Audit Documentation and Working Papers

Principles of Auditing: An Introduction to International Standards on Auditing - Ch. 11 Appendix

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Audit Documentation & Working Papers

**Definition:**

- 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.
- “Documentation means the material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.” ISA 230
- 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 planing, 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 record in the working papers information on planning the audit, the nature, timing and extent of the audit procedures performed and the results thereof, and the conclusions drawn from the audit evidence obtained.”

- 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.”
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, and
  – (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 judgment and the auditor’s conclusions.

The extent of what is included in working papers is a matter of professional judgment.

All auditing firms around the world have their own workpaper formats.

Working papers are designed and organized to meet the circumstances and the auditor’s needs for each individual audit.
The working papers should contain at a minimum:

- information on planning the audit work;
- the nature, timing, and content of the audit procedures performed;
- the results of the audit procedures; and
- the conclusions drawn leading to an opinion.
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.
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:

- Copies or excerpts of company documents
- Prior year analysis
- Internal control information including: internal control questionnaires, flow charts, organization charts, and a listing of controls and control weakness.
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.
Current Work Paper Files

- The current file work papers will usually contain accounting-related information such as trial balances, lead schedules, analyses of transactions and balances and, if necessary, recommended journal entries to correct the accounts records.

- The largest portion of working papers includes the detailed schedules prepared by the client or the auditors in support of specific amounts on the financial statements.
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 it 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 organizing 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, and
- 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?