

SA 230 (AAS 3)

DOCUMENTATION

*(Effective for all audits relating to
accounting periods beginning on or after July 1, 1985)*

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Standard on Auditing (SA) 230*, "Documentation" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

* Issued in July, 1985.

¹ Published in the July 2007 issue of the Journal.

Introduction

1. Standard on Auditing (SA) 200, "Basic Principles Governing an Audit" (Paragraph 11), states, "The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles." The purpose of this Standard is to amplify the basic principle outlined above.
2. Documentation, for purposes of this Standard, refers to the working papers prepared or obtained by the auditor and retained by him, in connection with the performance of his audit.
3. Working papers:
 - ◆ aid in the planning and performance of the audit;
 - ◆ aid in the supervision and review of the audit work; and
 - ◆ provide evidence of the audit work performed to support the auditor's opinion.

Form and Content

4. Working papers should record the audit plan, the nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained.
5. The form and content of working papers are affected by matters such as:
 - ◆ The nature of the engagement.
 - ◆ The form of the auditor's report.
 - ◆ The nature and complexity of the client's business.
 - ◆ The nature and condition of the client's records and degree of reliance on internal controls.
 - ◆ The needs in particular circumstances for direction, supervision and review of work performed by assistants.
6. Working papers should be designed and properly organised to meet the circumstances of each audit and the auditor's needs in respect thereof. The standardisation of working papers (for example, checklists, specimen letters,

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standard organisation of working papers) improves the efficiency with which they are prepared and reviewed. It also facilitates the delegation of work while providing a means to control its quality.

7. Working papers should be sufficiently complete and detailed for an auditor to obtain an overall understanding of the audit. The extent of documentation is a matter of professional judgement since it is neither necessary nor practical that every observation, consideration or conclusion is documented by the auditor in his working papers.

8. All significant matters which require the exercise of judgement, together with the auditor's conclusion thereon, should be included in the working papers.

9. To improve audit efficiency, the auditor normally obtains and utilises schedules, analyses and other working papers prepared by the client. In such circumstances, the auditor should satisfy himself that these working papers have been properly prepared. Examples of such working papers are detailed analyses of important revenue accounts, receivables, etc.

10. In the case of recurring audits, some working paper files may be classified as permanent audit files, which are updated currently with information of continuing importance to succeeding audits, as distinct from current audit files, which contain information relating primarily to the audit of a single period.

11. A permanent audit file normally includes:

- ◆ Information concerning the legal and organisational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.
- ◆ Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
- ◆ A record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.
- ◆ Copies of audited financial statements for previous years.

Documentation

- ◆ Analysis of significant ratios and trends.
- ◆ Copies of management letters issued by the auditor, if any.
- ◆ Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.
- ◆ Notes regarding significant accounting policies.
- ◆ Significant audit observations of earlier years.

12. The current file normally includes:

- ◆ Correspondence relating to acceptance of annual reappointment.
- ◆ Extracts of important matters in the minutes of Board Meetings and General Meetings, as are relevant to the audit.
- ◆ Evidence of the planning process of the audit and audit programme.
- ◆ Analysis of transactions and balances.
- ◆ A record of the nature, timing and extent of auditing procedures performed, and the results of such procedures.
- ◆ Evidence that the work performed by assistants was supervised and reviewed.
- ◆ Copies of communications with other auditors, experts and other third parties.
- ◆ Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant internal controls.
- ◆ Letters of representation or confirmation received from the client.
- ◆ Conclusions reached by the auditor concerning significant aspects of the audit, including the manner in which exceptions and unusual matters, if any, disclosed by the auditor's procedures were resolved or treated.
- ◆ Copies of the financial information being reported on and the related audit reports.

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Ownership and Custody of Working Papers

13. Working papers are the property of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to his client.

14. The auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a period of time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirements of record retention.

Effective Date

15. This Standard on Auditing becomes operative for all audits relating to accounting periods beginning on or after July 1, 1985.