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## **BRIEFING PAPER**

### **PROPOSED AUDITING STANDARD ON AUDIT DOCUMENTATION AND PROPOSED AMENDMENT TO INTERIM AUDITING STANDARDS**

**NOVEMBER 12, 2003 PUBLIC MEETING OF THE BOARD**

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At its public meeting on November 12, 2003, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") will consider whether to propose, and seek comment on, an auditing standard, *Audit Documentation*, and a proposed amendment to interim auditing standards. This briefing paper highlights the more significant requirements in the proposed auditing standard and the related amendment.

Auditors support the conclusions in their reports with a work product commonly referred to as work papers or audit documentation. Audit documentation is not merely a natural by-product of the audit process – it is an integral part of a quality audit. That is, the work papers document not only the nature, timing and extent of the work performed, but also the professional judgments made by members of a well-trained audit engagement team.

Section 103(a)(2)(A)(i) of the Sarbanes-Oxley Act of 2002 (the "Act") expressly directs the Board to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation "in sufficient detail to support the conclusions reached" in the auditor's report.

#### **Audit Documentation and Related Amendment to Interim Auditing Standards**

Audit documentation is the principal record of the basis for the conclusions in the auditor's report. Audit documentation also facilitates the planning, performance, and supervision of the engagement and provides the basis for the review of the quality of the work by providing the reviewer with written documentation of the evidence supporting the auditor's significant conclusions. Examples of audit documentation include memoranda, correspondence, and schedules. Audit documentation may be in the form of paper, electronic files, or other media.

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This proposed standard establishes general requirements for documentation the auditor should prepare and retain in connection with any engagement conducted in accordance with auditing and related professional practice standards.

This proposed standard would set a new requirement that audit documentation must contain sufficient information to enable an *experienced auditor, having no previous connection with the engagement*, to understand the work that was performed, who performed it, when it was completed, and the conclusions reached. This experienced auditor also must be able to determine who reviewed the work and the date of such review.

This proposed standard would also create a rebuttable presumption that audit documentation must exist to establish the fact that the audit work was performed. This presumption is rebuttable by persuasive other evidence that the procedures were applied and the evidence was obtained to provide sufficient support for the conclusions reached. Oral explanation alone does not constitute persuasive other evidence.

In addition to the documentation necessary to support the auditor's final conclusions, audit documentation must include information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions.

In implementing the seven-year retention requirement of the Sarbanes-Oxley Act of 2002, this proposed standard would add a new requirement that the audit documentation be assembled for retention within a reasonable period of time after the auditor's report is released. Such reasonable period of time ordinarily should not exceed 45 days.

This proposed standard would also add a new requirement that any changes to the working papers after completion of the engagement be documented without deleting or discarding the original documents. Such documentation must indicate the date the information was added, by whom it was added, and the reason for adding it.

Sufficient audit documentation, including documentation of work performed by others, must be retained by the office issuing the auditor's report. With respect to the audit documentation related to the work performed by others, the auditor issuing the report ordinarily should retain the original audit documentation or copies of such documentation. The auditor issuing the report may, however, prepare and retain audit documentation of the work performed by others as a part of the review of such work, as long as the documentation complies with the requirements of this proposed standard. This new requirement would improve audit quality by enhancing the probability that *all*

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audit documentation will be prepared consistently with the same standards of audit quality.

When reporting on a company's consolidated financial statements, an auditor may use the work of other auditors who have audited one or more affiliates or divisions of the company. When more than one auditor is involved in an audit engagement, one of the firms typically serves as the principal auditor. If the firm decides to serve as the principal auditor, then the firm must decide whether to make reference in the auditor's report to the audit performed by the other auditor. If the principal auditor decides to assume responsibility for the work of other auditors, then the principal auditor will not make reference to the work of other auditors in his or her audit report. However, if the principal auditor decides not to assume that responsibility, then the principal auditor should clearly indicate the division of responsibility between the principal auditor and other auditors in expressing an opinion on the consolidated financial statements.

In connection with the new requirement for the issuing office to retain all audit documentation, the proposed amendment to the interim auditing standard on using the work of other auditors would help to ensure that proper audit documentation is prepared and retained when a principal auditor *decides not to make reference* to the work of other auditors and the principal auditor performs an adequate review of the audit documentation prepared by the other auditor.

### **Implementation Date of the Proposed Standard and Related Amendment**

This proposed standard and related proposed amendment would apply to engagements completed on or after June 15, 2004.

### **Public Comment**

If the Board issues the proposed standard and the related proposed amendment, it will seek comment on these proposals for a 60-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments may also be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 012 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on January 20, 2004.

The Board will carefully consider all comments received. Following the close of the comment period, the Board will determine whether to adopt a final standard and related amendment. Any final standard and amendment adopted will be submitted to the Securities and Exchange Commission for approval. Pursuant to Section 107 of the

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Act, proposed rules of the Board do not take effect unless approved by the Commission. Standards and amendments of interim standards are deemed to be rules under the Act.

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