

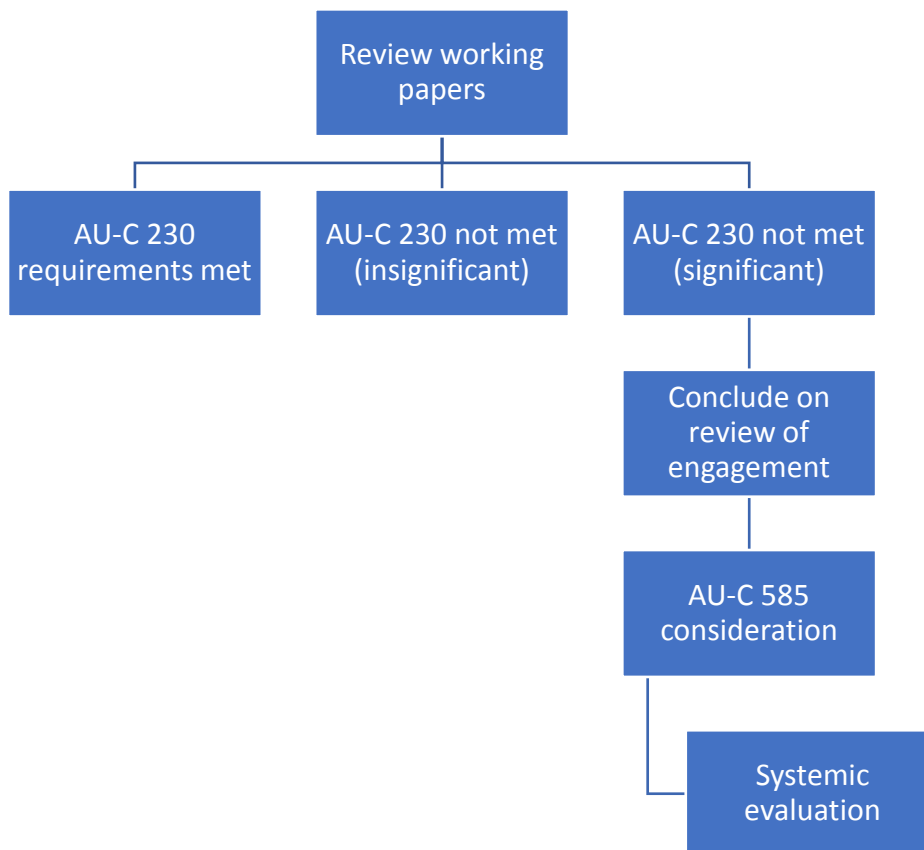
Internal Inspection Practice Aid: Focus on Audit Documentation

Note: This practice aid is intended to help auditors consider the requirements of AU-C section 230, *Audit Documentation*, when performing inspections as part of a firm’s monitoring procedures. This publication is an *other auditing publication* as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, Professional Standards). Other auditing publications have no authoritative status; however, they may help you, as an auditor, understand and apply certain auditing standards.

In applying the guidance included in any other auditing publication, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA.

Overview

The AICPA has developed the following flowchart and guidance for auditors who identify instances where audit documentation does not meet the requirements of AU-C 230, *Audit Documentation*, while performing inspections as part of a firm’s monitoring procedures:



In reviewing an engagement, the individual performing the inspection (“the reviewer”) seeks to determine whether the auditor who performed the engagement (“the auditor”) has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and support the auditor’s opinion.

Meeting the requirements of AU-C 230 provides evidence of the auditor’s basis for his or her audit opinion as well as evidence that the audit was planned and performed in accordance with generally accepted auditing standards (GAAS) (AU-C 230.02).

When reviewing an audit engagement, if the reviewer determines that audit evidence which is necessary to support the audit opinion was not documented in accordance with AU-C 230, the reviewer should conclude that the audit was not conducted in accordance with GAAS and that the auditor failed to obtain sufficient appropriate audit evidence to support the audit opinion.

Reviewing Working Papers

When reviewing the documentation of the evidence obtained as a result of an audit procedure performed, the reviewer should consider whether the requirements of AU-C 230 were met.

AU-C 230.08 requires an auditor to document:

- the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
- the results of the audit procedures performed, and the audit evidence obtained; and
- significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments

These should be documented for *any procedure* that provides audit evidence that is necessary to support the audit opinion. Signing off on an audit program is rarely sufficient to meet these requirements, and while oral explanation can clarify an auditor’s documentation, it is not a substitute for meeting the requirements of AU-C 230.

AU-C 230 Requirements Met

If the requirements of AU-C 230 were met but clarification is needed (for example, when the auditor’s conclusion does not appear consistent with the results of the audit procedure), the reviewer may obtain clarification through discussions with the auditor. The need to obtain such clarification would not, in and of itself, result in a finding warranting inclusion in the reviewer’s monitoring documentation.

AU-C 230 Requirements Not Met (Insignificant)

If the requirements of AU-C 230 were not met, but the audit procedure being reviewed was not necessary in order for the auditor to support the audit opinion (for example, testing of a low-risk, immaterial prepaid expense balance), the auditor’s failure to document the procedure, in and of itself, would not necessarily result in a finding warranting inclusion in the reviewer’s monitoring documentation.

Determining whether an audit procedure was necessary in order for the auditor to support the audit opinion requires the exercise of professional judgment.

AU-C 230 Requirements Not Met (Significant)

If the requirements of AU-C 230 were not met, and the audit evidence is necessary in order for the auditor to support the audit opinion (for example, testing of a material intangible asset with high valuation risk), the reviewer should

- Not accept oral explanation as a substitute for compliance with AU-C 230;
- Not give the auditor “credit” for performing the procedure in accordance with GAAS;
- Document a finding relative to that procedure in the monitoring documentation; and
- Document a separate finding to memorialize the auditor’s failure to comply with AU-C 230.

Conclude on the Review of the Engagement

If the reviewer determines that audit evidence necessary to support the audit opinion was not documented in accordance with AU-C 230, the reviewer should conclude that the audit was non-conforming (i.e. was not performed or reported on in conformity with applicable professional standards in all material respects). The reviewer should document this conclusion in the monitoring documentation.

AU-C 585 Consideration

If the engagement subject to review is deemed non-conforming, the firm should consider its obligations under AU-C 585, *Consideration of Omitted Procedures After the Report Release Date*.

The firm should investigate the issue in question and determine what action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports.

The firm should then document the results of its investigation, including parties consulted, and actions planned or taken or its reasons for concluding that no action is required.

Systemic Evaluation

The reviewer should seek to understand the underlying cause of the finding. Gaining this understanding will involve analysis of the firm’s quality control policies and procedures and discussion with the firm’s partners and/or personnel.

When audit procedures or audit evidence were not documented in accordance with AU-C 230, these discussions should address whether the procedures were performed but not documented as required or whether the procedures were not performed at all. Additionally, the reviewer should ascertain whether the personnel understood the requirements of AU-C 230 and should address the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level.

Once the underlying cause of the matter is understood, the firm should take appropriate corrective, remedial action to address it.