

Exposure draft: Auditing and Assurance Standard (AAS) 3 (Revised)

Definition and nature of audit documentation

Paragraph 2 of the existing AAS 3, Documentation, defines documentation as the, "working papers prepared or obtained by the auditor and retained by him, in connection with the performance of his audit." As the readers would note, the stress of the definition as given in the existing AAS 3 appears to be on existence of documentation in paper form. Since 1985 when the AAS 3 was originally issued a number

introduction of computer assisted audit techniques. The audit documentation therefore now is not restricted to being only on papers, but also on electronic media. The ED of revised AAS 3 takes into cognisance these changes when it defines audit documentation in paragraph 4 as "record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached". It may also be noted that as per Black's Law Dictionary, Seventh

Another point to consider is that the audit documentation maintained in the electronic form should be retrievable in a legible form as against machine-readable form.

ED also gives a broad outline of essential characteristics of sufficient and appropriate audit documentation that is:

- i. It should provide a record of the basis for the auditor's report; and
- ii. It should provide evidence (demonstrate) that the audit was performed in accordance with the Auditing and Assurance Standards as well as applicable legal and regulatory requirements.

It is, however, also important that the audit documentation is also sufficient and appropriate to demonstrate compliance by the auditor with the quality control framework related not only to conducting of an audit but also aspects such as client acceptance/retention, independence aspects, etc.

Another important issue to be considered in respect of nature of audit documentation, as discussed in paragraph 4 of the ED is that in addition to providing a record of "audit procedures performed, relevant audit evidence obtained and conclusions auditor reached", the audit documentation should also provide record in

of technological changes have taken place, impacting significantly, the way clients function, most of the operations being computerised. Technology has also significantly impacted the audit practices and methodology, for example,

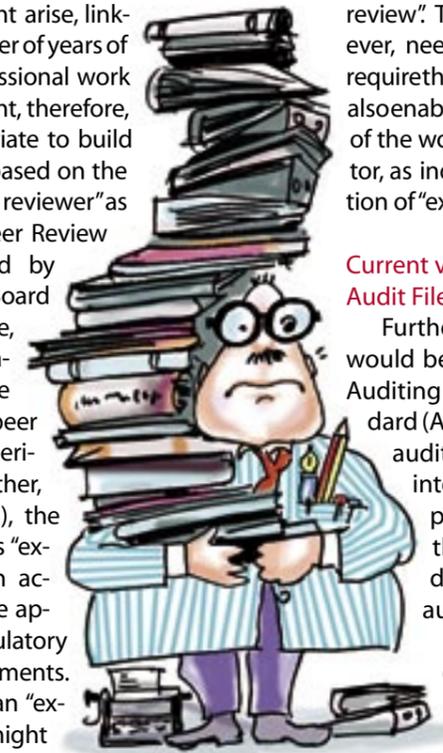
Edition, page 498, document means, "something tangible on which words, symbols, or marks are recorded." So another question is whether audit documentation maintained on electronic media can be considered as tangible.

respect of the assessment of the evidence by the auditor.

Experienced Auditor

The ED also, for the first time, introduces the concept of "Experienced Auditor" which reflects the increasing consciousness for maintaining quality in all professional engagements not only as a regulatory requirement (say, a peer review) but also as a matter of policy of individual firm (say, a second partner review). The ED defines "experienced auditor" as "an individual (whether external or internal to the firm) who has a reasonable understanding of audit processes and of auditing and financial reporting issues relevant to the industry in which the entity operates." Though the ED describes the attributes of an experienced auditor, yet a

question as to what constitutes "reasonable" might arise, linking it to the number of years of experience, professional work profile etc. It might, therefore, be more appropriate to build up this concept based on the concept of a "peer reviewer" as defined in the Peer Review Statement, issued by the Peer Review Board of the Institute, more so since paragraph 5(e) of the ED envisages a peer review by the experienced auditor. Further, in paragraph 5(f), the ED also envisages "external reviews" in accordance with the applicable legal, regulatory or other requirements. This concept of an "external review" might create confusion since



peer review, too, is an "external review". The ED might, however, need a modification to require that the documentation also enables an in-house review of the work done by the auditor, as indicated in the definition of "experienced auditor".

Current vs Permanent Audit File

Further, as the readers would be aware, the existing Auditing and Assurance Standard (AAS) 3, segregates the audit working papers file into two —current and permanent—based on the basic nature of the documents kept by the auditors therein.

The permanent audit file contains information of continuing importance

Puja Wadhwa

The author is a Senior Technical Officer at the Secretariat of the Auditing and Assurance Standards Board of ICAI

The Auditing and Assurance Standards Board (AASB) had recently issued the Exposure Draft (ED) of the revised Auditing and Assurance Standard (AAS) 3, Audit Documentation. For the first time probably, the AASB issued an ED simultaneously with the ED on the subject by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFA). The ED proposes to significantly revise the existing AAS 3, Documentation, which was issued in July 1985. This write-up tries to explore certain significant aspects relating to audit documentation dealt by the ED. For a complete understanding of the requirements of the ED, readers are requested to refer to the complete text thereof.

to succeeding audits vis a vis current audit file, which contains information relating primarily to the audit of a single period. The ED of the revised AAS 3 has done away with that distinction. Interestingly, the Auditing Standard number 3, Audit Documentation, issued by the Public Company Accounting Oversight Board of the United States of America in June 2004 has introduced the concept of a "central repository" or the central storage wherein the auditor may document matters relating to auditor independence, staff training and proficiency and client acceptance and retention provided that the auditor makes a reference to such a documentation in his audit documentation, relating to a particular audit assignment.

Period for Retention of Documentation

The ED also for the first time lays down the minimum period of time for which the auditor should retain his audit working papers, which is 10 years from the date of the auditor's report. The time period prescribed in the ED is in line with the Regulation 14 of the Chartered Accountants Regulation, 1988 dealing with "time limit for entertaining complaints or information."

As per the said regulation, which empowers the Central Council to, by implication, entertain complaints against members up to a period of 10 years from the date when misconduct is alleged to have been made. Thus, the mem-

bers have to, by implication, maintain their audit working papers for a minimum period of 10 years.

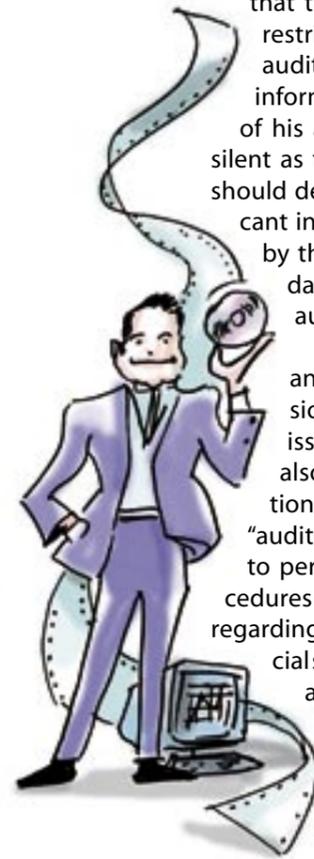
It may be noted that as per section 209(4A) of the Companies Act, 1956, a company is required to preserve its books of account and vouchers etc., related to an accounting period for a period of at least eight subsequent years. Internationally, the Auditing Standard No. 03 of the PCAOB pegs the record retention period at seven years and so do the Securities and Exchange Commission, USA's rules regarding "Retention of Records Relevant to Audits and Reviews" issued in March 2003.

Thus, the period of 10 years appears to be little on the higher side.

Information received after date of Audit Report

The most significant issue, probably, that has been touched by the ED of the AAS 3 (Revised) is with regard change documentation of new information received after the date of the auditor's report, dealt in paragraphs 21 to 23 of the ED. Paragraph 23 of the ED requires that in case of a new information received by the auditor after the date of signing of the audit report is such that it might have caused the auditor to modify his report had it been known at the date of the auditor's report, the auditor should follow the requirements and guidance in AAS 19, Subsequent Events.

It may, however, be noted



that the existing AAS 19 restricts the duty of the auditor in respect of new information to the date of his audit report and is silent as to how the auditor should deal with any significant information received by the auditor after the date of signing of the audit report².

In fact, the Guidance Note on Revision of Audit Report, issued by the Institute also reiterates the position in AAS 19 that the "auditor has no obligation to perform auditing procedures or make any enquiry regarding the audited financial statements after the auditor has signed the audit report. The responsibility to inform the auditors, of such facts, which existed on the date of the report, primarily rests with the management.

However, the auditor may come to know of such facts through other sources also."

Applicability

The ED makes it clear that the principles laid down in the proposed Standard apply to audit documentation related to audit of historical financial information, including financial statements yet the principles enunciated therein are quite comprehensive and might be applied to meet documentation requirements in respect of other engagements such as reviews also. □

2. The corresponding International Standard on Auditing (ISA) 560, however, contains guidance for the auditors in respect of significant information received after the date of the auditor's report.