in the need to address practical issues arising from the “paperless” environment.
 - The IAASB’s decision to phase out IAPS 1005, “The Special Considerations in the Audit of Small Entities,” resulting in the need to subsume documentation guidance for small entity audits into ISA 230.

TITLE FOR REVISED ISA 230

2. Extant ISA 230 bears the title “Documentation,” which might be interpreted in a wider context than intended. For example, it might be interpreted as also referring to accounting, legal, tax or administrative documentation. The Task Force consequently proposes to narrow the scope of the title to refer specifically to “Audit Documentation.”

COORDINATION WITH OTHER IAASB PROJECTS

3. During the process of revising ISA 230, the Task Force will closely review developments relating to documentation principles and guidance in the ongoing projects on the Audit Risk Model, Quality Control, Planning and Materiality, among others. In particular, comments made by respondents during the exposure periods on the proposed Audit Risk and Quality Control Standards will be analyzed to determine whether respondents are raising documentation issues that should be addressed within the scope of this project or whether they have views on specific documentation aspects that should be taken into account in developing principles and guidance for revised ISA 230.
4. The other aim of the Task Force in monitoring other IAASB projects in progress is to ensure that the revised ISA 230 does not introduce overlapping or conflicting principles or guidance with other ISAs.

RESPONDING TO IOSCO'S COMMENTS

5. The Task Force proposes to liaise with the Planning Committee to determine whether it would be necessary to prepare a formal response document after the completion of this project that shows how IOSCO's comments have been addressed. The Task Force notes that IOSCO will have the opportunity to monitor the progress of this project on a regular basis through the Consultative Advisory Group meetings, in addition to the opportunity of attending the regular IAASB meetings in the capacity of observer.

Key Issues Identified by the Task Force

6. The Task Force has identified the following key issues for consideration by the IAASB:
 - Structural and Process Issues
 - The construct of revised ISA 230
 - Reviewing documentation requirements in other ISAs
 - Small entity audits
 - Retention of working papers
 - Definition of Documentation
 - Significant Matters for Documentation
 - Documentation Sufficient to Enable Re-performance of Audit Procedures
 - Documenting the Nature and Extent of Consultation and Differences of Opinion
 - Practical Issues
 - Access, security, confidentiality and back-up considerations
 - Subsequent changes to audit working papers
 - Documentation requirements specified by local jurisdictions

Structural and Process Issues**THE CONSTRUCT OF REVISED ISA 230**

7. The Task Force believes that there is significant potential for confusion over the role of ISA 230 given that other ISAs also contain documentation principles, procedures and guidance. Moreover, the proposed Audit Risk and Quality Control Standards introduce additional significant documentation requirements that may further cloud the role and authority of ISA 230 and its inter-relationship with other ISAs.
8. To address this issue, the Task Force considered two possible approaches to the construct of revised ISA 230.
9. The first approach would be to group all specific documentation principles and guidance in all other ISAs under ISA 230. The benefits of this approach would be to make it easier for the auditor to locate standards and guidance on what needs to be documented, and increase consistency of application in practice. However, this approach would have major drawbacks – it would require redrafting all affected ISAs (a time-consuming process), make it difficult to draft

ISAs that are complete as standalone documents, necessitate frequent changes to ISA 230, and render ISA 230 unwieldy, with a mixture of foundation principles and detailed guidance pertaining to specific subject matters.

10. The second approach would provide only foundation principles in revised ISA 230 and explain that subject-matter-specific documentation principles and guidance are included in other ISAs. The benefits of this alternative are that it is a conceptually more sound approach, would not require wholesale changes to existing ISAs, and would not lead to frequent changes to ISA 230 since foundation principles would not change often. It is also an approach that is supported by IOSCO. However, this approach might not completely eliminate a remaining degree of confusion over the role of ISA 230 and its inter-relationship with other ISAs.
11. The Task Force concluded that it would be preferable to adopt the second approach, i.e. structure ISA 230 as an overarching Standard on documentation with key foundation principles that support the formulation of specific subject matter documentation standards and guidance in other ISAs.
12. The introduction to the Standard would also explain the structure of the Standard, state that specific subject matter documentation principles and guidance can be found in other ISAs, and explain why some ISAs include documentation principles or guidance but not others.

Action Required by IAASB

Does the IAASB support the suggested approach for the construct of revised ISA 230?

REVIEWING DOCUMENTATION REQUIREMENTS IN OTHER ISAS

13. Assuming the IAASB supports the Task Force's approach as set out in Paragraph 11 above, the Task Force considered whether the scope of the project should be expanded to include reviewing whether documentation principles and guidance, if any, in each of the other extant ISAs should be revised or expanded contemporaneously with the revision of ISA 230. In this regard, IOSCO provided specific documentation guidance that it suggested be added to extant ISA 570, "Going Concern," which does not presently have any.
14. The Task Force believes that opening up other extant ISAs in order to consider the appropriateness or adequacy of documentation principles and guidance in these ISAs would significantly increase the scope, length and complexity of this project. Accordingly, the Task Force concluded that it would only focus on a revision of ISA 230. However, the Task Force will liaise with the Revisions Committee should it identify any need to revise or add to specific documentation principles and guidance in any other ISA.
15. A related issue considered by the Task Force is how to validate existing documentation principles and guidance in other ISAs, IAPSs and ISQC 1 against the main principles in revised ISA 230. Since this would be a significant exercise on its own, the Task Force recommends that this be addressed by the Revisions Committee on an individual ISA basis, as each ISA is considered for revision.

Action Required by IAASB

Does the IAASB concur with the Task Force's conclusion not to open up other ISAs for contemporaneous revision? Does the IAASB agree that validation of existing documentation principles or guidance in other pronouncements against revised ISA 230 should be done on an individual basis by the Revisions Committee?

SMALL ENTITY AUDITS

16. The Task Force does not believe that it would be necessary to include a specific section within revised ISA 230 to address small entity audits. However, to the extent considered necessary and where appropriate, guidance from IAPS 1005, "The Special Considerations in the Audit of Small Entities," will be included to address the application of key principles or procedures to these audits, supported where appropriate by the use of examples.
17. The Task Force also considered whether it would be necessary to amend IAPS 1005 as a consequence of including small-audit guidance in revised ISA 230. The Task Force concluded that it would not be necessary to issue a revised IAPS 1005 as long as small-audit guidance in both IAPS 1005 and the proposed revised ISA 230 was consistent.

Action Required by IAASB

Does the IAASB agree with the Task Force's views on the approach to be taken with regard to small-audit documentation guidance in IAPS 1005?

Retention of Working Papers

18. Paragraph 13 of extant ISA 230 requires the auditor to "adopt appropriate procedures for... retaining working papers for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention." However, the Standard does not provide any further guidance on document retention.
19. By contrast, the proposed International Standard on Quality Control, ISQC 1, addresses the issue of document retention in the context of the firm's system of quality control. The high-level guidance in ISQC 1 states that "Documentation is retained for a period of time sufficient to permit an evaluation of the extent of the firm's compliance with its system of quality control by those performing monitoring procedures or as required by applicable law or regulation."
20. In determining the approach to be taken to address the issue of document retention, the Task Force took into account the views expressed by IOSCO and the specific regulation introduced recently by the U.S. SEC as a result of the Sarbanes-Oxley Act.
21. IOSCO commented that "more guidance was needed on retention, particularly with regard to documentation that was subsequently superseded or considered necessary." IOSCO also went further in recommending that "there should be a requirement to retain audit working papers for a minimum period such as 7 years, or such longer period as local requirements dictate."
22. The U.S. SEC, on the other hand, has introduced detailed regulation (Rule 210.2-06 effective March 2003) on document retention after the enactment of the Sarbanes-Oxley Act. The

regulation specifies detailed requirements regarding the types of document (e.g. working papers, memos, correspondence, etc. that contain conclusions, opinions, analyses, etc.) that should be retained and the specific period of time they should be retained (7 years after conclusion of the audit or review), regardless of whether such documents support, or are inconsistent with, the final audit conclusions. The issue considered by the Task Force is whether revised ISA 230 should expand guidance on documentation retention as suggested by IOSCO or introduce more specific requirements along the lines of the U.S. SEC.

23. The Task Force believes that it would be inappropriate to proceed along the lines of the U.S. SEC because the SEC requirements are highly detailed and also specific to a particular jurisdiction. The Task Force also believes that it would be inappropriate to duplicate the guidance provided in ISQC 1 that is at a relatively high level. Such guidance effectively leaves it to the individual firm to decide on the method of retention and the form, content and extent of audit documentation required to be retained in order to ensure compliance with the quality control policies and procedures established at both the firm and engagement levels.
24. The Task Force also believes that it would not be appropriate to provide guidance on a specific period of retention for jurisdictions that do not currently have legal, regulatory or professional requirements for document retention. This is because any specific period would necessarily be arbitrary because of the diversity of practices around the world. However, the Task Force concluded that, in such cases, guidance on what might be an appropriate retention period could be provided in generic terms such as:
 - The need to maintain sufficient history or knowledge of the client to ensure continuity (e.g. retention of consolidation adjustments or tax-related working papers); and
 - The need to supply information from the audit files or provide evidence of audit work done (e.g. the need of potential subsequent auditors for information about past audits, the need of regulatory agencies, professional bodies or other third parties to review the working papers for their various purposes, or the need for documentary support in litigation).

Action Required by IAASB

Does the IAASB support the Task Force's suggested approach regarding document retention?

Definition of Documentation

25. Extant ISA 230 defines documentation as being the "working papers prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit." One potential interpretation issue that the Task Force has identified with this definition is that it does not discriminate between relevant and irrelevant, or between valid and invalid, materials – for example, irrelevant materials obtained and retained by the auditor in connection with the performance of the audit would meet the existing definition.

26. The Task Force is of the view that the definitions provided by U.S. SAS 96¹ and Canadian Auditing Section 5145² appear to more appropriately address this interpretation issue because they focus on recording the audit procedures performed, evidence obtained and conclusions drawn to support the audit opinion. The Task Force therefore recommends aligning the definition of documentation in the revised ISA 230 with those in the corresponding U.S. and Canadian standards.

Action Required by IAASB

Does the IAASB agree with the suggested approach for the definition of audit documentation?

Significant Matters for Documentation

27. Guidance in extant ISA 230 states that “Working papers would include the auditor’s reasoning on all significant matters which require the exercise of judgment, together with the auditor’s conclusion thereon.” However, the guidance does not go any further to explain what would be considered a “significant matter.” The Task Force is concerned that this lack of further guidance might lead to varying interpretation and inconsistency in practice.

28. Accordingly, the Task Force intends to provide further guidance on what would be considered a significant matter. In this regard, guidance in U.S. SAS 96³ would be helpful in providing a clearer understanding to the auditor of which matters would be deemed “significant” for documentation purposes.

Action Required by IAASB

Does the IAASB agree with the suggestion to expand guidance on significant matters?

Documentation Sufficient to Enable Re-Performance of Audit Procedures

29. Paragraph 7 of extant ISA 230 states: “In assessing the extent of working papers to be prepared and retained, it may be useful for the auditor to consider what would be necessary to provide another auditor who has no previous experience with the audit with an understanding of the work performed and the basis of the principle decisions taken but not the detailed aspects of the audit.”

¹ U.S. SAS 96: Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement.

² CICA Section 5145: Working papers are the records kept by the auditor of procedures applied and the results thereof, information obtained and conclusions reached in performing his or her examination and preparing his or her report.

³ U.S. SAS 96 describes significant matters as:

- Matters that both (a) are significant and (b) involve issues regarding the appropriate selection, application, and consistency of accounting principles with regard to the financial statements, including related disclosures. Such matters often relate to (a) accounting for complex or unusual transactions or (b) estimates and uncertainties and, if applicable, the related management assumptions.
- Results of auditing procedures that indicate that (a) the financial statements or disclosures could be materially misstated or (b) auditing procedures need to be significantly modified.
- Circumstances that cause significant difficulty in applying auditing procedures the auditor considered necessary.
- Other findings that could result in modification of the auditor’s report.

30. In this context, the Task Force considered whether audit documentation should be sufficient to enable re-performance of the audit. Actual practice varies widely among firms, with some firms recording sufficient information to enable re-performance of certain procedures, and others recording information just sufficient to support the audit conclusions but not to enable re-performance.
31. The Task Force believes that it would not be practicable to require the auditor to maintain documentation to enable full and complete re-performance of the audit because some procedures might only be capable of performance at one point in time (for example, attendance at inventory count at a given date or inquiries of temporary client personnel), and some client data examined during the audit might be transient in nature (for example, in-process electronic data that do not leave audit trails).
32. On the other hand, IOSCO was of the view that where the tests performed involved the inspection of documents or confirmations, the auditor should document the specific items tested. The Task Force believes that while this does not necessarily imply documentation to enable re-performance, ISA 230 could be strengthened by the inclusion of guidance along the lines suggested by IOSCO. Such guidance would also not detract from the principles-based approach to revise ISA 230.
33. IOSCO also commented that the auditor should be required to prepare and retain documentation to enable appropriate personnel to understand the nature, timing, extent and results of auditing procedures performed, and the evidence obtained. The Task Force is of the view that this is appropriately addressed by the detailed documentation requirements in the proposed revised ISA 220 on quality control for audit engagements. Accordingly, the Task Force proposes to link revised ISA 230 with proposed revised ISA 220 through appropriate guidance.

Action Required by IAASB

Does the IAASB agree that revised ISA 230 should not mandate documentation for the objective of re-performance?

Does the IAASB believe that guidance for the auditor to document specific items tested would be appropriate?

Does the IAASB agree that guidance should be provided to appropriately link revised ISA 230 with the proposed revised ISA 220 on quality control?

Documenting the Nature and Extent of Consultation and Differences of Opinion

34. The proposed revised ISA 220 on quality control addresses the issue of technical consultations that should take place during the audit and the resulting need to document such consultations. However, extant ISA 230 does not give any consideration to the fundamental principle that documentation of consultations is necessary to provide support for the audit opinion.
35. A further issue is the documentation of differences of opinion both among the engagement team members, and between the audit team and the client. Proposed ISQC 1 effectively deals with this; however, extant ISA 230 does not address this fundamental matter.
36. The Task Force believes that revised ISA 230 should give appropriate consideration to the principles of documenting technical consultations and differences of opinion but not duplicate the

principles and guidance in proposed ISQC 1 and proposed revised ISA 220. Accordingly, the Task Force proposes to include appropriate cross-referencing guidance to link revised ISA 230 with the proposed quality control Standards.

Action Required by IAASB

Does the IAASB support the suggested approach regarding documentation of technical consultations and differences of opinion?

Practical Issues

ACCESS, SECURITY, CONFIDENTIALITY AND BACK-UP CONSIDERATIONS

37. A particular issue that needs to be addressed relates to firms that continually upgrade their audit software. The upgrade process could result in working papers originally prepared with superseded versions of the audit software no longer being accessible by newer software versions during the retention period.
38. Other issues that need to be addressed but are not considered by the proposed quality control Standards relate to security and confidentiality of electronic and manual working papers, and back-up of electronic data.
39. Issues also arise in practice regarding the use of the internet and e-mail in the preparation and safekeeping of working papers because the internet and e-mail are not secure media for sharing and transmitting audit and client data.
40. While the Task Force is aware of the need to be careful not to turn the revised ISA 230 into a “best-practice” document, the Task Force concluded that it would be appropriate to expand and strengthen guidance in these areas given that firms’ documentation methods and practices have changed considerably since the original issuance of ISA 230.

Action Required by IAASB

Does the IAASB support strengthening guidance in these areas?

SUBSEQUENT CHANGES TO AUDIT WORKING PAPERS

41. An issue that arises frequently in practice is the making of changes to the audit file subsequent to the completion of the audit and issuance of the audit report – for example, signing off on audit working papers or completing critical issues memoranda after the issuance of the audit report. The Task Force considered whether it would be appropriate to introduce basic principles or guidance to assist the auditor in determining what would be legitimate file completion procedures and what might be interpreted as file doctoring after the audit report had been issued – and therefore have potential legal implications. This issue is not addressed by the proposed quality control standards.
42. IOSCO was effectively of the view that changes should not be made to the audit file once the audit report had been issued by suggesting adding the following wording after the definition of documentation: “It does not include any material which is prepared at a later date (after the audit report has been issued).”

43. The Task Force is of the view that mandating that auditors should not make changes to their audit files after the issuance of the audit reports would not be practicable. This is because, in practice, audit reports frequently have to be issued to meet reporting deadlines even though the related audit files might not have been completely assembled and wrapped up. Consequently, the Task Force believes that IOSCO's suggestion would not be practicable.
44. However, the Task Force proposes to provide guidance in terms of the fact that documented audit evidence is not only required to be sufficient and appropriate, but also contemporaneous with the audit procedures performed during the engagement. That is, while it would be acceptable to complete the audit file by documenting existing evidence obtained during the course of the audit after the audit report had been issued, it would be inappropriate to document new evidence obtained after the issuance of the audit report.
45. A related issue considered by the Task Force is whether it would be appropriate for the auditor to "re-open" the audit file some time after the issuance of the audit report in order to clarify the documentation in certain working papers – for example, as a result of an internal quality control review. The Task Force concluded that this would be acceptable as long as the clarification related to existing evidence obtained during the course of the audit and did not introduce new evidence, evaluations or conclusions.

Action Required by IAASB

Does the IAASB agree that it would not be practicable to mandate that the auditor should not make changes to the audit file after the issuance of the audit report?

Does the IAASB support providing guidance on this issue as set out in paragraphs 44 and 45?

DOCUMENTATION REQUIREMENTS SPECIFIED BY LOCAL JURISDICTIONS

46. IOSCO commented that the ISA 230 should acknowledge that certain jurisdictions might provide for additional documentation requirements and that, if applicable, the auditor would be expected to comply with those requirements as well. The Task Force agrees with this and proposes to include appropriate guidance in revised ISA 230 in that respect.

Action Required by IAASB

Does the IAASB agree with the suggested approach?

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