



Paperless Audits as an Example of Workflow

The popularity of paperless audits has grown dramatically because performing paperless audits is very practical and cost effective. Effective electronic engagement software can provide tangible improvements in the audit process.

Workpapers should be economical to prepare and to review. It is easy to include every scrap of information and every form into the work papers. However, the work papers then become a confused mixture of data that is difficult to assimilate and use. Work papers should be complete but concise, a usable record of work performed. Auditors should include in their work papers only what is essential, and they should ensure that each work paper included serves a purpose that relates to an audit procedure. Work papers that are created and later determined to be unnecessary should be deleted.

Among other things, work papers may include:

- Planning documents and audit procedures,
- Control questionnaires, flowcharts, checklists, and narratives,
- Notes and minutes resulting from interviews,
- Organizational data, such as charts and job descriptions,
- Copies of important documents,
- Information about operating and financial policies,
- Results of control evaluations,
- Letters of confirmation and representation,
- Analysis and tests of transactions, processes, and account balances,
- Results of analytical review procedures,
- Audit reports and management responses, and
- Audit correspondence that documents the audit conclusions reached.

Workpapers should be clear and understandable. The auditor should keep in mind that other people will examine and refer to the workpapers. The workpapers should not need any supplementary information and should stand alone. Anyone reviewing the workpapers, without referring to documents outside of those included in the workpapers and without asking questions, should be able to tell what the auditors set out to do, what they did, what they found, and what they concluded. Conciseness is important; clarity, however, should not be sacrificed just to save time and space.

To the best of our knowledge, auditing standards do not currently contain requirements or guidelines specific to electronic workpapers.

Digital Workpaper Files

Scanned documents should include a reference to the source and the purpose of the document when relevant to understanding or appreciating the actual audit work performed. Such information needs to be included only when it is not provided elsewhere in the workpapers.

Web Links

When using references to websites in auto workpapers, both the name of the site and a hotlink to the website should be included to help ensure the site can be readily accessed in the future. If specific information from a website was referenced (e.g., federal register, IRS publications, various guidelines), the webpage should be saved to a file and attached to the workpapers.

Tick Marks

Tick marks do not need to be standardized throughout the set of workpapers but must be consistent throughout a particular workpaper. Tick mark explanations must be a part of the workpaper.

Cross-referencing

Workpapers should be prepared using the appropriate cross-referencing. A reference from the audit procedures to the primary work paper provides a reference to where the work was performed. It is not necessary to cross-reference all workpapers to the audit procedures, only the primary workpaper. The primary workpaper will then contain cross references to other supporting workpapers which provide additional information regarding the audit procedures performed, results, conclusions reached, and audit observations.

Three Questions to Consider

- What do professional standards (SAS 89, 92, and others) require?
- What is legally required?
- What works best for the firm? (In other words, what maximizes the firm's effectiveness and efficiency in its specific operating environment?)

SAS 89, audit adjustments (no. 060691cpa01), requires, among other things, an auditor to inform an entity's audit committee about misstatements aggregated by the auditor that management does not correct because it believes they are immaterial to the financial statements taken as a whole. SAS 89 is effective for audits of financial statements for periods beginning on or after December 15, 1999.

Statement on Auditing Standards (SAS) 92, auditing derivative instruments, hedging activities, and investments in securities, was issued to help auditors plan and perform auditing procedures for financial statement assertions about derivative instruments, hedging activities, and investments in securities. The new standard supersedes SAS 81, auditing investments.

Professional standards (GAAS) do not restrict the form of audit evidence accumulated to support a GAAS audit. Accordingly, electronic evidence is permissible.

Legal Considerations

A distinction should be drawn between contracts in which the auditor is a party and documentation accumulated by the auditor as evidential matter to support the performance of an audit under GAAS.

For contracts, retaining a hardcopy may be legally required in some states and should therefore be considered a best practice. This relates to all such documents that are signed (for example, management representation letters, engagement letters or other contracts, and related party confirmations). Attorneys have advised that CPAs should maintain an original, signed hard copy of every contract. Although a photocopy is often admitted into evidence, “best evidence” rules exist under which a photocopy is not admissible if the original is available. Practitioners should consult their legal counsel and insurance carriers about legal requirements for evidential matter in their applicable jurisdictions (including all jurisdictions in which they might be held responsible) when deciding which documents should be kept in hard copy form.

A Typical Audit File Setup and Tips for Managing the Audit Work Files

All files start out on the network. Anyone who is working on files while in the office should work on the files on the network, so that everyone on the job has access to these files. Under no circumstances should someone work on and make changes to files that are marked as “read-only,” nor should any new files be added to that job. You need to look for who has the files and have them checked back into the network. Typically, the senior’s laptop will be the peer-to-peer “host” computer in the field. Accordingly, the senior should make sure that all team members in the field have computers that are properly configured prior to going into the field. Since the senior’s computer will be the host, any other computer in the field will be “sharing” this computer in order to access, prepare, and review files. The senior’s system should be configured accordingly and be of sufficient power to support a shared mode environment. It is usually a good idea for this system to also share the field printer. Some firms have dedicated field Audit laptops configured as the peer-to-peer server with a printer that is checked out to the engagement until the engagement is complete. This works very well where the senior or staff may be working multiple engagements and cannot be on-site all the time.

The senior is responsible for backups during the engagement and for ensuring the complete integrity of the audit files and supporting documents. The senior will “check-in” files to the network at completion of the engagement or at predetermined intervals.

Electronic Workpaper Signatures and Sign-offs

Signatures and sign-offs are important in an audit engagement. They are used by engagement team members to indicate that they have performed work. In a paper environment, audit workpapers are signed or initialed by engagement team members to indicate they have completed or reviewed the workpapers. Similarly, audit program steps are often initialed by team members to indicate that they have performed the steps. In an electronic environment, the same or similar type of sign-off is needed. However, professional standards (GAAS) do not require manual signatures or initials in the same way that a manual signature on the auditor's report is not required. Initials and names are simply typed.