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3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

May 11, 2005

Sherry Boothe
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775
By e-mail: sboothe@aicpa.org

In re: Auditing Standards Board Proposed Statement on Auditing Standards: Audit Documentation

Dear Ms Boothe:

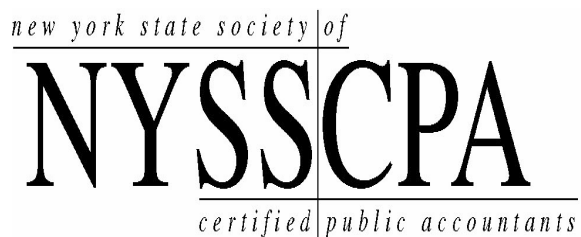
The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, is pleased to submit the attached comments on the proposed Statement on Auditing Standards on audit documentation.

The NYSSCPA's Auditing Standards and Procedures Committee drafted the attached comments. If you would like additional discussion with us, please contact the committee chair, Mark Mycio at (212) 372-1421, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

John J. Kearney
President

Attachment



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

**COMMENTS TO THE AUDITING STANDARDS BOARD ON
PROPOSED STATEMENT ON AUDITING STANDARDS
AUDIT DOCUMENTATION**

May 11, 2005

Principal Drafters

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George I. Victor
Robert N. Waxman**

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NYSSCPA Staff

Robert H. Colson

**The New York State Society of Certified Public Accountants
Auditing Standards and Procedures Committee
Comments on Auditing Standards Board Proposed
Statement on Auditing Standards:
Audit Documentation
May 11, 2005**

General Comments

The ASB has proposed to revise auditing standards on audit documentation for audits of nonissuers (entities not subject to SEC filing requirements and whose audits are not performed in accordance with the standards of the Public Company Accounting Oversight Board, "PCAOB"). This exposure draft is in response to issues raised among U.S. nonissuers, and it considers the documentation requirements of PCOAB Standard No. 3, "Audit Documentation," the International Auditing and Assurance Standard's exposure draft ISA 230, "Audit Documentation", suggestions from the National Association of State Board of Accountancy, and Government Auditing Standards issued by the Comptroller General of the United States.

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 exposure draft does not address this important issue. We recommend that the ASB include consideration of the issues related to documenting a multi-location audit in this standard.

We have organized our specific comments according to the exposure draft's paragraphs. For convenience, our comments appear in bold typeface immediately following the paragraph to which a comment applies.

Specific Comments

Introduction

1. The purpose of this Statement on Auditing Standards (SAS) on audit documentation is to establish the standards for and provide general guidance on audit documentation for audits of financial statements or other financial information being reported on. The exercise of professional judgment is integral in applying the provisions of this Statement. For example, professional judgment is used in determining the quantity, type, and content of audit documentation consistent with this Statement.

We recommend that this standard clearly state whether the term “other financial information” comprises audit reports on engagements related to specified accounts, elements of accounts, or items in a financial statements; to compliance with contractual agreements; and to summarized financial statements.

2. Other SASs contain specific documentation requirements (see Appendix A). Additionally, specific documentation requirements may be included in other standards (for example, government auditing standards), laws, and regulations applicable to the engagement.

Accepted without comment.

3. The auditor should prepare audit documentation in connection with each engagement in sufficient detail to provide a clear understanding of the work performed, the source of the information, and the conclusions reached. Audit documentation:

a. Provides the principal support for the representation in the auditor’s report that the auditor performed the audit in accordance with generally accepted auditing standards.

b. Provides the principal support for the opinion expressed regarding the financial information or the assertion to the effect that an opinion cannot be expressed.

The reference for the term “each engagement” should clearly include audits that express an opinion on financial statements; on accounts, elements of accounts, or items in financial statements; on specified compliance with contractual agreements; and on summarized financial statements.

“Work performed” should include the nature, timing, extent, and results of audit procedures performed.

Audit documentation should be the sole rather than the principal support for audit opinions.

4. Audit documentation is an essential element of audit quality. Although documentation alone does not guarantee audit quality, the process of preparing sufficient and appropriate documentation contributes to the quality of an audit.

Accepted without comment.

5. Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Audit documentation, also known as working papers or workpapers, may be recorded on paper or on electronic or other media. When transferring or copying paper documentation to another media, the auditor should apply procedures to take care that the copy is identical in form and content to the original paper document.

Accepted without comment.

6. 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 the work the auditor performed. The audit documentation for a specific engagement is assembled in an audit file.

Accepted without comment.

7. In addition to the objectives set out in paragraph 3, audit documentation serves a number of other purposes, including:

- Assisting the audit team to plan and perform the audit;
- Assisting auditors who are new to an engagement and review the prior years documentation to understand the work performed as an aid in planning and performing the current engagement;
- Assisting members of the audit team responsible for supervision to direct and supervise the audit work, and to review the quality of work performed;
- Demonstrating the accountability of the audit team for its work by documenting the procedures performed, the audit evidence examined, and the conclusions reached;
- Retaining a record of matters of continuing significance to future audits of the same entity;
- Assisting quality control reviewers who review documentation to understand how the engagement team reached significant conclusions and whether there is adequate evidential support for those conclusions;
- Enabling an experienced auditor to conduct inspections or peer reviews in accordance with applicable legal, regulatory, or other requirements; and
- Assisting a successor auditor who reviews a predecessor auditor's audit documentation.

In bullet 6, the term “significant conclusions” should be replaced by “their conclusions.”

8. For the purposes of this Statement, *experienced 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 understanding of audit processes and of auditing and financial reporting issues relevant to the industry in which the entity operates.

Accepted without comment.

Form, Content, and Extent of Audit Documentation

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

- a. The nature, timing, extent, and results of auditing procedures performed;
- b. The audit evidence obtained;
- c. The conclusions reached on significant matters;
- 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; and
- e. That the financial statements or other information being reported on agree or reconcile with the accounting records.

The phrase in paragraph 9.d, “conclusions that are not otherwise readily determinable from the documentation,” confuses the role of documentation. Conclusions should be readily determinable from the documentation without exception.

10. 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 or explain information contained in the audit documentation.

Accepted without comment.

11. In determining the nature and extent of the documentation for a particular audit area or auditing procedure, the auditor should consider the following factors:

- Nature of the auditing procedure;

- Risk of material misstatement associated with the assertion, or account or class of transactions;
- Extent of judgment involved in performing the work and evaluating the results;
- Significance of the evidence obtained to the assertion being tested;
- Nature and extent of exceptions identified; and
- 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.

The first sentence of paragraph 11 should read “... nature, timing, and extent ...”

Because conclusions normally should be readily determinable from the working paper documentation, including that “conclusions not readily determinable from the documentation of the work performed or evidence obtained” requires further explanation.

12. Certain matters, such as auditor independence, staff training, and other matters, may be documented either centrally within a firm or in the audit documentation for an audit engagement.

Accepted without comment.

Significant Matters

13. The auditor should document audit findings or issues that in his or her judgment are significant, actions taken to address them (including any additional evidence obtained), and the basis for the final conclusions reached. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Significant matters fall into one of the following categories:

- Matters that both (1) are significant and (2) involve issues regarding the appropriate selection, application, and consistency of accounting principles with regard to the financial statements including related disclosures. Such matters often relate to (1) accounting for complex or unusual transactions or (2) estimates and uncertainties and, if applicable, the related management assumptions.
- Results of audit procedures indicating (1) that the financial information or disclosures could be materially misstated or (2) a need to revise the auditor’s previous assessment of the risks of material misstatement and the auditor’s responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying auditing

procedures the auditor considered necessary, for example, the lack of responsiveness to confirmation or information requests due to legal restrictions, or the lack of original documents.

d. Findings that could result in modification of the auditor's report.

e. Audit adjustments. For purposes of this Statement, an audit adjustment is a correction of a misstatement of the financial information that is identified by the auditor, whether or not recorded by management, that could, either individually or when aggregated with other misstatements, have a material effect on the company's financial information.

Because the categories of significant matters are not mutually exclusive, the last sentence of paragraph 13 should read "...one or more of the following categories."

We also suggest adding to the list the auditor's judgments about the quality of the accounting principles and their application as required by AU 380.11 (Communication with Audit Committees).

14. The auditor should document on a timely basis (a) oral discussions of significant matters with management, including identification of management personnel involved and the dates of discussions, and (b) management's responses. The auditor similarly should document oral discussions of significant matters with those who have responsibility for the oversight of the financial reporting process, including the dates and the names of individuals participating in them.

Paragraph 14 does not emphasize adequately that all oral discussions having audit significance must be documented, including those with company personnel who are not considered management as well as others outside the company such as customers, vendors, and lawyers.

15. If the auditor has identified information that contradicts or is inconsistent with the auditor's final conclusions regarding a significant matter, the auditor should document how the auditor addressed the contradiction or inconsistency in forming the conclusion.

Accepted without comment.

16. The documentation of such information, however, does not imply that the auditor needs to retain documentation that is incorrect or superseded. The relevant records to be retained include, but are not limited to, procedures performed in response to the information, and records documenting consultations on, or resolutions of, differences in professional judgment among members of the engagement team or between the engagement team and others consulted.

Accepted without comment.

Identification of Preparer and Reviewer

17. In documenting the nature, timing, and extent of audit procedures performed, the audit documentation should identify:

- a. Who performed the audit work and the date of such work; and
- b. Who reviewed specific audit documentation and the date of such review.

Accepted without comment.

Documentation of Specific Items Tested

18. Audit documentation of procedures performed, including tests of operating effectiveness of controls and substantive tests of details, that involve inspection of documents or confirmation should include the identifying characteristics of the specific items tested.

Accepted without comment.

19. 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 should include the dates of the inquiries and the names and job designations of the entity personnel.
- For an observation procedure, the documentation should identify the process or subject matter being observed, the relevant individuals and what they were responsible for, and when the observation was carried out.
- When a systematic sample is selected from a population of documents, the documentation need only provide an identification of the source of the documents and an indication of the starting point and the sampling interval (for example, a systematic sample of shipping reports was selected from the shipping log for the period from X to Y, starting with report number 14564 and selecting every 250th report from that point).

Accepted without comment.

20. The auditor need only retain copies of the entity's records as part of the audit documentation if they are needed to enable an experienced auditor to understand the work performed and conclusions reached. For example, audit documentation should include abstracts or copies of significant contracts or agreements that were examined to evaluate the accounting for significant transactions.

We suggest that the last phrase read, "...that were examined to evaluate the accounting for or disclosure of significant transactions."

21. Where, in exceptional circumstances, the auditor judges it necessary to depart from the Statements on Auditing Standards in order to achieve more effectively the objective of the audit, the auditor should document the reasons for the departure.

We recommend that paragraph 21 also require the auditor to explain how the chosen alternative auditing procedures achieved the audit objective more effectively, not simply the reasons for the departure.

Revisions to Audit Documentation After the Date of the Auditor's Report

22. 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.

Paragraph 22 needs further development to address the relationship between the date of obtaining sufficient competent evidence to support the opinion and the date of completion of field work. Auditing standards require a review of subsequent events through the date of the completion of field work. If significant documentation, such as contracts or agreements, is unavailable at the completion of field work and is to be provided later, paragraph 22 as currently written would require the auditor to return to the field to update subsequent events testing to the new report date. This situation would occur frequently enough to warrant its consideration in paragraph 22, including possibly dual dating.

23. After the report date, the auditor may make changes to the audit documentation to:

a. Complete the documentation and assembly of audit evidence that the auditor has obtained, discussed, and agreed with relevant members of the audit team prior to the date of the auditor's report;

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

- c. Signing off on file completion checklists prior to completing and archiving the audit file;
- d. Add information received after the date of the auditor's report, for example, an original confirmation that was previously faxed; and
- e. Clarify audit documentation prepared during the audit.

A clear distinction needs to be made among the report date, the issuance or delivery date, the period between the report date and the issuance or delivery date, and the period identified as after the issuance or delivery date. In addition, paragraph 23 should consider what changes or addition to documentation could be made during each of these periods.

Paragraph 23.c should be more specific about the nature of the checklists referenced.

Paragraph 23.e needs to be structured to limit what additional information can be introduced as clarification.

24. Updated or revised audit documentation should contain all of the information, evidence, and conclusions that were in the original (superseded) documentation. If the information, evidence, or conclusion is no longer relevant or valid, the auditor need not retain it, except as noted in paragraph 30. However, the auditor should retain the information if it reflects a disparate point of view or disparate evidence relating to a significant issue or finding (see paragraphs 13 through 16).

Accepted without comment.

Documentation of New Information

25. The auditor may receive new information after the date of the auditor's report relating to the audit, for example, a belated third-party confirmation or confirmation of the final outcome of a material litigation case against the entity that was pending at the period end. The auditor should consider whether to perform audit procedures on the new information, taking into account factors such as the nature and significance of the information, or whether the passage of time has superseded the relevance of the information.

Accepted without comment.

26. If, as a result of consideration of the procedures performed and the evidence obtained, the auditor concludes that procedures considered necessary at the time of the audit in the circumstances then existing were omitted from the audit of the financial information, the auditor should follow the guidance in SAS No. 46, *Consideration of Omitted Procedures After the Report Date* (AICPA, *Professional Standards*, vol. 1, AU sec. 390). The audit

documentation supporting the auditor's compliance with SAS No. 46 should be prepared in accordance with the requirements in this Statement.

Accepted without comment.

27. If the auditor subsequently becomes aware of information relating to financial information previously reported on by him or her, but which was not known to him or her at the date of the report, the auditor should follow the guidance in SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 561, "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report").

Accepted without comment.

28. In the circumstances described in paragraphs 25 to 27, the auditor should make the changes necessary to reflect either the performance of the new audit procedure or the new conclusion reached, including:

- When and by whom such changes were made, and (where applicable) reviewed;
- The specific reasons for the changes; and
- The effect, if any, of the changes on the auditor's conclusions.

Paragraph 28 should emphasize that new information can always be added to this file, as long as the requirements of this standard are met.

Changes Resulting From the Process of Assembling and Completing the Audit File

29. If the working papers are not in final form at the delivery date of the auditor's report to the entity, the auditor should assemble the audit documentation to form the final engagement file (audit file). The audit file should be completed within 60 days following the delivery of the auditor's report (documentation completion date).

The term "delivery date" should be introduced and defined earlier in the standard. This term should be referred to, where applicable, in paragraphs 22 to 28.

We recommend that footnote 4 be changed from "a period of time" to "a period of time not to exceed 60 days" in order to emphasize the 60 day time period is the maximum allowed.

We suggest that paragraph 29 specify that the delivery date is the first time the auditor grants permission to use the auditors' report as with the issuance of the company's financial statements, which is also the date specified in PCAOB's proposal 2003-23.

Changes After the Documentation Completion Date

30. After the audit file has been completed, the auditor should not delete or discard audit documentation. Where the auditor finds it necessary to make an addition (including amendments) to audit documentation after the audit file has been completed, the auditor should document the addition in accordance with paragraph 28.

Accepted without comment.

Ownership and Confidentiality of Audit Documentation

31. Audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. The auditor should adopt reasonable procedures to retain audit documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention. Such retention period, however, is ordinarily not expected to be shorter than five years from the date of the auditor's report.

We recommend that footnote 6 should be changed from “a retention period” to “a retention period of not less than five years” in order to emphasize that five years is the minimum retention period .

32. The auditor has an ethical, and in some situations, specific laws or regulations may impose a legal, obligation to maintain the confidentiality of client information. Because audit documentation often contains confidential client information, the auditor should adopt reasonable procedures to maintain the confidentiality of that information.

Accepted without comment.

33. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying data may be compromised if the documentation could be altered, added to, or deleted without the auditor's knowledge, or could be permanently lost or damaged. Accordingly, the auditor should apply appropriate and reasonable controls for audit documentation to:

a. Clearly determine when and by whom audit documentation was created, changed, or reviewed;

b. Protect the integrity of the information at all stages of the audit, especially when the information is shared within the audit team or transmitted to other parties via electronic means;

c. Prevent unauthorized changes to the documentation; and

d. Allow access to the documentation by the audit team and other authorized parties as

necessary to properly discharge their responsibilities.

Paragraph 33. c and d should read “Establish procedures to prevent unauthorized access;”.

34. Certain portions of or extracts from the audit documentation that the auditor may decide to make available to the entity are not a substitute for the entity’s accounting records, such as internal controls documentation.

Paragraph 34 reads like a comment rather than a requirement of a standard. It should be revised to indicate how an understanding with the client must be obtained about the client’s responsibility for internal control documentation.

Effective Date

35. This Statement is effective for audits of financial statements or other financial information being reported on for periods beginning on or after December 15, 2005. Earlier application is permitted.

Accepted without comment

APPENDIX A

Audit Documentation Requirements in Other Statements on Auditing Standards

Accepted without comment

Appendix B

Amendment to Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 530, "Dating of the Independent Auditor's Report")

B1. This amendment changes the date of the auditor's report from the date of completion of fieldwork to require that the auditor's report 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. New language is shown in boldface italics; deleted language is shown by strikethrough.

.01 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. Generally, the date of completion of the field work should be used as the date of the independent auditor's report. Paragraph .05 describes the procedure to be followed when a subsequent event occurring after the *date of the auditor's report* completion of the field work is disclosed in the financial statements.

.05 The independent auditor has two methods available for dating the report when a subsequent event disclosed in the financial statements occurs after *the original date of the auditor's report* completion of field work but before the issuance of the related financial statements. The auditor may use "dual dating," for example, "February 16, 20__, except for Note __, as to which the date is March 1, 20__," or may date the report as of the later date. In the former instance, the responsibility for events occurring subsequent to the *original report date* completion of field work is limited to the specific event referred to in the note (or otherwise disclosed). In the latter instance, the independent auditor's responsibility for subsequent events extends to the date of the report and, accordingly, the procedures outlined in section 560.12 generally should be extended to that date.

The nature of the "other financial information" in item .01 should be either mentioned or cross-referenced to the auditing standards that discuss other audited financial information.

We recommend that the date used to dual date an opinion be more precisely specified, whether the date of the subsequent event or the date the auditor has

**obtained sufficient competent audit evidence regarding the subsequent event.
We prefer the date of the subsequent event.**

Appendix C

Amendment to Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards* (AICPA, Professional Standards, vol. 1, AU sec. 150, "*Generally Accepted Auditing Standards*")

C1. This amendment adds a requirement that the auditor documents the justification of departures from the SASs. New language is shown in boldface italics; deleted language is shown by strikethrough.

.04 The auditor should have sufficient knowledge of the SASs to identify those that are applicable to his or her audit. The nature of the 10 standards and the SASs requires the auditor to exercise professional judgment in applying them. Materiality and audit risk also underlie the application of the 10 standards and the SASs, particularly those related to field work and reporting.² The auditor should be prepared to justify *document his or her justification for* departures from the SASs *in the working papers*.

Accepted without comment.