

## **IAASB Project Proposal — Documentation**

### **1. Subject**

Revision of ISA 230 “Documentation”.

### **2. Reasons the Subject Should Be Studied Now**

#### RECENT DEVELOPMENTS IN NATIONAL AUDITING STANDARDS

Apart from a minor change in 1994, ISA 230 has not been revised since its original issue in 1983.

ISA 230 presently does not differ significantly from the Australian, Canadian and UK documentation standards. These, however, were last revised prior to the research carried out by the US Panel on Audit Effectiveness.

In January 2002, the US ASB revised its auditing standard on documentation. The revised standard expanded guidance on the nature and extent of documentation, clarified what is considered a “significant matter” for documentation purposes, and added specific documentation requirements to the US Standards on Audit Risk and Materiality, Analytical Procedures and Going Concern. This revision was partly in response to the recommendations issued by the US Panel on Audit Effectiveness in its report of August 2000. Given this development, a review of ISA 230 is recommended to ensure that international standards provide the appropriate benchmark for auditor performance.

#### DEVELOPMENTS IN PRACTICE

Firms are now putting renewed emphasis on proper coordination and consultation on significant audit and accounting issues that arise during audit engagements, and a corresponding emphasis on the proper documentation of such consultations. In addition, significant changes have occurred in practice in the way working papers are prepared and managed. The trend in computerizing the working paper preparation process has created issues regarding evidence of review and control over subsequent changes. There is therefore a renewed need to reassess the basic principles and guidance given to address these issues.

#### RECENT ISA PRONOUNCEMENTS

Developments in ISAs (e.g., relating to such topics as the Audit Risk Model and Fraud) have led to a marked increase in the number of specific documentation requirements in individual ISAs. There is therefore a need to evaluate whether ISA 230 provides an appropriate framework that guides and supports the decision to include a specific documentation requirement in a given ISA. Such a framework would provide the benefit of a cohesive and consistent approach to documentation in ISAs.

#### ENDORSEMENT ACTIVITIES

ISA 230 has been identified as part of the core set of auditing standards that IOSCO is currently

reviewing for endorsement purposes. Although IOSCO is expected to provide its comments before the end of 2002, a pro-active reassessment of the existing ISA 230 in the light of the developments above would appear appropriate. This may enable a faster turnaround time in responding to IOSCO, assuming that there will be close liaison with IOSCO on this project.

#### DOCUMENT RETENTION AND QUALITY CONTROL

ISA 230 currently addresses confidentiality, safe custody, retention and ownership of working papers. However, the existing guidance may need to be updated to ensure that it provides the appropriate standards relating to document retention and safeguarding practices. This update would also need to consider any new proposed quality control requirements currently being developed by the Quality Control Task Force.

### 3. Scope of Project

#### (a) List the Major Problems and Issues That Should Be Addressed

There are two aspects that should be addressed within the scope; first, basic documentation principles and working paper issues relating to the performance of the audit (i.e. nature and extent of documentation); and secondly, the construct of the ISA 230 in relation to other ISAs.

#### (I) NATURE AND EXTENT OF DOCUMENTATION

##### (A) DOCUMENTATION PRINCIPLES

Basic documentation principles provide support for the practitioner's work and conclusions. Issues include:

- Considering whether criteria or guidance should be provided to assist practitioners in evaluating which are the "significant matters" that should be documented. Also considering whether specific criteria should be provided regarding the minimum documentation audit working papers should contain.
- Determining the nature and extent of documentation where internal or external consultation is undertaken. Consultation is normally necessary when addressing high risk areas or in respect of high-risk entities. Such consultation would normally involve consideration of significant accounting or auditing issues. In addition, when opposing views or positions to the one finally taken arise out of the consultation process, consideration should be given regarding the extent of documentation to support the reasoning or arguments. (See developments under the Quality Control Project – Agenda Item 4.)
- Determining whether the Standard should require the recording of the auditor's reasoning on significant issues or merely the work performed, the results of that work and the conclusions drawn, as some national technical advisors have suggested, in order to minimize litigation risk.
- Determining whether to have a greater requirement for minimum documentation sufficient to enable another auditor to re-perform audit procedures and tests and draw the same conclusions.

## B) WORKING PAPER ISSUES

Consideration needs to be given as to the extent of guidance to provide with respect to working papers and document retention issues. This aspect is of special relevance to practitioners but a principles-based approach needs to be retained. In particular, issues arise with regards to:

- Determining whether to provide guidance relating to the access, security and back-up of electronic working papers. This is especially relevant given that firms continually upgrade their audit software, a trend which may result in practitioners not being able to access old working papers with newer versions of their software. Furthermore, consideration needs to be given on providing guidance relating to the use of the internet and e-mail in the preparation and safe-keeping of working papers.
- Considering providing guidance relating to subsequent changes to audit working papers. This is particularly relevant for electronic working papers that may or may not leave audit trails of changes.
- Determining whether to expand guidance relating to confidentiality, safe custody, retention and ownership of working papers. In particular, consideration should be given as to which audit documents should be retained and which may be safely destroyed. Consideration should also be given as to whether to recommend a specific length of time for document retention to cater for jurisdictions that do not currently have legal or professional requirements for retention periods. Relevant related guidance from the Quality Control project would need to be taken into account in addressing such issues.

## II) RELATIONSHIP TO OTHER ISAS

- CONSTRUCT OF ISA 230 –  
Determining whether documentation requirements in all other ISAs should be grouped together under ISA 230, perhaps as an appendix, or whether IAASB should continue with the practice of specifying documentation requirements in individual ISAs.

Grouping all documentation requirements that are currently specified in other ISAs into ISA 230 might assist practitioners by providing a central repository of all documentation requirements pertaining to the conduct of the audit engagement. However, using this approach may create a lack of context and specificity. Thus, retaining current practice may be preferable. Given this, consideration then needs to be given as to whether ISA 230 provides an appropriate construct to support the development of specific documentation requirements in other ISAs.

- DETERMINING REVISION TO SPECIFIC DOCUMENTATION IN ISAS –  
As indicated in section 2 above, the US have reviewed their standards of fieldwork and considered the recommendations of the US Panel on Audit Effectiveness relating to audit documentation. As a result, a number of their standards have been revised to make the documentation imperative clearer. Similar consideration needs to be given as to whether to review all ISAs of fieldwork to ensure that there is definitive guidance within each Standard as to the nature and extent of documentation, as considered appropriate.

**(b) Describe Any Implications For Persons Or Groups Other Than the Committee**

There will be a need to liaise with IOSCO to ensure that any changes brought to the existing ISA 230 are included in IOSCO's review on a timely basis for endorsement purposes.

It is not expected that the project will impact on other committees to any significant extent.

**(c) Consider Whether IT Requires Particular Consideration**

No. However, some consideration needs to be given with respect to electronic working paper matters.

**4. Indicate the Type of Material to Be Published**

Revision of existing ISA 230.

Proposed timeline:

- Exposure draft – July 2003
- Approved – June 2004
- Effective date – no later than January 1, 2005

**5. Resources Required**

- A small IAASB task force would be appropriate, and preferably at least one IAASB member or outside expert should have experience with electronic working papers.
- IAASB secretariat staff (one).

**6. List Important Sources of Information That Address the Matter Being Proposed**

- US SAS 96, Audit Documentation (issued Jan 2002).
- CICA 5145, Documentation (issued 1979).
- CICA Study on Electronic Working Papers.
- CICA research paper on electronic audit evidence (to be issued shortly).
- UK SAS 230, Working Papers (issued Jan 1995).
- Australian standard AUS 208, Documentation (July 1995).
- Australian Auditing Guidance AGS 1038, Access to Audit Working Papers.
- US Panel on Audit Effectiveness – Report and Recommendations (Aug 2000), pp 27,28, 41 – 43, 52, 60, 64, 69 – 71 and 73.
- Firms' policies and internal guidance (including risk management policies).

**7. Factors That May Add To Complexity or Length of Project**

- IOSCO comments arising from their review that significantly expand the scope of this project.
- Consideration of issues for which there is no consensus among national auditing standard setters.
- Ongoing IAASB projects that introduce new approaches or principles to documentation.

Prepared by Ken Siong

Date October 3, 2002

The following should be completed after committee approval and after revising the proposal form to reflect any changes by the committee.

Approved by \_\_\_\_\_ Date \_\_\_\_\_

(Chair on behalf of the committee)

### Comments by Technical Managers/Committee Secretaries

The comments of *each* Technical Manager are required before this Project Proposal is considered by the committee proposing to undertake the project.

### Secretary to FMAC

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High

OTHER COMMENTS

Signed Robin Mathieson

Date October 8, 2002

### Secretary to IAASB (see Technical Director)

CLASSIFICATION

Class: A      B1      B2      C

SUGGESTED PRIORITY

OTHER COMMENTS

Signed \_\_\_\_\_

Date \_\_\_\_\_

### Secretary to Education

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Claire Egan

Date October 7, 2002

**Secretary to Ethics**

## CLASSIFICATION

*Class:* B1

## SUGGESTED PRIORITY

High.

## OTHER COMMENTS

This is clearly an important project for IAASB. I do not believe it has an impact on the work of the ethics committee at this time.

Signed Gill SpaulDate October 8, 2002**Secretary to Compliance**

## CLASSIFICATION

*Class:* A

## SUGGESTED PRIORITY

High.

## OTHER COMMENTS

Signed Peter W JohnstonDate October 30, 2002**Secretary to PSC**

## CLASSIFICATION

*Class:* B1

## SUGGESTED PRIORITY

High.

## OTHER COMMENTS

Signed Jerry GutuDate October 16, 2002**Secretary to TAC**

## CLASSIFICATION

*Class:* A

## SUGGESTED PRIORITY

High.

## OTHER COMMENTS

Signed Russell GuthrieDate October 30, 2002

**Secretary to SMP Task Force**

CLASSIFICATION

*Class:* B1

SUGGESTED PRIORITY

High

OTHER COMMENTS

Signed Robin Mathieson

Date October 8, 2002

**Technical Director**

CLASSIFICATION

*Class:* A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Jim Sylph

Date October 30, 2002

## Project Classifications

All activities of IFAC have the same overall objectives. When a project involving more than one committee is approved, there must be close co-ordination to minimize schedule disruptions and to avoid inconsistent conclusions. The following procedures are designed to try to ensure the smooth co-ordination of joint projects.

## Standards and Guidelines

A project is put forward for approval only when a Project Proposal has been completed; each Project Proposal includes space for the recommendation of each committee secretary on the proposed nature of a project under one of the following classifications:

*Class A Project:* entirely the responsibility of only one committee.

*Class B Project:* mainly the responsibility of one committee but with important implications to at least one other committee.

*Class C Project:* a joint project—the priority, work and conclusions are of importance to two or more committees.

Approval of the classification of a project lies with the responsible committee(s).

### 1. CLASS A PROJECTS

Full details of a Class A project will be sent only to the committee responsible for its development and approval but the committee secretaries of the other committees will be kept informed by the responsible committee secretary, at all significant points, of the project's progress by distribution of committee agenda papers.

### 2. CLASS B PROJECTS

Since the degree of “jointness” can vary substantially in a Class B project (from being almost a Class A to almost a Class C project), the Project Proposal form should indicate which of the two following routes is proposed for handling the project:

B1: The work will be handled entirely by a subcommittee of the “primary” committee but at significant points in the development of the project (statement of principles, exposure draft, final recommendations) the “primary” committee will ascertain from the other committee(s) whether the proposals would create significant difficulties for the other committee(s) before the “primary” committee approves the material.

B2: The subcommittee of the “primary” committee responsible for the project will have added to it one or two representatives of the other committee(s).

Whichever route is approved, comments by the other committee(s) will be considered by the “primary” subcommittee and the “primary” committee.

### 3. CLASS C PROJECTS

[Process under discussion]



#### 4. SIGNIFICANT DIFFICULTY

To avoid the possibility of inconsistencies in Recommendations between standard-setting committees, on any project on which one of the standard-setting committees has indicated to another that the project would create a significant difficulty,<sup>1</sup> the difficulty must be cleared up to the satisfaction of both committees before the project proceeds.

If an irreconcilable difference occurs between committees, the matter can be referred, by either or both of the committees concerned, to the Board for an opinion but in no case will amendments or additions be made to the IFAC Handbook or to other official pronouncements as long as there remains a significant difficulty between committees.

#### **Discussion Papers and Other Information Documents**

The same procedures as for Standards and Guidelines (including the classification of a project) will be followed in the preparation and approval of these publications.

<sup>1</sup> A significant difficulty is considered to have been created when a proposed Recommendation from one committee will, in the opinion of the other committee, undermine or contradict a Recommendation of another committee.

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