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Proposed statement on auditing standards and statement on standards for attestation engagements : audit documentation; Audit documentation; Exposure draft (American Institute of Certified Public Accountants), 2001, June 27

American Institute of Certified Public Accountants. Auditing Standards Board

American Institute of Certified Public Accountants. Audit Documentation Task Force

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EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

AUDIT DOCUMENTATION

(To Supersede Statement on Auditing
Standards No. 41, *Working Papers*)

**AND AMENDMENTS TO
SAS NO. 22, *PLANNING AND SUPERVISION*,
SAS NO. 47, *AUDIT RISK AND MATERIALITY IN
CONDUCTING AN AUDIT*,
SAS NO. 56, *ANALYTICAL PROCEDURES*,
SAS NO. 59, *THE AUDITOR'S CONSIDERATION OF AN ENTITY'S
ABILITY TO CONTINUE AS A GOING CONCERN*,
AND TO
SSAE NO. 10, *ATTESTATION STANDARDS:
REVISION AND RECODIFICATION***

June 27, 2001

Prepared by the AICPA Auditing Standards Board for comment from persons interested in
auditing and reporting issues

Comments should be received by August 27, 2001, and addressed to Gretchen Fischbach,
Audit and Attest Standards, File 1861, AICPA, 1211 Avenue of the Americas, New York,
NY 10036-8775 or via the Internet to gfischbach@aicpa.org

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The CPA. Never Underestimate The Value.®

June 27, 2001

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) titled *Audit Documentation*. This proposed Statement provides a framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards. The exposure draft also includes proposed amendments to the following standards:

1. SAS No. 22, *Planning and Supervision*
2. SAS No. 47, *Audit Risk and Materiality in Conducting an Audit*
3. SAS No. 56, *Analytical Procedures*
4. SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
5. Statement on Standards for Attestation Engagements No. 10, *Attestation Standards: Revision and Recodification*

A summary of the significant provisions of the proposed SAS and the proposed amendments to the standards listed above accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

In developing guidance, the ASB considers the relationship between the cost imposed and the benefits reasonably expected to be derived from audits. It also considers the differences the auditor may encounter in the audit of financial statements of small businesses and, when appropriate, makes special provisions to meet those needs. Therefore, the ASB would particularly appreciate comments on those matters.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after October 1, 2001, for one year. Responses should be sent to Gretchen Fischbach, Audit and Attest Standards, File 1861, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by August 27, 2001. Responses also may be sent by electronic mail to gfischbach@aicpa.org.

Sincerely,

James S. Gerson
Chair
Auditing Standards Board

Charles E. Landes
Director
Audit and Attest Standards

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SUMMARY

WHY ISSUED

The proposed Statement on Auditing Standards (SAS) provides an updated framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards.

The guidance in the current documentation standard, which is SAS No. 41, *Working Papers* (AICPA, *Professional Standards*, vol. 1, AU sec. 339), has not been significantly changed since September 1967. Given the changes in the auditing environment in recent years, the Auditing Standards Board (ASB) undertook to develop guidance that would provide an updated framework for practitioners performing audits of financial statements. The proposed SAS and amendments to certain other SASs (see appendix B) are the result of the ASB's efforts. In future standards-setting projects, the ASB will consider the need for specific documentation requirements.

The concepts developed for this proposed SAS also are relevant to practitioners performing attestation engagements. Accordingly, the exposure draft includes a proposed amendment to Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*, vol. 1, AT secs. 101-701) (see appendix B).

WHAT IT DOES

The proposed SAS—

1. Uses the term *audit documentation* in place of *working papers*.
2. Reminds auditors that inspection procedures, as described in Statement of Quality Control Standards No. 3, *Monitoring a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 30), may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an inspection procedure.
3. Incorporates the current requirement in SAS No. 22, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 311), for a written audit program (or set of audit programs) for every audit.
4. Introduces the concept that audit documentation should (a) enable a reviewer with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained, and (b) indicate the engagement team member(s) who performed and reviewed the work.

5. Lists factors that the auditor should consider in determining the nature and extent of the audit documentation to be prepared for a particular audit area or auditing procedure.
6. For auditing procedures that involve inspection of documents or confirmation of balances, requires audit documentation to include an identification of the items tested and, where appropriate, abstracts or copies of documents such as significant contracts or agreements. (In a current standards-setting project, the ASB is considering documentation requirements for other types of auditing procedures.)
7. Requires documentation of audit findings or issues that in the auditor's judgment are significant, actions taken to address them, and the basis for the conclusions reached. The proposed Statement includes a list of types of significant audit findings and issues.
8. Requires the auditor to adopt reasonable procedures to prevent unauthorized access to the audit documentation.

The proposed amendments to other SASs (see appendix B) accomplish the following:

1. SAS No. 22, *Planning and Supervision*—Move the guidance in paragraph 5 regarding the audit program, modified as necessary, to the new SAS.
2. SAS No. 47, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 312)—Add a requirement to document the nature and effect of aggregated misstatements as well as the auditor's conclusion about whether those misstatements cause the financial statements to be materially misstated.
3. SAS No. 56, *Analytical Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 329)—Add a specific documentation requirement that applies when an auditor uses an analytical procedure as the principal substantive test of a significant financial statement assertion.
4. SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341)—Add a requirement to SAS No. 59 for the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern; the work performed in connection with the auditor's evaluation of management's plans; the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and the consideration and effect of that conclusion on the financial statements, disclosures, and audit report.

The proposed amendment to SSAE No. 10 (see appendix B) incorporates in the attestation standards the concepts and terminology in the proposed SAS. It also unifies the documentation guidance in the attestation standards.

HOW IT AFFECTS EXISTING STANDARDS

The exposure draft would result in—

1. A new SAS on audit documentation that would—
 - Supersede SAS No. 41
 - Incorporate the guidance that is currently in paragraph 5 of SAS No. 22 (and consequently delete paragraph 5 of SAS No. 22)
 - Add a new paragraph to SAS No. 47
 - Add a new section and paragraph to SAS No. 56
 - Add a new section and paragraph to SAS No. 59
2. A new SSAE that would amend SSAE No. 10 to incorporate the guidance on documentation from the new SAS.

PROPOSED STATEMENT ON AUDITING STANDARDS

AUDIT DOCUMENTATION¹

(Supersedes Statement on Auditing Standards No. 41, *Working Papers*)

INTRODUCTION

1. The auditor should prepare and maintain audit documentation, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in audit documentation constitutes the principal record of the work that the auditor has done and the conclusions that he or she has reached. The quantity, type, and content of audit documentation are matters of the auditor's professional judgment.
2. Other Statements on Auditing Standards contain specific documentation requirements (see appendix A). Additionally, specific documentation requirements may be included in other standards (e.g., government auditing standards), laws, and regulations applicable to the engagement.

OBJECTIVES OF AUDIT DOCUMENTATION

3. Audit documentation serves mainly to—
 - a. Provide the principal support for the auditor's report, including the representation regarding observance of the standards of field work, which is implicit in the reference in the report to generally accepted auditing standards.²
 - b. Aid the auditor in the conduct and supervision of the audit.
4. The auditor should be aware that inspection procedures may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an inspection procedure.³

¹ *Audit documentation* also may be referred to as *working papers*.

² However, there is no intention to imply that the auditor would be precluded from supporting his or her report by other means in addition to audit documentation.

³ With respect to engagement performance, Statement on Quality Control Standards No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (AICPA, *Professional Standards*, vol. 2, QC sec. 20.17), requires a firm to establish policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality. Statement on Auditing Standard (SAS) No. 25, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 161), indicates that generally accepted auditing standards and quality control standards are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of individual audit engagements and the conduct of a firm's audit practice as a whole.

CONTENT OF AUDIT DOCUMENTATION

5. Audit documentation should be sufficient to show that standards of fieldwork have been observed as follows:

- a. The work has been adequately planned and supervised.
- b. A sufficient understanding of internal control has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- c. Sufficient competent evidential matter has been obtained through the auditing procedures applied to afford a reasonable basis for an opinion.

6. Audit documentation should include a written audit program (or set of audit programs) for every audit. The audit program should set forth in reasonable detail the auditing procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail are matters of the auditor's professional judgment and will vary with the circumstances. In developing the audit program, the auditor should consider the results of planning procedures. As the audit progresses, changed conditions may make it necessary to modify auditing procedures from those set forth in the audit program.

7. Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement. Examples of audit documentation are analyses, memoranda, letters of confirmation and representation, abstracts or copies of entity documents, and schedules or commentaries prepared or obtained by the auditor. Audit documentation may be in paper form, electronic form, or other media.

8. Audit documentation should (a) enable a reviewer⁴ with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained,⁵ and (b) indicate the engagement team member(s) who performed and reviewed the work.

⁴ For purposes of this paragraph, the term *reviewer* includes members of the engagement team, the concurring reviewer, and those involved in the accounting firm's inspection program and peer review process. Auditors from firms that do not have an inspection or peer review process are not exempt from this requirement.

⁵ Most of the independent auditor's work in forming his or her opinion on financial statements consists of obtaining and evaluating evidential matter concerning the assertions in such financial statements. SAS No. 31, *Evidential Matter* (AICPA, *Professional Standards*, vol. 1, AU sec. 326), includes a discussion of the broad categories of financial statement assertions; guidance on using the assertions in developing audit objectives and designing substantive tests; a discussion of the nature of evidential matter, which includes minutes of meetings, confirmations and other written representations by knowledgeable people, and information obtained by the auditor from inquiry, observation, inspection, and physical examination; and guidance as to the auditor's evaluation of the competence and sufficiency of the evidential matter.

In understanding the evidence obtained, the reviewer should consider that the auditor may have supported the report by other means in addition to audit documentation (see footnote 2).

9. In determining the nature and extent of the documentation for a particular audit area or auditing procedure, the auditor should consider the following factors:⁶

- Risk of material misstatement associated with the assertion, 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
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed.

10. In documenting the extent of auditing procedures that involve inspection of documents or confirmation of balances, the audit documentation should include an identification of the items tested⁷ and, where appropriate, abstracts or copies of documents such as significant contracts or agreements.

11. In addition, 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 conclusions reached. Significant audit findings or issues include the following:

- Matters that are both (a) significant and (b) involve issues regarding the appropriate selection, application, and consistency of accounting principles with regard to the financial statements including related disclosures. Such matters may relate to (a) accounting for complex or unusual transactions (b) estimates and uncertainties and, if applicable, the related management assumptions, or (c) other financial reporting matters.
- Results of auditing procedures that indicate that (a) the financial statements or disclosures could be materially misstated or (b) that auditing procedures need to be significantly modified.
- Significant difficulty in applying auditing procedures the auditor considers necessary.

⁶ The auditor also may want to consider the retrievability of entity records and documents when determining the nature and extent of documentation.

⁷ The identification of the items tested may be satisfied by indicating the source from which the items were selected and the specific selection criteria, for example—

- When a haphazard or random sample is selected, the documentation should include identifying characteristics (for example, the specific invoice numbers of the items included in the sample).
- When all items over a specified dollar amount are selected from a listing, the documentation need describe only the scope and the identification of the listing (for example, all invoices over \$25,000 from the December sales journal).
- 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).

With respect to the last two examples, in certain information systems the source from which items are selected exists only for a short period of time and cannot be subsequently re-generated. In those circumstances, audit documentation should include either a copy of the source or identifying characteristics of the items selected (for example, the specific invoice numbers of the items included in the sample).

- Other findings that could result in modification of the auditor's report .

OWNERSHIP AND CONFIDENTIALITY OF AUDIT DOCUMENTATION

12. Audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. The auditor should retain audit documentation for a period sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention. The auditor also should adopt reasonable procedures to prevent unauthorized access to the audit documentation.

13. The auditor has an ethical, and in some situations a legal, obligation to maintain the confidentiality of client information.⁸ Because audit documentation often contains confidential client information, the auditor should adopt reasonable procedures to maintain the confidentiality of that information.

14. Certain audit documentation may sometimes serve as a useful reference source for the client, but it should not be regarded as a part of, or a substitute for, the client's accounting records.

EFFECTIVE DATE

15. This Statement is effective for audits of financial statements for periods ending on or after June 15, 2002. Earlier application is permitted.

⁸ Also, see Rule 301, Confidential Client Information (AICPA, *Professional Standards*, vol. 2, ET sec. 30), of the AICPA's *Code of Professional Conduct*.

APPENDIX A

AUDIT DOCUMENTATION REQUIREMENTS IN OTHER STATEMENTS ON AUDITING STANDARDS

1. Documentation requirements are included in other Statements on Auditing Standards (SASs). This proposed SAS does not change the requirement in (references are to sections in the publication AICPA, *Professional Standards*, volume 1)—

- a. SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 310.05, "Establishing an Understanding With the Client") to document the understanding with the client.
- b. SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316.37), to include in audit documentation evidence of the performance of the assessment of the risk of material misstatement due to fraud and the auditor's response to risk factors identified. Also, the proposed SAS does not change the requirement to document any fraud risk factors or other conditions identified during the audit and any further response that the auditor concluded was appropriate.
- c. SAS No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 317.17), to document oral communications to the audit committee or others with equivalent authority and responsibility regarding illegal acts that come to the auditor's attention.
- d. SAS No. 55, *Consideration of Internal Control in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 319.61), to document the understanding of the entity's internal control components obtained to plan the audit. Also, the proposed SAS does not change the requirement in SAS No. 55 (AU sec. 319.83) for the auditor to document his or her conclusions about the assessed level of control risk.
- e. SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325.09), to document oral communications with the audit committee or others with equivalent authority and responsibility of conditions noted by the auditor that are considered reportable or that are the result of agreement with the client.
- f. SAS No. 67, *The Confirmation Process* (AICPA, *Professional Standards*, vol. 1, AU sec. 330.29), to document oral confirmations. Also, when the auditor has not requested confirmations in the examination of accounts receivable, the proposed SAS does not change the requirement in SAS No. 67 (AU sec. 330.35) to document how the auditor overcame this presumption.
- g. SAS No. 85, *Management Representations* (AICPA, *Professional Standards*, vol. 1, AU sec. 333), to obtain written representations from management.
- h. SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AICPA, *Professional Standards*, vol. 1, AU sec. 337.05d), to document in

either the audit inquiry letter or a separate letter to the client's lawyer, that the client has assured the auditor that it has disclosed all unasserted claims that the lawyer has advised the client are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Also, the proposed SAS does not change the requirement in SAS No. 12 (AU sec. 337.10) to document the conclusions reached as a result of responses obtained in conference relating to matters covered by the audit inquiry letter.

- i.* SAS No. 61, *Communications With Audit Committees* (AICPA, *Professional Standards*, vol. 1, AU sec. 380.03), to document any oral communications with the audit committee regarding the scope and results of the audit.
- j.* SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508.71), for the predecessor auditor to obtain representation letters from management of the former client and from the successor auditor before reissuing (or consenting to the reissue of) a report previously issued on the financial statements of a prior period.
- k.* SAS No. 51, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1, AU sec. 534.02), to obtain written representations from management regarding the purpose and uses of financial statements prepared in conformity with the accounting principles of another country.
- l.* SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AICPA, *Professional Standards*, vol. 1, AU sec. 801.23), to document the oral communications to management and the audit committee or others with equivalent authority and responsibility when the auditor becomes aware during a GAAS audit that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement.

APPENDIX B

PROPOSED AMENDMENTS TO STATEMENTS ON AUDITING STANDARDS AND STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

PROPOSED AMENDMENT TO SAS NO. 22, *PLANNING AND SUPERVISION* (AICPA, *Professional Standards*, vol. 1, AU sec. 311)

1. The proposed SAS, *Audit Documentation*, requires audit documentation to include a written audit program and incorporates all other guidance that is currently in paragraph 5 of SAS No. 22; therefore, the guidance in paragraph 5 of SAS No. 22 is superseded and consequently deleted as follows:

~~5. In planning the audit, the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or set of written audit programs) for every audit. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail will vary with the circumstances. In developing the program, the auditor should be guided by the results of the planning considerations and procedures. As the audit progresses, changed conditions may make it necessary to modify planned audit procedures.~~

2. All subsequent paragraphs in SAS No. 22 will be renumbered.

PROPOSED AMENDMENT TO SAS NO. 47, *Audit Risk and Materiality in Conducting an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 312)

3. This proposed amendment adds a requirement to SAS No. 47 to document the nature and effect of misstatements that the auditor aggregates as well as the auditor's conclusion as to whether the aggregated misstatements cause the financial statements to be materially misstated. The proposed amendment adds the following paragraph to SAS No. 47:

40. The auditor should document the nature and effect of aggregated misstatements. The auditor also should document his or her conclusion as to whether the aggregated misstatements cause the financial statements to be materially misstated.

4. Paragraphs 40 and 41 of SAS No. 47 will be renumbered as paragraphs 41 and 42, respectively, as a result of the paragraph added by this proposed amendment.

PROPOSED AMENDMENT TO SAS NO. 56, *ANALYTICAL PROCEDURES* (AICPA, *Professional Standards*, vol. 1, AU sec. 329)

5. The following proposed amendment adds a documentation requirement to SAS No. 56. The new section and paragraph are the following:

Documentation of Substantive Analytical Procedures

22. When an analytical procedure is used as the principal substantive test of a significant financial statement assertion, the auditor should document all of the following—

- a. The expectation and how it was developed
- b. Results of the comparison of the expectation to the recorded amounts or ratios developed from recorded amounts
- c. Any additional auditing procedures performed in response to significant unexpected differences arising from the analytical procedure and the results of such additional procedures

6. Paragraphs 22 and 23 of SAS No. 56 will be renumbered as 23 and 24, respectively, to reflect the paragraph added as a result of this proposed amendment.

PROPOSED AMENDMENT TO SAS NO. 59, *THE AUDITOR'S CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN* (AICPA, *Professional Standards*, vol. 1, AU sec. 341)

7. The following proposed amendment adds a requirement to SAS No. 59 for the auditor to document the conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern, the work performed in connection with the auditor's evaluation of management's plans, the auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, and the consideration and effect of that conclusion on the financial statements, disclosures, and audit report. The new section and paragraph are the following:

Documentation

17. As stated in paragraph 3 of this Statement, the auditor considers whether the results of the auditing procedures performed in planning, gathering evidential matter relative to the various audit objectives, and completing the audit identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he or she follows the guidance in paragraphs 7 through 16. In connection with that guidance, the auditor should document all of the following:

- a. The conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
- b. The elements of management's plans that the auditor considered to be particularly significant to overcoming the adverse effects of the conditions or events.
- c. The auditing procedures performed and evidence obtained to evaluate the significant elements of management's plans.
- d. The auditor's conclusion as to whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If there is substantial doubt, the auditor also should document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the

auditor also should document the conclusion as to the need for disclosure of the principal conditions and events that initially caused him or her to believe there was substantial doubt.

- e. The auditor's conclusion as to whether he or she should include an explanatory paragraph in the audit report to reflect the conclusion that there is substantial doubt. If disclosures with respect to an entity's ability to continue as a going concern are inadequate, the auditor also should document the conclusion as to whether to qualify the report for the resultant departure from generally accepted accounting principles.

8. Paragraph 17 of SAS No. 59 will be renumbered as paragraph 18 to reflect the paragraph added as a result of this proposed amendment.

PROPOSED AMENDMENT TO SSAE NO. 10, ATTESTATION STANDARDS: REVISION AND RECODIFICATION (AICPA, *Professional Standards*, vol. 1, AT secs. 101–701)

9. The proposed amendment to SSAE No. 10 reflects the concepts and terminology used in the proposed SAS. Thus, the attestation standards will appropriately mirror the documentation guidance in the SASs. The proposed amendment is as follows (boldface italics denotes new language; strikethrough denotes deletion):

CHAPTER 1, PARAGRAPHS 1.100–1.104

~~WORKING PAPERS~~ ATTEST DOCUMENTATION²⁰

1.100 The practitioner should prepare and maintain ~~working papers~~ ***attest documentation the form and content of which should be designed to meet the circumstances of a particular in connection with an engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply. The information contained in attest documentation constitutes the principal record of the work that the practitioner has performed and the conclusions that he or she has reached.*** ²⁰¹ ~~Although~~ ***The quantity, type, and content of working papers attest documentation are matters of the practitioner's professional judgment. will vary with the circumstances.***

OBJECTIVES OF ATTEST DOCUMENTATION

1.101 ***Attest documentation serves mainly to***²²—

- a. ***Provide the principal support for the practitioner's report, including the representation regarding observance of the standards of field work, which is implicit in the reference in the report to attestation standards.***

²⁰ ***Attest documentation also may be referred to as working papers.***

²⁰¹ There is no intention to imply that the practitioner would be precluded from supporting his or her report by other means in addition to ~~working papers~~ ***attest documentation.***

²² ***Additionally, the practitioner should be aware that inspection procedures may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of attest documentation is an inspection procedure (see paragraphs 1.16–1.18).***

b. Aid the practitioner in the conduct and supervision of the attest engagement.

1.102 ~~Attest documentation they ordinarily should~~ **be sufficient to show** ~~indicate that standards of fieldwork have been observed as follows:~~

- a. The work was adequately planned and supervised.
- b. Sufficient evidence was obtained to provide a reasonable basis for the conclusion that is expressed in the practitioner's report.

~~1.1013 Working papers~~ **Attest documentation is the principal** ~~are records kept by the practitioner of the work performed, the information obtained, and the pertinent conclusions reached by the practitioner in the engagement. Examples of working papers~~ **attest documentation** ~~are work programs, analyses, memoranda, letters of confirmation and representation, abstracts or copies of the entity's documents, and schedules or commentaries prepared or obtained by the practitioner. Working papers also may be in the paper form, electronic form of data stored on tapes, films, or other media.~~

~~1.1024 Working papers~~ **Attest documentation is** ~~are~~ the property of the practitioner, and some states **recognize this right of ownership in their** ~~have~~ statutes or regulations that designate the practitioner as the owner of the working papers. **The practitioner should retain attest documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal or regulatory requirements of records retention. The practitioner also should adopt reasonable procedures to prevent unauthorized access to attest documentation.** ~~The practitioner's rights of ownership, however, are subject to ethical limitations relating to the confidential relationship with the clients.~~²¹

1.105 The practitioner has an ethical, and in some situations a legal, obligation to maintain the confidentiality of client information.²³ **Because attest documentation often contains confidential client information, the practitioner should adopt reasonable procedures to maintain the confidentiality of that information.**

1.1036 ~~Certain of the practitioner's working papers~~ **attest documentation** may sometimes serve as a useful reference source for his or her client, but the ~~working papers~~ **attest documentation** should not be regarded as a part of, or a substitute for, the client's records.

~~1.104 The practitioner should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and to satisfy any pertinent legal requirements of records retention.~~

²¹ See the Attest Interpretation, "Providing Access to or Photocopies of Working Papers to a Regulator" (AICPA, Professional Standards, vol. 1, AT sec. 101.56-59).

²³ Also, see Rule 301, Confidential Client Information (AICPA, Professional Standards, vol. 2, ET sec. 30), of the AICPA's Code of Professional Conduct.

10. Paragraphs 1.105 through 1.111 in Chapter 1 of SSAE No. 10 will be renumbered as paragraphs 1.107 through 1.113 to reflect paragraphs added and deleted as a result of this proposed amendment.

11. Given this proposed amendment expanding the documentation guidance in Chapter 1 of SSAE No. 10, most of the guidance in paragraphs 2.27 through 2.30 and 3.17 and 3.32 of SSAE No. 10 is no longer considered necessary. Therefore, this proposed amendment also amends those paragraphs as follows and renumbers all subsequent remaining paragraphs:

CHAPTER 2, PARAGRAPHS 2.27–2.30:

Working Papers

~~2.27 The practitioner should prepare and maintain working papers in connection with an agreed-upon procedures engagement under the attestation standards; such working papers should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply.⁸ Although the quantity, type, and content of working papers vary with the circumstances, ordinarily they should indicate that —~~

- ~~a. The work was adequately planned and supervised.~~
- ~~b. Evidential matter was obtained to provide a reasonable basis for the finding or findings expressed in the practitioner's report.~~

~~2.28 Working papers are the property of the practitioner, and some states have statutes or regulations that designate the practitioner as the owner of the working papers. The practitioner's rights of ownership, however, are subject to ethical limitations relating to confidentiality.⁹~~

~~2.29 Certain of the practitioner's working papers may sometimes serve as a useful reference source for his or her client, but the working papers should not be regarded as a part of or a substitute for the client's records.~~

~~2.30 The practitioner should adopt reasonable procedures for safe custody of his or her working papers and should retain them for a period of time sufficient to meet the needs of his or her practice and satisfy any pertinent legal requirements of records retention.~~

⁸There is no intention of implying that the practitioner would be precluded from supporting his or her report by other means in addition to the working papers.

⁹See the Attest Interpretation "Providing Access to or Photocopies of Working Papers to a Regulator (AICPA, *Professional Standards*, vol. 1, AT sec. 101.56–59) ———

CHAPTER 3, PARAGRAPHS 3.17 AND 3.32:

Working Papers

~~3.17 Although it is not possible to specify the form or content of the working papers that a practitioner should prepare in connection with a compilation of prospective financial statements because of the different circumstances of individual engagements, the practitioner's working papers ordinarily should indicate that —~~

- ~~a. The work was adequately planned and supervised.~~
- ~~b. The required compilation procedures were performed on a basis for the compilation report.~~

Working Papers

Attest Documentation

3.32 Chapter 1 sets forth the documentation requirements for attest engagements (see paragraphs 1.101–1.106). In addition to those requirements, attest documentation relating to an examination of prospective financial statements ordinarily should indicate that the process by which the entity develops its prospective financial statements was considered in determining the scope of the examination. The practitioner's working papers in connection with his or her examination of prospective financial statements should be appropriate to the circumstances and the practitioner's needs on the engagement to which they apply. Although the

quantity, type, and content of working papers vary with the circumstances, they ordinarily should indicate that—

- a.—The work was adequately planned and supervised.
- b.—The process by which the entity develops its prospective financial statements was considered in determining the scope of the examination.
- c.—Sufficient evidence was obtained to provide a reasonable basis for the practitioner's report.