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United States Government Accountability Office
Washington, DC 20548

June 26, 2008

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Subject: American Institute of Certified Public Accountants (AICPA)
April 2008, Exposure Draft: Proposed Statement on Auditing Standards No. 103
(Redrafted), *Audit Documentation*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the AICPA's proposed Statement on Auditing Standards (SAS) No. 103. Generally, we support the proposed revisions to the standard. In particular, we believe that the proposed revisions to SAS No. 103 will help provide clarity and improve consistency of practice related to audit engagement documentation.

The Board has asked respondents to provide comments on (1) changes resulting from applying the clarity drafting conventions and converging with International Standard on Auditing (ISA) 230, Audit Documentation, (2) the effect of the changes on the content of the SAS, and (3) additional specific questions. We provide the requested answers and comments in this letter and recommend specific wording changes in the related attachment.

Request for Specific Comments

Question 1: Are the objectives to be achieved by the auditor, stated in the proposed SAS, appropriate?

Response/Comment: Yes, the objective that the auditors prepare documentation that provides a sufficient record of the basis of the auditor's report and evidence that the audit was planned and performed in accordance with standards and requirements is appropriate.

Question 2: Are revisions from the existing standards to converge with ISA 230 appropriate?

Response/Comment: The proposed revisions to the existing standard to converge with ISA 230 are generally appropriate. However, the use of footnotes in proposed SAS 103 is not consistent with the format used by the International Auditing and Assurance Standards Board (IAASB) in the clarified ISAs, where footnotes are only used to provide the full titles of other ISAs. We encourage the ASB to adopt a similar format for footnotes in its clarified SASs. For example, footnote 2 in paragraph 6, defining the term “practical audit experience,” should be included in the body of the document to reduce ambiguity as to its authority and importance. We provide specific wording for footnote 2 in paragraph 6 of the attachment to this letter. We recommend the ASB review other footnotes in this standard and determine whether to incorporate them into the body of the requirements or the application material.

Question 3: Are the differences between the proposed SAS and ISA 230 identified in exhibit B, and other language changes, appropriate?

Response/Comment: We agree that the differences between the proposed SAS and ISA 230 identified in exhibit B, and other language changes, are appropriate.

Question 4: Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

Response/Comment: We believe that additional consideration should be given to government audits by replacing references to “firm” with “audit organization,” where applicable, in order to clearly convey that the standard is applicable to both government auditors and auditors working for firms.

Comments on Other Matters:

- We believe that the new requirement in paragraph 10c and the associated application guidance referenced in paragraph A13 for auditors to document the “extent of review” is not needed to achieve the intended purpose of review, which is described in paragraph 16 of proposed ISA 220, Quality Control for an Audit of Financial Statements, as being "satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued." Accordingly, we suggest deleting this phrase in paragraphs 10c and A13.
- Additionally, we suggest expanding the examples of significant findings listed in paragraph A8 of the Application and other Explanatory Materials to include fraud, illegal acts, or significant instances of noncompliance with regulatory or legislative requirements, since these are critical matters that may affect the

auditor's conclusions. We provide specific wording for this change in paragraph A8 of the Application Materials of the attachment to this letter.

- We also have noted minor editorial suggestions in the attachment to this letter that we believe will improve the flow and readability of the proposed standard.

We thank you for considering our comments on these important issues.

Sincerely yours,

A handwritten signature in black ink that reads "McCoy Williams". The signature is written in a cursive, flowing style.

McCoy Williams
Managing Director
Financial Management and Assurance

Attachment

cc:

Mr. Harold Monk, Chair
Auditing Standards Board

The Honorable Mark W. Olson, Chairman
Public Company Accounting Oversight Board

Mr. John Kellas, Chairman
International Auditing and Assurance Standards Board

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS NO. 103 (REDRAFTED)

AUDIT DOCUMENTATION

(To Supersede Statement on Auditing Standards No. 103, *Audit Documentation*)

April 30, 2008

Comments are requested by June 30, 2008.

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be addressed to
Sherry Hazel, Audit and Attest Standards,
AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775
or via the Internet to shazel@aicpa.org.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to proposed Statement on Auditing Standard (SAS) No. 103 (Redrafted), *Audit Documentation*. This proposed SAS would supersede SAS No. 103, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1, AU sec. 339). The accompanying proposed SAS represents the redrafting of SAS No. 103 to apply the Auditing Standards Board's (ASB) clarity drafting conventions and to converge with International Standards on Auditing, as discussed in the following sections.¹

Background

Clarity

To address concerns over the clarity, length, and complexity of its standards, the ASB is currently undertaking a significant effort to clarify the SASs. The ASB issued a discussion paper titled *Improving the Clarity of ASB Standards*² in March 2007. In response to the feedback received on the discussion paper and subsequent discussions with interested parties, the ASB has established clarity drafting conventions and has undertaken to revise all of its SASs in accordance with those conventions. The proposed SAS has been drafted in accordance with the ASB's clarity drafting conventions, which include the following:

- Establishing objectives for each of the standards
- Including a definitions section, where relevant, in each standard
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A-prefix and presenting them in a separate section that follows the requirements section
- Using formatting techniques, such as bullet lists, to enhance readability
- Including, where appropriate, special considerations relevant to audits of smaller, less complex entities within the text of the standard
- Including, where appropriate, special considerations relevant to audits of governmental entities within the text of the standard

¹ The *Clarity Project Explanatory Memorandum* provides a more detailed discussion of the Auditing Standards Board's (ASB) Clarity Project.

² The discussion paper is available online at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Improving+the+Clarity+of+ASB+Standards.htm.

Convergence

Consistent with the ASB's strategy to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB),³ the proposed SAS has been drafted using International Standard on Auditing (ISA) 230 (Redrafted), *Audit Documentation*, as a base. Differences between SAS No. 103 and ISA 230 for which the ASB believes there is no compelling reason have been eliminated. Differences in objectives, definitions, or requirements between the proposed SAS and ISA 230 are identified in exhibit B to the exposure draft.

The ASB has made various changes to the language of the ISA to use terms or phrases that are more commonly used in the United States, and to tailor examples and guidance to be more appropriate to the U.S. environment. Where the ASB believes that such changes in language have resulted in a substantive difference between the proposed SAS and the ISA, these differences have also been identified in exhibit B.

Effective Date

The proposed SAS will not become effective for audits of financial statements for periods beginning earlier than December 15, 2010.

Issue for Consideration

Definition of Experienced Auditor

The language defining the experienced auditor has been redrafted to align with the definition used in ISA 230. The proposed SAS defines the experienced auditor as, "an individual (whether internal or external to the firm) who has practical audit experience,⁴ and a reasonable understanding of: (i) audit processes; (ii) SASs and applicable legal and regulatory requirements; (iii) the business environment in which the entity operates; and (iv) auditing and financial reporting issues relevant to the entity's industry."

The ASB's intention in revising the definition of the experienced auditor was not to change the level of documentation from that currently required by SAS No. 103. and the ASB does not believe that the level of documentation required has been changed. Rather,

³ The ASB's convergence paper is available online at www.aicpa.org/download/auditstd/ASB_Convergence_Plan.pdf.

⁴ Having practical audit experience is equivalent to possessing the competencies and skills that would have enabled the experienced auditor to perform the audit.

the ASB believes that using the definition that is consistent with the ISA definition clarifies the intent that the level of documentation required is the same under both the ISAs and U.S. generally accepted auditing standards.

Guide for Respondents

The ASB is seeking comments specifically on changes resulting from applying the clarity drafting conventions and converging with the ISA, and their effect on the content of the SAS. Respondents are asked to respond, in particular, to the following questions:

- (1) Are the objectives to be achieved by the auditor, stated in the proposed SAS, appropriate?
- (2) Are revisions from the existing standards to converge with ISA 230 appropriate?
- (3) Are the differences between the proposed SAS and ISA 230 identified in exhibit B, and other language changes, appropriate?
- (4) Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after July 31, 2008, for one year. Responses should be sent to Sherry Hazel, Audit and Attest Standards, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by June 30, 2008. Responses may also be sent by e-mail to shazel@aicpa.org.

Supplements to the Exposure Draft

To assist respondents in tracking changes and in responding to this request to comment on the proposed SAS, the Audit and Attest Standards staff has prepared supplementary material comprising the following items:

- *Mapping Document.* A schedule that maps the requirements and guidance contained within SAS No. 103 to the proposed SAS to demonstrate how the material in SAS No. 103 has been reflected in the proposed SAS.
- *Changes in Requirements.* An analysis that identifies proposed changes in requirements and explanatory material as a result of redrafting.
- *Detailed Differences Between ISA 230 and the Proposed SAS.* A schedule that provides detailed differences in language between the ISA and the proposed SAS.

This staff-prepared supplementary material is available on the AICPA Web site at http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Exposure+Drafts+of+Proposed+Statements/Audit_Documentation.htm. It is for information purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

Comment Period

The comment period for this exposure draft ends on June 30, 2008.

**Auditing Standards Board
(2007–2008)**

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Audit and Attest Standards

**PROPOSED STATEMENT ON AUDITING STANDARDS NO. 103
(REDRAFTED)**

**AUDIT DOCUMENTATION
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Proposed Statement on Auditing Standards No. 103 (Redrafted), *Audit Documentation*

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. Exhibit A lists other SASs that contain specific documentation requirements and guidance. The specific documentation requirements of other SASs do not limit the application of this SAS. Laws, regulations, or other standards (for example, *Government Auditing Standards*) may establish additional documentation requirements.

Nature and Purposes of Audit Documentation

2. Audit documentation that meets the requirements of this SAS and the specific documentation requirements of other relevant SASs provides
 - a. evidence of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor; and
 - b. evidence that the audit was planned and performed in accordance with generally accepted auditing standards and applicable legal and regulatory requirements.
3. Audit documentation serves a number of additional purposes, including the following:
 - Assisting the engagement team to plan and perform the audit
 - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to review the quality of work performed
 - Enabling the engagement team to demonstrate that it is accountable for its work by documenting the procedures performed, the audit evidence examined, and the conclusions reached
 - Retaining a record of matters of continuing significance to future audits of the same entity
 - Enabling the conduct of quality control reviews and inspections in accordance with Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, vol. 2, QC sec. 10)
 - Enabling the conduct of external inspections or peer reviews in accordance with applicable legal, regulatory, or other requirements

- Assisting a successor auditor who reviews a predecessor auditor's audit documentation
- Assisting auditors to understand the work performed in the prior year as an aid in planning and performing the current engagement

Effective Date

4. This SAS is effective for audits of financial statements for periods beginning on or after [Date].¹

Objective

5. The objective of the auditor is to prepare documentation that provides
 - a. a sufficient and appropriate record of the basis for the auditor's report; and
 - b. evidence that the audit was planned and performed in accordance with generally accepted auditing standards and applicable legal and regulatory requirements.

Definitions

6. For purposes of the SASs, the following terms have the meanings attributed below:

Audit documentation. The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as *working papers* or *workpapers* are also sometimes used).

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.

Experienced auditor. An individual (whether internal or external to the ~~firm~~) who has practical audit experience,² and a reasonable understanding of

- (1) audit processes;
- (2) SASs and applicable legal and regulatory requirements;
- (3) the business environment in which the entity operates; and
- (4) auditing and financial reporting issues relevant to the entity's industry.

Report release date. The date the auditor grants the entity permission to use the auditor's report in connection with the financial statements.³

audit organization

Having practical audit experience is equivalent to possessing the competencies and skills that would have enabled the experienced auditor to perform the audit.

¹ This date will not be earlier than December 15, 2010.

~~² Having practical audit experience is equivalent to possessing the competencies and skills that would have enabled the experienced auditor to perform the audit.~~

³ In many cases, the report release date will be the date the auditor delivers the audit report to the entity.

Documentation completion date. The date, no later than 60 days following the report release date, on which the auditor has assembled for retention, a complete and final set of documentation in an audit file.

audit

Requirements

Timely Preparation of Audit Documentation

7. The auditor should prepare audit documentation on a timely basis throughout the audit. (Ref: par. A1)

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content, and Extent of Audit Documentation

8. The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (Ref: par. A2–A5, A17–A18)
 - a. the nature, timing, and extent of the audit procedures performed to comply with the SASs and applicable legal and regulatory requirements; (Ref: par. A6–A7)
 - b. the results of the audit procedures performed, and the audit evidence obtained; and
 - c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: par. A8–A11)
9. The auditor should include abstracts or copies of significant contracts or agreements in the documentation of auditing procedures pertaining to those contracts or agreements.
10. In documenting the nature, timing, and extent of audit procedures performed, the auditor should record
 - a. the identifying characteristics of the specific items or matters tested; (Ref: par. A12)
 - b. who performed the audit work and the date such work was completed; and
 - c. who reviewed the audit work performed and the date ~~and extent of such review~~. (Ref: par. A13)
11. The auditor should document discussions of significant findings or issues with management, those charged with governance, and others, including the nature of the

the review was performed.

Delays in releasing the report may require the auditor to perform additional procedures to comply with the requirements of AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1).

significant findings or issues discussed, the responses, and when and with whom the discussions took place. (Ref: par. A14)

12. If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant finding or issue, the auditor should document how the auditor addressed the inconsistency. (Ref: par. A15–A16)

Departure From a Relevant Requirement

13. If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant presumptively mandatory requirement⁴ in a SAS, the auditor must document in the working papers his or her justification for the departure and how the alternative audit procedures performed in the circumstances were sufficient to achieve the objective of that requirement. (Ref: par. A19–A20)

Matters Arising After the Date of the Auditor's Report

14. If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor should document (Ref: par. A21)
 - a. the circumstances encountered;
 - b. the new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
 - c. when and by whom the resulting changes to audit documentation were made and reviewed.

Assembly and Retention of the Final Audit File

15. The auditor should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis, no later than 60 days following the report release date. (Ref: par. A22–A24)

16. The auditor should document the report release date in the audit documentation.

17. After the documentation completion date, the auditor should not delete or discard audit documentation of any nature before the end of the specified retention period.⁵ Such retention period, however, should not be shorter than five years from the report release date. (Ref: par. A25)

18. In circumstances other than those envisaged in paragraph 14 in which the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the documentation completion date, the auditor should,

⁴ For a definition of *presumptively mandatory requirement* refer to AU section 120, *Defining Professional Requirements in Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1).

⁵ Firms are required by paragraph 127 of Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, vol. 2, QC sec. 10), to establish policies and procedures for the retention of engagement documentation.

regardless of the nature of the modifications or additions, document (Ref: par. A26–A27)

- a. the specific reasons for making them; and
- b. when and by whom they were made and reviewed.

Application and Other Explanatory Material

Timely Preparation of Audit Documentation (Ref: par. 7)

A1. Preparing sufficient and appropriate audit documentation on a timely basis throughout the audit helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor’s report is finalized. Documentation prepared at the time such work is performed or shortly thereafter is likely to be more accurate than documentation prepared at a much later time.

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content, and Extent of Audit Documentation (Ref: par. 8)

A2. The form, content, and extent of audit documentation depend on factors such as

- the size and complexity of the entity.
- the nature of the audit procedures to be performed.
- the identified risks of material misstatement associated with the assertion, or account or class of transactions, including related disclosures.
- the significance of the audit evidence obtained to the assertion being tested.
- the nature and extent of exceptions identified.
- the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- the audit methodology and tools used.
- the extent of judgment involved in performing the work and evaluating the results.

A3. Audit documentation may be recorded on paper or on electronic or other media.⁶ Examples of audit documentation include the following:

- Audit programs

⁶ See SQCS No. 7 paragraphs 67–68 for guidance dealing with the transfer of paper documentation to another media.

- Analyses
 - Issues memoranda
 - Summaries of significant findings or issues
 - Letters of confirmation and representation
 - Checklists
 - Correspondence (including e-mail) concerning significant findings or issues
- 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.
- A5.** On their own, oral explanations by the auditor 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.

Documentation of Compliance With SASs (Ref: par. 8a)

- A6.** In principle, compliance with the requirements of this SAS will result in the audit documentation being sufficient and appropriate in the circumstances. Other SASs contain specific documentation requirements that are intended to clarify the application of this SAS in the particular circumstances of those other SASs. The specific documentation requirements of other SASs do not limit the application of this SAS. Furthermore, the absence of a documentation requirement in any particular SAS is not intended to suggest that there is no documentation that will be prepared as a result of complying with that SAS.
- A7.** Audit documentation provides evidence that the audit complies with the SASs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:
- The existence of an adequately documented audit plan⁷ demonstrates that the auditor has planned the audit.
 - The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed to the terms of the audit engagement with management or, when appropriate, those charged with governance.
 - An auditor's report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a

⁷ AU section 311, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1), addresses the auditor's responsibility to plan an audit of financial statements.

qualified opinion under the circumstances in accordance with generally accepted auditing standards.

- 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 SASs. Such evidence may include 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 SASs 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 paragraph .14 of AU section 314, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, vol. 1).

Documentation of Significant Findings or Issues and Related Significant Professional Judgments (Ref: par. 8c)

A8. Judging the significance of a finding or issue requires an objective analysis of the facts and circumstances. Examples of significant findings or issues include

- matters, which are significant, involving the selection, application, and consistency of accounting principles with regard to the financial statements, including related disclosures. Such matters include, but are not limited to (1) accounting for complex or unusual transactions or (2) accounting estimates and uncertainties and, if applicable, the related management assumptions.
- matters that give rise to significant risks (as defined in AU section 314).
- results of audit procedures indicating (1) that the financial statements could be materially misstated or (2) 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 audit opinion or the inclusion of an emphasis of matter paragraph in the auditor's report.
- corrected and uncorrected misstatements, in accordance with AU section 312, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional*

▪ evidence concerning the existence of actual or potential fraud, illegal acts, or significant acts of noncompliance with regulatory or legislative requirements.

- A9.** An important factor in determining the form, content, and extent of audit documentation of significant findings or issues is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, where significant, serves to explain the auditor’s conclusions and to reinforce the quality of the judgment. Such findings or issues are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits when reviewing items of continuing significance (for example, when performing a retrospective review of accounting estimates).
- A10.** Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the findings, issues, and judgments are significant,
- the rationale for the auditor’s conclusion when a requirement provides that the auditor “should consider” certain information or factors, and that consideration is significant in the context of the particular engagement.
 - the basis for the auditor’s conclusion on the reasonableness of areas of subjective judgments (for example, the reasonableness of significant accounting estimates).
 - the basis for the auditor’s conclusions about the authenticity of a document when further investigation (such as making appropriate use of a specialist or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- A11.** The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant findings or issues identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor’s consideration of the significant findings or issues. It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant SAS objective that the auditor has not met or is unable to meet that would prevent the auditor from achieving the auditor’s overall objective.

Identification of Specific Items or Matters Tested, and of the Preparer and the Reviewer (Ref: par. 10)

- A12.** Recording the identifying characteristics serves a number of purposes. For example, it improves the ability of the auditor to supervise and review the work performed and thus demonstrates the accountability of the engagement 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 item or matter tested. For example:

- For a detailed test of entity-generated purchase orders, the auditor 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 a specified amount from the journal register).
- For a procedure requiring systematic sampling from a population of documents, the auditor may identify the documents selected by recording their source, the starting point, and the sampling interval (for example, a systematic sample of shipping reports selected from the shipping log for the period from April 1 to September 30, starting with report number 12345 and selecting every 125th report).⁸
- For a procedure requiring inquiries of specific entity personnel, the auditor may record the dates of the inquiries, the names and job designations of the entity personnel, and the inquiry made.
- For an observation procedure, the auditor may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.

A13. Paragraph 57 of SQCS No. 7 requires the firm to establish policies and procedures that address engagement performance, supervision responsibilities, and review responsibilities. The requirement to document who reviewed the audit work performed, ~~and the extent of the review~~ does not imply a need for each specific working paper to include evidence of review. ~~The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.~~

Documentation of Discussions of Significant Findings or Issues With Management, Those Charged With Governance, and Others (Ref: par. 11)

A14. The audit documentation is not limited to documents prepared by the auditor, ~~but~~ may include other appropriate documents, such as minutes of meetings prepared by the entity's personnel and recognized by the auditor as an appropriate summary of the meeting. Others with whom the auditor may discuss significant findings or issues may include other personnel within the entity and external parties, such as persons providing professional advice to the entity.

Documentation of How Inconsistencies Have Been Addressed (Ref: par. 12)

⁸ The AICPA's Audit and Accounting Guide *Audit Sampling* provides guidance relating to the identifying characteristics that the auditor might document when using statistical sampling.

A15. The requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.

A16. The documentation of the inconsistency may include, but is not limited to, procedures performed in response to the information, and documentation of consultations on, or resolutions of, differences in professional judgment among members of the engagement team or between the engagement team and others consulted.

Considerations Specific to Smaller, Less Complex Entities (Ref. par. 8)

A17. The audit documentation for the audit of a smaller, less complex entity is generally less extensive than that for the audit of a larger, more complex entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement in paragraph 8 to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.

A18. When preparing audit documentation, the auditor of a smaller, less complex entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller, less complex entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality, assessed risks, significant findings or issues noted during the audit, and conclusions reached.

Departure from a Relevant Requirement (Ref: par. 13)

A19. The objectives and requirements in SASs are designed to support the achievement of the overall objective of the auditor. Accordingly, other than in exceptional circumstances, the SASs call for compliance with each requirement that is relevant in the circumstances of the audit.

A20. The documentation requirement applies only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases where

- a. the SAS is not relevant; or
- b. the circumstances envisioned do not apply because the requirement is conditional and the condition does not exist.

Matters Arising After the Date of the Auditor's Report (Ref: par. 14)

A21. Examples of exceptional circumstances in which the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report include

- when, after the date of the auditor's report, the auditor becomes aware of facts that existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report.⁹
- when the auditor concludes that procedures necessary at the time of the audit, in the circumstances then existing, were omitted from the audit of the financial information.¹⁰

The resulting changes to the audit documentation are reviewed in accordance with the ~~firm's~~ quality control procedures as required by SQCS No. 7.

Assembly and Retention of the Final Audit File (Ref: par. 15–18)

A22. Statutes, regulations, or the ~~audit firm's~~ quality control policies may specify a period of time shorter than 60 days following the report release date in which this assembly process is to be completed.

A23. Certain matters, such as auditor independence and staff training that are not engagement specific, ~~may be documented either centrally within a firm~~ or in the audit documentation for an audit engagement. Documentation of matters specific to a particular engagement would be included in the audit file for the specific engagement.

A24. 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. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include

- deleting or discarding superseded documentation.
- sorting, collating, and cross-referencing working papers.
- signing off on completion checklists relating to the file assembly process.
- documenting audit evidence that the auditor has obtained, discussed, and agreed with the relevant members of the engagement team before the date of the auditor's report.
- adding information received after the date of the auditor's report, for example, an original confirmation that was previously faxed.

⁹ See AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, Professional Standards, vol. 1).

¹⁰ See AU section 390, *Consideration of Omitted Procedures After the Report Date* (AICPA, Professional Standards, vol. 1).

A25. An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after the documentation completion date is the need to clarify existing audit documentation arising from comments received during monitoring inspections performed by internal or external parties.

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A26. Statutes, regulations, or the ~~audit firm's~~ quality control policies may specify a retention period longer than five years.

A27. Audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. The auditor may make available to the entity at the auditor's discretion copies of the audit documentation, provided such disclosure does not undermine the effectiveness and integrity of the audit process. However, audit documentation is not a substitute for the entity's accounting records.

Exhibit A: Audit Documentation Requirements and Guidance in Other Statements on Auditing Standards, as Codified

The following lists the main paragraphs in other Statements on Auditing Standards (SASs) that contain specific documentation requirements and guidance. This list is not a substitute for knowledge of the SASs:

- a. Paragraphs .08, .19, and .21 of AU section 311, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1)
- b. Paragraphs .69–.70 of AU section 312, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional Standards*, vol. 1)
- c. Paragraphs .122–.123 of AU section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, vol. 1)
- d. Paragraph .83 of AU section 316, *Consideration of Fraud in a Financial Statement* (AICPA, *Professional Standards*, vol. 1)
- e. Paragraph .17 of AU section 317, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1)
- f. Paragraph .77 of AU section 318, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AICPA, *Professional Standards*, vol. 1)
- g. Paragraph .22 of AU section 329, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1)
- h. Paragraphs .29 and .35 of AU section 330, *The Confirmation Process* (AICPA, *Professional Standards*, vol. 1)
- i. AU section 333, *Management Representations* (AICPA, *Professional Standards*, vol. 1)
- j. Paragraphs .05d and .10 of AU section 337, *Inquiry of a Client’s Lawyer Concerning Litigation, Claims, and Assessments* (AICPA, *Professional Standards*, vol. 1)
- k. Paragraph .18 of AU section 341, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1)

- l.* Paragraph .64 of AU section 380, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1)
- m.* Paragraph .71 of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1)
- n.* Paragraph .02 of AU section 534, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1)
- o.* Paragraphs .51–.52 of AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1)
- p.* Paragraph .23 of AU section 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AICPA, *Professional Standards*, vol. 1)

Exhibit B: Comparison of Proposed Statement on Auditing Standards No. 103 (Redrafted), *Audit Documentation*, With International Standard on Auditing 230 (Redrafted), *Audit Documentation*

This analysis was prepared by the Audit and Attest Standards staff to highlight substantive differences between Proposed Statement on Auditing Standards No. 103 (Redrafted), *Audit Documentation*, with International Standard on Auditing 230 (Redrafted), *Audit Documentation*, and the rationale therefore. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on or reviewed by the Auditing Standards Board.

Documentation Completion and Retention

Paragraph 14 of International Standard on Auditing (ISA) 230 requires the auditor to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. Paragraph 15 of the proposed Statement on Auditing Standards (SAS) requires the auditor to assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis, no later than 60 days following the report release date. The auditor is required by paragraph 16 of the proposed SAS to document the report release date in the audit documentation.

Paragraph 15 of ISA 230 requires that after the assembly of the final audit file has been completed, the auditor not delete or discard audit documentation of any nature before the end of its retention period. Paragraph A23 of ISA 230 states, "the retention period for audit engagements is ordinarily no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report." Paragraph 17 of the proposed SAS requires that after the documentation completion date, the auditor not delete or discard audit documentation before the end of the specified retention period, and goes on to state that "such retention period, however, should not be shorter than five years from the report release date."

The Auditing Standards Board (ASB) believes that it is appropriate to be consistent with the standards of the Public Company Accounting Oversight Board (PCAOB) in relation to the date from which the documentation completion and retention periods are measured.¹ Notwithstanding that the documentation completion period is measured from the same date in the proposed SAS and the PCAOB standard, the ASB continues to

¹ See paragraphs 14–15 of Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 3, *Audit Documentation*, (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards").

believe that a 60 day period is appropriate for the proposed SAS as opposed to the 45 day period in the PCAOB standard.

Abstracts or Copies

Paragraph 10 of the proposed SAS requires the auditor to include abstracts or copies of significant contracts or agreements in documentation of auditing procedures related to inspection of those significant contracts or agreements. The ISA does not require the auditor to include abstracts or copies of the entity's records. Paragraph A3 of ISA 230 (which is application material relating to the requirement in paragraph 8 of ISA 230, which corresponds to paragraph 8 in the proposed SAS) states, "the auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation."

When performing auditing procedures related to inspection of significant contracts or agreements, the ASB believes that, in the context of the preparation of audit documentation that is sufficient to enable an experienced auditor to understand the audit evidence obtained, it is important to include abstracts or copies of such contracts or agreements. Further, the PCAOB standards include a requirement that documentation of auditing procedures related to the inspection of significant contracts or agreements should include abstracts or copies of the documents.² The ASB does not want to create a difference with PCAOB standards in this regard.

² See paragraph 10 of PCAOB Auditing Standard No. 3.