



# Improving Compliance with International Standards on Auditing

ISA 230 Audit Documentation

# Introduction

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- ▶ **Aim of this session**

- ▶ What audit documentation is
- ▶ ISA requirements
- ▶ What constitutes ‘sufficient and appropriate’
- ▶ Application to audits of smaller entities

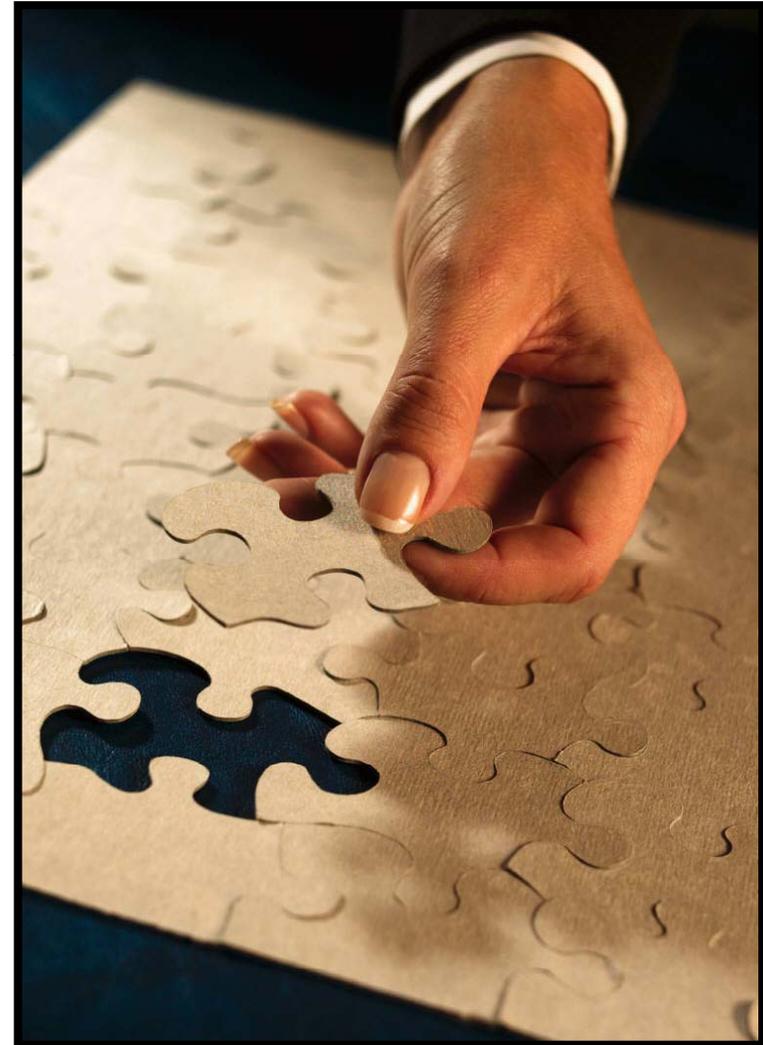
- ▶ **Presenters**

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# Overview

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- ▶ ISA 230 requirements
- ▶ Other ISA requirements
- ▶ Characteristics of good documentation
- ▶ Elements of a working paper file
- ▶ Applications for SMEs



# ISA 230 Requirements

# What is audit documentation?

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▶ **Audit documentation**

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

*(ISA 230, 6(a))*

## Recent observations

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- ▶ No working paper file.
- ▶ No work is performed for a material financial component e.g, inventories.
- ▶ No audit programmes.
- ▶ No audit plan.
- ▶ General ledger printouts on file for material balances; check for mathematical accuracy is only work performed.
- ▶ Financial assertions for financial components are not adequately covered or, not covered at all.
- ▶ Extent and results of test not documented; test cannot be re-performed.

## Scope

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- ▶ ISA 230 deals with the auditor's **responsibility** to prepare audit documentation for an audit of financial statements.

## Objective

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Auditor's objective is to prepare documentation that provides

- ▶ a **sufficient and appropriate** record of the basis for the auditor's report; and
- ▶ that the audit was **planned and performed** in accordance with ISAs and applicable legal and regulatory requirements.

## Additional purposes

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- ▶ Assisting engagement team to plan and perform audit.
- ▶ Enabling proper direction and supervision of audit work (ISA 220).
- ▶ Enabling engagement team to be accountable for its work.
- ▶ Retaining a record of matters of continuing significance to future audits.
- ▶ Enabling conduct of quality control reviews and inspections (ISQC I).
- ▶ Enabling conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

# Requirements

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- ▶ **Timely preparation** of audit documentation
  
- ▶ Documentation of the **audit procedures performed** and **audit evidence obtained**
  - ▶ Form, content and extent of audit documentation
  - ▶ Departure from a relevant requirement
  - ▶ Matters arising after the date of the auditor's report
  
- ▶ **Assembly** of the final audit file

## Form, content and extent

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- ▶ Sufficient to enable experienced auditor, having no previous connection with the audit, to understand:
  - ▶ **Nature, timing and extent** of the audit procedures performed
  - ▶ **Results** of audit procedures performed, and audit **evidence obtained**; and
  - ▶ **Significant matters** arising during the audit, conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

## Form, content and extent

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- ▶ Auditor shall record:
  - ▶ **Identifying characteristics** of the specific items or matters tested;
  - ▶ **Who performed** audit work and **date** such work was completed; and
  - ▶ **Who reviewed** the audit work performed and the **date** and extent of such review.

## Form, content and extent

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- ▶ Document **discussions** of significant matters with management, those charged with governance, and others, including
  - ▶ Nature of significant matters discussed, and
  - ▶ When and with whom discussions took place.
  
- ▶ If information identified that is inconsistent with the auditor's final conclusion regarding significant matter, document how inconsistency addressed.

## Examples

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- ▶ Audit programs
- ▶ Analyses
- ▶ Issues memoranda
- ▶ Summaries of significant matters
- ▶ Letters of confirmation and representation
- ▶ Checklists
- ▶ Correspondence (including e-mail) concerning significant matters



## Assembly of final audit file

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- ▶ ISQC I requires firms to establish policies and procedures **timely completion** of assembly of audit files.
  - ▶ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily **not more than 60 days** after the date of the auditor's report.
- ▶ Assembly after date of auditor's report is an administrative process that does not involve performance of new audit procedures or drawing of new conclusions.

# Other ISA Requirements

## Other ISAs

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- ▶ ISA 210, “Agreeing the Terms of Audit Engagements” – paragraphs 10-12
- ▶ ISA 220, “Quality Control for an Audit of Financial Statements” – paragraphs 24-25
- ▶ ISA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” – paragraphs 44-47
- ▶ ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” – paragraph 29
- ▶ ISA 260, “Communication with Those Charged with Governance” – paragraph 23
- ▶ ISA 300, “Planning an Audit of Financial Statements” – paragraph 12
- ▶ ISA 315, “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” – paragraph 32

## Other ISAs

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- ▶ ISA 320, “Materiality in Planning and Performing an Audit” – paragraph 14
- ▶ ISA 330, “The Auditor’s Responses to Assessed Risks” – paragraphs 28-30
- ▶ ISA 450, “Evaluation of Misstatements Identified during the Audit” – paragraph 15
- ▶ ISA 540, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” – paragraph 23
- ▶ ISA 550, “Related Parties” – paragraph 28
- ▶ ISA 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” – paragraph 50
- ▶ ISA 610, “Using the Work of Internal Auditors” – paragraph 13

## ISA 210 Terms of Engagement

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- ▶ Agreed terms shall be recorded in an audit engagement letter or other suitable form of **written agreement** and shall include:
  - ▶ Objective and scope of the audit
  - ▶ Responsibilities of the auditor
  - ▶ Responsibilities of management
  - ▶ Identification of the applicable financial reporting framework for the preparation of the financial statements; and
  - ▶ Reference to the expected form and content of reports to be issued and statement that there may be circumstances in which a report may differ

# ISA 220 Quality Control

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- ▶ **Documentation to include:**
  - ▶ Issues identified with respect to compliance with relevant **ethical requirements** and how they were resolved.
  - ▶ Conclusions on compliance with **independence** requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
  - ▶ Conclusions reached regarding the **acceptance and continuance** of client relationships and audit engagements.
  - ▶ The nature and scope of, and conclusions resulting from, **consultations** undertaken during the course of the audit engagement.

## ISA 220 Quality Control

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- ▶ The engagement **quality control reviewer** shall document that:
  - ▶ The procedures required by the firm's policies on engagement quality control review have been performed;
  - ▶ The engagement quality control review has been completed on or before the date of the auditor's report; and
  - ▶ The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

## ISA 240 Fraud

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- ▶ **Documentation of auditor's understanding of the entity and its environment and the assessment of the risks of material misstatement (ISA 315) to include:**
  - ▶ Significant decisions reached regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and
  - ▶ Identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level

## ISA 240 Fraud

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- ▶ Auditor's responses to assessed risks of material to include:
  - ▶ Overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and
  - ▶ Results of the audit procedures, including those designed to address the risk of management override of controls.
- ▶ Communications about fraud made to management, those charged with governance, regulators and others.
- ▶ Rebuttal of presumption that there is a risk of material misstatement due to fraud related to revenue recognition

## ISA 300 Planning

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- ▶ The overall audit strategy
- ▶ The audit plan; and
- ▶ Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes

## ISA 315 Risk of Material Misstatement

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- ▶ Discussion among engagement team of susceptibility of financial statements to material misstatement, and application of applicable financial reporting framework to the entity's facts and circumstances, and significant decisions reached
- ▶ Key elements of the understanding obtained regarding the entity and its environment and its internal control components; sources of information for understanding; and risk assessment procedures performed

## ISA 315 Risk of Material Misstatement

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- ▶ Identified and assessed risks of material misstatement at the financial statement level and at the assertion level; and
- ▶ Risks identified, and related controls about which the auditor has obtained an understanding

## ISA 320 Materiality

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- ▶ **Amounts and factors considered in determination of:**
  - ▶ Materiality for the financial statements as a whole
  - ▶ If applicable, materiality level or levels for particular classes of transactions, account balances or disclosures
  - ▶ Performance materiality
  - ▶ Any revision of the above

## ISA 330 Response to Assessed Risks

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- ▶ **Document:**
  - ▶ Overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed;
  - ▶ The linkage of those procedures with the assessed risks at the assertion level; and
  - ▶ The results of the audit procedures, including the conclusions where these are not otherwise clear
- ▶ **Conclusions reached about relying on controls tested in a previous audit, if auditor plans to use such evidence**
- ▶ **Demonstrate that financial statements agree or reconcile with the underlying accounting records**

## ISA 450 Evaluation of Misstatements

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- ▶ Amount below which misstatements would be regarded as clearly trivial
- ▶ All misstatements accumulated during the audit and whether they have been corrected
- ▶ Auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

## ISA 540 Auditing Accounting Estimates

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- ▶ Basis for auditor's conclusions about reasonableness of accounting estimates and their disclosure that give rise to significant risks; and
- ▶ Indicators of possible management bias, if any

## ISA 550 Related Parties

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- ▶ Names of identified related parties and the nature of the related party relationships

## ISA 600 Group Audits

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- ▶ An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components
- ▶ The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components
- ▶ Written communications between the group engagement team and the component auditors about the group engagement team's requirements



# Characteristics of Good Documentation

## Elements

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▶ **Purpose**

Determine that the tailored procedures are composed of sufficient detail to understand the objective/purpose of the audit procedures.

▶ **Nature**

Documentation of auditing procedures that involve the inspection of documents or confirmations, including tests of operating effectiveness of controls and tests of details, includes identification of the items inspected.

Documentation of auditing procedures related to the inspection of significant contracts or agreements with financial impact should include abstracts or copies of the documents.

## Elements

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▶ **Source**

Documents should indicate their source.

▶ **Extent**

Sufficient for an experienced auditor having no previous connection with the engagement to understand the nature, timing, extent and results of procedures performed, evidence obtained and conclusions reached.

▶ **Conclusion**

A conclusion should be documented for every audit procedure, if not readily determinable from documented results.

## Elements

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### ▶ Timing

All evidence to support the audit opinion should be obtained and reviewed before signing the opinion. Good practice is to complete the file, including review, prior to the audit report date.

Required by ISA 230.7 to complete the file in a timely manner and **within 60 days** from the report date.

# Elements of a Working Paper File

## What is audit documentation?

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- ▶ **Audit documentation**

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

*(ISA 230, 6(a))*

- ▶ **Audit file**

One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

*(ISA 230, 6(a))*

# Planning

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- ▶ **Acceptance and continuance**
  - ▶ Including ethical/independence considerations
- ▶ **Terms of engagement**
  - ▶ Engagement letter or other suitable form of contract
- ▶ **Understanding the entity and its environment**
- ▶ **Risk assessment, in particular fraud**
- ▶ **Overall audit strategy**
- ▶ **Audit plan**
  - ▶ Including procedures to respond to assessed risks

## Planning

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- ▶ Use of experts
- ▶ Use of a service organisation
- ▶ Group audit planning

# Execution

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- ▶ Overall responses and specific procedures
  - ▶ Lead schedule
    - ▶ Agreement of financial statements to accounting record
  - ▶ Audit programme of detailed procedures
  - ▶ Supporting tests
    - ▶ Purpose, scope, extent, nature, conclusion, timing
  - ▶ Supporting documentation
    - ▶ Confirmations
    - ▶ Extracts
    - ▶ Computations
    - ▶ Reports

# Execution

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- ▶ **Other documentation**
  - ▶ Discussion of significant matters
  - ▶ Inconsistent findings
  - ▶ Non-compliance with laws and regulations
  - ▶ Accounting estimates
  - ▶ Related parties
  - ▶ Groups
  - ▶ Internal audit
  - ▶ Going concern considerations

## Execution – Lead schedule

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- ▶ Composition of figures in the financial statements (trail to general ledger)
- ▶ Prior year comparatives
- ▶ Brief notes on basis of accounting, and impact of any changes from prior year
- ▶ Summary of work done
- ▶ Brief note on the adequacy of internal controls
- ▶ Conclusion as to whether balances are fairly stated, based on the work performed

## Execution – Control schedule

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- ▶ Objective
- ▶ Scope
- ▶ Source
- ▶ Basis of selection
- ▶ Work done
- ▶ Matters arising
- ▶ Conclusion

## Execution – Other considerations

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- ▶ **Ensure that each working paper, whether in physical or electronic form contains the following:**
  - ▶ Account balance being tested
  - ▶ Assertions being tested
  - ▶ Reason for the selection of the sample size
  - ▶ Initials and date of the person performing the audit work
  - ▶ Initials and date of the person(s) reviewing the work
  - ▶ Results of the test
  - ▶ Conclusions on the test

## Completion and review

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- ▶ Significant revisions to audit strategy/plan
- ▶ Consultation on difficult or contentious matters
- ▶ Evaluation of misstatements
- ▶ Communications with management and TCWG
  - ▶ In particular, in respect of fraud
- ▶ Significant deficiencies in internal control
  - ▶ Impact on audit
  - ▶ Communications
- ▶ Engagement quality control
- ▶ Management representations
- ▶ Audit report

### Nice to have

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- ▶ Working paper index
  - ▶ Use consistent system of referencing
- ▶ Team budget and scheduling
- ▶ Systems documentation (narrative/flowcharts)
- ▶ Extracts of key contracts/agreements
- ▶ Permanent file

## Other considerations

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- ▶ Assemble a “current” audit file with all audit documentation necessary to support the audit opinion for the current year.
- ▶ Maintain separate “permanent” audit files, or maintain a permanent file section on the current year’s files, to include audit documentation of continuing importance.
- ▶ Remove from the current file any documentation that does provide evidence to support the current opinion, eg draft notes, schedules received but not used.

## Other considerations

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- ▶ Partner should sign-off conclusion on each section of the audit file, to evidence concurrence with conclusion on work performed.
- ▶ Ensure that all review points are removed from the file once the points are cleared and before the file is archived.

# Applications for Auditing SMEs

## Special considerations

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Nature and extent of documentation for SME likely influenced by

- ▶ **Inherent characteristics of SMEs:**
  - ▶ Concentration of ownership and management
  - ▶ Uncomplicated operations
  - ▶ Simple accounting systems
  - ▶ Relatively small number and nature of controls
- ▶ **Smaller audit team:**
  - ▶ Nature of relationship with management
  - ▶ Relatively small team size
  - ▶ Use of proprietary audit systems

*APB Practice Note 26*

## ISA 230

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- ▶ **Appropriate documentation need not be burdensome**
- ▶ **Application designed to be proportionate, efficient, and effective**
  - ▶ For SMEs, likely simple in form and relatively brief
  - ▶ ISAs explicitly encourage exercise of professional judgment in determining form and extent of documentation that make most sense

## ISA 230

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- ▶ **Focus is on meaningful documentation**
  - ▶ “... it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. ...”
  - ▶ “it is unnecessary for the auditor to document separately ... compliance with matters for which compliance is demonstrated by documents included within the audit file....” (ISA 230.A7)
- ▶ **Many illustrations of how documentation can be done in efficient and effective manner (see ISAs 230, 300, 315, etc.)**

## APB PN 26

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Useful guidance:

The Auditing Practices Board  
**Practice Note 26**  
**Guidance on Smaller Entity Audit  
Documentation**



# Conclusion

# Summary

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- ▶ “Audit documentation” comprises recording all evidence that leads us to our audit report, in whatever form and wherever it resides
- ▶ ISA 230 requires us to demonstrate that we did sufficient and appropriate work to support our conclusions, and that we fulfilled the requirements of applicable ISAs, laws and regulations.
- ▶ Other ISAs include documentation requirements that should be fulfilled in addition to ISA 230.
- ▶ Appropriate documentation should be meaningful, and not burdensome.

## Possible resources

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- ▶ ACCA International audit programmes

<http://www.accaglobal.com/zw/en/technical-activities/technical-resources-search/2013/january/international-audit.html>

- ▶ OmniPro...Supporting Irish Accountants

<http://www.omnipro.ie/practice-support/accountants-resource-centre.html>

- ▶ Audit Practice Manager

<http://www.auditpracticemanager.com/>

Resources noted above should **not** be regarded as recommendations. Practitioners should conduct their own research and due diligence in determining suitability of any such resources.

**Thank  
you!**





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