



**International Federation of Accountants**

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# Agenda Item 2

**Committee:** IAASB

**Meeting Location:** New York

**Meeting Date:** September 12–16, 2005

## **Audit Documentation**

### **Objectives of Agenda Item**

To review and approve for issue the revised ISA 230, *Audit Documentation*.

### **Background**

At the June 2005 meeting, the IAASB reviewed the significant issues raised by respondents to the exposure draft, and discussed preliminary revised wording to the ISA.

### **Activities since Last IAASB discussions**

The task force held a conference call in July 2005 to discuss the comments received at the previous IAASB meeting and to finalize the wording of the final draft of the ISA.

### **Main Issues**

#### **1. DOCUMENTATION OF DEPARTURES FROM BASIC PRINCIPLES OR ESSENTIAL PROCEDURES**

At the June meeting, the IAASB debated the proposed requirement to document departures from basic principles or essential procedures, and raised two specific issues:

- a) Whether the alternative procedures performed should in fact achieve the objective of the specified basic principle or essential procedure, as opposed to the objective of the audit; and
- b) Whether, in respect of the condition for departure, it was necessary for the alternative procedures to *more effectively* achieve the objective of the audit.

With respect to the first issue, the task force accepted that the objective of the audit could not be achieved without also meeting the objective of the specified basic principle or essential procedure. This was also the conclusion that the Clarity task force had reached on the issue. The task force therefore proposes explanatory guidance at paragraph 20 that clarifies that the requirement involves documenting how the alternative audit procedures performed were sufficient and appropriate to replace the specified basic principle or essential procedure.

With regard to the second issue, the task force followed the decision of the IAASB to delete the qualifying term “more effectively.” (The IAASB had debated the issue in June, and concluded that it

was logically incorrect to permit departure from a requirement only when it was necessary to do so to achieve the objective more effectively. The correct test was that a departure should only be necessary if the specified requirement did not in fact meet its objective in the particular circumstances.) It would therefore be sufficient for the alternative procedures performed to meet the objective of the basic principle or essential procedure that they replaced.

On the basis of the comments received, the task force also decided to add further explanatory guidance at paragraph 21 to clarify the meaning of the term “relevant in the circumstances” as it relates to a basic principle or essential procedure. (This was necessary to clarify the requirement that documentation of departures from basic principles or essential procedures applies only where the basic principle or essential procedure is in fact relevant.)

In addition, the task force considered comments received at the July 11<sup>th</sup> Clarity Forum in relation to what the auditor must document as a result of a departure from a basic principle or essential procedure. The exposure draft had proposed that the auditor should document why it was necessary to perform alternative procedures. On initial consideration of the comments received on exposure, the task force proposed to the IAASB that this was not necessary, as the focus should be on what was done rather than not done. However, after further reflection, the task force concluded that without such an obligation to document the reasons for the departure (if not otherwise clear), the proposed documentation requirement for departures would not be as robust as it should be, bearing in mind how rare departures should be. Accordingly, the task force proposes to reinstate the original exposure draft wording to document the reasons for the departure.

## 2. DOCUMENTATION OF REVIEW

At the June meeting, the IAASB debated at some length the requirement to document the review of the audit work performed. While there was broad agreement that the principle was pitched at the appropriate level (i.e. recording evidence of the review of *work performed* as opposed to recording evidence of review of each individual working paper), the IAASB asked the task force to consider:

- a) Whether a cross-reference to ISA 220 (Quality Control) would be appropriate in relation to the latter’s requirement for the auditor to review the audit documentation; and
- b) Whether further guidance would be appropriate to explain what it meant when the auditor signs off on a completed review of a given element or part of the audit documentation.

The task force agreed that a cross-reference to paragraph 26 of ISA 220 would be appropriate to link the requirement to review audit documentation set out in that paragraph with the requirement to document evidence of that review in ISA 230. However, the task force believes that paragraph 25<sup>1</sup> of

<sup>1</sup> Paragraph 25 of ISA 220 states: “Review responsibilities are determined on the basis that more experienced team members, including the engagement partner, review work performed by less experienced team members. Reviewers consider whether:

- (a) The work has been performed in accordance with professional standards and regulatory and legal requirements;
- (b) Significant matters have been raised for further consideration;
- (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- (d) There is a need to revise the nature, timing and extent of work performed;

ISA 220 provides adequate guidance on what a review means and therefore what is implied when the auditor documents that the audit work has been reviewed. Accordingly, cross-references to both paragraphs 25 and 26 of ISA 220 have been footnoted. To be consistent with the guidance in paragraph 27 of ISA 220, which states that the engagement partner documents the extent and timing of the reviews, the task force proposes to amend subparagraph 22(b) to require the auditor to record the extent of the review.

Finally, as agreed in June, subparagraph 22(a) has been amended to clarify that the auditor should record when the audit work was *completed*.

### 3. ASSEMBLY OF THE FINAL AUDIT FILE

The IAASB discussed two main issues in relation to the proposed requirement for the auditor to complete the assembly of the final audit file without undue delay after the date of the auditor's report:

- a) The meaning of the term "without undue delay;" and
- b) Whether the requirement should include a specific time limit.

With regard to the first issue, it was noted that the term "without undue delay" could be open to different interpretations. Therefore, the IAASB asked the task force to consider whether a more appropriate term could be used. The task force proposes that an appropriate replacement would be "on a timely basis." This term, also used in paragraph 2 of the document and in other ISAs, retains the principles-based approach to the requirement.

With regard to the second issue, the majority of the IAASB agreed in June that the requirement should be established as a principle that would enable firms to determine appropriate time limits for completing file assembly for different types of engagements. Such time limits would need to meet legal or regulatory requirements, or, absent such requirements, the principle of timely completion. Accordingly, the proposed requirement does not include a specific time limit. In addition, the task force agreed to retain the original proposal in Rome to introduce a corresponding new requirement in ISQC 1 for firms to establish the relevant policies and procedures for completing the assembly of final engagement files.

However, the task force proposes improvements to meet the IAASB's concern at (b) above. First, to link these two proposed requirements in ISA 230 and ISQC 1, the task force proposes an appropriate cross-reference to ISQC 1 in paragraph 25 of the ISA. Secondly, to avoid the possibility that the auditor would breach ISAs if the auditor did not comply with firm policies, even where such policies for internal reasons were significantly more demanding than ISAs, the task force also proposes to delete the reference to firm policies and procedures in the proposed requirement in paragraph 24 of ISA 230.

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- (e) The work performed supports the conclusions reached and is appropriately documented;
  - (f) The evidence obtained is sufficient and appropriate to support the auditor's report; and
  - (g) The objectives of the engagement procedures have been achieved."

Finally, to provide clear guidance on what would be considered an appropriate time limit for completing the assembly of audit files, the task force proposes to refer in the ISA to the 60-day period after the date of the auditor's report, as indicated in the proposed additional guidance in ISQC 1.

#### 4. EFFECTIVE DATE

On the basis that the ISA would be approved at the September 2005 IAASB meeting, respondents to the exposure draft had expressed some concern that the proposed effective date in the exposure draft (financial periods commencing on or after December 15, 2005) would allow too short a lead time for translation and implementation. In response to these concerns, the task force had proposed that the effective date be changed to financial periods ending on or after December 15, 2006. The task force had felt that this change would have enabled shorter financial periods, i.e. periods ending before December 15, 2006, to be excluded from the scope of the revised ISA, while still scoping in calendar year 2006 audits, for which the task force had felt there would be sufficient implementation time.

The task force has, however, considered the matter further and thinks that the change proposed probably does not substantively change the original exposure draft proposal, and is therefore unlikely to be helpful. In addition, it was noted that the wording of the proposed change (periods ending on or after) did not conform to that used in other ISAs (periods beginning on or after). After further reflection, the task force agreed to revise the proposed effective date to financial periods beginning on or after June 15, 2006.

The IAASB may, however, wish to discuss the implications of the Clarity project on the issue of this ISA. The task force thinks it is appropriate to issue this ISA now in order to ensure the benefits of the revisions are achieved as soon as practicable.

#### **Material Presented**

Agenda Item 2-A            Proposed revised ISA 230 (Clean)  
(Pages 1567 - 1580)

Agenda Item 2-B            Proposed revised ISA 230 (Markup)  
(Pages 1581 - 1596)

#### **Action Requested**

The IAASB is asked to consider the above issues and to review the proposed wording changes to the ISA before approving it for release as a final standard.