

Agenda Item 2-E

Comments Received on the Exposure Draft of the Proposed Revised ISA 230, “Audit Documentation”

General Statements

This agenda paper is provided for the IAASB’s reference and to support the task force’s presentation of the proposed revised ISA at the June 2005 IAASB meeting.

Respondent	Comment
ACAG	The members of the Australasian Council of Auditors-General are, subject to the comments contained in the attachment, supportive of the matters contained in the ED.
ACCA	ACCA supports the proposed ISA 230 (Revised) as it will contribute to audit quality and consistency.
AICPA	We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that the document provides much needed enhanced guidance on audit documentation. We support the issuance of the document.
APB	<p>In general, the APB is strongly supportive of the proposed revised ISA and believes that it will help improve the consistency and quality of audit documentation and, thereby, the quality of audits. In particular, the APB strongly supports:</p> <ul style="list-style-type: none"> • The statement in paragraph 8 that oral explanations on their own do not represent sufficient support for the work that the auditor performed. • The requirements in paragraphs 12 and 13 relating to who prepared and reviewed the audit working papers, and the dates thereof, and the identification of items tested. This will help eliminate the practice of some auditors of preparing minimal working papers which simply indicate “done” against brief descriptions of procedures in audit programmes (but see also the comments below about the clarity of these paragraphs). • The requirement in paragraph 16 to document the reasons for departures from basic principles or essential procedures in an ISA.
Basel	The Basel Committee on Banking Supervision has a strong interest in high quality and independent audits of banks and has carefully analysed the proposals. Rigorous and consistent arrangements for the documentation of an audit contribute to audit quality and are therefore important for banking supervisors.
Basel	As indicated in the Explanatory Memorandum, the IAASB also considered Auditing Standard No. 3, “Audit Documentation,” issued in June 2004 by the U.S. Public Company Accounting Oversight Board (“PCAOB”). In order to understand the IAASB’s proposals for the

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	revised Standard, it would be useful to explain the choices made by the IAASB in an Explanatory Memorandum.
BDO	<p>We support the broad approach being suggested. It will help to bring about greater rigour and consistency by auditors in the preparation of audit documentation and help auditors to meet their responsibilities under ISQC 1.</p> <p>We consider the Exposure Drafts to be generally well written and clear in their wording. We believe the Exposure Drafts do not set out any onerous requirements.</p>
CEBS	<p>The Committee of European Banking Supervisors welcomes the opportunity to comment on the IAASB Exposure Draft: “ISA 230 (Revised) “Audit Documentation”.</p> <p>Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model. As banking supervisors, we therefore have an interest in ensuring that auditing standards which are the basis for audit work are of a high quality and are clear and capable of consistent application. Our comments are therefore addressed to these concerns as supervisors.</p> <p>In general we support the approach taken by the standard with its emphasis on audit documentation which is sufficient and appropriate to provide a record of the basis of the auditor’s report; and to demonstrate the audit was performed in accordance with ISAs and applicable regulatory and legal requirements. We also specifically support paragraph 8 and its statement that,</p> <p>“oral explanations, on their own do not represent sufficient support for the work the auditor performed or conclusions the auditor reached”.</p> <p>However, we do have some concerns over the time period specified for assembling the file, the lack of emphasis on timely documentation and the wording of paragraphs 18 & 19. In particular, we are not clear about the rationale for some of the paragraphs e.g. the suggestion of 60 days, and in the absence of such rationale we cannot provide a full response. Though we appreciate that the background papers to IAASB discussions at the board meetings are provided on the web-site, we would appreciate a more comprehensive ‘explanatory memorandum’ with each ED which brings together in one place the arguments and provides the rationale for particular aspects of the standard. This would enable us to provide more relevant and fuller comments for you, and ensure that we did not revisit aspects that have already been extensively debated.</p>
CICA	<p>Overall, we support the guidance in the ED, and have the following general comments:</p> <p><u>Practitioners From Smaller Firms</u></p> <p>We believe that some of the proposed requirements in the ED may be considered burdensome for practitioners from smaller firms once</p>

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	<p>they realize what is actually required. Examples of requirements that may prove to be onerous include those that relate to:</p> <ul style="list-style-type: none"> ▪ assembling a complete and final audit file not more than 60 days after the date of the auditor’s report; ▪ adding, changing and deleting working papers during the period from audit report date to archive date and also after archiving; ▪ documenting significant findings including analyses and other documentation which may be contrary to the final conclusions. <p>Small and medium-sized firms will likely need implementation guidance to assist them in complying with the standard once finalized. We would urge your group dealing with issues relating to small and medium-sized firms to consider this implementation guidance issue.</p> <p><u>Differences From US GAAS</u></p> <p>In many ways, the ED reflects the approach adopted in PCAOB AS No. 3. However, for certain matters, the IAASB intends to mandate an approach different from that required by the PCAOB. We urge the IAASB to reconsider these differences in the context of promoting a consistent global standard on audit documentation. In particular, we urge the IAASB to reconsider its positions regarding:</p> <ul style="list-style-type: none"> ▪ requiring the auditor to organize the audit documentation so that an experienced auditor understands the significant matters identified during the audit and the conclusions reached; ▪ providing guidance to the auditor on how the documentation requirement applies to the work of all those who participate in the engagement, including the work of specialists; ▪ including factors the auditor would consider in determining the nature, extent, format and organization of documentation; ▪ requiring the auditor to identify all significant findings or issues in an “engagement completion” document; ▪ providing guidance on the documentation requirements for matters such as auditor independence, staff training and proficiency and client acceptance and retention; ▪ requiring the auditor to assemble the audit documentation not more than 45 days after the report release date. <p>Reasons why we believe each of these matters warrants reconsideration are set out in our detailed comments.</p>
DNR	In general DnR supports the proposed text.
DTT	<p>We are strongly supportive of the development of this guidance, as we believe the exposure draft’s specificity on matters that should be documented will enhance the thoroughness with which procedures performed during an audit are documented and increase the consistency of documentation from audit to audit. This increased documentation and consistency of documentation will provide a better basis to monitor audit quality through quality control reviews and inspections, thereby contributing to the enhancement of audit quality.</p>

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	We also acknowledge and applaud the IAASB's careful consideration of the U.S. Public Company Accounting Oversight Board's (PCAOB's) Auditing Standard No. 3, "Audit Documentation" while drafting the exposure draft. We are strong proponents of global convergence in auditing standards and believe the issuance of the proposed revised ISA will be an important step forward in showing the IAASB's commitment to working cooperatively with other standard setters towards that goal.
EC	<p>The need for appropriate audit documentation, along with the basic notion of information on specific audit engagement, has become undeniable in the light of world wide attempts inflicted by corporate scandals to establish strong public oversight systems over audit profession. Our interest in high quality audit documentation results specifically from the fact that new legislative areas will appear in the EU on the strength of the proposed 8th Company Law Directive on statutory audit. These are respectively (i) the adequate testing of selected audit files in the frame of external quality assurance reviews, external inspections and public investigations, and (ii) group audits.</p> <p>Therefore we appreciate the revision of ISA 230 and the introduction of related amendments which we consider to be significant steps forward.</p>
EY	We support the IAASB's efforts to issue a comprehensive standard on audit documentation that will assist in improving audit quality and maintaining the public trust in the integrity of the audit process.
EY	The IAASB has recently issued an exposure draft for comment with the aim of clarifying the professional requirements in ISAs. We urge the IAASB not to approve the recommendations in that exposure draft until the resulting implications on audit documentation have been fully assessed.
FAR	Generally we support the revision of ISA 230.
FEE	FEE is supportive of the proposed revised standards as they are an improvement in comparison with the existing standards. We believe, however, that our comments which follow would further enhance the standards and help to improve the quality of audits.
FSR	We have no comments and in general we consider the draft to be excellent and intelligible.
GT	Audit documentation constitutes the principal record of the auditor's work and provides a basis and support for the auditor's conclusions and representations. Adequate audit documentation is essential to, among other things, facilitate the planning, performance, and supervision of the audit, demonstrate that the audit complied with ISAs and applicable legal and regulatory requirements, and aid in the

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	<p>performance of quality control reviews and inspections.</p> <p>We believe that the proposal appropriately raises the bar for audit documentation to achieve its objectives and will promote “rigor and consistency” in preparation. The proposal also aims for convergence and acceptance of an international set of auditing standards. Accordingly, we support the IAASB’s issuance of the proposed revised ISA 230 and related amendments.</p>
ICABC	<p>The members of our Forum support the concept of an international standard for audit documentation and consider it a key area in improving audit quality. The members do, however, believe a cost-benefit concept is appropriate in the context of audit documentation, and maintain that documentation requirements should be limited in those areas that have been assessed as being of low-risk or immaterial to the entity and the financial statements under audit.</p>
ICAEW	<p>We have recently responded to both the PCAOB and the SEC on the PCAOB Auditing Standard No 3 on audit documentation. In our response to the PCAOB, we noted our appreciation of the challenges faced by standard-setters with regard to audit documentation which is crucial to audit quality, and commented on the need for careful consideration of cost-benefit considerations and the needs and views of investors, regulators and external auditors. This comment applies equally to IAASB’s proposed standard. In our response to the SEC, we noted the many improvements made to the standard finally approved by the PCAOB and we are pleased to note that many of the IAASB’s proposals reflect ‘lessons learned’ by the PCAOB in developing its standard on audit documentation.</p> <p>Nevertheless, the IAASB’s proposals will have a direct effect on many more audits than the PCAOB standard. The IAASB’s proposals are likely to affect all audits in the EU in due course, including a very large number of small audits. We strongly urge careful and full consideration of the wide-ranging effects of this proposed standard and the associated proposals on clarity. They will be crucial to the quality of audits for years to come, including audits in the SME sector, which are the backbone of all developed economies.</p>
ICA.IRE	<p>We support the objectives of the exposure draft. We also support the proposed consequential amendments to ISA 330 and ISQC 1.</p>
ICANZ	<p>Overall we agree with the requirements contained in the Exposure Draft.</p> <p>Proposed amendments to ISA 330: we support the proposed amendments to ISA 330, which requires documentation to demonstrate that the financial statements agree or reconcile with the underlying accounting records.</p> <p>Proposed amendments to ISQC 1: we support the proposed amendments to ISQC 1, which relates to policies and procedures on the retention and retrieval of engagement documentation.</p>

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ICAS	In our response of 20 December 2004 on the Consultation Paper and Exposure Draft on Clarity, we raised concerns that recently issued standards on auditing represent an increasing burden on practitioners without demonstrably comparable improvements in audit quality, with the greatest burdens being placed on smaller practitioners who have more limited resources with which to address developments in auditing and accounting; and regulation more generally. Our comments on this Explanatory Memorandum and proposed standard reflect these and other concerns set out in the aforementioned response.
ICAP	<p>In view of the alleged role played by auditors in debacles of Enron and Worldcom, it is imperative that this issue is tackled by the IAASB. We believe that proper audit documentation might be the only way to ensure the upholding of integrity and professionalism of these assurance service providers.</p> <p>Technology has played a crucial role in the practices followed by accounting firms regarding their documentation. The old ways of maintenance of working papers in file formats and ticking of schedules has been dispensed with in many firms. Unfortunately this practice is still followed in Pakistan</p> <p>On the other hand, technology is also playing a critical role in the companies being audited and increased usage of ERP systems has changed the landscape of audit procedures in a dramatic way. Audit procedures are quite different in these organizations. Audit evidence is available in electronic form rather than paper and auditor's procedures are increasingly varied between entities without any standardization. Therefore we believe that this step by IAASB in standardization of audit documentation can assist all parties concerned.</p>
ICPAK	The changes proposed by the IAASB will go along way in improving the quality of the audit documentation. Further these proposals are going to make it easier for an experienced auditor to understand the work of another auditor in addition to improving the Quality Controls for the Audit firms.
ICPAS	We strongly support the work of IFAC and IAASB in this ED, which serves to increase the rigor and consistency with which auditors document their work, thereby contributing to audit quality.
IDW	<p>Overall, in our view the proposals contained in the Exposure Draft will contribute to an improvement in the quality of audit documentation and will enhance the quality of audits.</p> <p>We are particularly pleased to see that the standard is of appropriate length – i.e., it is apparent that it has been subjected to judicious editing so that the standards and guidance are conveyed in a concise manner. We are also very pleased to see that the scope of the standard includes all audits of historical financial information, rather than being limited to audits of financial statements (or even worse, being limited to audits of financial statements prepared using a financial reporting framework designed for a general purpose that</p>

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	requires fair presentation).
IOSCO	<p>We commend the Board for undertaking a project to update and improve the existing Audit Documentation standard. Ensuring the sufficiency and appropriateness of documentation is an essential element of a high quality audit in that it demonstrates that audit work has been done and that sufficient audit evidence has been obtained to support the auditor's report. After an audit is completed, it is the documentation file that provides the official record of the audit evidence. And, as stated in the Exposure Draft, audit documentation also plays a critical role in the planning and performance of the audit, in providing a record of the basis for the auditor's report, and in quality control reviews and inspections.</p> <p>We believe the proposed standard has the potential to bring greater discipline and consistency to the process of audit documentation but we believe further improvement is needed. The specific matters we have addressed in our comments relate to:</p> <ol style="list-style-type: none"> 1. the need to emphasize the importance of prompt preparation of documentation to support audit procedures performed, evidence gathered and conclusions reached; 2. the need for greater clarity with respect to the matters addressed in the section of the Exposure Draft dealing with "Changes to Audit Documentation after the Date of the Auditor's Report; 3. the issues associated with specifying a particular time period within which the audit file must be assembled and completed; 4. the need for audit firms and firm networks to establish internal policies and procedures for completing audit documentation on a timely basis; and 5. the need to be explicit as to the scope of audit documentation required with respect to audit work performed by other auditors.
IRE	The IRE is supportive of most of the proposals within the exposure draft of the IAASB on audit documentation. An appropriate documentation will indeed contribute to the objective of high quality of the audit work performed.
JICPA	Generally, we support this Exposure Draft and agree with the modifications outlined in the Exposure Draft.
KPMG	We support the exposure draft and its goal to increase the rigor and consistency with which auditors document their work, thereby contributing to increased audit quality.
NIVRA	We believe the issuance of this standard is an important step forward and are strongly supportive of the development of this guidance.
	History has made clear that documentation is a very important part of the audit procedure. There is a need for documentation not only

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	<p>after completing the audit but also in continuity during the audit process. All members of the audit team contribute to this part of the audit process. A clear standard and adequate instruction supports this part of the audit procedure.</p> <p>We warmly welcome two new elements in ISA 230: “The documentation of subsequent changes to audit documentation” and “The proposal of the date on which the assembling of the file is finally completed”. These make clear that the audit must be documented within a manageable period and that only in particular circumstances audit files may be filled up. That these specific reasons for the changes and the effects of the changes must be clearly recorded is an important requirement.</p>
PAAB	<p>While we support the goal of global convergence and consequently the reference to the PCAOB Standard AS 3 in the drafting of ED ISA 230 (Revised), care should be taken to recognize that AS 3 is prepared in the context of very restrictive regulatory requirements in the US and legislative requirements relating to documentation, retention periods, periods for completion of financial statement audits etc. may vary considerably in different countries. For some the requirements of AS 3 may be very onerous and unachievable, whereas others may be even more restrictive. Only the <i>principles</i> should be included in the proposed revised ED ISA 230 and National Standard setters should provide further guidance in their respective jurisdictions.</p>
PwC	<p>Overall, we support the proposed revised ISA 230 and related amendments to other ISAs and believe that they are both important and helpful to practitioners. However, there are a few important matters on which, in our opinion, there is a need for greater clarity before finalising the ISA and related amendments, in particular:</p> <ul style="list-style-type: none"> ▪ The documentation that is expected in order for the auditor to “<i>demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements</i>”. ▪ The documentation that is expected to be completed at the date of the audit report. <p>We also question whether the increasing documentation burden on smaller audit engagements is fully justified.</p>
PwC	<p>We have commented previously in our responses to the IFAC Survey in June 2004 and the Clarity Exposure Draft, that the IAASB should give further consideration to whether the cost/benefit of certain requirements apply equally to the audits of large/public listed companies and small and medium sized entities. As noted in our response to the Clarity Exposure Draft, we are not proponents of differential auditing standards in relation to the underling concepts and audit process itself, but do question whether the cost-benefit of documentation and communication requirements, in particular, are justified in all circumstances. Clarifying that auditors need only fulfil the documentation requirements related to ISA requirements that are relevant in the particular engagement is helpful in this regard. However, we are concerned that the compliance burden from specific documentation requirements in the ISAs on audits of smaller entities may be disproportionate. Therefore, we encourage IAASB to challenge whether each specific documentation requirement is</p>

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	necessary in all audits and to consider whether there are acceptable simplified approaches to fulfilling particular documentation requirements in audits of smaller non-complex entities.
US GAO	<p>We commend the IAASB for adding rigor and consistency to international auditing standards through the proposed audit documentation standard. Overall, we support the proposed standard. We are especially pleased that the proposed standard adopts the reviewability principle. This principle is consistent with the audit documentation standard set forth in U.S. <i>Government Auditing Standards</i>, which requires that “audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors’ significant judgments and conclusions.”¹ The reviewability principle is also incorporated by the U.S. Public Company Accounting Oversight Board (PCAOB) in its Auditing Standard No. 3, “Audit Documentation.”</p> <p>We commend the IAASB for its efforts to develop strong globally accepted auditing standards.</p>

¹ *Government Auditing Standards* (GAO-03-673G, June 2003), paragraph 4.22.

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