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February 3, 2005

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

By e-mail: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

In re: 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."

To Whom It May Concern:

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the above-captioned proposed revision and amendments.

The NYSSCPA's International Accounting and Auditing Committee deliberated the proposed revision and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert N. Waxman, chairman of the committee, at (212) 755-3400, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

John J Kearney  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**INTERNATIONAL ACCOUNTING AND AUDITING COMMITTEE**

**COMMENTS ON**

**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.”**

**February 3, 2005**

**Principal Drafter**

**Robert N. Waxman**

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**THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS  
INTERNATIONAL ACCOUNTING AND AUDITING COMMITTEE  
COMMENTS ON PROPOSED REVISION TO ISA 230 AND ON PROPOSED  
AMENDMENTS TO ISA 330 AND ISQC 1**

**FEBRUARY 3, 2005**

Our comments on IFAC's proposed revision to ISA 230 "Audit Documentation;" the amendment to ISA 330, "The Auditor's Procedures in Response to Assessed Risks;" and the amendment to ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements;" are set out in bold type below.

Responses to Questions

1. What are 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 support the use of a time period in which to complete the assembling of the final audit file. It is practical to have a "bright-line" requirement to complete the audit file, and useful to create a deadline that will eliminate procrastination.**

2. 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 calendar days sets a "bright-line" definition and is a reasonable period in which to assemble and archive the audit file.**

**We are concerned that using the date of the audit report as the beginning of the 60 day period will differ from the U.S. GAAS requirement. The AICPA's January 12, 2005 exposure draft on audit documentation calls for work papers in final form 60 days following the delivery of the auditor's report. We support using the delivery date because it is a more practical standard.**

**If the delivery date is used, we recommend adopting as the delivery date "the first time the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements," which is the date specified in the PCAOB's proposal 2003-23:**

**Prior to granting permission to use the auditor's report in connection with the issuance of the company's financial statements, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation must be assembled for retention within a reasonable period of time following the first time the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements. Such reasonable period of time ordinarily should not be more than 45 days.**

**While the AICPA’s exposure draft does not define the report delivery date, the PCAOB removes any ambiguity by connecting it to the “first time the auditor grants permission to use the report.”**

**In addition, we urge that the IAASB give additional consideration to the date of the auditor’s report because U.S. GAAS states (AU 530.01, “Dating of the Independent Auditor’s Report”):**

**“Generally, the date of completion of the field work should be used as the date of the independent auditor’s report.” This is expected to be amended by the AICPA’s January 12, 2005 exposure draft to read “The auditor’s report should not be dated earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the opinion on the financial statements or other financial information being reported on.”**

**On the other hand, ISA 700 requires:**

**“The auditor should date the report as of the completion date of the audit.”**

**“Since the auditor’s responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the report earlier than the date on which the financial statements are signed or approved by management.”**

**Because U.S. GAAS and ISA 700 will likely result in different audit report dates, we recommend that IAASB consider the benefits of consistency in dating audit reports and whether it desires to resolve this disparity either in the revision to ISA 230 or in ISA 700.**

#### Comments on the Standard

1. The purpose of this International Standard on Auditing (ISA) is to establish basic principles and essential procedures for, and provide general guidance on, audit documentation for audits of historical financial information, including audits of financial statements.

**The revised documentation standard should state clearly whether it applies only to audits of “historical financial information” or also to audit reports on financial statements prepared in accordance with a comprehensive basis of accounting other than International Accounting Standards or another financial reporting framework; to specified accounts, elements of accounts, or items in a financial statement; to compliance with contractual agreements; and to summarized financial statements. If there are other documentation standards for these engagements, this statement should so indicate.**

2. The auditor should prepare audit documentation that is sufficient and appropriate to provide a record of the basis for the auditor’s report and to demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

**We recommend that “provide a record of the basis” be clarified. Documentation does more than simply provide a record of the basis; it should support the auditor’s opinion or why an opinion could not be expressed.**

3. In this ISA, “experienced auditor” means an individual (whether internal or external to the firm) with a reasonable understanding of audit processes and of auditing and financial reporting issues relevant to the industry in which the entity operates.

**This definition sets the standard too low. An “experienced auditor” must also be conversant with international generally accepted accounting standards or other financial reporting framework (not just have a reasonable understanding of audit processes), and any special accounting standards applicable to the entity and the industry required by a regulator.**

**Also, a thorough understanding of the language in which the documentation is prepared is a very important attribute of the “experienced auditor”.**

4. Audit documentation includes, for example, audit programs, analyses, issues memoranda, letters of confirmation and representation, checklists, extracts of important documents, correspondence (including e-mail) concerning significant matters, and schedules of work the auditor performed.

**If documents are translated, copies of such key translated documents must also be included in the audit file.**

5. In addition to the objectives set out in paragraph 2, audit documentation serves a number of other purposes, including:

(f) Enabling an experienced auditor to conduct external inspections in accordance with applicable legal, regulatory or other requirements.

**It is appropriate to call the auditor’s attention to the fact that in preparing documentation there may be objectives other than demonstrating compliance with ISAs; however, it is not clear to what “other requirements” this Standard may be referring. See our comment on paragraph 7(a) below.**

7. The auditor should prepare audit documentation that enables an experienced auditor, having no previous connection with the audit, to understand:

(a) The nature, timing, extent and results of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;

**We note that paragraph 5(f) mentions “legal, regulatory or other requirements” while this part of the standard is limited to “legal and regulatory requirements.” This difference should be clarified.**

**The standard should not necessarily require that the audit file contain documentation regarding procedures and reports specifically used to satisfy legal and regulatory requirements that may be extraneous to the audit. A violation of a separate legal or regulatory requirement should not, in itself, mean noncompliance with the ISAs. Therefore, documentation of these legal and regulatory requirements could be maintained outside of the audit file.**

(d) In relation to audit procedures designed to address identified risks of material misstatement, conclusions that are not otherwise readily determinable from the documentation of the procedures performed or audit evidence obtained.

**A suggested clarification: The relationship of audit procedures to identified risks of material misstatement, including conclusions that are not otherwise readily determinable from the documentation of the procedures performed or audit evidence obtained.**

8. It is neither necessary nor practical to document every matter the auditor considers during the course of the audit. The form, content and extent of audit documentation depend on the circumstances of the engagement and the audit methodology and tools used. Oral explanations, on their own, do not represent sufficient support for the work the auditor performed or conclusions the auditor reached, but may be used by the auditor to clarify information contained in the audit documentation.

**Only the form of the audit documentation is affected by the audit methodology followed. The methodology and tools used should not necessarily affect the content and extent of audit documentation and the methodology used. Whatever audit method is used, both the content and the extent of the documentation should be substantially the same.**

**We agree that oral explanations can never be a substitute for documentation. The integrity of an audit depends on the existence of a complete and clear record of the work that was performed, the evidence obtained and of the conclusions reached about every material financial statement assertion. If the procedures, the evidence and the conclusions reached are not documented in the audit file, it should be presumed the work was not done, the evidence was not received and the auditor's conclusions are not supported.**

**We recommend that the IAASB address in this standard the documentation of oral explanations, including the documentation of oral explanations after the date of the auditor's report. Oral explanations are often integral to the understanding of the audit work performed. If it is determined after the date of the auditor's report (but before the report is delivered) that inadequate written documentation exists, documentation of oral explanations should be permissible, subject to the post completion date procedures outlined in paragraph 20.**

10. The auditor documents on a timely basis (a) oral discussions of significant matters with management, and (b) management's responses. The auditor similarly documents oral discussions of significant matters with those charged with governance, as discussed in ISA 260, "Communication of Audit Matters with those Charged with Governance."

**All significant oral discussions concerning significant matters should be documented, including oral discussions with company personnel (not just management), as well as others outside of the company, including vendors, customers, and lawyers.**

12. In documenting the nature, timing and extent of audit procedures performed, the auditor should record:

(a) Who performed the audit work and the date of such work; and

**Auditors generally place their initials, or some other identifying mark, on work papers they prepare or review. The names of such preparing and reviewing auditors should be clearly (i.e., at least the full last name) identified within the audit file.**

**As to dating, does the “date of such work” mean each date the working paper has been modified, or only the date it is completed? The most appropriate date is when the work paper is completed rather than the date the work paper was first begun or any interim date.**

**The requirement for a date should be emphasized: the use of the month and year is insufficient.**

(b) Who reviewed specific audit documentation and the date of such review?

**The same principles as stated above should apply for reviews: At least the reviewer’s last name and initial should be evident and the date of the review’s completion should be documented.**

13. In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specified items tested.

**This paragraph requires (using “should”) the identifying characteristics be recorded, whereas the paragraph 14 examples seem to be somewhat more permissive (using “may”). We recommend the examples require that all material identifying characteristics be documented.**

14. Recording the identifying characteristics serves a number of purposes. For example, it demonstrates the accountability of the audit team for its work and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the subject matter. For example:

- A detailed test of entity-generated purchase orders may identify the documents selected for testing by their dates and unique purchase order numbers.
- For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the procedure and identify the population (for example, all journal entries over \$25,000 from the journal register).
- For a procedure requiring inquiries of specific entity personnel, the documentation may include the dates of the inquiries and the names and job designations of the entity personnel.
- For an observation procedure, the documentation may identify the process or subject matter being observed, the relevant individuals and what they were responsible for, and when the observation was carried out.

**We recommend that when auditors use statistical sampling, the sampling methodology be identified.**

**For example, when using an attribute sample, the audit file should: (a) define the attribute(s) to be tested, (b) define what constitutes a deviation, (c) define the population, (d) determine the sample size, (e) identify the selected sample, (f) record the evidence examined, and (g) evaluate the results.**

**Another example, when using Representative Sampling - Probability Proportional to Size (PPS), the PPS sampling process can generally be documented with the following information: (a) determine the sample selection interval, (b) determine sample size, (c) select the sample, (d) examine the evidence, (e) evaluate the results, and (f) extrapolate any errors detected.**

16. Where, in exceptional circumstances, the auditor judges it necessary to depart from a basic principle or essential procedure in an ISA to achieve more effectively the objective of the audit, the auditor should document the reasons for the departure.

**In addition to documenting the reasons for not performing an essential procedure, it is necessary to justify and document the rationale for the alternative procedures actually followed.**

18. The specific requirements reflected in subparagraphs (a) to (c) of paragraph 17 do not preclude the auditor from making those changes that ordinarily occur during the process of assembling and completing the audit file after the date of the auditor's report but that reflect neither the performance of new audit procedures nor new conclusions reached. Such changes include, for example:

- Performing routine file-assembling procedures such as deleting or discarding superseded documentation, and sorting, collating and cross-referencing final working papers.

**Sorting, collating, and cross-referencing presume a defined indexing method. We suggest that the standard require accounting firms to establish a logical indexing method that is consistently followed throughout the firm on all audit engagements.**

19. The auditor assembles a complete and final audit file without undue delay after the date of the auditor's report. The date on which the assembling of the audit file is finally completed is ordinarily not more than 60 days after the date of the auditor's report.

**As stated earlier, the 60 day period is reasonable. We reiterate that the 60 days in which to complete the audit file begin from the delivery date rather than from the date of the auditor's report.**

22. To the extent that the auditor performs audit procedures on the new information, the auditor should retain it and should document the resulting addition to audit documentation in accordance with subparagraphs (a) to (c) of paragraph 17.

**The paragraph header indicates that this paragraph is relevant to items discovered after the auditor's report. That being the case, this paragraph requires an update of the auditor's report, which by definition indicates a new body of audit evidence; hence, a different audit file that is an appendix to the original archived file, rather than an addition to the existing audit file, should be created. The original opinion is unchanged based on the available audit evidence at the date of the original opinion.**

24. The auditor should apply appropriate procedures for audit documentation that:

- (c) Enable its accessibility and retrievability; and

**We suggest that this should be "enable and limit its accessibility and retrievability or otherwise appropriately control;"**

#### **Other Comments:**

**PCAOB Standard No. 3, paragraph 9 states that audit documentation should be prepared in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached, and the documentation should be appropriately organized to provide a clear link to the significant findings or issues. We recommend that similar language be adopted in this standard.**

**One of the most significant issues addressed by the PCAOB in its documentation standard concerns the documentation requirements for a multi-location audit. This IAS does not address this issue. There is a reference in IAS 600, paragraph 14, but it does not deal with the documentation required to be reviewed by a principal auditor who does refer to other auditors in his report. In the absence of a specific requirement to review the documentation (noted in paragraph 19 of PCAOB Standard 3), this IAS presumptively has a lower threshold for the responsibility of the principal auditor for audit documentation in multi-location audits.**

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Amendments to ISA 330 and ISQC 1

ISA 330, “The Auditor’s Procedures in Response to Assessed Risks”

50. The auditor’s substantive procedures should include the following audit procedures related to the financial statement closing process:

- Examining material journal entries and other adjustments made during the course of preparing the financial statements.

**We are not clear as to what the term “other adjustments” used both here and below refers. We would also add “during the course of management’s preparation of the financial statements.”**

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ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”

98. The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

**We recommend that “audit file” or “audit documentation” as used in ISA 230 be substituted for “engagement documentation.”**