

ISSUES PAPER**Proposed ISA 230 (Redrafted), “Audit Documentation”****Introduction**

1. The comment period for the exposure draft of the proposed ISA 230 (Redrafted), “Audit Documentation,” closed on March 31, 2007. A total of 45 comment letters were received. A list of the respondents is included in the Appendix.
2. Respondents were overall very supportive of the redraft, with most of them responding in the affirmative to the three specific questions posed in the explanatory memorandum, i.e.
 - a) Is the objective to be achieved by the auditor, as stated in the proposed redrafted ISA, appropriate?
 - b) Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?
 - c) Do you agree with the changes described above (i.e., changes required as a result of amending the Preface and changes to enhance the clarity of the standard) as being helpful to the clarity of the redrafted ISA, including whether considerations in the audit of small entities have been dealt with appropriately?
3. There were no significant issues on the requirements as redrafted, with the exception of the three matters discussed in sections A-C below. With regard to the application material, respondents focused their comments mainly on guidance dealing with documentation of compliance with ISAs and documentation of significant professional judgments. Respondents’ significant comments are summarized below.

Significant Comments**A. “NEGATIVE REQUIREMENTS”**

4. Several respondents¹ noted that the application material contained guidance relating to specific paragraphs in the Requirements section that described restrictions or limitations on the scope of the application of the related requirements. A number of the respondents argued that these restrictions were in effect “negative requirements,” and that separating the actual requirements from material circumscribing their scope was contrary to the clarity principles and would not promote consistency of performance. Some of them were of the view that moving these negative requirements up into the Requirements section would better help avoid excessive documentation.
5. The respondents singled out in particular the following statements in the application material of the exposure draft as being so fundamental to the proper application of the underlying requirements that they believed these should be incorporated into the relevant requirement paragraphs:

¹ BDO, CNCC, FEE, ICAEW, and IDW.

- Paragraph A4: The auditor *need not* include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.
 - Paragraph A5: Oral explanations by the auditor, on their own, *do not* represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.
 - Paragraph A7: ... it is *neither* necessary *nor* practicable for the auditor to document every matter considered in an audit. Further, it is *unnecessary* for the auditor to document separately compliance with matters for which compliance is self-evident within the audit file. ...
 - Paragraph A13: The documentation of how the auditor addressed inconsistencies in information *does not* imply that the auditor needs to retain documentation that is incorrect or superseded.
 - Paragraph A17: The documentation requirement applies *only* to requirements that are relevant in the circumstances. ...
 - Paragraph A19: The requirement to document who reviewed the audit work performed *does not* imply a need for each specific working paper to include evidence of review. ...
 - Paragraph A21: The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that *does not* involve the performance of new audit procedures or the drawing of new conclusions.
6. In addition, some of the respondents from the European Union (EU) noted that because the European Commission may adopt the ISAs for use in the EU, but give the requirements a higher level of legal authority than the application material (or even not adopt the application material at all), there would be a need to consider whether these “negative requirements” should be elevated as essential guidance to explain the limitation of the particular requirements.
7. The task force noted that the purpose of these statements is to properly *explain* the scope and application of the requirements. The statements do not by themselves impose additional obligations on the auditor. As such, the task force firmly believes that they appropriately belong in the Application Material section. The task force observed that the more these negative clauses are incorporated into the requirements, the more doubt may be cast on the proper limitations of requirements to which no limiting language is attached. Further, liberally populating the Requirements section with these limiting statements would detract from the specific documentation obligations the IAASB intends the auditor to fulfill. It would also devalue the role of the application material. The task force was of the view that there should be no doubt under the proposed ISA 200 (Revised and Redrafted) that the requirements of each ISA should be read in light of the application material. Accordingly, the task force recommends that no change be made.

Matter for IAASB Consideration
Q1. Does the IAASB agree that the “negative requirement” statements listed above should remain in application material?

B. ASSEMBLY OF THE FINAL AUDIT FILE AND DEFINITION OF AUDIT FILE

8. One respondent (AICPA) noted that there were a number of assumptions throughout the exposure draft that audit documentation will be maintained in an audit file but there was no clear requirement that this should be the case. This respondent also noted that although the term “audit file” is used throughout the ISA, it is not defined. Another respondent (GT) pointed out that the last sentence of paragraph A3 in the exposure draft contained a present tense statement regarding the assembly of audit documentation into an audit file, and that the use of the present tense in this case should be reconsidered.
9. The task force agreed that elevating this particular occurrence of the present tense would make it clear that audit documentation *should* be assembled in an audit file. Accordingly, the task force proposes a requirement to that effect in paragraph 13,² and recommends that the last sentence of paragraph A3 be deleted. The task force also agreed that it would be appropriate for the term “audit file” to be defined, and proposes a definition in paragraph 6(b).

Matters for IAASB Consideration

- Q2. Does the IAASB agree that the present tense should be elevated in this instance to make it clear that audit documentation should be assembled in an audit file?
- Q3. Does the IAASB agree that the term “audit file” should be defined as proposed?

C. CHANGES TO AUDIT DOCUMENTATION AFTER THE DATE OF THE AUDITOR’S REPORT

10. One respondent (CNCC) noted that paragraphs 14 and 15 of the exposure draft overlapped to some extent in that the circumstances dealt with in paragraph 15 (changes to audit documentation arising in exceptional circumstances after the date of the auditor’s report) could also be addressed under paragraph 14 (changes to audit documentation after file assembly has been completed), since both would scope in changes made to the audit file after it has been assembled.
11. The task force agreed with those views and proposes that the order of these two paragraphs (now paragraphs 15 and 16) be reversed so that the auditor would first deal with the exceptional circumstances arising after the date of the auditor’s report, and then any other circumstances where there is a need to modify audit documentation after file assembly has been completed.
12. Two respondents (Basel and KPMG) questioned why the requirement to review these changes to audit documentation was qualified with the words “where applicable.” They argued that changes to audit documentation should always be reviewed to ensure an element of quality control.
13. The task force accepted this suggestion. Accordingly, the task force proposes that the words “where applicable” be deleted from the requirements in paragraphs 15 and 16, and that

² Paragraph numbers refer to the revised draft of the ISA (Agenda Item 5-B) unless otherwise noted.

clarifying guidance be added to paragraph A23 to explain the review responsibilities for the changes.

Matter for IAASB Consideration

Q4. Does the IAASB agree with the changes proposed to paragraphs 15, 16 and A23?

D. DOCUMENTATION OF COMPLIANCE WITH ISAS

14. Many respondents welcomed the clarification that paragraphs A6 and A7 have brought into the ISA regarding the issue of documentation needing to provide evidence that the audit was performed in accordance with ISAs. Several of them,³ however, asked that the guidance further stress that it is neither necessary nor practicable for the auditor to document how the auditor has complied with *every requirement* in the ISAs.
15. The task force is of the view that although this suggestion is intended to prevent the extreme case of auditors documenting compliance with each and every requirement of the ISAs, whether relevant or not, it could potentially be misinterpreted to imply that compliance with requirements that are relevant *sometimes* need not be demonstrated in the audit documentation. The task force believes that the negative consequences of this potential outcome would far outweigh the perceived benefits of making the suggested emphasis. The task force further believes that this statement would be unnecessary given the proposed clarification in paragraph 2(b) that compliance with the documentation requirements of this ISA and the specific documentation requirements of other relevant ISAs provides evidence that the audit was planned and performed in accordance with ISAs. Accordingly, the task force proposes that the respondents' suggestion not be accepted.
16. Two respondents (Basel and CEBS) questioned the use of the expression "some evidence" in the second and third examples in paragraph A7 of the exposure draft in relation to circumstances where it is unnecessary for the auditor to document separately compliance with matters for which compliance is self-evident within the audit file. They noted that the examples illustrated two specific areas where documentation would only provide "some evidence" of compliance with ISAs, and they felt that this implied that additional documentation would be necessary to demonstrate full compliance.
17. The task force agreed that some clarification would be appropriate in this regard. Accordingly, it proposes that these specific examples be reworded in paragraph A7 to state that:

In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

- For example, there may be no single way in which the auditor's professional skepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism in accordance with the ISAs. Such evidence may include

³ CNCC, FEE, HKICPA, ICJCE, IRE, and PwC.

specific procedures performed to corroborate management’s responses to the auditor’s inquiries.

- Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the ISAs may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner’s timely involvement in aspects of the audit, such as participation in the team discussions required by ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”

Matters for IAASB Consideration

- Q5. Does the IAASB agree that there should be no statement in the ISA that it is neither necessary nor practicable for the auditor to document how the auditor has complied with every requirement in the ISAs?
- Q6. Does the IAASB agree with the proposed rewording of the guidance in paragraph A7 as described above?

E. DOCUMENTATION OF SIGNIFICANT PROFESSIONAL JUDGMENTS

18. Paragraph A10 of the exposure draft drew a relatively large number of comments from respondents. A number of them⁴ were concerned about the use of the word “would” in the first line of the paragraph (i.e. “Examples of circumstances in which it *would* be appropriate to prepare audit documentation relating to ...”). They suggested that the verb “would” in that context could cause confusion as to whether the examples listed were intended to be requirements or not.
19. The task force was not convinced that the use of “would” in the application material should cause difficulties. The task force believes that the perception of an issue arises more from a misunderstanding. The task force notes that the IAASB discussed the issue when finalizing the exposure draft and agreed that using “would” in the application material was appropriate. This is because the examples are so drafted as to represent cases where a specific requirement applies, and not as examples of what might be done out of a number of possibilities to fulfill a specific requirement. Consequently, in the circumstances set out in the application material, documentation *is* required by the ISA. The task force did not agree with the suggestion from one of the respondents that “would” in this case should be replaced by the word “may” as this would incorrectly suggest that documentation might not be mandatory in the circumstances. Accordingly, the task force proposes that no change be made.
20. The first bullet in this paragraph stated that one matter for which it would be appropriate to prepare documentation relating to the use of professional judgment, where the matter and judgment were significant, would be “the information or factors considered by the auditor that were important in forming the relevant professional judgment when a requirement provides that the auditor ‘shall consider’ certain information or factors.” Several respondents

⁴ AICPA, APB, DTT, GT, and IDW.

noted that the meaning of this was unclear. Two of them (APB and PwC), in particular, were of the view that the reference to documenting *information or factors* considered in relation to a ‘shall consider’ requirement could be misinterpreted to mean *all* information and factors considered, which they thought would be impracticable. They suggested that, rather than information or factors, what should be documented in this circumstance should be the *rationale for the auditor’s conclusions*.

21. The task force agreed that the words “information or factors” could be misunderstood in this case, especially given that the respondents appear to have read these words to mean *all* information or factors rather than simply those that were *important* in forming the relevant professional judgment. Accordingly, the task force proposes that this particular suggestion from the respondents be accepted (see paragraph A10).
22. Other respondents⁵ felt that the example in this particular bullet was not sufficiently clear as to whether the auditor is required to document the application of *all* ‘shall consider’ requirements or only those that are significant in the context of the particular engagements. They argued that compliance with the former would be impracticable. Accordingly, they were of the view that the guidance should be clarified.
23. The task force noted that these respondents appeared to have overlooked the qualifying words “where the matters and judgments are significant” in the introductory part of the paragraph. Nonetheless, for the avoidance of doubt, the task force proposes that the bullet further emphasize that the documentation requirement would only apply where the consideration is *significant in the context of the particular engagement* (see paragraph A10).
24. In relation to the second bullet in paragraph A10, two respondents (HKICPA and PwC) argued that in most circumstances, the ISAs are written to require the auditor to design further audit procedures to respond to assessed risks. They therefore questioned whether it would be easy to identify when the auditor has performed procedures beyond those necessary to meet the requirements of an ISA. They noted that documentation requirements in other ISAs already ensure that documentation will be prepared to demonstrate how further audit procedures performed are sufficient to appropriately respond to the assessed risks. Accordingly, they suggested that this bullet be deleted.
25. The task force sees the scope for confusion, and also considers that this may suggest a need to document decisions to do further work beyond that clearly flowing from the requirements of the ISAs. This may provide a disincentive to auditors to do what they think is necessary, and if it were to have this effect it would be against the public interest. The task force therefore proposes that this bullet be deleted.

Matters for IAASB Consideration

- Q7. Does the IAASB agree that no change should be made to the “would” construct in the application material?
- Q8. Does the IAASB agree with the clarifications proposed to the first bullet of this

⁵ CNCC, DTT, HKICPA, and PwC.

paragraph?

Q9. Does the IAASB agree that the second bullet should be deleted?

F. DEFINITIONS

Experienced Auditor

26. Three respondents⁶ noted that the definition of “experienced auditor” in the exposure draft did not mention the need for *relevant experience* in performing audits in the specific industries. They noted that it would be unrealistic to expect that an individual lacking relevant audit experience could perform reviews of audit working papers satisfactorily. In addition, they argued that a graduate or postgraduate could have a reasonable understanding of the matters listed in the definition, but little or no practical experience of performing audits in the relevant industries. Accordingly, they suggested that the definition be clarified to indicate that it includes an expectation of relevant audit experience.
27. The task force notes that the IAASB discussed at some length the definition of “experienced auditor” when finalizing the revised ISA 230. Most of the comments on the exposure draft of the proposed revised ISA 230 addressed the *level* of experience needed in such a role (i.e. in terms of competencies and skills needed), and the *nature* of such experience (i.e. in terms of ability to understand matters such as ISAs and applicable legal and regulatory requirements). The current definition deals with these aspects but not the question of whether the role requires *relevant* audit experience. The point was also discussed by the IAASB when considering the exposure draft of redrafted ISA 230, at which time it was proposed that the term ‘experienced auditor’ might be replaced with ‘experienced reviewer’ and a reference to relevant audit experience inserted. These changes were rejected by the IAASB at that time because of some concern about going beyond mere clarification.
28. The task force notes that, as illustrated by the comments, there is still scope for confusion. One of the reasons put forward for the possible change to ‘reviewer’ was that reference to ‘auditor’ suggested a bias in favor of peer review. Although the IAASB rejected the change to ‘reviewer’, it confirmed that there was no intention to indicate any such bias. An analysis of the definition in the exposure draft might suggest either that the ‘experienced auditor’ need not be, or have been, an auditor since this is not stated in the definition; or, on the other hand, it might be argued that it was not necessary to include this in the definition, since it was obvious from use of the term ‘experienced auditor’ in itself. But if this latter interpretation is correct (and it probably was behind the IAASB’s thinking) it suggests a current rather than former auditor. For these reasons and those advanced by the three respondents above, the task force agreed that the concept of an experienced auditor should make explicit the need to have had relevant audit experience. Accordingly, the task force proposes that the definition of the term be clarified in that respect (see paragraph 6(c)). The task force believes that no change in substance results from this clarification.

⁶ ICAEW, IDW, and NAO.

Audit Documentation

29. One respondent (IOSCO) was of the view that the definition of “audit documentation” should be revised to clarify that risk assessment and planning are also intended to be covered by the general documentation requirements in the ISA. This respondent argued that it would be important to mention these aspects of the audit along with “the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached” because the documentation of the basis for planning the audit should also be done in a way that “would enable an experienced auditor having no previous connection with the audit, to understand...” (what was done).
30. The task force noted that planning and risk assessment include audit procedures. It would therefore seem inappropriate to single out those two specific aspects of the audit as suggested. Accordingly, the task force recommends that the definition of audit documentation not be changed. However, to clarify that audit documentation needs to provide evidence of planning, the task force agreed to add the words ‘planning and’ in paragraphs 2(b) and 5(b) to emphasize that audit documentation covers planning as well as performance.

Matters for IAASB Consideration

- Q10. Does the IAASB agree with the proposed clarification to the definition of “experienced auditor”?
- Q11. Does the IAASB agree with the clarification proposed in paragraphs 2(b) and 5(b) regarding audit planning?

G. SCOPE OF THE ISA

31. One respondent (IRBA) suggested that the effective date paragraph be reworded to focus on financial *statements* as opposed to financial *information*. Another respondent (KPMG) noted that the wording in paragraph A23 of the exposure draft was inconsistent with wording used in the proposed ISA 560 (Redrafted), “Subsequent Events,” because the exposure draft used the phrase “after the financial information has been issued” instead of the phrase “after the financial statements have been issued” (as used in proposed ISA 560 (Redrafted)).
32. The task force agreed that there is a need to be consistent with the approach the IAASB has taken in other standards that are being redrafted under the Clarity project (e.g. ISA 220 and ISQC 1). Accordingly, the task force proposes that the scope of the proposed ISA 230 (Redrafted) be refocused on the audit of financial statements, with appropriate wording extending the application of the ISA to other types of engagement (see paragraph 1). A consequential change has also been made to paragraph A23 in response to the above comment.

Matter for IAASB Consideration

- Q12. Does the IAASB agree with the proposal to refocus the scope of ISA 230 to audits of financial statements?

H. QUALITY CONTROL REVIEWS AND INSPECTIONS

33. One respondent (NZICA) noted that in describing some of the purposes of audit documentation, paragraph 2 of the exposure draft referred to audit documentation as enabling “experienced auditors” to conduct quality control reviews and inspections in accordance with ISQC 1. The respondent observed that ISQC 1 does not currently use the term “experienced auditor” in connection with periodic inspections, and that the only condition it imposes in respect of the person carrying out the inspection is that they not be involved in the engagement. The respondent suggested that consideration be given to amending the Monitoring section of ISQC 1 to ensure that inspections are only undertaken by experienced auditors.
34. The task force notes that the requirements for the person carrying out the quality control inspection could depend upon the specific purpose of the inspection. Because quality control inspections fall under the firm’s control, certain types of inspections might not necessarily always require experienced auditors. The task force was of the view that rather than changing ISQC 1 to deal with the issue, it would be preferable to amend the fifth bullet in paragraph 3 of the proposed ISA 230 (Redrafted) so that no reference is made to experienced auditors in relation to the conduct of quality control reviews and inspections. This change would then make this bullet consistent with the last bullet in the paragraph which deals with external inspections. Accordingly, the task force proposes that this issue be addressed through an amendment to this ISA as opposed to ISQC 1.

Matter for IAASB Consideration

Q13. Does the IAASB agree with the task force’s approach to deal with this issue?

I. CONSIDERATION OF WHETHER TO RE-EXPOSE

35. The task force considered the nature and substance of all the proposed changes to the exposure draft wording to determine whether there would be a need to re-expose the proposed redrafted ISA 230. In the task force’s view, the proposed changes, overall, improve the application of the clarity drafting conventions in the context of this ISA and do not represent a fundamental change to any of the principles in the ISA. Accordingly, the task force believes that, subject to the IAASB’s views, re-exposure would not be necessary.

Matter for IAASB Consideration

Q14. Does the IAASB agree that re-exposure would not be necessary?

Appendix

List of Respondents

IFAC member bodies: 22

Regulators: 5

Firms: 7

Governmental: 5

Others (standard setters, industry, etc.): 6

#	Respondent	Ref	Group
1	American Institute of Certified Public Accountants	AICPA	Member Body
2	The Association of Chartered Certified Accountants	ACCA	Member Body
3	Auditing Practices Board (United Kingdom)	APB	Other
4	Australian Auditing and Assurance Standards Board	AUASB	Other
5	Australasian Council of Auditors-General	ACAG	Governmental
6	Audit Commission (United Kingdom)	ACUK	Governmental
7	Basel Committee on Banking Supervision	Basel	Regulator
8	BDO Global Coordination B.V	BDO	Firm
9	Canadian Auditing and Assurance Standards Board	CAASB	Other
10	Chartered Institute of Public Finance and Accountancy	CIPFA	Member Body
11	Committee of European Banking Supervisors	CEBS	Regulator
12	Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l'Ordre des Experts-Comptables	CNCC	Member Body
13	Deloitte Touche Tohmatsu	DTT	Firm
14	Ernst & Young	EY	Firm
15	European Commission	EC	Regulator
16	FAR SRS	FAR	Member Body
17	Federation des Experts Comptables Europeens	FEE	Other
18	Foreningen af Statsautoriserede Revisorer	FSR	Member Body
19	Grant Thornton International	GT	Firm
20	Hong Kong Institute of Certified Public Accountants	HKICPA	Member Body
21	Independent Regulatory Board for Auditors, South Africa	IRBA	Other
22	Institut der Wirtschaftsprüfer	IDW	Member Body

#	Respondent	Ref	Group
23	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren	IRE	Member Body
24	Institute of Certified Public Accountants of Kenya	ICPAK	Member Body
25	Institute of Certified Public Accountants of Singapore	ICPAS	Member Body
26	Institute of Chartered Accountants in England and Wales	ICAEW	Member Body
27	Institute of Chartered Accountants of India	ICAI	Member Body
28	Institute of Chartered Accountants in Ireland	ICAIre	Member Body
29	Institute of Chartered Accountants of Pakistan	ICAP	Member Body
30	Institute of Chartered Accountants of Scotland	ICAS	Member Body
31	Institute of Chartered Accountants of Zimbabwe	ICAZ	Member Body
32	Instituto de Censores Jurados de Cuentas de Espana	ICJCE	Member Body
33	International Association of Insurance Supervisors	IAIS	Regulator
34	International Organization of Securities Commissions	IOSCO	Regulator
35	The Japanese Institute of Certified Public Accountants	JICPA	Member Body
36	KPMG	KPMG	Firm
37	Dr. Joseph Maresca CPA, CISA	JM	Other
38	Mazars	Mazars	Firm
39	National Audit Office, UK	NAO	Governmental
40	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)	NIVRA	Member Body
41	Professional Practices Board, New Zealand Institute of Chartered Accountants	NZICA	Member Body
42	PricewaterhouseCoopers	PwC	Firm
43	Riksrevisionen (Swedish National Audit Office)	SNOA	Governmental
44	Welsh Audit Office, UK	WAO	Governmental
45	Zambia Institute of Chartered Accountants	ZICA	Member Body

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