

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

A.1

Committee: IAASB Consultative Advisory Group

Meeting Location: Paris

Meeting Date: May 11-12, 2006

November 30-December 1, 2005 Report Back—

ISA 230 (Revised), Audit Documentation

Objectives of Agenda Item

To provide a brief report back on the June 2005 proposals of CAG on the then proposed revised ISA 230, “Audit Documentation,” and on significant changes implemented before the IAASB approved the final ISA at its September 2005 meeting. The revised ISA is effective for audits of financial information for periods beginning on or after June 15, 2006.

The agenda for this meeting provides for a 15-minute discussion of this report.

June 2005 CAG Proposals

Although not a complete extract from the minutes of the June 2005 CAG meeting minutes,¹ the text below contains all the proposals made by CAG members. It also indicates the related response of the IAASB task force or the IAASB.

PREPARATION OF AUDIT DOCUMENTATION ON A TIMELY BASIS

Ms Sucher noted that although the auditor is required to prepare the audit documentation on a timely basis, the term “timely basis” is not explained in the proposed ISA.

The IAASB believed that the term “timely basis” helped establish a principle that is relatively well understood, and that it would be impracticable to define the term in terms of a specific time period. Nevertheless the following explanatory guidance is provided (see paragraph 3 in the final ISA):

- (a) Preparing sufficient and appropriate audit documentation on a timely basis 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; and*
- (b) Documentation prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.*

DEFINITION OF EXPERIENCED AUDITOR AND THE REVIEWABILITY STANDARD

Mr Rabine was of the view that although the ISA acknowledges that audit documentation serves a number of purposes, including external inspections, it is prepared to be understood by an

¹ The minutes will be approved at the November/December 2005 CAG meeting.

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experienced auditor with no previous connection with the audit. External inspectors, however, may have knowledge of auditing, but may not be experienced auditors.

The IAASB believed that setting a threshold for review of audit documentation by auditors other than those who are experienced could lead to setting the bar at too low a level, resulting in unnecessarily voluminous audit documentation that would undermine audit quality. The IAASB supported the task force’s view that the auditor cannot be expected to prepare audit documentation sufficient to enable persons other than experienced auditors to understand the audit work performed.

Ms Koski-Grafer noted that the exposure draft definition of “experienced auditor” was amended to set an even higher bar to be met before qualifying as an experienced auditor. She questioned whether an external inspector, for example, needs to have detailed knowledge of the industry in which the audited entity operates.

*The IAASB supported the task force’s view that the experienced auditor should have an understanding of the entity’s industry sufficient to effectively conduct **reviews or inspections**.*

ASSEMBLY OF THE FINAL AUDIT FILE IN A GROUP AUDIT CONTEXT

Mr Roussey asked whether the group auditor’s firm’s established time limit for assembling an audit file applies to other auditors involved in the audit of the group financial statements.

The IAASB considered that to do this would over-complicate administration for the other auditor, who may become subject to many differing requirements. Under the amendments to ISQC 1 each firm should establish its own appropriate policies and procedures to complete file assembly on a timely basis (see ISQC 1, new paragraph 73a).

Mr Popham noted that it is important to be able to identify the audit evidence that the group auditor evaluated in forming an opinion on the group financial statements. This will include records of the group auditor’s reviews of other auditors’ work, but not the underlying working papers of other auditors.

The IAASB agrees. The need for the group auditor to document the audit evidence supporting the group audit opinion is covered by the principles in this ISA and the specific documentation requirements in other relevant ISAs. In terms of what the group auditor should review of other auditors’ work, this will be addressed separately in the proposed ISA on group audits.

DATING OF AUDIT DOCUMENTATION

It was noted that the date of audit documentation is used to identify the audit evidence on which the group auditor based his or her opinion. Mr Bailey was concerned about electronic dating of audit documentation. In a computer environment re-access is always possible. Ms Koski-Grafer noted that the requirement could be redrafted to (1) focus on the principle to assemble the audit file without undue delay, as opposed to a focus on the auditor’s firm’s policies and procedures, and (2) reference be made to regulatory limits.

The IAASB acknowledged that risks exist in an environment where audit documentation is prepared and maintained electronically. ISQC 1 now requires firms to design appropriate policies

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and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation (see new paragraph 73d in ISQC 1). The IAASB believed that it would not be appropriate for it to establish technically detailed rules governing electronic documentation. With regard to the proposal to establish a principle for the auditor to assemble the audit file without undue delay, the IAASB agreed to elevate the guidance to that effect in the then exposure draft to a basic principle in the revised ISA, substituting the term “without undue delay” with the term “on a timely basis” to avoid issues of interpretation (see paragraph 25 in the revised ISA). With regard to reference being made to regulatory time limits, this has been included in new guidance added to ISQC 1 (see paragraph 73b in ISQC 1).

Other Significant Changes Made Prior to Approval of the Final Revised ISA

The final significant issue that the task force and the IAASB addressed before finalizing the ISA was in relation to the proposed requirement for the auditor to document the reasons for a departure from a basic principle or an essential procedure where, in exceptional circumstances, the auditor judges it necessary to do so to achieve more effectively the objective of the audit.

This proposed requirement reflected the condition for a departure set out in the *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services*. During discussion of comments received from respondents to the exposure draft, the IAASB concluded that the condition for departure should be revised, as it is logically incorrect to permit departure from a requirement only when it was necessary to do so to achieve the objective *more effectively*. The IAASB concluded that the correct test should be that a departure should only be permitted when it is necessary because the specified requirement did not in fact meet its objective in the particular circumstances. Accordingly, the final requirement focuses on documenting how the alternative procedures achieve the objective of the audit, and the reasons for the departure (if not otherwise clear).

In finalizing this requirement, the IAASB discussed whether it was appropriate to link the departure with whether the alternative procedure met the objective of the audit, or the objective of the basic principle or essential procedure it was designed to replace. The IAASB agreed that the latter was more appropriate and would be more effective in ensuring that a departure was necessary and an appropriate alternative was substituted. The IAASB therefore decided to add further explanatory guidance (see paragraphs 20 and 21 in the revised ISA) to clarify that the basic principles and essential procedures in ISAs are designed to assist the auditor in meeting the overall objective of the audit. The requirement therefore involves documenting how the alternative procedures performed were sufficient and appropriate to replace the basic principle or essential procedure not performed.

Finally, in response to the comments raised on exposure, the IAASB decided to clarify the term “relevant in the circumstances” as it relates to a basic principle or essential procedure. Thus, the IAASB has provided new guidance, supported with examples (see paragraph 22 of the revised ISA), to explain that the requirement to document departures applies only where the basic principle or essential procedure is in fact relevant.

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Basis for Conclusions

In accordance with the revised due process, IAASB staff has prepared a Basis for Conclusions to explain the rationale for the decisions taken by the IAASB on the significant issues arising on exposure. This document can be accessed at <http://www.ifac.org/IAASB/Projects.php#Completed>.

Material Presented

Agenda Item D.1 of ISA 230 (Revised), “Audit Documentation” – FOR REFERENCE

Nov. 30–Dec. 1, 2005 PURPOSES ONLY

Meeting Material