AAS-3: DOCUMENTAION

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INTRODUCTION

Auditing and Assurance Standard **(AAS)1**, “*Basic Principles Governing an Audit*” 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.

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**.

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 & CONTENT

Working papers should record the **audit plan**, **the nature**, **timing** and **extent of auditing procedures performed**, and the **conclusions drawn from the evidence obtained**.

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**.

NEED FOR DOCUMENTATION OF AUDIT WORKING PAPERS

1. **Working papers** should be **designed** and **properly organized** to meet the **circumstances** of **each audit** and the **auditor's needs** in **respect thereof**. The **standardization** of **working papers** (for example, checklists, specimen letters, standard organization 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**.

2. **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 judgment** since it is neither necessary **nor** practical that every **observation**, **consideration** or **conclusion is documented** by the **auditor** in his **working papers**.

NEED FOR DOCUMENTATION OF AUDIT WORKING PAPERS

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

4. To improve audit efficiency, the **auditor** normally obtains and utilizes 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.

5. 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**.

CONSTITUENTS OF A PERMANENT AUDIT FILE

A permanent audit file normally includes:

a) **Information** concerning the **legal** and **organizational 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**.

b) **Extracts** or copies of important **legal documents**, **agreements** and **minutes** relevant to the **audit**.

c) **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.

d) **Copies** of **audited financial statements** for **previous years**.

CONSTITUENTS OF A PERMANENT AUDIT FILE

e) **Analysis** of **significant ratios** and **trends**.

f) **Copies** of **management letters issued** by the **auditor**, if any.

g) Record of **communication** with the retiring **auditor**, if any, before **acceptance of the appointment as auditor**.

h) **Notes** regarding **significant accounting policies**.

i) **Significant audit observations** of **earlier years**.

CONSTITUENTS OF A CURRENT AUDIT FILE

A current audit file normally includes:

a) **Correspondence** relating to **acceptance of annual reappointment.**

b) **Extracts** of important matters in the **minutes of Board Meetings and General Meetings**, as are **relevant to the audit**.

c) **Evidence** of the **planning process** of the **audit** and **audit programme**.

d) **Analysis** of **transactions** and **balances**.

e) A record of the **nature**, **timing** and **extent** of **auditing procedures performed**, and the **results of such procedures**.

f) **Evidence** that the **work performed by assistants** was **supervised** and **reviewed**.

CONSTITUENTS OF A CURRENT AUDIT FILE

h) **Copies** of **communications** with **other auditors**, **experts** and **other third parties**.

i) **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**.

j) **Letters** of **representation** or **confirmation received** from the **client**.

k) **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.

l) **Copies** of the **financial information** being reported on and the related **audit reports**.

OWNERSHIP & CUSTODY OF WORKING PAPERS

- ✓**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**.
- ✓**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.