



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

ICAP/PSC/2006/Circular No. 02

November 15, 2006

ALL PRACTICING MEMBERS OF THE INSTITUTE

Dear Member

AUDIT DOCUMENTATION AND QUALITY CONTROL REVIEW

Adequately planned, duly executed, and sufficiently documented audit procedures are essential for the members in practice to meet their professional obligation and to contribute towards professional excellence and to narrow down to the minimum possible extent the expectation gap between the auditor and those who in any manner make use of the audited financial statements. Proper documentation that supports the auditor's opinion also help protects the auditor in the event of any litigation brought against him.

It is quite encouraging and satisfactory to observe during the Quality Control Review that the majority of firms reviewed had documented audit procedures as required by the relevant standards, which is one of the most important areas of focus for the Quality Control Review Program. However, instances have been found where the documentation was found incomplete/insufficient due to non availability of papers/documents to support an assertion in the financial statements. In few cases, a common excuse given by the member for non-availability of the above required papers/documents at the time of review is that the same were prepared/obtained but have been retained at the location other than the place of review and would be shown to the reviewers at a date subsequent to the review.

The Oxford English Dictionary defines the word "**document**" as "*a piece of written or printed matter that provides a record or evidence of events, an agreement, ownership, identification etc.*" This definition links in well with the definition of "Audit Documentation" as mentioned in paragraph 6(a) of the ISA 230 (revised) which states that "Audit documentation means the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. "

In this regard we would like to draw attention of the members towards the following paragraphs of ISA 230 'Audit Documentation (revised)':

Paragraph 2

"The auditor should prepare, on a timely basis, audit documentation that provides:

- a) A sufficient and appropriate record of the basis for the auditor's report; and*

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- b) *Evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.”*

Paragraph 9

“The auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:

- a) *The nature, timing, and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;*
- b) *The results of the audit procedures and the audit evidence obtained; and*
- c) *Significant matters arising during the audit and the conclusions reached thereon.”*

It transpires from the above that the auditor has to sufficiently and adequately prepare / obtain and retain the evidence of the audit work planned, performed, and concluded, in the audit documentation before rendering his audit opinion. Any such evidence not available at all times in the audit documentation file(s), and shown/produced before the quality control reviewers at any moment of time after the reviewers have concluded on the spot review of documentation, loses integrity and reliability for the purpose of review and vitiates the very purpose of the on the spot quality control review of the audit.

The completion of the assembly of the final audit file after the date of the auditors report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- a) Deleting or discarding superseded documents.
- b) Sorting, collating and cross-referencing working papers.
- c) Signing off completion checklists relating to the file assembly process
- d) Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the audit team before the date of the auditor's report.

Assembly of the final audit file should preferably be completed in the shortest possible time. ISA 230 (Revised) suggests firms to complete audit files within 60 days after the date of the auditor's report.

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Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

In view of the above requirements members are advised to place complete working paper files to the QCR team at the time of review. Any, working paper(s) submitted after the conclusion of the review would not be considered as valid evidence of work done.

Practicing, members are therefore, advised to seek detailed guidance in the matter from **ISA 230 'Audit Documentation (Revised)'**. The revised ISA 230 would be effective for audits of financial statements for **periods beginning on or after June 15, 2006**.

Thanking you,

Yours truly,

Muhammad Asif Iqbal
Director
Professional Standards Compliance & Evaluation

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