

Principles of Auditing: An Introduction to International Standards on Auditing

Chapter 10 Appendix – Audit Documentation and Working Papers

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Audit documentation and working papers

Definition:

- Audit documentation is the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached (terms such as ‘working papers’ or ‘workpapers’ are sometimes used.)
- Audit documentation is the principal record of the basis for the auditor’s conclusions and provides the principal support for the representations in the auditor’s report.
- Audit documentation includes records on the planning and performance of the work, the procedures performed, evidence obtained and conclusions reached by the auditor.

Working papers

- Are a direct aid in the planning, performance and supervision of the audit.
- Record the audit evidence resulting from the audit work performed to provide support for the auditor's opinion including the representation.
- Assist in review of the audit work.
- Provide proof of the adequacy of the audit.

Significant matters

- ISA 230 states: The auditor should document discussions of significant matters with management, those charged with governance, and others, including the nature of significant matters discussed and when and with whom the discussions took place.
- PCAOB's documentation standard defines significant matters: 'The auditor must document significant findings or issues, actions taken to address them (including additional evidence obtained), and the basis for the conclusions reached in connection with each engagement.'

Form and content of the working papers

- PCAOB: 'Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:
 - (1) to understand the nature, timing, extent and results of the procedures performed, evidence obtained, and conclusions reached;
 - (2) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.'

- The working papers should convey the auditor's reasoning on all matters which require the exercise of judgement and the auditor's conclusions.
- The extent of what is included in working papers is a matter of professional judgement.
 - All auditing firms around the world have their own work paper formats, and these are modified from time to time.
- Working papers are designed and organised to meet the circumstances and the auditor's needs for each individual audit.

Document retention

ISA 230 states

- ‘The auditor should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.’
- PCAOB (Audit Standard # 3) says when additions are made, the documentation added must indicate the date the information was added, by whom it was added, and the reason for adding it.
- Working papers are the property of the auditor.

PCAOB and SOX retention

- PCAOB's Documentation Standard # 3 states: 'The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements (*report release date*), unless a longer period of time is required by law.'
- SEC regulation specifies detailed requirements regarding the types of document (e.g. working papers, memos, correspondence, etc. that contain conclusions, opinions, analyses, etc.) that should be retained.

Permanent file

- The permanent file is audit work papers containing all the data which are of continuing interest from year to year.
- The permanent file is intended to contain data of historical or continuing nature pertinent to the current audit. This file provides a convenient source of information about the audit that is of continuing interest.

The permanent file usually includes the following:

- Information concerning the legal and organisational structure of the entity such as corporate charter, corporate bylaws, job manuals, corporate organisational chart, etc.
- Prior year analysis of fixed assets, long term debt, terms of stock issues, etc.
- Information concerning the industry, economic environment and legislative environment.

Current work paper files

- The current work paper file contains all documentation applicable to the year under audit.
- The current file ordinarily includes client summary information such as description of the client, client industry, client internal controls and the auditor's materials.

The current file work papers will usually contain:

- Evidence of the planning process including the audit planning memorandum and the audit programme.
- Evidence of understanding of the accounting and internal control systems.
- Evidence of inherent and control risk assessments.
- Analysis of significant ratios and trends.
- A record of the nature, timing and extent of audit procedures performed and their results.

Lead schedules

- Each line item in the trial balance is supported by a lead schedule, containing the detailed accounts from the general ledger making up the line item.
- Each detailed account on the lead schedule is, in turn, supported by audit work performed and the conclusions drawn.
- The major types of supporting schedules are account analysis, list schedules, reconciliation of amounts, tests of reasonableness, procedures description, informational and outside documentation.

Preparation of work papers

- Proper preparation of work papers requires structuring the information so that its is easy to interpret and gives the extent of the work in a concise form.
- Individual work papers should be properly identified with the **client's name**, the **period covered**, a **description of contents** of the work paper, the **date** of preparation, an **index code** and the **initials** of the person who prepares it.

Tick marks and indexing

The preparation of work papers has strong traditional elements that indicate the audit work performed, cross-references and suggested adjustment. These elements are:

- **Tick marks**
 - **Indexing**
 - **Adjusting journal entries.**

Tick marks

Tick marks are symbols used by the auditor to indicate the nature and extent of procedures applied in specific circumstance.

Tick marks are notations directly on the working papers schedules.

Tick marks are generally done by hand with a pen or pencil alongside a specific item.

Indexing

Work papers are **indexed**, i.e. cross-referenced to aid in the organising and filing. Indexing work papers requires coding the individual sheets of paper so that needed information may be found easily.

Systems of indexing used include:

- Sequential numbering
- Combinations of letters and numbers
- Digit-position index numbers.

Adjusting journal entry

An adjusting journal entry is the correcting entry required at the end of the reporting period due to a mistake made in the accounting records; also called 'correcting entry'.

The auditor does not make entries in the client's records. The auditor makes the entries on the work papers and reviews their entry with the client.

Thank you for your attention

Any Questions?