

Invitation to Comment on the Exposure Draft of Revised Auditing and Assurance Standard (AAS) 3, Audit Documentation

The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India invites comments on the Exposure Draft of the revised Auditing and Assurance Standard (AAS) 3, Audit Documentation.

Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Auditing and Assurance Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than 31st January 2005. Comments can also be sent by e-mail at aasb@icai.org.

EXPOSURE DRAFT

Auditing and Assurance Standard (AAS) 3 Audit Documentation

The following is the text of the Auditing and Assurance Standard (AAS) 3¹, “Audit Documentation”, issued by the Council of the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the “Preface to the Statements on Standard Auditing Practices”, issued by the Institute.²

Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish basic principles and essential procedures for, and provide general guidance on, audit documentation for audits of historical financial information, including audits

of financial statements. Laws or regulations may establish additional documentation requirements.

2. **The auditor should prepare audit documentation that is sufficient and appropriate to provide a record of the basis for the auditor’s report and to demonstrate that the audit was**

¹With the issuance of this Auditing and Assurance Standard, the existing AAS 3, “Documentation” shall stand withdrawn.

²With the formation of the Auditing Practices Committee {now known as the Auditing and Assurance Standards Board} in 1982, the Council of the Institute has been issuing a series of Statements on Standard Auditing Practices (SAPs). SAPs have been renamed as Auditing and Assurance Standards (AASs). The Auditing and Assurance Standards (hitherto known as SAPs) lay down the principles governing an audit. These principles apply whenever an independent audit is carried out. Auditing and Assurance Standards become mandatory on the dates specified in the respective AAS. Their mandatory status implies that, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the AASs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the AASs, his report should draw attention to the material departures therefrom. The Auditing and Assurance Standards have the same authority as that attached to the Statements on Standard Auditing Practices.

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performed in accordance with AASs and applicable legal and regulatory requirements.

Definition

3. In this AAS, “experienced auditor” means an individual (whether internal or external 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.

Nature and Purposes of Audit Documentation

4. Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Audit documentation, also known as working papers or workpapers, may be recorded on paper or on electronic or other media. Audit documentation includes, for example, audit programs, analyses, issues memoranda, letters of confirmation and representation, checklists, extracts of important documents, correspondence (including e-mail) concerning significant matters, and schedules of work the auditor performed. The audit documentation for a specific audit engagement is assembled in an audit file.
5. In addition to the objectives set out in paragraph 2, audit documentation serves a number of other purposes, including:
 - (a) Assisting the audit team to plan and perform the audit;
 - (b) Assisting members of the audit team responsible for supervision to direct and supervise the audit work and to review the quality of work performed, in accordance with AAS 17, “Quality Control for Audit Work”;
 - (c) Demonstrating the accountability of the audit team for its work;
 - (d) Retaining a record of matters of continuing significance to future audits of the entity;
 - (e) Enabling an experienced auditor to conduct quality control reviews in accordance with Statement on Peer Review issued by the Institute of Chartered Accountants of India; and
 - (f) Enabling an experienced auditor to conduct

external reviews in accordance with applicable legal, regulatory or other requirements.

6. Although audit documentation alone does not guarantee audit quality, the process of preparing sufficient appropriate audit documentation contributes to the quality of an audit.

Form, Content and Extent of Audit Documentation

7. The auditor should prepare audit documentation that enables an experienced auditor, having no previous connection with the audit, to understand:
 - (a) The nature, timing, extent and results of the audit procedures performed to comply with AASs and applicable legal and regulatory requirements;
 - (b) The audit evidence obtained;
 - (c) The conclusions reached on significant matters ; and
 - (d) In relation to audit procedures designed to address identified risks of material misstatement, conclusions that are not otherwise readily determinable from the documentation of the procedures performed or audit evidence obtained.
8. It is neither necessary nor practical to document every matter the auditor considers during the course of the audit. The form, content and extent of audit documentation depend on the circumstances of the engagement and the audit methodology and tools used. Oral explanations, on their own, do not represent sufficient support for the work the auditor performed or conclusions the auditor reached, but may be used by the auditor to clarify information contained in the audit documentation.

Significant Matters

9. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Significant matters include, amongst others:
 - Matters that give rise to significant risks (as defined in AAS 6, “Risk Assessments and Internal Control”).
 - Results of audit procedures indicating (a) that

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- the financial information or disclosures could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
 - Findings that could result in a modification to the auditor's report.
10. The auditor documents on a timely basis (a) oral discussions of significant matters with management, and (b) management's responses. The auditor similarly documents oral discussions of significant matters with those charged with governance, as discussed in AAS 27, "Communication of Audit Matters with those Charged with Governance."
11. **If the auditor has identified audit evidence that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor should document how the auditor addressed the contradiction or inconsistency in forming the final conclusion.** The documentation of such audit evidence, however, does not imply that the auditor needs to document information that is incorrect or superseded.
- Identification of Preparer and Reviewer**
12. **In documenting the nature, timing and extent of audit procedures performed, the auditor should record:**
- (a) Who performed the audit work and the date of such work; and
 - (b) Who reviewed specific audit documentation and the date of such review.
- Documentation of Specific Items Tested**
13. **In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items tested.**
14. Recording the identifying characteristics serves a number of purposes. For example, it demonstrates the accountability of the audit team for its work and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the subject matter. For example:
- A detailed test of entity-generated purchase orders may identify the documents selected for testing by their dates and unique purchase order numbers.
 - For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the procedure and identify the population (for example, all journal entries over Rs. 75,000 from the journal register).
 - For a procedure requiring inquiries of specific entity personnel, the documentation may include the dates of the inquiries and the names and job designations of the entity personnel.
 - For an observation procedure, the documentation may identify the process or subject matter being observed, the relevant individuals and what they were responsible for, and when the observation was carried out.
15. The auditor need only retain copies of the entity's records as part of the audit documentation if they are needed to enable an experienced auditor to understand the work performed and conclusions reached, for example, copies of significant and specific contracts and agreements.
16. **Where, in exceptional circumstances, the auditor judges it necessary to depart from a basic principle or essential procedure in an AAS to achieve more effectively the objective of the audit, the auditor should document the reasons for the departure.**
- Changes to Audit Documentation After the Date of the Auditor's Report**
17. As explained in AAS 19, "Subsequent Events," the auditor's report is not dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion on the financial information. After that date, however, exceptional circumstances may require the auditor to perform new audit procedures or lead the auditor to reach new conclusions. **In such cir-**

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cumstances, the auditor should document the changes necessary to reflect either the performance of the new audit procedures or the new conclusions reached, including:

- (a) When and by whom such changes were made, and (where applicable) reviewed;
- (b) The specific reasons for the changes; and
- (c) The effect, if any, of the changes on the auditor's conclusions.

Changes Resulting from the Process of Assembling and Completing the Audit File

18. The specific requirements reflected in subparagraphs (a) to (c) of paragraph 17 do not preclude the auditor from making those changes that ordinarily occur during the process of assembling and completing the audit file after the date of the auditor's report but that reflect neither the performance of new audit procedures nor new conclusions reached. Such changes include, for example:
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the audit team prior to the date of the auditor's report.
 - Performing routine file-assembling procedures such as deleting or discarding superseded documentation, and sorting, collating and cross-referencing final working papers.
 - Signing off on file completion checklists prior to completing and archiving the audit file.

19. The auditor assembles a complete and final audit file without undue delay after the date of the auditor's report. The date on which the assembling of the audit file is finally completed is ordinarily not more than 90 days after the date of the auditor's report.

Changes to Audit Documentation After the Audit File has been Completed

20. **After the audit file has been completed, the auditor should not delete or discard audit documentation. Where the auditor finds it necessary to make an addition (including amendments) to audit documentation after the audit file has been completed, the auditor should**

document the addition in accordance with subparagraphs (a) to (c) of paragraph 17, regardless of the nature of the addition.

Documentation of New Information Received After the Date of the Auditor's Report

21. As indicated in AAS 19, the auditor has no responsibility to perform audit procedures after the date of the auditor's report. The auditor may, however, receive new information after that date relating to the audit, for example a belated third party confirmation or confirmation of the final outcome of a material litigation case against the entity that was pending at the period end. The auditor considers whether to perform audit procedures on the new information, taking into account such factors as the nature and significance of the information or whether the passage of time has superseded the relevance of the information.
22. **'To the extent that the auditor performs audit procedures on the new information, the auditor should retain it and should document the resulting addition to audit documentation in accordance with subparagraphs (a) to (c) of paragraph 17.'**
23. If the new information might have caused the auditor to modify the auditor's report had it been known at the date of the auditor's report, the auditor follows the requirements and guidance in AAS 19.

Confidentiality, Safe Custody, Retention and Ownership of Audit Documentation

24. **The auditor should apply appropriate procedures for audit documentation that:**
- (a) **Maintain its confidentiality and safe custody;**
 - (b) **Protect its integrity;**
 - (c) **Enable its accessibility and retrievability; and**
 - (d) **Enable its retention for a period sufficient to meet the needs of the firm, and legal and professional requirements.**
25. Code of Ethics issued by the Institute of Chartered Accountants of India requires the auditor to observe at all times the confidentiality of information contained in audit documentation, unless specific authority has been given to disclose informa-

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- tion, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the auditor to maintain client confidentiality, particularly where data of a personal nature are concerned.
26. Whether audit documentation is in paper, electronic or other media, the integrity, accessibility and retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the auditor's knowledge, or if it could be permanently lost or damaged. Accordingly, the auditor applies appropriate controls for audit documentation to:
- (a) Clearly determine when and by whom audit documentation was created, changed or reviewed;
 - (b) Protect the integrity of the information at all stages of the audit, especially when the information is shared within the audit team or transmitted to other parties via the Internet;
 - (c) Prevent unauthorised changes to the documentation; and
 - (d) Allow access to the documentation by the audit team and other authorised parties as necessary to properly discharge their responsibilities.
27. Controls that the auditor may apply to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation include, for example:
- The use of a password amongst audit team members to restrict access to electronic audit documentation to authorised users.
 - Appropriate back-up routines for electronic audit documentation at appropriate stages during the audit.
 - Procedures for properly distributing audit documentation to the team members at the start of fieldwork, processing it during fieldwork, and collating it at the end of fieldwork.
28. For practical reasons, original paper documentation may be electronically scanned for inclusion in the audit file. In that case, the auditor applies procedures to:
- (a) Generate a scanned copy identical in form and content to the original paper documentation, including replicating manual signatures, cross-references and annotations;
 - (b) Integrate the scanned copy into the audit file in the same way as original paper documentation is integrated, including indexing and signing off on the scanned copy; and
 - (c) Allow the scanned copy to be retrieved and printed.
- The auditor considers whether to retain original paper documentation for legal, regulatory or other reasons.
29. AAS 17, "Quality Control for Audit Work" requires the firm to establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. The auditor applies those policies and procedures to the extent that they are to be implemented at the engagement level. Audit documentation is retained for a period sufficient to meet the relevant purposes set out in paragraphs 2 and 5. In addition, the retention period depends on other factors, such as whether law or regulation prescribes a specific retention period, or whether there is a generally accepted retention period in the jurisdiction in the absence of specific legal or regulatory requirements. Such retention period, however, is ordinarily not shorter than 10 years from the date of the auditor's report.
30. Audit documentation is the property of the auditor's firm. Portions of or extracts from the audit documentation that the auditor may decide to make available to the entity are not a substitute for the entity's accounting records.
- ### Effective Date
31. This AAS is effective for audits of historical financial information for periods commencing on or after April 1, 2005. Early application of this AAS is permitted.
- ### Compatibility with International Standard on Auditing (ISA) 230
- The auditing standards established in this Auditing and Assurance Standard are generally consistent in all material respects with those set out in Exposure Draft of International Standard on Auditing (ISA) 230 on Audit Documentation. ■