Audit Documentation for a Continuous Audit Environment: CA-AuD

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Audit Documentation

- The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

- The audit documentation for a specific audit engagement is assembled in an audit file.

- An experienced auditor should be able to understand
  - Nature, timing, extent of audit procedures and audit evidence obtained
  - Significant matters
  - Conclusions reached

PCAOB
Public Company Accounting Oversight Board

IFAC

Auditing Standard No. 3   ISA 230

Nature of Audit Documentation

- Memoranda, confirmations, correspondence, schedules, audit programs, letter of representation

- Analyses, summaries of significant matters, checklists, abstracts or copies of the entity's record such as significant and specific contracts and agreements if considered appropriate.

- Demonstrate that the underlying accounts records agree or are reconciled with the financial statements

- Paper, electronic or other media

Need for CA-AuD

- *Why* Continuous Audit (Ready) Audit Documentation?

  – Audit Documentation (PCAOB #3 and SAS 96, formerly known as *Audit Workpapers* in SAS 41) is an important part of the Business Reporting Supply Chain

  – Integrated, standardized audit documentation will be vital as we increase the speed and delivery of attestation.

  – Standardized file formats allow for audit documentation retention across versions of software, and can be a vital link for the audit trail from client to auditor and beyond.

  – SAS 96 says the audit procedures should enable the auditor to access electronic audit documentation throughout the retention period; a standardized archive format will help facilitate meeting that responsibility. It also facilitates exchange between successor and predecessor auditors (In the US, covered by AU 315 and elsewhere).

New Solutions Necessary

Today's solutions can only be patched to a degree.

- *STANDARDS-based*
- XML, XBRL, Web services
- Not paper-paradigm, but data-centric
- Automated, self-starting
- Agile, flexible, adaptable
- Integrated, traceable

Good Machines; Bad Users?

Performance Requires Setup

Today's audit documentation is driven by almost entirely by humans; tomorrow's CA-AuD will call upon people only when needed, taking care of routine and mechanical tasks

"Man is not removed; man is freed for value-added tasks, like setting up new systems. That is good news and bad news."

Our Tools Must Handle Road Conditions

- Changing regulatory environment

- Changing business information system environment

- Changing market expectations and requirements

- Changing user requirements and abilities to use the results

Audit Documentation Goes to Pre-K

- Listens attentively
- Plays well with others
- Shares with others
- Respects property
- Uses materials correctly
- Completes tasks on time
- Cleans up after work

- Works neatly and carefully
- Displays self control
- Works independently
- Knows own limitations
- Adjusts well to new situations
- Runs with scissors

Listens Attentively*

Processes

push

External trigger
Listen and receive (WS)

pull

Internal trigger
Poll and pull

push

Internal trigger
Deliver reports

pull

External trigger
Request reports (WS)

Audit Documentation in its "storage"

Direct Access
Outside of application layer
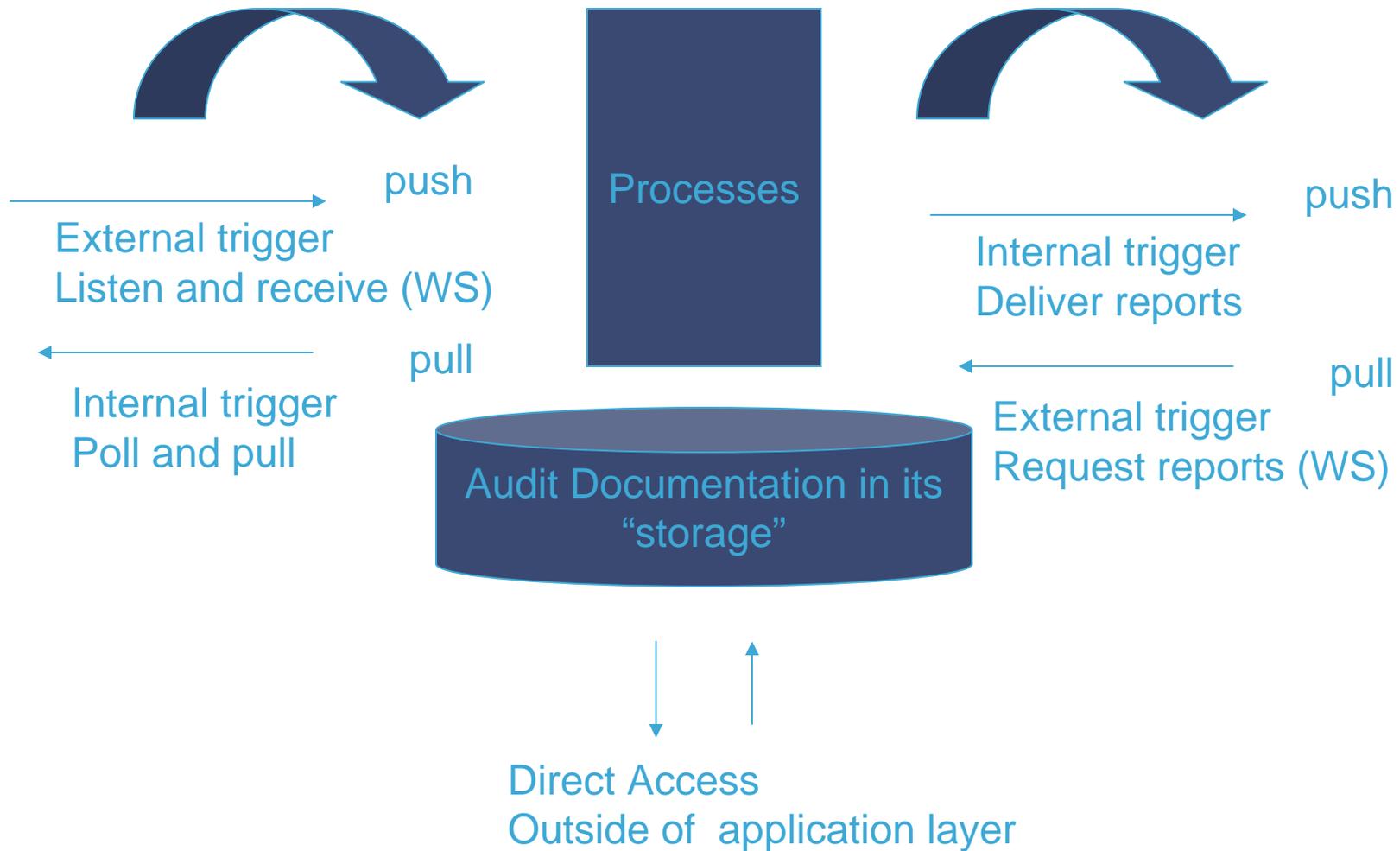
* Follows directions, Is careful when talking with strangers, Understands **risks**

Plays Well With Others

Client's Data

CAATs

Workflow

Libraries:
CA-GAAS
Rules
Tests

Other CA-Aud

CA-AuD

Scheduling:
Auditor
Dashboard

Practice
Management

Benchmarks
Google
Due dilligence

Document
Management

CRM/Corres.
Confirms &
Rep. letters

CUSTOMER RELATIONSHIP
MANAGEMENT
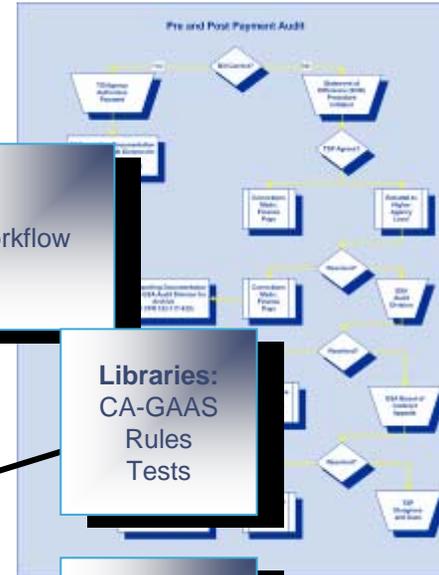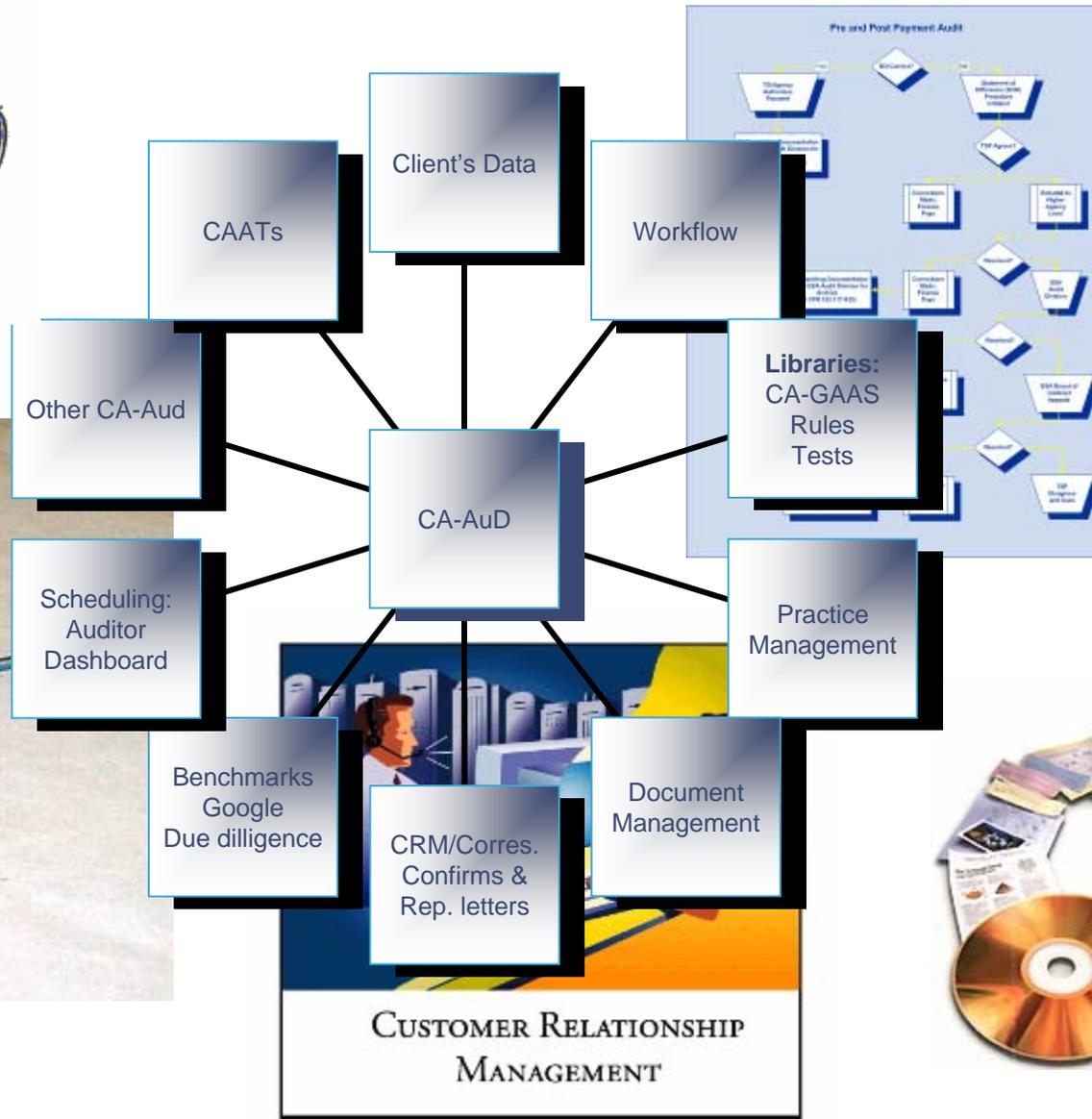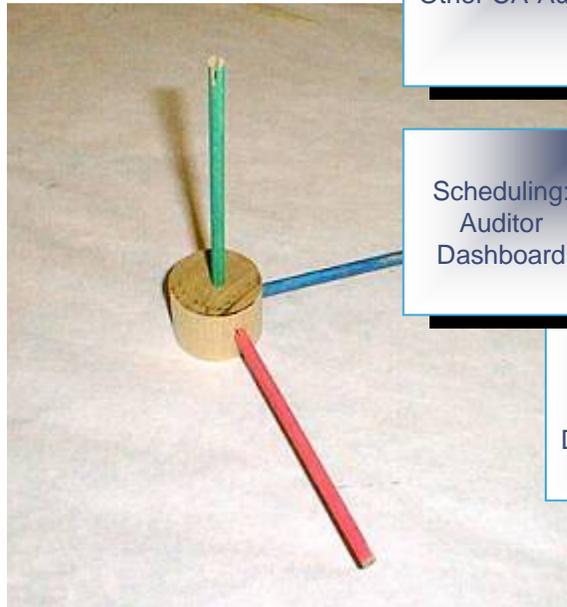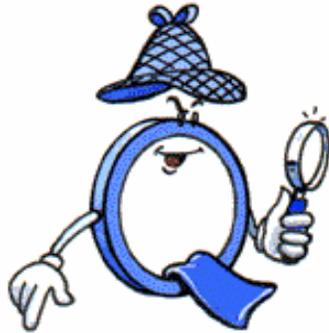
Standardized Inputs and Output

- The emergence of external rules
  - XBRL's formula linkbases
  - Remote control, application-independent governance
- Emerging in the market today
  - Thin client spreadsheet "rumors"
    - Macros are server fed, Web services delivered
    - Data server fed
    - Even the interface is XML delivered …

CAATS and CA-AuD

- **C**omputer **A**ssisted **A**udit **T**echniques
- **C**omputed **A**ided **A**udit **T**ools

- CA-AuD may
  - Have embedded CAAT capabilities
  - Rely on external CAAT services
- CA-AuD **must**
  - Capture procedures performed
  - Evidence obtained
  - Conclusions reached

- CAATs need to be smarter, communicate better
  - Need CAAT/CA-AuD exchange vocabulary
  - Is it the right CAAT food for the test?
  - Evidence retention
  - Reporting

CA-AuD: Would you run this test for me please?
CAAT: With pleasure – here is your query and results.
CA-AuD: Thank you kindly. Hmm, I wasn't expecting that. Can you increase the sample size?
CAAT: With pleasure – here is your query and results.
CA-AuD: Thank you kindly. Much better. That's all for now.

Practice Management

- Practical instructions
  - Who to audit
  - What to audit
  - In what level of detail
  - How often
  - With what degree of certainty
  - Restrictions on budget for external queries
    - Calculate trade off on benchmark versus other external proofs or quality of external services versus costs
  - Do what we get paid for

# Shares With Others

Internal Auditor

Third Party Auditor

"Have your AuD call my AuD."
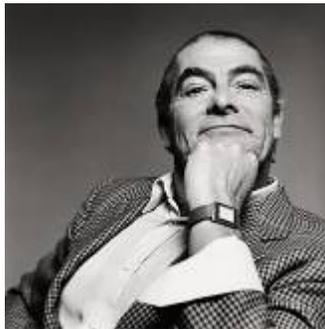
Remote Auditor

Peer Reviewer

PCAOB Inspector

Successor Auditor

Respects Property

- Access Rights
- Client confidentiality
- Security
- Privacy
- Watch increase of scope "confirm spam"

Uses Materials Correctly

XBRL — eXtensible Business Reporting Language

audit report

Control and Risk Assessment Planning

Personnel Scheduling Performance

Documents Planning

General Ledger data

Financial Statements

Financial Statements

Audit Documentation
Trial Balance (XBRL)
Journal Entries entries
XBRL
Financial Statements (XBRL)
Planning Documents
Risk Documents
Audit Programs

Auditor's Reports

Tests Observations Analyses

Reports (XBRL and others)
(attached, embedded, referenced)

Other analyses

Internal cross references, tick marks, text and test libraries

Permanent Files

EVIDENCE

Findings Issues Exceptions

Ticklers Reminders Status updates

Management Report

Hard copy

Standards-based input

Standards-based processes

Standards-based output

Completes Tasks on Time

- Must complete the assembly of the audit file on a timely basis

- Not make certain changes after completion

- Properly document others

Cleans Up After Work

- Maintains documents that should be maintained
- Does not maintain client data (except exceptional documents)
  - May keep log of file transfers and hashes
- Does not maintain superseded documentation, inappropriate notes, etc.

Things Your Documentation Needs to Know Before its 1st Day

- Rules of the house

- Where to find what you need

- Who to call in case of "emergency"
  - Exception reports, including access denied to data

- Who to report to

- Where to store things
  - Work in process
  - Standardized set of information to be preserved at "end of engagement" – with or without rendered version.

Questions for the Continuous Engagement

- Audit Standards
  - What is (CA)GAAS?
  - Proof it is being followed
- CA environment
  - What is "the" engagement?
  - What is "a set" of workpapers?
  - What is the representation?
  - What supports it?
- Communications to management
 - Can my AuD call your AuD for "issues"?

- Where do people fit in?
  - Auditor Dashboard
    - What should I perform
    - What should I review
    - What exceptions, contracts, issues require my involvement
  - Should all high risk items have human review?
  - Who will fine tune the AuD?
    - Hi, I am a CPA-ADE*

  * **A**udit **D**ocumentation **E**ngineer.

XBRL Issues

- XBRL GL enabling internal audit trail
- XBRL enabling integrated audit trail
- XBRL rules and validation tools matching CAAT food with CAAT/tests
- Work on information found in XBRL documents
  – Dealing with the message
- Work on XBRL documents "pre-consumptions"
  – Dealing with the messenger
  – Issues specific to its XBRL-ness
    - Taxonomies, extensions
    - Instances, ids, contextual content

Other Issues

- Fraud

- Peer review

- Sampling
  - Can software do a "judgmental" sample?
  - 100% sampling, stat sampling, changing up on tests
- Risk
  - How will AuD align risks with tests to determine appropriate tests?
- Third party confirms
  - Better evidentiary material

Our AuD – Our Master?

- Will CA-AuD coexist with traditional AuD or replace it?
- How will CA-AuD operate differently in traditional engagements?
  - Planning
  - Fieldwork
  - Review
  - Report
  - Follow-up

Questions?

<xbrl>

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Appendices

- Actions steps
- States for the CA-AuD
- Starting Taxonomy needs for the CA-Aud

- Note: CA-AuD as described in this presentation could be split into the documentation controls ONLY and the audit controls separately.

Action Steps

- Reporting

- Talking to the CAAT

  – Inter-application communication

- Feeding the CAAT

  – Assessing the appropriateness of the test to the data provided

Process state:

- Actively poll selected resources
- Act upon receipt of an assertion
- Act upon receipt of evidence
- Upon receipt of external operations on the systems behalf
- Upon receipt of new instructions

Act Upon Receipt of an Assertion

- Upon receipt of an assertion
  - Check practice management system for responsibilities
  - Evaluate risks
  - Determine audit steps
  - Initial scope
  - Request evidence
  - Test evidence
  - Conclusion
    - Supports assertion
  - Need to increase scope

Upon receipt of evidence

- Analyze
- Use
- Determine keep/archive or delete/pass along with hash record

Report state:

- Upon request for evidence of opinion
- Upon request for opinion
- Upon request for data internal
- Upon end of processing for ongoing/periodic opinion
- Upon problems with accessing data sources or CoF (circle of friends, related applications)

Tasks

- Determine appropriate report layout
- Determine appropriate report output format
- Determine appropriate parameters
- Query appropriate data store to fulfil request
- Populate report
- Transmit (email, web services, API link) state:

When Need External help

- ## Send TO DOs
  - As result of retrieve/query decision
  - When need evidence
  - When opinion has been updated/changed

Stored state:

- ## What is stored?
  - – Active rules, data connections and security information
  - – Logs of tests performed and results
  - – Status of "issues"
  - – Audit steps, audit findings, review notes, sign-offs and edit histories
  - – Workflow instructions (staff assigned, tickler and follow up, escalation rules)

Stored state: (continued)

- When is evidence, results of tests stored:
  - Upon determination to keep/archive
  - Upon "end of engagement"

Retrieve/Query State:

- ## When need evidence
  - – Connect to data source
  - – Produce database query
    - • CAAT-AuD exchange language

XBRL CA AuD Taxonomy

- Document Information (information about this audit workpaper "folder")
  - Who created the workpapers
  - When created
- Entity Information
  - Company the workpapers represent
  - Engagement type, period reported
- Section
  - Section identifier
  - Section description
  - Section conclusion(s)

- Process (Did this step, reviewed, approved)
  - Process unique ID – counter
  - Process ID - work performed code (e.g., test, interview)
  - Process Name - work performed description
  - Process Result - work performed result (tick)
  - Status (Work done, WP done)
    - Initials/code
    - Name
    - Role (in what capacity - preparer, manager, partner)
    - Date
    - Comment
    - Digital signature in future
    - Associated file
    - Associated WP Ref

CA AuD Taxonomy (cont.)

- Sections
  - Communicating Results
  - Potential Audit Comments
  - Administration
  - Planning and Preliminary Work
  - Internal Control Work and Process Review
  - Audit Program
  - Testwork
  - Assertions
  - Evidence
  - Test
  - Result
  - Conclusion
  - Section/Master Index (necessary?)
  - Risk evaluation

  - Internal control assessment and Test of Controls
  - Audit checklist, plans and programs
  - Test of account balances
  - Open points
  - Interviews (?)
  - Engagement letter
  - Audit Report
  - Management Letter
  - Financial Statements (including management report) Final/Draft
  - Findings
  - Trial Balance
  - Journal entries

CA AuD Taxonomy (cont.)

- XBRL GL for client
- XBRL GL for CPA
- Lead schedules
- Materials Variances
- Ratios
- Analytical review
- Confirmations, Minutes, Correspondence
- Carryforward/Permanent Files including Background
- Engagement planning, budgeting, staffing and time - Administrative (Controls)

- "Audit area"
  - Reusable throughout
  - Approvals and process
  - Ability to point to a document, URL or embed/envelop text or binary (Base64)

- Workpaper items
  - Purpose statement
  - Scope statement
  - Procedures statement
  - Results statement

- Conclusion statement

- Tick marks indicating work performed
  - [Tick mark legend reference]
- Cross-references and additional work references
- Summary memo reference

- Lead codes
  - Leadcode
  - LeadcodeDescription

- Lead code assignment
  - LeadcodeStaffID
  - LeadcodeCheckout
  - LeadcodeCheckin
  - LeadcodePreparerComplete
  - LeadcodeReviewerComplete

- Grouping Codes

CA AuD Taxonomy (cont.)

- Tickmark Library
    - PBC - prepared by client
    - Agreed to GL
    - Agreed to Financial Statement
    - Footed
    - Cross footed
    - Recalculated
    - Procedure performed, no exception taken
    - Procedure performed, exception noted
    - N/A Not applicable
- Reviewer comments
- WP, Comment, Ref, Date signed off and by whom

XBRL-enabled AuD

- Linkbases to associate standards-based documents
  - This detail is the evidence for this assertion
  - These details reconcile with that assertion when considering these reconciling items
  - This test was run against this detail with this result
  - This work was performed
  - This conclusion is associated with this test