

February 8, 2005

Mr. James Sylph  
Technical Director  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

**Project: Proposed Revised International Standard on Auditing (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*.**

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft, Proposed Revised ISA 230, *Audit Documentation*.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that the document provides much needed enhanced guidance on audit documentation. We support the issuance of the document. We offer some suggestions to improve the clarity of the document and suggest some additional guidance.

Following are our comments on the exposure draft.

### **Response to the IAASB's Request for Specific Comments**

What are the 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?

*We consider it appropriate to specify a time period in the standard to complete the assembling of the final audit file.*

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?

*We agree that 60 days is a reasonable time period, however for the reasons noted below we believe that the date of delivery of the auditor's report is a more appropriate date to begin the time limit than the date of the auditor's report.*

## **Subsequent Changes to Audit Documentation**

We support the requirement that the auditor complete assembling the final set of audit documentation within a specified period of time. We suggest that the auditor be required to assemble a complete and final set of audit documentation within 60 days following the delivery of the auditor's report, and not from the date of the auditor's report. It has been our experience that the date of delivery of the auditor's report (report release date) may be later than the date of the auditor's report, especially in a small-firm environment. For example, there often are governance communication responsibilities that may take place after the date of the auditor's report, but before the report release date. While the difference between these two dates may be negligible, we believe the report release date provides a better marker from which to require assembly of a final audit file.

We further suggest that the standard provide guidance on the appropriate length of the "wrapping up" period for engagements where the auditor does not issue a report, for example, when the auditor is not able to complete the audit. In these circumstances, the audit documentation should be assembled for retention as of a date not more than 60 days after the date that the fieldwork was substantially completed, or 60 days from the date the engagement ceased. This guidance could be added to the end of paragraph 19.

## **Experienced Auditor**

Paragraph 3 introduces the concept of the "experienced auditor," which we support, but we recommend that this concept be more precisely defined. As written, we believe the term could imply an experienced auditor could be someone with relatively few years of auditing experience. This has economic consequences, as the lower the assumed experience level of the reviewer, the more documentation will be necessary for the reviewer to comprehend the documentation. We recommend consideration of whether the individual should possess the skills and knowledge to have performed the audit.

We believe the following language more precisely defines what is intended by the term "experienced auditor."

"[E]xperienced auditor" means an individual (whether internal or external to the firm) who possesses the competencies and skills that would have enabled him or her to perform the audit, and therefore has an a-reasonable understanding of audit processes and of auditing and financial reporting issues relevant to the industry in which the entity operates.

## **Form, Content and Extent of Audit Documentation**

ISA 330, *The Auditor's Procedures in Response to Assessed Risks*, requires that the auditor's substantive procedures related to the financial statement closing process include agreeing or reconciling the financial statements with the underlying accounting records. We believe that it is important that there is evidence in the audit documentation that this procedure has been performed. We suggest adding the following specific requirement to paragraph 7:

- (e) That the accounting records agree or reconcile with the financial statements or other information being reported on.

Paragraph 8 notes that the form, content and extent of audit documentation will depend on the circumstances of the engagement, and the audit methodology and tools used. We recognize that the IAASB does not wish to have a long bullet list of circumstances, with or without guidance on how those circumstances may affect audit documentation. Nevertheless, we believe that a short list of things that may affect audit documentation would be helpful. We would suggest the following language:

In determining the nature and extent of the documentation, the auditor considers:

- The nature of the auditing procedure
- The risk of material misstatement associated with the assertion, or account or class of transaction
- The extent of judgment required in performing the work and evaluating the results
- The significance of the evidence obtained to the assertion being tested
- The nature and extent of exceptions identified
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or evidence obtained.

Paragraph 8 allows the auditor to use oral explanation to clarify information contained in the audit documentation. We believe that the meaning of clarify could be interpreted too narrowly, failing to permit the auditor to provide context for the documentation or relate it to other documentation as may be necessary. We suggest that the thought be expanded to allow the auditor to use oral explanation to clarify or explain the information contained in the audit documentation. We believe this modification is in keeping with the intent of the Standard.

## **Confidentiality of Information**

Paragraph 27 of the Exposure Draft suggests the use of passwords amongst audit team members to restrict access to electronic documentation to authorized users. We support the goal of protecting the audit documentation, however believe the primarily risk relates to unauthorized access by third parties, such as clients. We think it far more useful that firms be required to have security procedures in place that prevent access to their audit documentation by third parties such

as clients, rather than establish complex measures to contain access on an engagement basis. Additionally, we see no need to distinguish in the professional standards between requirements as they relate to either electronic or paper files, as the issues should be the same. We are concerned that for some auditors, this guidance could require implementation of a costly or cumbersome procedure to protect files from other auditors in the same Firm. This seems unnecessary, and we do not believe it is addressing any current issue in audit practice.

### **Nature and Purpose of Audit Documentation**

Paragraph 5 identifies some of the purposes that audit documentation serves. While we appreciate that this is not a complete list of all the purposes that audit documentation serves, we suggest that an additional bullet be added to include assisting a successor auditor who reviews a predecessor auditor's audit documentation.

### **Significant Matters**

In paragraph 10 we suggest that, in addition to documenting oral discussions of significant matters and management's responses, the auditor document when and with whom the discussion took place.

### **Editorial comment**

We suggest that an editorial change is made to paragraph 11 to read [t]he documentation of such information, however, does not imply that the auditor needs to retain documentation ~~document information~~ that is incorrect or superseded.

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Thank you for the opportunity to comment on this Exposure Draft. If you have any questions regarding the comments in this letter, please contact Sharon Walker at +1-212-596-6026, or [swalker@aicpa.org](mailto:swalker@aicpa.org).

Respectfully submitted,

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