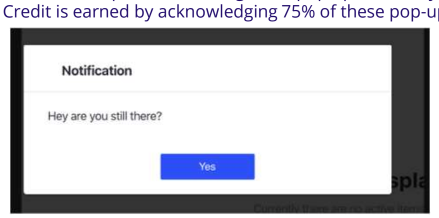
Meeting Documentation Requirements in Your Workpapers

(MDR2)

Tips for a Successful Experience

- **Technical Difficulty?** Try refreshing your page, reconnecting to the class, or rebooting (chat the moderator if you do this, so they can keep track of your presence). Also, logging in under your company's VPN may cause technical difficulty. Turn off your pop up blocker! Tech Support Team 866.265.1561 Option 1 then Option 2
- **Earning CPE:** Throughout the presentation a presence manager will pop up to check your attendance. Click on the "Yes" box to record your attendance. Credit is earned by acknowledging 75% of these pop-ups per hour. The pop ups are random per participant.



- **Once you are logged in please do not log out even during breaks.**
- **Materials:** All materials for today's presentation are available in the lower left side of the webcast screen in the box directly under the Chat box. Click on them to download.
- **Questions:** Use the Chat box in the lower left side of the webcast screen to ask any questions you may have about today's webcast. Someone is available to assist with your technology related concerns. The instructor will address your content related questions during the presentation or follow up after.

LEARNING OBJECTIVES

- Participants will gain knowledge related to:
  - Required documentation for preparations, compilations, and review
  - Required audit documentation
  - Requirements of Quality Control Standards related to documentation
  - Common documentation issues
  - Avoiding documentation deficiencies

Introduction

Workpaper Documentation Issues

- Performance of risk-based audits
- Tightening regulation
- Oversight by various governmental agencies

Note

- SSARs 21 as modified by SSARs 24 and 25
- Effective date for
  - SSARs 24 is for periods ending on or after June 15, 2019.
  - SSARs 25 is for periods ending on or after December 15, 2021 with early implementation allowed.
  - SAS134, 135, 136, 137, and 188 is for periods on or after December 15, 2021..

Engagement Discussion

- How will the corona virus affect financial reporting?
  - Asset impairments
  - Fraud
  - Going concern
  - Risk assessment

Subsequent Event

- Pandemic**, Coronavirus**
- Reporting period of December 31, 2019
- Practitioners should evaluate this event
- Determine impact on all engagements
    - Procedures and documentation
    - Specifically going concern
    - Increased risk of error

Program Topics

- Compliance with quality control standards
- Workpaper retention requirements
- Documentation by requirements for preparation, compilation and review engagements
- Audit documentation requirements
- Avoiding common audit documentation deficiencies

Compliance With Quality Control Standards

SQAS No. 8

- Leadership responsibilities for quality within the firm
- Relevant ethical requirements including independence
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

Compliance With Quality Control Standards

Documentation

1. Evidence of the operation of each element of its system of quality control
2. Retention for a period of time sufficient to permit those performing monitoring procedures and peer review to evaluate compliance
3. Complaints and allegations from firm personnel and responses to them

Compliance With Quality Control Standards

SQCS 8 Documentation Provisions

1. Documentation and communication of the firm's quality control policies and procedures
2. Documentation of client acceptance by the firm:
   - Firm's own client acceptance and setup form
   - Memo to the file
   - Standardized form or checklist
3. Documentation of planning the engagement:
   - Work program with planning procedures
   - Planning memo
   - Client information form

Compliance With Quality Control Standards

4. Documentation when consultation has been performed on the engagement:
   - Summarize the pertinent facts succinctly
   - Document the research performed – both the authoritative literature and any person with whom you have consulted
   - Be sure that the conclusion reached follows the research performed
   - Date the memo so that if questions arise later on when the literature has changed, the applicable pronouncements as of that date can be determined

Compliance With Quality Control Standards

5. Documentation that the engagement has been properly supervised & reviewed – sign off on workpapers; checklist

   If EQCR is performed, document that:

   - Required EQCR procedures were performed
   - The EQCR has been completed before the report was released
   - The reviewer is not aware of any unresolved issues that would indicate inappropriate engagement conclusions

6. Documentation of client continuance
7. Documentation of monitoring procedures performed
8. Written confirmation on independence required annually

13

KAPLAN

Workpaper Retention and Changes to Documentation

1. SSARS – State Board
2. Auditing Standards – AU-C 230 controls
   - Determine if, when and by whom the documentation was created, changed, or reviewed
   - Protect the information during the audit
   - Prevent unauthorized access
   - Client confidentially should be protected

14

KAPLAN

Workpaper Retention and Changes to Documentation

1. SSARS – State Board
2. Auditing Standards – AU-C 230 (cont'd)
   - Date of the auditor's report
   - Documentation completion date

15

Workpaper Retention and Changes to Documentation

3. State Boards of Accountancy
4. PCAOB – AS 1215: Audit Documentation

Email documentation – review process

16

Engagement Discussion

- How will peer reviews be affected in the current environment?
  - Continued focus on risk assessment?
  - Non conforming engagements?
  - Subsequent events?

Engagement Discussion Response

- All of the items will be an issue
  - Current conditions would indicate
    - Delays will result in request for extensions for peer reviews conducted in 2020
    - Some leniency in implementation plans

Preparation Documentation

- Engagement letter
- Copy of the financial statements prepared by the accountant
- Significant consultations
- Significant professional judgments

Compilation Documentation

- Engagement letter
- A copy of the financial statements
- A copy of the accountant's report
- Any findings or issues
- Communications to management

Recommended Compilation Documentation

1. Engagement letter (required)
2. Planning documentation – knowledge of client and industry
3. Trial balance information to bridge the client's records to the financial statements
4. Copy of financial statements and report (required)
5. Documentation that financial statements have been read
6. Findings and issues on how incorrect, incomplete, or unsatisfactory matters were resolved, if any
7. Documentation that workpapers have been reviewed
8. Documentation of consultation
9. Work program, if required by firm policy
10. Disclosure checklist, if required by firm policy
11. Communications to management

Tips on Compilation Documentation

- Know your client
- A schedule is not required for each account
- Do not retain computer runs of accounts
- If information is needed for financial statement purposes, use report grouping schedule
- Workpapers prepared to support adjustments

Review Documentation

AR-C 90

- Clear understanding of the work performed
  - Nature, timing, extent, and results of review procedures performed
- Review evidence and its source
- Significant findings or issues
- Conclusions reached

Review Documentation – AR-C Section 90

- An engagement letter
- A copy of the review report issued and the financial statements
- Analytical procedures performed, including documentation of expectations
- Any additional review procedures performed in response to significant unexpected differences and the results of these procedures

Review Documentation-AR-C Section 90

- The results of significant inquiries
- Any significant findings or issues
- Significant unusual matters
- Any verbal or written communication of fraud or illegal acts
- Communications with management regarding a potential emphasis-of-matter or other-matter paragraph

Review Documentation– AR-C Section 90

- Communication with management related to significant matters
- Information that is inconsistent and how the inconsistency was addressed
- Communications with other accountants that have audited or reviewed significant components
- A signed representation letter

Materiality

- SSARS 25 explicit requirement for the accountant to
  - determine materiality;
  - apply in designing the procedures; and
  - evaluate the results obtained from those procedures
- SSARS 25 does not specifically require documentation of materiality; it should be considered as requiring documentation

Analytical Procedures

1. Develop expectations relating to specific account balances
2. Compare the expectation to the amount recorded
3. Investigate any unusual or large variations

Ways to Document Expectations

- Scanning the general ledger and documenting the expectation in terms of certain types of entries or what you would consider unusual
- Adding the expectation on a lead schedule
- Adding the expectation to a ratio analysis schedule
- Analyzing related account balances on the same schedule to see if the expected changes follow suit

Inquiries

- Have the financial statements been prepared in conformity with GAAP, an SPF or IFRS?
- Have there been any changes in GAAP, an SPF, or IFRS?
- What procedures are used for recording, classifying, and summarizing transactions and obtaining the necessary information for disclosure purposes?
- Have there been any unusual or complex matters that may affect the financial statements? This could include litigation, environmental issues, plans to acquire another company, plans to close down operations, restructuring debt, etc.?
- Are there any significant transactions that took place at or near year-end?

Inquiries

- Have uncorrected misstatements identified during the previous engagement been corrected?
- Are there any events subsequent to the date of the financial statements that could have a material effect on the financial statements?
- Have there been any instances of fraud or illegal acts?
- Have there been any allegations or suspicions of fraud or illegal acts? If so, where and how?
- What are the nature and purpose of significant journal entries and other adjustments made by the client during the period?
- Have there been any communications from regulatory agencies during the period?

Engagement Discussion

Which of the following would be considered deficiencies on a review engagement that would cause it to be a non-conforming engagement?

1. Disclosure checklist not completed
2. Inquiries not documented
3. Engagement letter not signed

Engagement Discussion Response

Which of the following would be considered deficiencies on a review engagement that would cause it to be a non-conforming engagement?

1. Disclosure checklist not completed -only if required by firm
2. Inquiries not documented
3. Engagement letter not signed

Common Review Documentation Deficiencies

1. Analytical procedures were not performed in a review
   - No expectations developed
   - Only topside analytics
   - Two-year comparisons not appropriate due to the client's business
   - Analytical procedures documentation was missing
   - Analytical procedures documentation was inadequate
2. A management representation letter was not obtained
3. Inquiries were not made or were not documented
4. A work program or disclosure checklist was not prepared, as required by the firm's quality control policies

Audit Documentation Requirements

Introduction

1. Documentation should stand on its own – Experienced auditor with no previous connection with the audit should be able to determine the evidence that supports the auditor's significant conclusions and judgments

   Sampling:

   - How the sample size was selected (completeness)
   - Which specific items were selected
   - Audit work done on each item
   - Identification of any differences between the recorded amount and the test
   - Aggregation of any differences
   - Extrapolation of any differences
   - Conclusion

Audit Documentation Requirements

2. Documentation is a matter of professional judgment:

   - Nature of the procedure
   - Risk of material misstatement
   - Extent of professional judgment
   - Significance of the evidence to the assertion being tested
   - Type and number of exceptions
   - Need to document conclusion, if it is not obvious from the work itself

VERBAL NOT ACCEPTABLE

Audit Documentation Requirements

3. Abstracts or copies of significant contracts or agreements – leases, loans, sales contracts

4. Email and other correspondence relating to significant matters

5. Significant matters documentation:

    - Identify the issues
    - Indicate how the auditor addressed the issues
    - Conclusions

Audit Documentation Requirements

Significant Matters

- Significant issues involving the selection, application and consistency of accounting principles – e.g., how to handle a loan modification
- Conclusions drawn from audit work that might indicate a material misstatement – e.g., inventory pricing errors
- Conclusions drawn from audit work that indicate a revision of risk assessment may be necessary and the auditor's response to that change – e.g., checks payable to cash

Audit Documentation Requirements

- Difficulty in performing audit procedures due to lack of documentation, legal restrictions, or no replies for confirmations – e.g., no remittance advices
- Possibility of issuing a qualified or adverse opinion or disclaimer of opinion – e.g., fair value of financial instruments
- Audit adjustments – known & likely – SPAJE

Be sure to document verbal discussions with client – name, date, discussion, client response

Audit Documentation Requirements

AU-C 230

- Contradictory information – how contradiction or inconsistency was resolved, including when there have been consultations or differences of opinion among those on the engagement – e.g., impairment of PP&E
- Departure from auditing standards – include justification for the departure – e.g., nuisance lawsuits

Specific Audit Documentation Requirements

1. AU-C 240, Consideration of Fraud requires:
   - Brainstorming meeting with engagement personnel
   - Procedures to identify and assess fraud risk
   - Specific fraud risks and the auditor's response to those risks
   - Reasons why improper revenue recognition is not a fraud risk
   - Results of procedures performed to address management override of controls
   - Other conditions and analytical relationships that may require additional procedures and responses
   - Nature of any communications about fraud to management, the audit committee, or others

41

Specific Audit Documentation Requirements

2. AU-C 250 – Documentation of verbal communications with the audit committee about illegal acts
3. AU-C 260 – The auditor's communication with those charged with governance
4. AU-C 265 – Communicating internal control related matters identified in an audit
5. AU-C 300 – Planning and supervision documentation, including an engagement letter and audit plan
6. AU-C 315 – Document the understanding of the entity, environment, and internal control

42

Specific Audit Documentation Requirements

7. AU-C 320 – Materiality in planning and performing an audit – Documentation requirements include:

    - Levels of materiality and tolerable misstatement, and qualitative factors influencing materiality
    - Summary of uncorrected misstatements, known and likely misstatements, and prior period uncorrected misstatements
    - Conclusion
    - All known and likely misstatements corrected by management

    Note: SAS 138 provides additional guidance on Materiality

KAPLAN

Specific Audit Documentation Requirements

8. AU-C 330 – Performing audit procedures in response to assessed risks and evaluating the audit evidence obtained:

    - Overall responses to address the assessed risks of misstatements at the financial statement level
    - Nature, timing, and extent of further audit procedures
    - Linkage of those procedures with the assessed risks at the relevant assertion level
    - Results of audit procedures
    - Conclusions reached about the operating effectiveness of controls that was obtained in prior audits

KAPLAN

Specific Audit Documentation Requirements

9. AU-C 501 – Audit evidence – inquiries
10. AU-C 505 – External confirmations
11. AU-C 520 – Analytical procedures
12. AU-C 530 – Audit sampling
13. AU-C 570 – The auditor's consideration of an entity's ability to continue as a going concern:
    - Conditions or events raising substantial doubt about continued existence
    - Work performed by the auditor to evaluate management's plans
    - Conclusion on whether there is a going concern problem
    - How conclusion affects the audit report, the financial statements, and the notes

Specific Audit Documentation Requirements

14. AU-C 580 – Written representations
15. AU-C 700 – Audit conclusions and reporting
16. AU-C 910 – Reporting on financial statements prepared for use in other countries
17. AU-C 930 – Interim financial information
18. AU-C 935 – Compliance audits

Engagement Discussion

Are there any additional or new requirements for documentation?

Engagement Discussion

- SAS 134, 135, 136, 137, 138 will be effective for reporting periods ending on or after December 15, 2021
- Expanded documentation related to
  - Going Concern
  - Related Party transactions
- And more to come - Evaluation of adequacy and reliability of evidence documented

Common Audit Documentation Deficiencies

Significant

1. No written audit plan (program)
2. Audit plan (program) not tailored for specialized industries
3. No attorney's letter requested when the client did consult with an attorney
4. No management representation letter obtained or the letter was missing required representations
5. No documentation of the understanding of internal control and assessment of control risk

Common Audit Documentation Deficiencies

6. Inadequate documentation of AU-C 240:

- "Cookie cutter" memos on brainstorming meetings
- Identification of a fraud risk with no explanation why it is a fraud
- Accounts that seem to have fraud risk not identified as a fraud risk
- Revenue not identified as a fraud risk and no documentation as to how the AU-C 240 presumption was overcome
- No linkage between fraud risk and audit procedures needed to address that risk

Common Audit Documentation Deficiencies

7. No documentation of alternative procedures performed when receivable confirmations were not obtained
8. No documentation or inadequate documentation of:
   - Planning analytics
   - Substantive analytics
   - Review analytics
9. No documentation of the communications between predecessor and successor auditors

Common Audit Documentation Deficiencies

10. No documentation of subsequent events review
11. Inadequate documentation of key audit areas:
    - No documentation of review of leases
    - No documentation of review of loan covenants
    - No documentation of search for unrecorded liabilities other than a sign off on the audit plan (program)
    - No documentation of observation of inventory and the performance of test counts

Common Audit Documentation Deficiencies

12. No documentation of going concern conclusion
13. No documentation of the tests performed on cash flow projections to support not writing down an asset for impairment
14. Not all required passed adjustments were posted to Summary of Passed Adjustments
15. Linkage not documented
16. Risk assessment not linked to further audit procedures
17. Walk-throughs not adequately preformed

53

Common Audit Documentation Deficiencies

Minor

1. Use of an outdated audit plan (program) but all significant procedures were performed
2. Steps not signed off on the audit plan (program)
3. No sign-offs by engagement partner
4. No documentation that board minutes were examined
5. Assessment of control risk not documented but rest of workpaper file supports a maximum control risk assessment

54

Common Audit Documentation Deficiencies

6. Minor dating problems with the management representation letter or attorneys' letters
7. No documentation of significant deficiencies or material weaknesses
8. No documentation whether accounts receivable were evaluated as collectible and/or realizable
9. No conclusion as to whether "passed" adjustments are material
10. No documentation of sample selection and the results of the sample, as required by firm policy

Engagement Discussion

Documentation is addressed or required in which of the following professional standards?

a. Code of Conduct

b. Audit Standards

c. Tax Standards

d. Quality Control Standards

e. Accounting and Review Services

f. None of the above

g. All of the above

Answer

g. All of the above

57

Summary

Without documentation, a **KEY** assumption is that the procedures were not performed.

58

Reminders

- **Post event evaluation:** Please complete the course evaluation that will be pushed out to you as a pop up link on your screen. We welcome your feedback!