

Response Due Date  
7 January 2005

*IAASB ED of Proposed Pronouncements on Audit Documentation*

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## ISA 230 (Revised), “Audit Documentation”

Amendment to ISA 330, “The Auditor’s Procedures in Response to Assessed Risks”

Amendment to ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements”



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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This Invitation to Comment may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume III of the Institute Members’ Handbook.

A copy of the Invitation to Comment can also be found on the Institute’s website at:  
<http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/>



## INVITATION TO COMMENT

The International Auditing and Assurance Standards Board (IAASB) is seeking comments on the attached Exposure Draft (ED) which has been posted on the Institute's website at <http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/>. It can also be found on-line at <http://www.ifac.org/IAASB/>.

In accordance with the Institute's ISA Convergence Due Process, the Institute's Auditing and Assurance Standards Committee (AASC) invites comments on the IAASB ED from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB ED. Comments should be supported by specific reasoning and should preferably be submitted in written form.

To allow your comments on the IAASB ED to be considered and included in the Institute's submission to the IAASB, they are requested to be received by the Institute on or before **7 January 2005**. Comments may be sent by mail, fax or e-mail to:

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**Technical Director (Ethics & Assurance)**  
**Hong Kong Institute of Certified Public Accountants**  
**4th Floor, Tower Two, Lippo Centre**  
**89 Queensway**  
**Hong Kong**

**Fax number: 2865 6776**  
**E-mail: [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk)**

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

Upon finalization of the IAASB ED, the AASC intends to adopt it as local standard so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

**September 2004**

*Proposed Pronouncements on Audit Documentation*

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ISA 230 (Revised), “Audit  
Documentation”

Amendment to ISA 330, “The  
Auditor’s Procedures in Response  
to Assessed Risks”

Amendment to ISQC 1, “Quality  
Control for Firms that Perform  
Audits and Reviews of Historical  
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Engagements”



International Federation  
of Accountants

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AUDIT DOCUMENTATION EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT  
**REQUEST FOR COMMENTS**

This exposure draft of the International Auditing and Assurance Standards Board (IAASB) was approved for publication in September 2004. The proposed revised International Standard on Auditing (ISA) and proposed amendments to other ISAs may be modified in light of comments received before being issued in final form.

Comments should be submitted so as to be received by **January 31, 2005**, preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter for the public record. Comments should be addressed to:

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA

Email responses should be sent to: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, the International Federation of Accountants encourages the reproduction of this publication in any format.

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## EXPLANATORY MEMORANDUM

### **Introduction**

This memorandum provides some background to, and explanation of, the proposed revised International Standard on Auditing (ISA) 230, “Audit Documentation” approved for exposure by the International Auditing and Assurance Standards Board (IAASB).

Audit documentation plays a critical role in the planning and performance of the audit, in providing the record of the basis for the auditor’s report, and in quality control reviews and inspections. The IAASB believes that the proposed revised ISA will increase the rigor and consistency with which auditors document their work, thereby contributing to audit quality. The new proposals are equally applicable to large and small audits alike.

The sections that follow provide a brief background to the project as well as a summary of the main changes being introduced.

### **Background**

The IAASB commenced this project in response to a number of developments that pointed to a need to revise the extant ISA 230, “Documentation.” In particular, greater rigor and consistency by auditors in the preparation of audit documentation were deemed necessary in order to meet the requirements for quality control inspections in accordance with ISQC 1.<sup>1</sup> In deliberating its proposals for the revised Standard and with the goal of global convergence in mind, the IAASB also had regard to Auditing Standard No. 3, “Audit Documentation,” issued in June 2004 by the U.S. Public Company Accounting Oversight Board (PCAOB).

### **Main Changes**

The main changes being introduced are summarized below.

*Overarching principle of “sufficiency and appropriateness.”* Audit documentation that the auditor prepares should be sufficient and appropriate to serve two key objectives, viz:

- To provide a record of the basis for the auditor’s report; and
- To demonstrate that the audit was performed in accordance with ISAs and applicable regulatory and legal requirements.

*Using an experienced auditor as a point of reference.* The proposed ISA requires the auditor to consider, in preparing audit documentation, the needs of an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, audit evidence obtained and specific conclusions reached. An experienced auditor in this context has a reasonable understanding of audit processes and of auditing and financial reporting issues relevant to the entity’s industry.

*Documentation of subsequent changes to audit documentation.* Exceptional circumstances may arise after the date of the auditor’s report that lead the auditor to perform new audit procedures or draw new conclusions. The proposed ISA requires the auditor to record the consequential

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<sup>1</sup> ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” is effective as of June 15, 2005.

AUDIT DOCUMENTATION EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT  
changes to audit documentation, including the specific reasons for the changes and the effect of the changes on the auditor's previous conclusions.

Additionally, the guidance proposes that the date on which the assembling of the audit file is finally completed is ordinarily not more than 60 days from the date of the auditor's report. After this date, the proposed ISA requires the auditor not to delete or discard audit documentation, and to appropriately document any subsequent changes.

*Other new documentation requirements.* The proposed ISA also introduces a number of other new requirements:

- Documentation of significant matters.
- Documentation of audit evidence that the auditor has identified as being contradictory or inconsistent with the final conclusions, and how the auditor addressed the contradiction or inconsistency.
- Identification of preparer and reviewer of audit documentation.
- Documentation of the identifying characteristics of the specific items tested during the audit.
- Documentation of the reasons for departing from any requirement in an ISA if, in exceptional circumstances, the auditor finds it necessary to do so to achieve more effectively the objective of the audit.<sup>2</sup>

*Retention of audit documentation.* Additional guidance on retention of audit documentation is provided. The IAASB believes that such guidance will be helpful in jurisdictions that do not have any specific legal or regulatory requirements for retention. In proposing a minimum retention period of five years from the date of the auditor's report, the IAASB surveyed practice and relevant legal or regulatory requirements on retention in a number of major jurisdictions.

### **Related Amendments to ISQC 1 and ISA 330**

The proposed ISA will result in amendments to the following two Standards:

- ISA 330, "The Auditor's Procedures in Response to Assessed Risks," with the amendment relating to the need for documentation to demonstrate that the financial statements agree or reconcile with the underlying accounting records; and
- ISQC 1, with the amendment relating to policies and procedures on retention and retrieval of engagement documentation.

Comments are requested on these proposed amendments, which are attached to the exposure draft.

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<sup>2</sup> The proposed requirement to document a departure from a basic principle or essential procedure in an ISA, as described in paragraph 16 of this exposure draft, is based on paragraph 17 of the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services. The proposed documentation requirement is in line with a similar proposal in the IAASB's proposed Policy Statement, "Clarifying Professional Requirements in International Standards Issued by the IAASB." The proposed Policy Statement, however, identifies June 15, 2005 as a possible effective date for this documentation requirement, which is earlier than the effective date of the proposed ISA 230 (Revised). The final effective date of this documentation requirement will be considered as part of further deliberations in finalizing the proposed Policy Statement and the proposed ISA 230 (Revised).

## AUDIT DOCUMENTATION EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT

### **Request for Specific Comments**

While the IAASB is seeking comments on all matters addressed in the exposure draft, the IAASB would particularly welcome comments on the proposed guidance relating to the file-assembling period, which differs from that in the PCAOB Standard.

The exposure draft provides guidance on a file-assembling period during which time the auditor completes the final audit file. Specifically, paragraph 19 of the exposure draft states that the file-assembling period is ordinarily not more than 60 days after the date of the auditor's report.

This period is different from that stated in the PCAOB Standard, which uses as starting point for the file-assembling period the report release date<sup>3</sup> and which specifies a 45-day period from the starting point. The IAASB chose 60 days as a reasonable period that had regard to the fact that the date of the auditor's report is likely to be earlier than the report release date and that the IAASB standards apply to audits of unlisted as well as listed entities.

### **Questions**

1. What are respondents' views on the appropriateness of specifying a time period in the ISA for the auditor to complete the assembling of the final audit file?
2. Do respondents agree that 60 days from the date of the auditor's report represents a reasonable time limit for such a period? If not, please indicate what time period would be considered more appropriate and why.

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<sup>3</sup> The PCAOB Standard defines "report release date" as the date on which the auditor grants permission to use the auditor's report in connection with the issue of the entity's financial statements.

PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230  
**PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230**  
**AUDIT DOCUMENTATION**

(Effective for audits of historical financial information for periods commencing  
on or after December 15, 2005)

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International Standard on Auditing (ISA) 230 (Revised), “Audit Documentation,” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.
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## PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230

### Introduction

1. The purpose of this International Standard on Auditing (ISA) 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. The Appendix lists other ISAs containing subject matter-specific documentation requirements and guidance. 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 performed in accordance with ISAs and applicable legal and regulatory requirements.**

### Definition

3. In this ISA, "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 ISA 220 (Revised), "Quality Control for Audits of Historical Financial Information;"<sup>4</sup>
  - (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 and inspections<sup>5</sup> in accordance with ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements;"<sup>6</sup> and

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<sup>4</sup> ISA 220 (Revised), published in February 2004, is effective for audits of historical financial information for periods commencing on or after June 15, 2005.

<sup>5</sup> As defined in ISA 220 (Revised).

<sup>6</sup> ISQC 1 is effective as of June 15, 2005.

## PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230

- (f) Enabling an experienced auditor to conduct external inspections 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 ISAs 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 ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”).
  - Results of audit procedures indicating (a) that 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 ISA 260, “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 \$25,000 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 ISA to achieve more effectively the objective of the audit, the auditor should document the reasons for the departure.<sup>7</sup>**

#### **Changes to Audit Documentation After the Date of the Auditor's Report**

17. As explained in ISA 560, "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

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<sup>7</sup> The IAASB will propose an amendment to the "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services" to reflect this requirement once the revised ISA is finalized.

## PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230

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 circumstances, 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 60 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 ISA 560, 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 paragraphs 8 to 18 of ISA 560.

**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. Paragraph 4.2 of Part A of the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants requires the auditor to observe at all times the confidentiality of information contained in audit documentation, unless specific authority has been given to disclose information, 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 unauthorized changes to the documentation; and
  - (d) Allow access to the documentation by the audit team and other authorized 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 authorized users.
  - Appropriate back-up routines for electronic audit documentation at appropriate stages during the audit.

## PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 230

- 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. ISQC 1 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 local 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 five years from the date of the auditor's report, or, in the case of a group audit, the date of the group 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 ISA is effective for audits of historical financial information for periods commencing on or after December 15, 2005. Early application of this ISA is permitted.

**Specific Audit Documentation Requirements and Guidance in Other ISAs**

The following lists the main paragraphs that contain specific documentation requirements and guidance in other ISAs:

- ISA 210, “Terms of Audit Engagements” – Paragraph 5
- ISA 220 (Revised), “Quality Control for Audits of Historical Financial Information” – Paragraphs 11-14, 16, 25, 27, 30, 31 and 33
- ISA 240 (Revised), “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” – Paragraphs 60 and 107-111
- ISA 250, “Consideration of Laws and Regulations” – Paragraph 28
- ISA 260, “Communication of Audit Matters with Those Charged with Governance” – Paragraph 16
- ISA 300, “Planning” – Paragraphs 8 and 10
- ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” – Paragraphs 122 and 123
- ISA 330, “The Auditor’s Procedures in Response to Assessed Risks” – Paragraph 73
- ISA 505, “External Confirmations” – Paragraph 33
- ISA 580, “Management Representations” – Paragraph 10
- ISA 600, “Using the Work of Another Auditor” – Paragraph 14

**Amendments to ISA 330 and ISQC 1 as a Result of ISA 230 (Revised) – Effective Six Months After the Month of Approval of ISA 230 (Revised) by the IAASB**

**ISA 330, “The Auditor’s Procedures in Response to Assessed Risks”**

The following paragraphs in ISA 330 are amended as marked:

50. **The auditor’s substantive procedures should include the following audit procedures related to the financial statement closing process:**
- **Agreeing or reconciling the financial statements with ~~to~~ the underlying accounting records; and**
  - **Examining material journal entries and other adjustments made during the course of preparing the financial statements.**

The nature and extent of the auditor’s examination of journal entries and other adjustments depends on the nature and complexity of the entity’s financial reporting process and the associated risks of material misstatement.

73. **The auditor should document the overall responses to address the assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level, and the results of the audit procedures. In addition, if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should document the conclusions reached with regard to relying on such controls that were tested in a prior audit. ~~The manner in which these matters are documented is based on the auditor’s professional judgment. ISA 230, “Documentation” establishes standards and provides guidance regarding documentation in the context of the audit of financial statements.~~**

The following paragraphs are added to ISA 330:

74. **The auditor’s documentation should demonstrate that the financial statements agree or reconcile with the underlying accounting records.**
75. **The manner in which these matters are documented is based on the auditor’s professional judgment. ISA 230, “Audit Documentation” establishes standards and provides guidance regarding documentation in the context of the audit of financial statements.**

As a result of these amendments, paragraph 74 in the extant ISA will be renumbered 76.

**ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”**

The following new subheading and paragraphs are added to ISQC 1 after paragraph 97:

**Engagement Documentation**

98. **The firm should 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.**

99. The needs of the firm for retention of engagement documentation will vary with the nature of the engagement and the firm’s circumstances. For example, the firm may need to retain audit documentation for audit planning purposes and to provide a record of matters of continuing significance to future audits of the same client.

100. Procedures that the firm adopts for retention of engagement documentation include:

- Procedures that enable the retrieval of, and access to, the documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time.
- Procedures that, where necessary, provide a record of changes made to engagement documentation after the engagement file has been completed.
- Procedures that enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

As a result of these amendments, paragraph 98 in the extant ISQC 1 will be renumbered 101.



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**NEW IAASB EXPOSURE DRAFTS FOCUS ON CLARIFYING PROFESSIONAL STANDARDS AND IMPROVING AUDIT DOCUMENTATION**

*(New York/September 23, 2004)* — At its meeting last week, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) approved two new exposure drafts (EDs) for release: *Proposed Policy Statement on Clarifying Professional Requirements in International Standards*, and a revision to International Standard on Auditing (ISA) 230, *Audit Documentation*. Both documents recommend changes that will contribute to the improved quality and consistency of audits.

***Clarifying Professional Standards***

The ED on *Clarifying Professional Requirements in International Standards* reaffirms the IAASB's belief that the use of clear, concise, consistent, and definitive imperatives is essential to the consistent application of international standards. It does this by defining two categories of professional requirements – “requirements” and “presumptive requirements” – and the corresponding language to be used in pronouncements. A requirement, to be fulfilled in all cases, would be identified by the word “shall” and a presumptive requirement by the word “should.”

(more)

In addition, the IAASB recommends that the use of the present tense be discontinued when referring to actions by the professional accountant.

“International standards that are clear and capable of consistent application should contain no ambiguity about the professional requirements that a professional accountant must fulfill,” states John Kellas, chair of the IAASB. “The proposed changes are designed to achieve this goal.”

In addition to the ED, the IAASB has issued a consultation paper, *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*, which seeks feedback on whether there is a need to change the way IAASB standards are drafted. Comments on the exposure draft and related consultation paper are requested by December 31, 2004.

### ***Audit Documentation***

The proposed revisions to ISA 230, *Audit Documentation*, include clarification on the form, content, and extent of audit documentation, guidance on changes to audit documentation after the date of the auditor’s report, and matters to be considered in connection with confidentiality, safe custody, and retention of audit documentation. These proposed changes provide for greater rigor in documentation of key audit matters, which the IAASB believes will ultimately drive improved auditor performance.

An appendix to the exposure draft identifies additional specific audit documentation requirements set out in other ISAs. Comments on this exposure draft are requested by January 31, 2005.

(more)

### *Submitting Comments*

All of the above-mentioned documents may be downloaded from the IFAC website ([www.ifac.org](http://www.ifac.org)) Comments may be submitted electronically to [EDComments@ifac.org](mailto:EDComments@ifac.org).

IFAC is dedicated to serving the public interest, strengthening the worldwide accountancy profession, and contributing to the development of strong international economies. Its current membership consists of 157 professional accountancy bodies in 118 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce.

The IAASB's role is to improve auditing and assurance standards and the quality and uniformity of practice throughout the world, thereby strengthening public confidence in the global auditing profession.

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