

## WORKING PAPERS: IT'S RELEVANCE IN AUDIT DOCUMENTATION AND PRACTICE

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### **ABSTRACT**

*The hallmark of an audit exercise is the issuance of report which is the end product. The report is predicated upon sound basis of preparation and documentation on audit working papers. Documentation is central and indispensable to all audit assignments regardless of the size and nature. The study was to re-awaken the need and indispensability of audit working paper in audit practice among practitioners. The study adopted descriptive research method(ex-post-facto) and information was obtained from secondary sources. The study revealed the significance of the document and the role of it in audit exercise. The study recommends that regulatory authorities must ensure that practitioners are compelled to document all audit assignments. Any erring member should be made to pay for it dearly. Also auditors must observe the professional code of ethics in all ramifications especially in working papers preparation and retention.*

*Keywords: Auditing, Working papers, Audit quality and documentation.*

### **Introduction**

In the modern business environment, ownership is more often than not divorced from management. The implication of this divorce is that long and short term resources of the entity are held in trust for the owners and providers of such resources by those entrusted with the privilege of managing same. Expectedly, this privilege imbues on such managers the responsibility of giving an objective and faithful stewardship and accountability vis-a-vis the submission of periodic reports. In order to ensure the veracity of these periodic reports, auditing has over the years, been relied upon as one of the *prima facie* mechanism for ascertaining the fidelity between these parties and providing the much needed assurance to the stakeholders. This strategic expectation from the audit practice therefore, brings to the fore, the concern over the quality of audit reports.

Audit reports the output of an audit process. In the same vein, it is reasonable to posit that audit report quality is a function of the quality of the audit process that produces it. A well

planned and systematically articulated audit process would, *ceteris paribus*, yield a credible, fair and dependable audit report. This process is a compendium of several inter-related key elements and considerations which cut across the planning and organization of the audit. Aside the popular and over-arching emphasis on auditor's independence, integrity and objectivity as core values of an effective audit exercise; one key element which underscores the professionalism of an audit exercise and enhances its effectiveness; is the preparation of a good working paper.

However, in comparison with the increasing advocacy for the entrenchment of auditors' integrity and independence by scholars, professionals and other well-meaning stakeholders, not a relatively proportionate emphasis has been made on the preparation of good audit working papers. Many auditors do not seem to fully understand and appreciate the centrality of the pivotal role that working papers play in audit. Hence, many auditors do not prepare it; some of those who prepare it do so haphazardly merely "*to fulfill all righteousness*" and this impinges on the quality of audit report. In straightforward terms, the de-emphasis or under-emphasis of audit working paper preparation and management may not be unconnected with the many instances of audit failures in some quarters, in recent times. The objective of this paper, therefore, is to highlight the essence and importance of creating and managing proper audit working papers all through an audit exercise as a critical factor in enhancing the quality of audit output generated.

The paper is presented in 5 sections. In Section 2, the concepts, contents and core qualities of audit working papers are discussed. The focus in Section 3 is on working papers and audit practice; with specific highlight on the place of working papers at the pre-audit, audit and post-audit stages. In Section 4, working papers and audit quality is discussed; and finally, Section 5 is the summary and concluding remarks.

## **Literature Review**

### **The Concept of Audit Working Papers**

The Accounting Dictionary defines working papers as informational reports prepared by Accountants and Auditors as supporting documents for formal reports and financial statements. Sharing a similar and more expatiated view, Zitting (2014) asserts that working papers embody an accurate and thorough documentation of audit work performed and thus, is necessary, not only to support the key findings, recommendations and opinions contained in audit reports and conclusion memos; but also as an important reference point for the entire audit process. It therefore, provides "a baseline of vital intelligence before, during, and after the audit". Chapter 10, *Audit Working Papers* (2008) also points out that apart from providing a documented evidence of an examination and evaluation; working papers also facilitate a connecting link between the work which is performed and the final audit report. Hence, it constitutes a veritable instrument vital to the successful performance and accomplishment of all audit assignments.

From the foregoing definitional standpoints, it is pertinent to state that working papers is all about audit documentation. In this paper, the term 'working paper' or 'audit working papers' essentially refers to any document or record containing a report, correspondence and

any other information that an auditor collects or any record which the auditor produces in the course of the audit procedures to discharge his professional duty to clients. AU Section 339A Working Papers (2014) enumerated the examples of these documents or records to include: audit programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents, and schedules or commentaries prepared or obtained by the auditor. Working papers also may be in the form of data stored on tapes, films, or other media. It is worthy of note that there are basically two standards on audit documentation used in Nigeria namely:

- Nigerian Standards on Auditing (NSA 4)
- International Standards on Auditing (ISA 230)

The NSA states clearly that evidence to support auditors' opinion must be documented and that Auditors should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit (ICAN, 2009). Similarly, International Standards on Auditing (ISA) states that audit documentation that meets the requirements of ISA 230 and the specific documentation requirements of other relevant ISAs are those which provide: "(a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor and (b) Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements." ([www.ifac.org](http://www.ifac.org))

### **The Contents of Audit Working Papers**

Audit working papers are usually arranged in two files according to their contents namely the current audit file and the permanent audit file.

### **The Current Audit File**

This file, according to Kingsley (2015), contains information relevant to the year under consideration, and it is based on the contents of this file that the auditors form opinion on the client's financial statements. This file contains the following:

- A copy of the financial statements being audited and the trial balance (if necessary).
- The audit programme showing detailed work to be done and audit tests to perform.
- Schedules of major items in the Income statement and Statement of Financial Position.
- List of audit queries and their disposition.
- A description of the internal control systems in operation.
- Letters of representations from management.
- List of matters requiring the reporting partner's attention
- Extract of minutes of meetings of the board and management
- Checklists for compliance with statutory disclosure requirements and accounting standards.
- Management letter setting out internal control weakness in the system to the client.

AU Section 339A Working Papers (2014), points out that audits involving several organizational elements and functional areas may require that the current file be divided into subsections for each of the principal segments of the audit and if the audit is a more complex one it will be necessary not just to set up files for each organizational unit but also for major functional areas that exist within such units.

### **The Permanent Audit File**

Kingsley (2015), and ICAN (2009) state that this file contains information of continuing importance, which will be required for more than one audit. This file contains:

- A brief history of the business as to the nature of business, major competitors, major sources of revenue and operating industry.
- List of major accounting policies.
- Copies of statues and regulations governing the entity's accounts and audit.
- Names and addresses of the company's directors including details of service contract with them.
- The memorandum and articles of association of the business
- Copies of documents of continuing importance and relevance such as legal mortgages and debenture deeds.
- An organizational chart showing names and responsibilities and lines of reporting.
- Addresses of the registered office and all other premises.
- Names and addresses of the company's subsidiaries and associated companies.
- List of books, other records and where they are kept.
- Professional advisers.
- List of clients' investment and others."

### **The Core Qualities of Good Audit Working Papers**

No standard format is advocated for the audit working papers. However, AU Section 339A Working Papers (2014) identifies factors which affect the auditor's judgment about the quantity, type, and content of the working papers for a particular engagement. These factors include: (a) the nature of the engagement, (b) the nature of the auditor's report, (c) the nature of the financial statements, schedules, or other information on which the auditor is reporting, (d) the nature and condition of the client's records, (e) the assessed level of control risk, and (f) the needs in the particular circumstances for supervision and review of the work. Other considerations are: the nature and complexity of the entity business; the need in a particular situation for direction, supervision and review of the work of members of the audit team; the specific methodology and technology used by the auditor – manual or computerized system.

Be that as it may, it is important to ensure that working papers do not only conform to the requirements of a particular firm but also satisfy the requirements of an independent reader. For this to be achieved, the following guidelines should be observed:

- Each working paper should be clearly headed with the client's name, subject matter of the working paper, date of the engagement, the initials of staff preparing the working paper and the date.
- Working papers should be standardized.
- Detailed work done must be clearly shown as to leave no doubt in the minds of readers.
- Points carried forward and subsequent disposal must be clearly stated.
- Each working paper must bear the signature / initials of the manager or partner who reviewed it.
- Each working paper should be suitably cross-referenced to the related parts of the audit file.

Summarily, ACCA (2015) and Treasury Board of Canada Secretariat (1983) agree with Zitting (2014), that a good working paper must fulfill the following quality criteria:

- **Completeness and Accuracy** – Working papers should be complete, accurate, and support observations, testing, conclusions, and recommendations. They should also show the nature and scope of the work performed.
- **Clarity and Understanding** - Working papers should be understandable without supplementary oral explanations. With the information the working papers reveal, a reviewer should be able to readily determine their purpose, the nature and scope of the work done and the preparer's conclusions.
- **Pertinence** - Information contained in working papers should be limited to matters that are important and necessary to support the objectives and scope established for the assignment.
- **Logical Arrangement** - Working papers should follow a logical order
- **Minimize Variance** - Working papers should be prepared within a consistent approach and execution framework across the audit and organization, regardless of which auditor is assigned.
- **Legibility and Neatness** - Working papers should be legible and as neat as practical. Sloppy work papers may lose their worth as evidence.
- **Optimize Workflow** – Find ways to create workflows for documentation preparation that directly integrate project management mechanisms such as client request list tracking, sign-offs, supervisor reviews, findings follow-up, time tracking, and project status reporting directly into a single process.

### **Working Papers in Audit Practice**

Working paper collation and compilation have been noted to be of immense usefulness from the very take-off point of pre-audit analysis, through the actual audit exercise and even beyond the completion and submission of the audit report.

### **Working Papers and Pre-audit planning**

Prior to the commencement of the audit proper, there is a need for the auditor to properly plan the audit in order to ensure effective conduct and completion of the audit work. To this end, Internal Audit Field Work Templates (2011) opines that a pre-audit review by the auditor is necessary in order to develop a familiarity with the organization and functions of the unit to be audited, among other things. The type and extent of work to be performed should also be determined and documented during the pre-engagement planning stage. Kingsley (2015) further adds that gaining a preliminary understanding of the principal features of the client's accounting system would involve a consideration of "the methods of and control over, processing and the principal accounting records maintained for each significant transaction type". This preliminary understanding and evaluation of the potential for reliance on internal control, as noted, should be documented normally by way of overview flow charts. On the whole, the verification and documentation of these, apart from providing a frame of reference for the audit; also facilitates the generation of a sort of audit scheme of work which makes for well-guided and systematic execution of audit work.

### **Working Papers and Progressive Audit execution**

As audit progresses, the documentation done at the pre-audit stage, serves, among other functions, as a performance progress checklist. As each area of audit work is completed, it is noted and the next level task steps into focus. This would invariably tantamount to a progressive updating of the audit documentation. ICAN (2009) also states that in a situation where different audit personnel has to complete an assignment earlier commenced by another, these updated working papers readily serves as a permanent record of tests and procedures that had been earlier carried out hence, providing a reliable take-off board that will facilitate continuity and successful completion of such audit work.

### **Working Papers and Post-Audit circumstances**

Working papers may be used as evidence in the event of litigation against the auditor. They are valid documents which the auditor may need to present as evidence of the work he has carried out in the event of litigation. Audit responsibility may not altogether end at the submission of the audit report. There could be times when the opinions expressed by the auditor may be challenged or called to question. There may also be need to undertake an independent post-audit review. At such instance, Rasel (2015) revealed that a properly prepared working paper which contains sufficiently detailed and up-to-date facts could help justify the reasonableness of the auditor's conclusions thus providing evidence that an effective audit had been carried out.

Moreover, retaining a record of matters of continuing significance in form permanent working paper files would expectedly serve as a guide to future audits which depend on it to be able to determine the procedure of audit to adopt in future. It is on this note that working papers are not to be discarded shortly after audit completion. The US Securities and Exchange Commission (2003) review requires accounting firms to retain certain records relevant to their audits and reviews of issuers' financial statements for up to seven years. The records required to be retained include an accounting firm's work papers and certain other documents that contain conclusions, opinions, analyses, or financial data related to the audit or review.

### **Working Papers and Audit control**

Working papers are necessary for audit quality control purposes and must be standardized in order to improve efficiency, instruct staff members and ease work control and review. The quality control standard cover a wide range of issues as identified by Okezie (2004) among them are:

- **Leadership responsibilities:** Leadership must exercise for the overall quality on each audit engagement.
- **Ethical requirements:** The compliance with the ethical requirements by members of the audit team must be taken seriously such as independence, integrity and objectivity.
- **Acceptance/continuance of client relationship and specific audit engagements:** Acceptance of the audit assignment must be in consonance with the standards and if it has to be declined this must be communicated as soon as possible.
- **Assignment of engagement team:** The team has to be made up of experienced and qualified personnel.

- **Engagement performance:** This consists of various factors for which engagement partner or principal is responsible. These factors include direction, supervision, review, and consultation, differences in opinion, monitoring and peer review.

### Conclusion and recommendations

The preparers of financial statements are under obligation to prepare and maintain working papers in the course of their professional engagement. This is to ensure that reports issued substantially represent the information in the books of the client. Working papers of auditors are pivotal to the reliability and credibility of the financial reports. The need for proper documentation of the audit process cannot be over emphasized in forming opinion on the financial statements. The study is central in audit practice and information made available to the reading public in the financial statements is predicated on the working papers. Based on the foregoing, the study made the following recommendations:

- Regulatory authorities must ensure that practitioners are compelled to document all audit assignments. Any erring member should be sanctioned.
- Auditors must observe the professional code of ethics in all ramifications especially in working papers preparation and retention.
- Regular monitoring of the activities of professional Accountants and Auditors by the audit committee and management in case of internal audit should be given due attention.

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