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Agenda Item

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Committee: IAASB

Meeting Location: Copenhagen

Meeting Date: June 14-17, 2004

Audit Documentation

Objectives of Agenda Item

To review and discuss the proposed exposure drafts of:

- a) Revised ISA 230, "Audit Documentation," and
- b) New International Standard on Review Engagements (ISRE) XX, "Documentation for Reviews of Historical Financial Information."

Background

The IAASB discussed a first read of the proposed revised ISA 230 and the proposed new ISRE XX at its April 2004 meeting and provided input and direction to the Task Force on the main issues presented.

Activities Since Last IAASB Discussions

The Task Force held a meeting and a conference call in May 2004 to discuss the feedback provided by the IAASB in April. In addition, Bob Waller, the plain English editor, conducted a review of the ISA 230 document and provided editorial suggestions that the Task Force considered and included in the draft now being presented to the IAASB.

Main Issues

1. SUBSEQUENT CHANGES TO AUDIT DOCUMENTATION

In the first-read draft of the revised ISA, the Task Force had proposed that the auditor should not make substantive changes to audit documentation after the date of the auditor's report unless such changes were intended to appropriately document "contemporaneous evidence." At the April meeting, the IAASB pointed out that the proposed definition of "contemporaneous evidence" was unnecessary, as ISA 500 (Revised), "Audit Evidence," already defined audit evidence as *"all the information used by the auditor in arriving at the conclusions on which the audit opinion is based..."*

The concept of "evidence" therefore applied only to information that the auditor considered before the date of the auditor's report. Consequently, the Task Force decided to withdraw the proposed definition of "contemporaneous evidence." After further debating what the required standard should be for the auditor in dealing with changes to audit documentation subsequent to the date of the auditor's report, the Task Force concluded that the overarching principle should be that after the date

of the auditor's report the auditor should not make changes to audit documentation that reflect new evaluations or conclusions unless the auditor clearly documents (a) when and by whom such changes were made and, where applicable, reviewed; (b) the reasons for the changes; and (c) the effect, if any, of these changes on the auditor's conclusions.

This overarching principle would not preclude the auditor from making those changes to audit documentation that ordinarily occur during the file assembling process after the date of the auditor's report but that do not reflect new evaluations or conclusions. Examples of such changes include documenting evidence obtained before the date of the auditor's report and undertaking routine file housekeeping activities such as deleting superseded documentation.

At the April meeting, the IAASB had also indicated that there should be guidance on a specific wrapping-up period after the date of the auditor's report during which the auditor would be allowed to attend to routine housekeeping activities on the audit documentation before the audit file is closed. The added benefit of having a specific wrapping-up period would be to avoid having audit files left open indefinitely and to have a cut-off point after which any changes to audit documentation should be strictly documented.

After considering the IAASB's comments, the Task Force proposes that guidance should state that the wrapping-up period would ordinarily not be expected to exceed 60 days after the auditor's report has been released to the entity. In addition, the Task Force agreed that once the audit file has been closed, the auditor should not delete audit documentation and should document any subsequent addition to the documentation regardless of the nature of the addition.

With respect to new information that comes to the auditor's attention after the date of the auditor's report such as a late third party confirmation, the IAASB had generally agreed that such information should be retained in the audit file but clearly identified as such. The Task Force, however, believed that the auditor would not necessarily evaluate all new information relating to the audit that the auditor received. For example, the auditor might not evaluate new information that is clearly insignificant or received more than a year after the date of the auditor's report.

The Task Force therefore proposes that to the extent that the auditor evaluates the new information, the auditor should retain it and document it accordingly. In addition, if the new information might have caused the auditor to modify the auditor's report had it been known at the date of the auditor's report, the auditor should follow the requirements and guidance in ISA 560 dealing with subsequent events.

The revised requirements and guidance are now in paragraphs 20 to 25.

2. TEST OF SUFFICIENCY

At the April meeting, the IAASB had questioned the basic principle that the auditor should prepare audit documentation that is sufficient to:

- a) Enable members of the audit team with supervision and review responsibilities to understand the nature, timing, extent and results of audit procedures performed, the relevant evidence obtained, and the conclusions reached; and
- b) Enable an experienced auditor, having no previous connection with the audit, to understand the significant conclusions reached, and in relation to these significant conclusions, the nature, timing, extent and results of audit procedures performed and the relevant evidence obtained.

Specifically, the IAASB asked the Task Force to reconsider how the first bullet applied to the sole practitioner and how the two bullets met the test of sufficiency in relation to the overarching principle that the auditor should prepare and maintain audit documentation in order to support the auditor's report and to provide evidence that the audit was carried out in accordance with ISAs.

The Task Force debated the IAASB's comments and came to the conclusion that audit documentation that the auditor prepares should be sufficient and appropriate to support the two purposes in the overarching principle above, i.e. to support the auditor's report and to provide evidence that the audit was carried out in accordance with ISAs.

The Task Force further believed that audit documentation would be sufficient and appropriate if:

- a) It enabled members of the audit team, including those responsible for supervision and review, to understand the nature, timing, extent and results of audit procedures performed, the relevant evidence obtained, and the conclusions reached, to the extent relevant to the performance of their duties; and
- b) It enabled an experienced auditor, having no previous connection with the audit, to understand conclusions reached on significant matters, and in respect of these matters (i) the nature, timing, extent and results of the audit procedures performed, and (ii) the relevant evidence obtained.

The revised paragraph would now cater for the needs of the sole practitioner in addition to enabling those responsible for supervision as well as experienced auditors to review the audit documentation according to their different objectives. The revised requirement and guidance are now in paragraphs 6 and 7.

3. DOCUMENTATION OF CONTRADICTORY INFORMATION

In relation to the overarching principle that the auditor should prepare and maintain audit documentation in order to support the auditor's report, the IAASB had questioned whether the term "support" excluded information that contradicted the auditor's conclusions. The IAASB was of the view that there should be some specific guidance in the revised ISA to help the auditor deal with information that materially contradicted the auditor's final conclusions.

The Task Force debated the IAASB's comments and agreed that specific guidance would be appropriate. Accordingly, the Task Force proposes, at paragraph 16, that to the extent that the auditor has identified information that materially contradicts the auditor's final conclusions, the auditor should document that information and how the auditor dealt with it. The guidance also makes it clear that this excludes information that is simply incorrect or superseded.

4. THE ROLE OF ORAL EXPLANATIONS

The first-read draft of the revised ISA stated that “*Audit documentation represents the principal record of audit procedures performed, relevant evidence obtained and conclusions reached by the auditor during the audit.*” This statement was cross-referenced to the following footnote originally derived from the U.S. ASB’s Documentation Standard SAS 96:

“While audit documentation provides the principal support for the auditor’s report, this does not preclude the auditor from supporting the auditor’s report by other means in addition to audit documentation.”

The IAASB had expressed a general preference for removing this footnote as it was perceived as somewhat weakening the ISA.

The Task Force, however, took note that the U.S. ASB is currently proposing to move the essence of the footnote into the text of a proposed revised SAS 96. The Task Force debated the merit of adopting the same approach but did not come to a unanimous conclusion. Accordingly, the Task Force would like to obtain the IAASB’s views on whether it would be appropriate to add the following wording that the Task Force considered immediately after the first sentence in paragraph 4:

“When the auditor finds it necessary, the auditor may supplement or clarify information contained in the audit documentation by means of oral explanations. Such oral explanations (other than in respect of inconsequential matters), however, do not represent the sole support for the work the auditor performed or conclusions the auditor reached.”

5. OTHER NOTABLE CHANGES

Definition of “Experienced Auditor”

The IAASB indicated at the April meeting that it would not be appropriate to require the experienced auditor to have competence, capabilities and experience equivalent to that of the engagement partner. The IAASB suggested, instead, that capabilities similar to an engagement quality control reviewer, as defined in ISQC 1, might be appropriate. The Task Force agreed and revised the definition of “experienced auditor” accordingly (paragraph 3).

Retention of Audit Documentation

The IAASB had generally agreed that guidance in the revised ISA should specify a minimum retention period of 5 years from the date of the auditor’s report, based on the survey of retention requirements in 17 jurisdictions that the Task Force had completed. The IAASB also instructed the Task Force to consider providing an expanded discussion of the factors that the auditor might take into account in determining an appropriate retention period. The Task Force has revised the guidance on retention accordingly (paragraph 31).

Documentation to Demonstrate that Accounting Records Agree with the Financial Information

The First Read of the revised ISA had proposed that audit documentation should be sufficient to show that the accounting records agree or reconcile with the financial statements or other information on

which the auditor is reporting. The IAASB did not express any strong views on the need to retain such a requirement in the revised ISA. The Task Force reconsidered the merit of retaining the requirement and came to the conclusion that, in light of the principles-based approach taken, it was not appropriate to focus on this specific rule for audit documentation. Accordingly, the requirement that audit documentation should show that the accounting records agree or reconcile with the financial information audited has been removed from the revised draft.

Scanning of Original Paper Documentation

The IAASB instructed the Task Force to consider including guidance on scanning of original paper documentation since this was a procedure that was increasingly observed in practice. The Task Force agreed and proposes guidance at paragraph 30.

Confidentiality

The Task Force had advised the IAASB at the April meeting that INTOSAI had expressed a preference to have specific guidance in the revised ISA on how the auditor should deal with the confidentiality of audit documentation, since in public sector audits, auditors could be required to place parts of audit documentation on public record for transparency and accountability purposes. The IAASB took note of INTOSAI's concern and concluded that a specific reference to paragraph 4.2 of the IFAC Code of Ethics might address the concern. The Task Force has revised the paragraph on confidentiality accordingly (paragraph 27).

Material Presented

Agenda Paper 6-A (Pages 967 – 980)	Proposed exposure draft of revised ISA 230, “Audit Documentation” (Mark-up)
Agenda Paper 6-B (Pages 981 – 982)	Proposed exposure draft of new ISRE XX, “Documentation for Reviews of Historical Financial Information” (Mark-up)
Agenda Paper 6-C (Pages 983 – 992)	Proposed exposure draft of revised ISA 230, “Audit Documentation” (Clean)
Agenda Paper 6-D (Pages 993 – 994)	Proposed exposure draft of new ISRE XX, “Documentation for Reviews of Historical Financial Information” (Clean)

Action Requested

The IAASB is asked to review the proposed exposure drafts of the revised ISA 230 and new ISRE XX and to provide comments to the Task Force prior to the issue of the documents as exposure drafts for public comment.

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