

PRELIMINARY DRAFT FOR REFERENCE PURPOSES ONLY

Audit Documentation – Preliminary Draft of an Exposure Draft of a Proposed Revised ISA 230

The text of this preliminary exposure draft is at an early development stage and is included with the Issues Paper to provide a point of reference that will assist in:

- a) Considering the issues raised in the Issues Paper; and**
- b) Understanding how the Task Force proposes to address IOSCO's comments as set out in the Appendix to the Issues Paper.**

The detail of the drafting should not be closely scrutinized by the IAASB at this stage.

INTERNATIONAL STANDARD ON AUDITING 230

AUDIT DOCUMENTATION

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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA, not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance regarding audit documentation in the context of an audit of general purpose financial statements¹. The overarching requirements of this ISA apply to all other ISAs. However, where relevant, other ISAs contain subject-matter documentation standards and guidance designed to supplement these overarching requirements. In addition, relevant laws and regulation may provide further documentation requirements applicable to the audit.
2. The performance of an audit is framed within the context of the quality control policies and procedures adopted by the firm. This ISA does not address documentation in the context of quality control. However, proposed revised ISA 220, “Quality Control for Audit Engagements”, provides specific documentation requirements applicable to the quality control aspects of the audit. Proposed International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices”, provides documentation requirements relating to the operation of each element of the firm’s quality control system and to demonstrate compliance with the firm’s quality control policies.
3. While this ISA addresses documentation considerations in an audit of general purpose financial statements, it is also applicable to the audits of other financial or other information such as engagements performed in accordance with ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements.” This ISA does not apply to engagements other than audits, such as the provision of accounting services to a small entity.

Nature and Purpose of Audit Documentation

4. **The auditor should document matters that are important in providing evidence to support the auditor’s opinion and evidence that the audit was carried out in accordance with ISAs.**
5. “Audit documentation” represents the record of audit procedures performed, evidence obtained and conclusions reached by the auditor during the audit².
6. Audit documentation:
 - a) Assists in the planning and performance of the audit;
 - b) Assists in the supervision of the engagement team and evidences the review of the audit work performed;
 - c) Facilitates sharing of information obtained among the engagement team members;
 - d) Serves to demonstrate that the audit work was performed in accordance with ISAs; and
 - e) Records the evidence that provides the principal support for the audit opinion.

¹ “General purpose financial statements” is defined in paragraph 25 of proposed revised ISA 200, “Objectives and General Principles Governing an Audit of Financial Statements.”

² Based on US SAS 96 and CICA Section 5145.

Form, Content and Extent of Audit Documentation

7. **The auditor should prepare audit documentation that is sufficiently complete and detailed to enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent and results of audit procedures performed, the evidence obtained and the conclusions drawn therefrom.**
8. The auditor ordinarily evaluates all the evidence obtained from the audit procedures performed before drawing the appropriate conclusions. Certain conclusions, however, may be self-evident from the results obtained from the performance of the audit procedures and may not need to be explicitly documented. For example, an audit procedure may require the auditor to check the mathematical accuracy of a set of computations prepared by management and the auditor may indicate the results of the procedure by recording a defined tickmark against each computation. In such a case, it may not be necessary for the auditor to document a conclusion since it is self-evident from the tickmarks recorded. However, the auditor considers documenting a conclusion where it is not readily apparent from the documentation of the evidence obtained.
9. ISA 220 discusses the matters that members of the engagement team with supervision and review responsibilities ordinarily consider when reviewing audit documentation, for example, whether the work performed supports the conclusions reached and whether the objectives of the audit procedures have been achieved.
10. The auditor may have obtained an in-depth understanding of the entity and its environment, for example, through previous experience performing audits or other types of engagement for the entity, through a close working relationship with the owner-managers, or as a result of the small size of the entity being audited. Such an understanding does not eliminate the need for the auditor to prepare and maintain adequate and appropriate audit documentation³.
11. The form and content of audit documentation are affected by matters such as the:
 - Nature of the engagement.
 - Form of the auditor's report.
 - Nature, size and complexity of the entity.
 - Nature and complexity of the entity's computerized information systems, including the level of automation and integration.
 - Nature, complexity and condition of the entity's internal control.
 - Source of the evidence, whether internal or external.
 - Form of the evidence, whether in paper, electronic or other form.

³ Based on Paragraph 27 of IAPS 1005, "The Special Considerations in the Audit of Small Entities."

- Needs in the particular circumstances for direction, supervision and review of work performed by engagement team members.
- Specific audit methodology and technology used in the course of the audit.

12. **Audit documentation should include matters that, in the auditor's professional judgment, are significant, the procedures performed to address them where applicable, including any additional evidence obtained, the final conclusions reached and the bases for the conclusions.**

13. Significant matters comprise:

- Matters that give rise to risks of material misstatement, such as:
 - Matters that require the exercise of judgment, for example, accounting for complex or unusual transactions, or accounting for estimates and uncertainties.
 - Material changes in the entity and its environment, for example, the introduction of a new computerized information system.
- Results of audit procedures that indicate that:
 - The financial statements or disclosures could be materially misstated; or
 - There is a need to revise the auditor's previous risk assessment and the related overall responses to assessed risk.
- Circumstances that cause significant difficulty in applying audit procedures that the auditor considers necessary.
- Other findings that could result in modification of the auditor's report.

The documentation of such matters includes the documentation of related oral or written communications between the auditor and management or those charged with governance that the auditor considers relevant.

14. The discipline imposed by the requirement for the auditor to record the bases for the conclusions reached on significant matters, especially those requiring the exercise of judgment, often adds to the clarity of the auditor's understanding of the issues in question and enhances the quality of the conclusions⁴.

15. The documentation of the auditor's basis of conclusion when addressing significant matters also assists members of the engagement team with supervision and review responsibilities to:

- Understand how the auditor evaluated the relevant information known to the auditor at the time;
- Understand the rationale behind any decisions taken, such as whether or not to perform further audit procedures; and

⁴ Based on Paragraph 28 of IAPS 1005.

- Concur or disagree with the auditor's conclusions on the basis of all the available information and evidence obtained.

16. **The auditor should document all significant oral evidence obtained during the audit on a timely basis.** Oral evidence may take the form of representations from management, interviews with key employees and discussions with relevant third parties. The documentation of all significant oral evidence on a timely basis ensures that it is reviewed concurrently with other evidence obtained to identify any material inconsistencies, considered in the auditor's overall evaluation in arriving at the final audit opinion, and recorded promptly to minimize the risk of its loss.
17. **When the auditor performs tests of control and tests of details of transactions and balances, the auditor should document the specific items tested⁵.** The nature of the specific tests varies in the circumstances and depends upon the auditor's objectives, and may include inspection, observation or confirmation. Documentation of the specific items tested provides evidence of the extent of work performed, demonstrates that the work has been performed and assists the auditor in the investigation of exceptions identified.
18. Audit documentation is designed and organized to meet the circumstances and the auditor's needs for each individual audit. The use of standardized audit documentation (for example, checklists, specimen letters and standard organization of audit documentation) may improve the efficiency with which such audit documentation is prepared and reviewed. It also facilitates the delegation of work while providing a means to control its quality. However, the use of standardized audit documentation is not a substitute for the need for the auditor to exercise professional judgment in the circumstances.
19. To improve audit efficiency, the auditor may also utilize relevant schedules, analyses and other documentation prepared by the entity, whether in paper, electronic or other form.
20. In the case of a recurring audit, copies of audit documentation of continuing importance, such as significant contracts and agreements, may be retained in a "permanent" audit file for the reference of the engagement team on future audits. The permanent audit file is updated as necessary with new information of continuing importance during the course of each audit. However, as required by ISA XX, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement," the auditor reviews any changes that have occurred in the entity or its environment that may affect the relevance of such information in the current audit.

Changes to Audit Documentation after the Auditor's Report has been Issued

21. **The auditor should not make substantive changes to audit documentation after the auditor's report has been issued unless such changes are intended to document or clarify existing evidence obtained at the time the audit procedures were performed.**

⁵ Based on US SAS 96.

22. Substantive changes are changes that alter the nature, timing or extent of audit procedures performed, the evidence obtained, the conclusions drawn or the bases for the conclusions.
23. Substantive changes are ordinarily made to audit documentation during the course of the audit as a result of the review and consultation processes, the resolution of exceptions or conflicting evidence obtained, or the performance of further audit procedures considered necessary. However, circumstances may arise where substantive changes may need to be made to existing audit documentation after the auditor's report has been issued, for example, when documenting oral evidence obtained during the resolution of matters that could have resulted in a modification to the auditor's report, or because an internal quality control review of the audit documentation has identified a need to clarify documented evidence. The auditor exercises care and professional judgment in making such changes after the auditor's report has been issued.
24. The auditor may consider implementing appropriate safeguards to ensure that unauthorized changes are not made to audit documentation after the auditor's report has been issued, for example, by making the documentation read-only if electronic audit documentation is used.

Audit Documentation in a Paperless Environment

25. Audit documentation may be created, maintained, transmitted or retained in a paperless form using a variety of information technologies such as audit software, e-mail and the Internet, audio and video tools, and Extensible Business Reporting Language (XBRL). The appropriate use of information technology, and in particular audit software, allows the auditor to derive efficiency benefits through the automation of various aspects of the audit process from planning to execution and completion of the audit, for example:
- Preparation of detailed audit programs during the planning stage;
 - Downloading of the entity's accounting data via the Internet into the auditor's electronic audit documentation during fieldwork; and
 - Computation of analytical ratios for the auditor's overall review during the completion stage.
26. The automation of the audit documentation preparation process through the use of information technologies does not eliminate the need for the auditor to exercise professional judgment to ensure that the audit documentation is relevant and sufficient in the circumstances.
27. Audit evidence gathered to support the auditor's report is often available only in electronic form. ISA XX, "Audit Evidence," in particular, states that the entries in the entity's accounting records are often initiated, recorded, processed and reported in electronic form. The auditor may extract, copy, analyze or otherwise use such electronic accounting records in part or wholly as evidence during the performance of the auditor's procedures.
28. **To protect the integrity, reliability and accessibility of electronic audit evidence obtained, the auditor should adopt appropriate policies and procedures for the creation, processing, management and retention of audit documentation in a paperless form.**

29. Such policies and procedures include, for example:

- The use of a password among engagement team members to restrict access to the electronic audit documentation to authorized users only.
- Appropriate back-up routines for the electronic audit documentation on the field and in the office.
- Procedures for distributing electronic audit documentation to the engagement team members at the start of fieldwork, sharing the audit documentation during fieldwork and collating the completed audit documentation at the end of fieldwork.
- Procedures to ensure that electronic audit documentation that has been archived remains accessible and readable even when the audit software has been upgraded.

Confidentiality, Safe Custody, Retention and Ownership of Working Papers

30. **The auditor should adopt appropriate procedures for maintaining the confidentiality and safe custody of audit documentation and for its retention for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.**

31. Factors that determine the length of the retention period as well as the nature and extent of audit documentation to be retained include the following:

- The need to maintain sufficient history or knowledge of the client to ensure continuity, for example, retention of consolidation adjustments or tax-related documentation.
- The need to supply information from the audit documentation or provide evidence of audit work done to parties such as:
 - A subsequent auditor when there is a change of auditor;
 - Regulatory agencies, professional bodies or other third parties as part of a review or quality assurance process or for litigation support; and
 - Owner-managers, in the case of small entities, who might request specific accounting information from the audit documentation to assist them in the administration of their entities⁶.
- The need for the firm to conduct reviews of audit files to evaluate the extent of compliance with the firm's system of quality control.
- The costs and benefits relating to the retention of audit documentation.

32. Audit documentation is the property of the auditor. Although portions of or extracts from the audit documentation may be made available to the entity at the discretion of the auditor, they are not a substitute for the entity's accounting records.

⁶ Based on Paragraph 105 of IAPS 1005.

Effective Date

33. This ISA is effective for audits of financial statements for periods ending on or after []. Early application of the provisions of this ISA is permissible.

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