

# Session VI: The Role of Audit Documentation in a Continuous Auditing Environment

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Newark, NJ, November 2018

**RUTGERS**  
Rutgers Business School  
Newark and New Brunswick

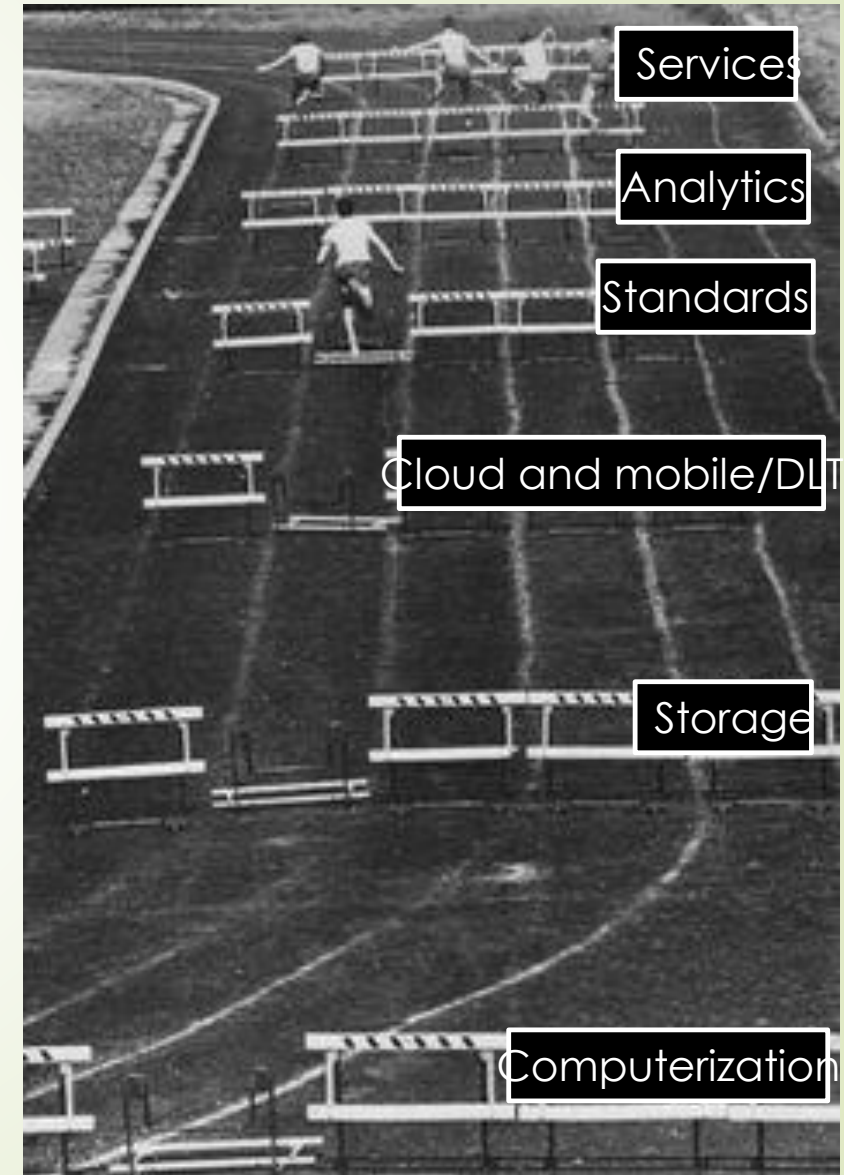
**43rd World Continuous Auditing & Reporting Symposium**

**November 2 & 3, 2018**

**Rutgers Business School, Newark, NJ 07102**

# With CA as a Commercial Goal ...

- Where are we as a profession regarding *audit documentation* for a continuous audit environment?
- Where are we as a profession regarding all of the other concepts that audit documentation standards reference?
- How do we bridge the gaps?
- Focus today on two phrases:
  - “Writing”
  - “Other media”



# Where are we as a profession?

- Eric's presentation 13 years ago
  - *Audit Documentation for a Continuous Audit Environment: CA-AuD*, presented 11/5/2005
    - How audit standards need to evolve
    - How the software environment needs to evolve
    - How practitioners need to evolve
  - Appendix included business processes and foundation for an XBRL Audit Documentation Taxonomy (so workpapers can be standardized)
- What has happened since?



# 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

*Eric's 2018 note:*

records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the auditor (AS 1215.02); information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions ... 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 (AS 1215.08); see also .10 and others.

# 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



# Need for CA-AuD

Wayback

- Why Continuous Audit (Ready) Audit Documentation?
  - Audit Documentation (PCAOB AS No. 3), 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\* said 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).

\*“The ‘interim’ auditing standard on audit documentation”

# What's Changed Since 2005?

- Computer technology – A LOT!
  - Continued expansion of XBRL, AICPA Audit Data Standards
  - YouTube (started 2005, now the home of how-to videos galore)
  - Cloud Computing (2006 - )
  - Mobile devices (iPhone: 2007, iPad:2010)
  - Blockchain and distributed ledger technologies (1995/2009)
  - AirBnB (2008), Uber (2009)

Cloud Computing with jockey Javier Castellano after winning the 2017 Preakness Stakes.  
Image/Info: Wikipedia





# Audit Standards: Not So Much

## AS 1215: Audit Documentation

**Adopting Release:** PCAOB Release No. 2004-006 

**Effective Date of Standard:** For audits of financial statements, which may include an audit of internal control over financial reporting, with respect to fiscal years ending on or after Nov. 15, 2004. For other engagements conducted pursuant to the standards of the PCAOB, including reviews of interim financial information, this standard takes effect beginning with the first quarter ending after the first financial statement audit covered by this standard.

New number in 2015/2016 – from AS No. 3 to AS 1215!

## INTERNATIONAL STANDARD ON AUDITING 230 AUDIT DOCUMENTATION

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

### AU-C Section 230

#### *Audit Documentation*

**Source:** SAS No. 122; SAS No. 123; SAS No. 128.

**See section 9230 for interpretations of this section.**

**Effective for audits of financial statements for periods ending on or after December 15, 2012.**

Clarified and made more consistent.

Differences between ISA and AICPA are described at:

[https://www.aicpa.org/InterestAreas/FRC/AuditAttest/DownloadableDocuments/Clarity/Substantive\\_Differences\\_ISA\\_GASS.pdf](https://www.aicpa.org/InterestAreas/FRC/AuditAttest/DownloadableDocuments/Clarity/Substantive_Differences_ISA_GASS.pdf)





# But It's So Important to Any Audit!

- The Board's standard on audit documentation is one of the fundamental building blocks on which both the **integrity of audits** and the **Board's oversight** will rest. The Board believes that the quality and integrity of an audit depends, in large part, on the existence of a complete and understandable record of the work the auditor performed, the conclusions the auditor reached, and the evidence the auditor obtained that supports those conclusions. **Meaningful reviews**, whether by the Board in the context of its inspections or through other reviews, such as internal quality control reviews, **would be difficult or impossible without adequate documentation**. Clear and comprehensive audit documentation is essential to enhance the quality of the audit and, at the same time, to allow the Board to fulfill its mandate to inspect registered public accounting firms to assess the degree of compliance of those firms with applicable standards and laws. (AS 1215.A4)

# So Can We Get There From Here?

- ▶ AS 1215.02     *Audit documentation* is the **written\*** record of the basis for the **auditor's conclusions** that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise.
- ▶ As 1215.A3     **Auditors support the conclusions in their reports with a work product called *audit documentation***, also referred to as *working papers* or *work papers*. Audit documentation supports the basis for the conclusions in the auditor's report. Audit documentation also facilitates the planning, performance, and supervision of the engagement and provides the basis for the review of the quality of the work by providing the reviewer with written documentation of the evidence supporting the auditor's significant conclusions. Examples of audit documentation include memoranda, confirmations, correspondence, schedules, audit programs, and letters of representation. Audit documentation may be in the form of paper, electronic files, or other media.

.04 ... Audit documentation may be in the form of paper, electronic files, or other media.








# What is “Written”?

- 1. Contrast to “oral”
  - Oral explanation alone does not constitute persuasive other evidence, but it may be used to clarify other written evidence. (AS 1215.09)
  - Oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation. (ISA 230.A5)
- 2. Requirement - Sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (ISA 230.8)
  - Not possible with graphics, diagram, photographic, video?





# Are Words/Writing Superior to Other Methods to Promote PCAOB's Goal?

- From AS 1215.06

- The auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.<sup>2</sup> Audit documentation must clearly demonstrate that the work was in fact performed.
- Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:
  - To understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and
  - To determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.
  - Note: An *experienced auditor* has a reasonable understanding of audit activities and has studied the company's industry as well as the accounting and auditing issues relevant to the industry.

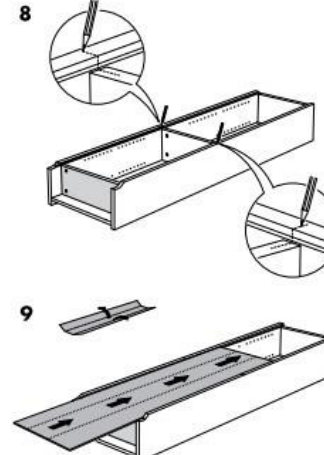
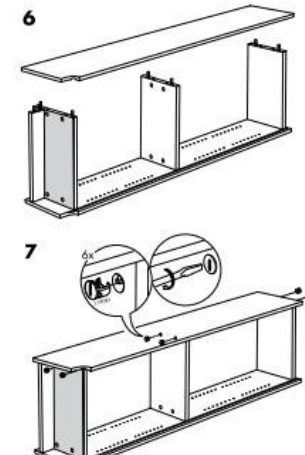
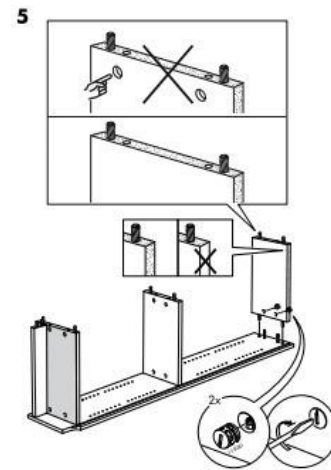
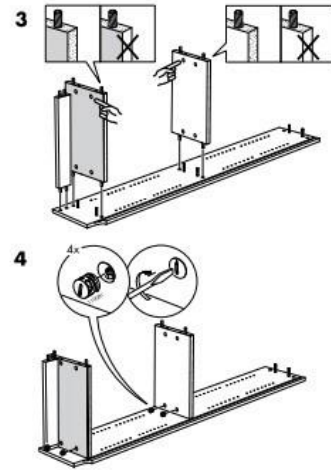
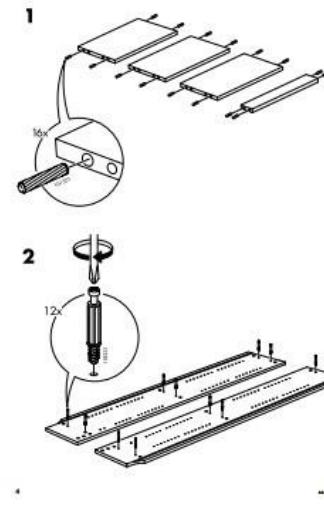
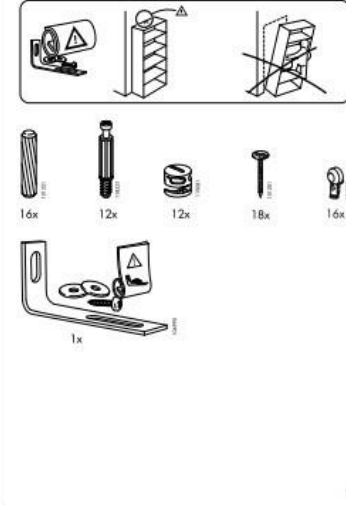
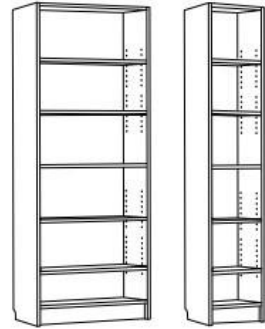


# Forms of Communication

- Spoken/verbal
  - One way or two way
- Non-verbal
  - Sign language, semaphore, morse code?
  - Appearance/dress, body language, gestures, scent, voice pitch, physiological changes
- Written
  - Braille, hieroglyphics
- Visualizations
  - Charts, graphs, illustrations

# Lessons from Youtube, IKEA

## BILLY



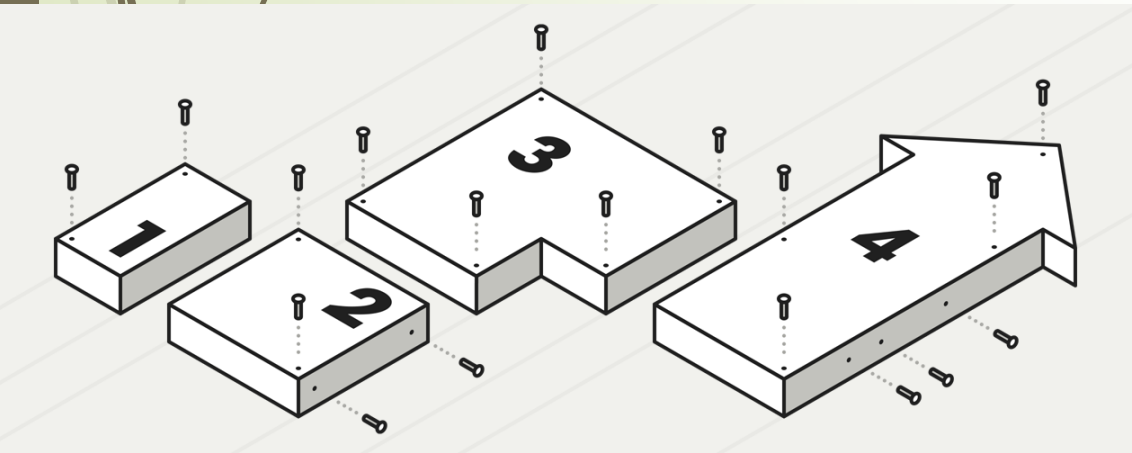
# Difference Between “Writing” and “Recorded Speech”; Video Provides More

	Writing	Speech
	Generally asynchronous (for later consumption), although synchronous communication (online chat) possible	Generally synchronous and often two-way, although asynchronous (recorded) possible
	Visual formatting is explicit, including placement, color, graphics, tables . Leverages punctuation.	Descriptive information can be provided to emulate the visual formatting
	Readers can access information dynamically, consumption generally at speed of consumer. Footnotes/hyperlinks can permit user-selected sidetracking.	Listeners can access information serially; consumption generally at speed of producer. Side tracking/rabbit trails must be explicit.
	No ambiguities between homonyms or similar sounding words/phrases (“it’s hard to wreck a nice beach”; “it’s hard to recognize speech”)	Ambiguities can only be disambiguated through explicit mention.
	Can <i>indicate</i> timing, tone, volume, emotional state and timbre, using tools like emoticons	Can include timing, tone, volume, and timbre; sarcasm easier to identify




# Serving the Needs of the Reviewer

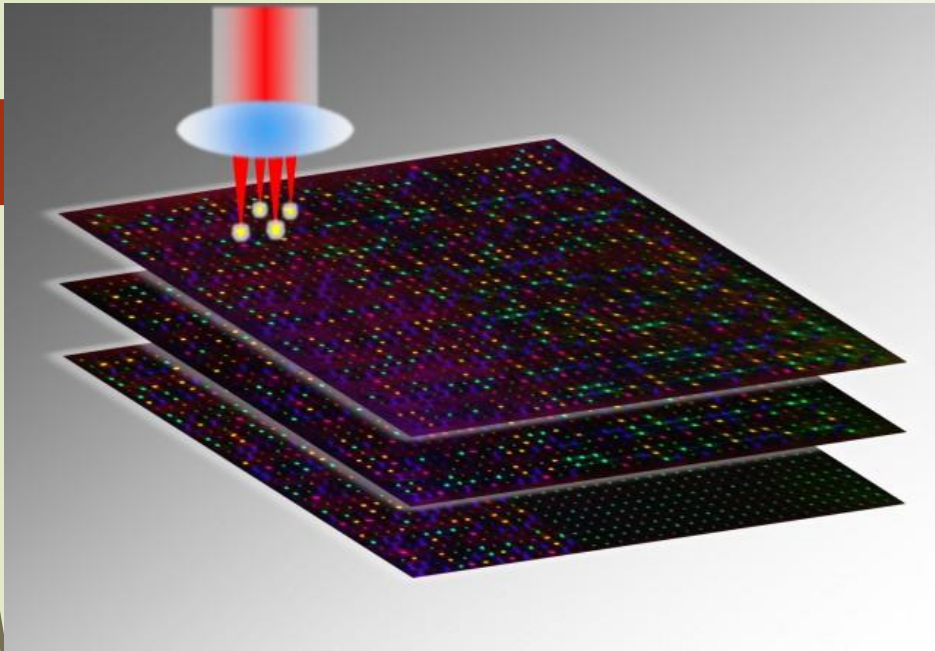
- Which will better serve the goals of audit documentation
  - Narrative of activity (written)
  - Flowchart depicting steps of activity (written or not written)
  - Narrative audio recording of activity (not written)
  - Actual video of activity (not written)





# How About the “Other Media”?

- Wax tablet, cuneiform, microfilm, microfiche (original entry, archival), magnetic tape (audio recording), celluloid film?
  - Learning from Youtube, IKEA?
  - Other media is contrasted with paper, “electronic files” in AS 1215
  - Carefully filmed video may not be (limited to) words, but is still an electronic file
  - Where is “writing”/recording going?
- 

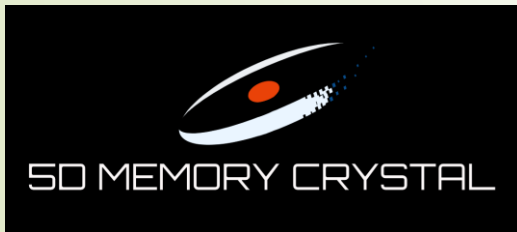


“Superman crystal”: 360 TB of data, unlimited life at room temperature

<https://www.5dmemorycrystal.com/>

Image source:

<https://www.extremetech.com/extreme/223144-researchers-develop-superman-memory-crystal-that-could-store-360tb-of-data>



Using DNA to encode data, “the amount needed to record all 50 years [six petabytes] of the (Montreux Jazz) Festival's archives, which have been included in UNESCO's Memory of the World Register, would be equal in size to a grain of sand.

- <https://twistbioscience.com/company/press/dna-data-storage-montreux-jazz>

Image source: <https://actu.epfl.ch/news/two-items-of-anthology-now-stored-for-eternity-in-/>



# Other Issues for the CA Environment

- Retention
  - Assembly and retention of a complete set of documentation
  - Append-only for activities after report release date
- How technology continues to help
- Standardization
  - More use of XBRL (it's more than financial statements and end reports)
  - Blockchain, smart contracts, tokenization
  - AI and other emerging technologies





# Cohen Computer Consulting

- Cohen Computer Consulting
  - One of 13 organizations at the founding of XBRL
  - Blockchain and distributed ledger technology, standardization, audit data standards, XBRL, continuous audit
  - +1-559-4-XBRL-GL