



Quality documentation: Getting it right first time

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Julie Bowles, Karen Eckstein & Graham Gardner



Did you know?


ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at icaew.com/cpdchanges.



Ask a question



The screenshot shows a Q&A interface. At the top, it says "Q&A". Below that, it shows a question and answer exchange:

You asked: 18:03
What happens when I raise my hand?

Molly Parker answered: 18:04
I can take you off of mute.

Below the exchange is a large text input area. At the bottom of the input area, it says "Please input your question". At the very bottom, there is a checkbox labeled "Send Anonymously" and a blue "Send" button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Today's speakers



Julie Bowles
Apex



Karen Eckstein
Karen Eckstein Limited



Graham Gardner
Kreston Reeves

Objective

Create (re-instil) confidence in audit teams to invest in generating high-quality audit documentation that:

- supports their opinions;
- enhances exceptional client service;
- drives efficiency; and,
- protects the firm and its people;

Ultimately maintaining and enhancing reputations and supporting growth.

Write it right; write it once!

By exploring

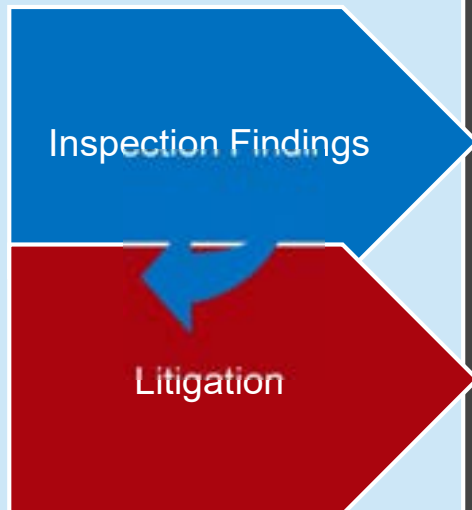
- The backstory to documentation issues
- The ISA ecosystem
- Common pitfalls and challenges and how to avoid
- The opportunities and challenges arising from the use of AI
- The costs of poor documentation - a legal perspective
- What good looks like
- Shared experiences through Q&A

Documentation – The Backstory

- *What's the problem?*
- *A possible RCA*
- *What are the benefits?*
- *Myth busting*
- *Re-imagining the audit file*

Documentation the Backstory

What's the problem?



Some Reasons Given

- We did it, but the file didn't make it clear.
- The audit platform didn't prompt us for this.
- It's obvious, isn't it?
- Management gave us the evidence we needed, see XX.
- It's covered on...oh?

Risk Exposure

- Confirmation bias
- Insufficient:
 - Understanding
 - Time spent
 - Challenge
 - Review
- ISA Non-compliance

Adverse grading, sanctions, penalties and damages
~ more later

Possible RCA*

- Ineffective A&C activities
- Ineffective resource allocation
- Ineffective risk assessment.
- Excessive time pressure
- **Understanding ISA requirements?**



All controllable and avoidable

Possible RCA – High level points, all of which could be taken back further

Documentation the Backstory – Benefits

Compliance & Risk Management

Avoidance of regulatory fines and sanctions?

Reduced risk of litigation?

Important!

But.....

Compliance for the sake of compliance can add costs without fully addressing the risk

Checklist false assurance ??

A documentation strategy with purpose adds value, improves efficiency as well as supporting compliance



Practice Improvement

More effective communication across the team

Improves focus on the key issues

Support efficient and effective review

An opportunity for a sense check

More effective “client” engagement

Documentation ~ Myth buster

Documentation problems are just relevant to PIEs?

- Documentation is relevant to all audits.
- Additional requirements for PIEs
- ISA 315 shifted the focus from size to complexity
- Even pasties and samosa can burn the unwary!

ISA 230 has a carve out for OMB audits?

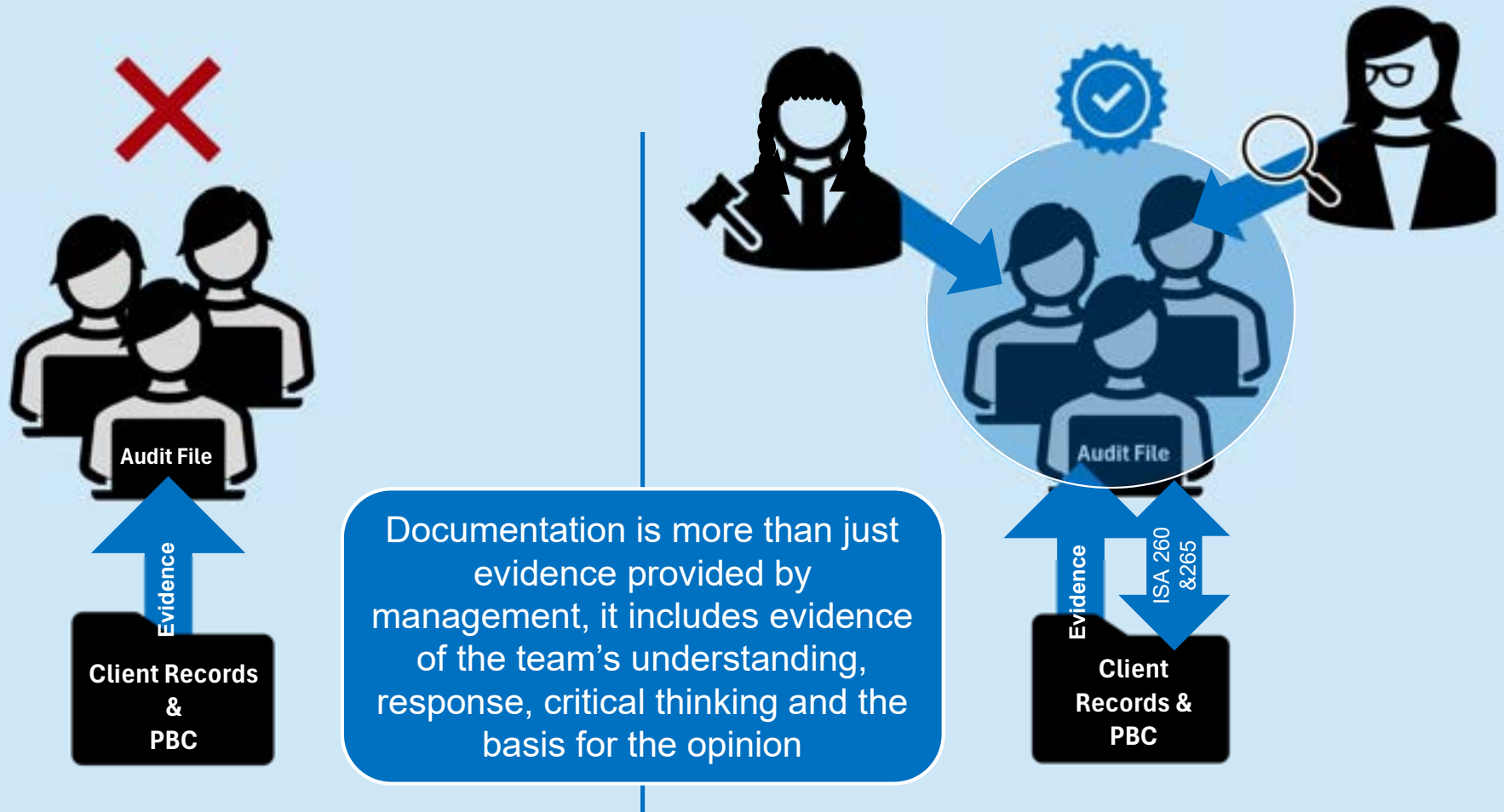
- There is an acknowledgement of proportionality.
- ISA 315 shifted the focus from size to complexity.
- The dispensation is more focused on inter-team communication.
- The audit file still needs to tell the story

We have it covered; we have checklists!

- Checklists are referred to in the ISA as an example of documentation.
- The ISA queries if they are actually needed!
- They have their place if used properly, but do not on their own tell the story



Documentation ~ Re-imagining the “audit file”



Documentation ~ ISA 230, the Acid Test

The auditor shall **prepare audit documentation** that is **sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:**

- The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK) and applicable legal and regulatory requirements;
- The results of the audit procedures performed, and the audit evidence obtained; and,
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

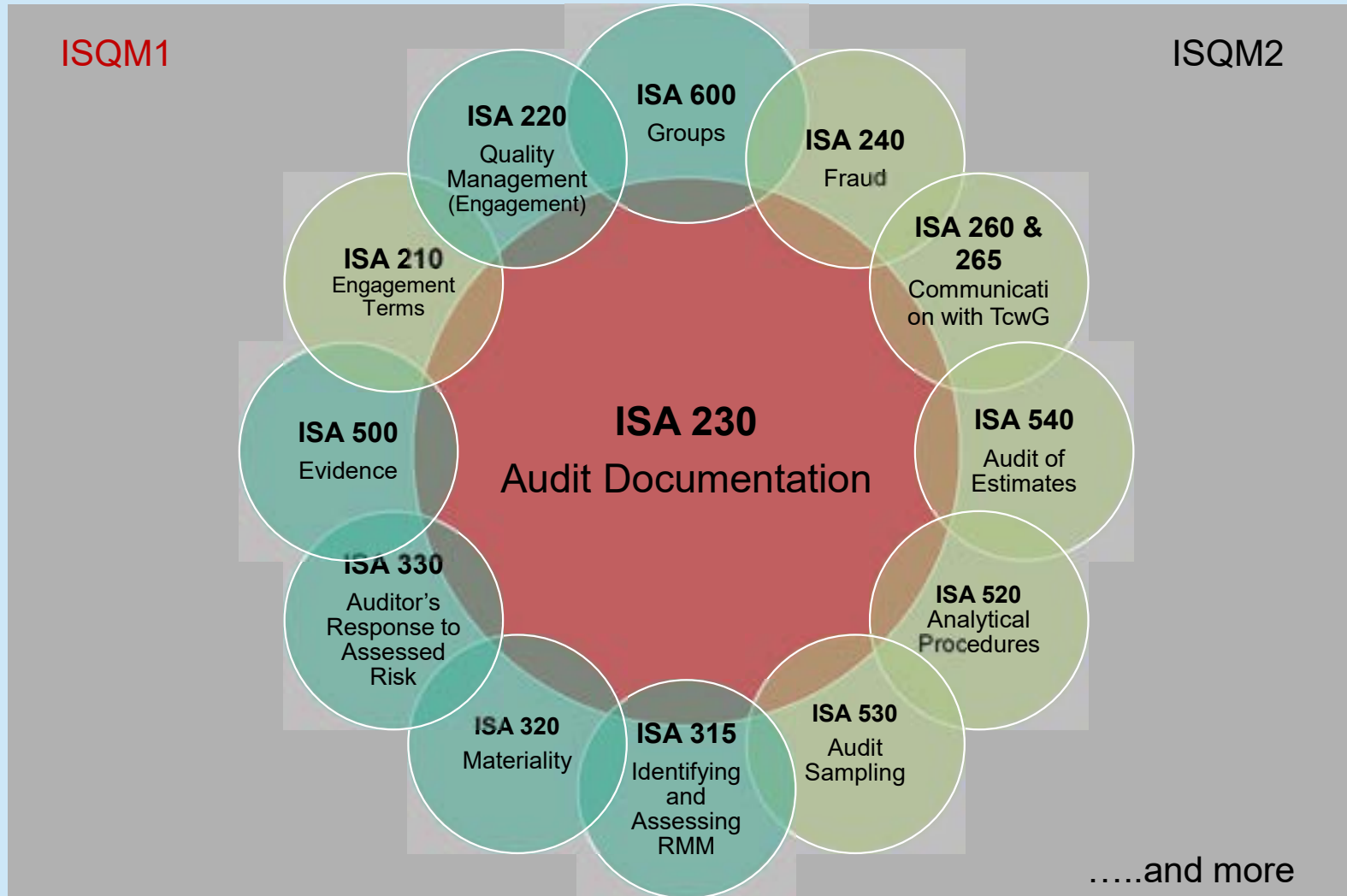
The auditor shall retain any other data and documents that are important in supporting the auditor's report as part of the audit documentation.

Acknowledgement to the FRC, extracted from ISA 230



Has the audit team ensured that the audit file tells the story of the audit from cradle to archiving, including scepticism & challenge and the basis of conclusions reached and opinions given?

Documentation – The ISA Ecosystem



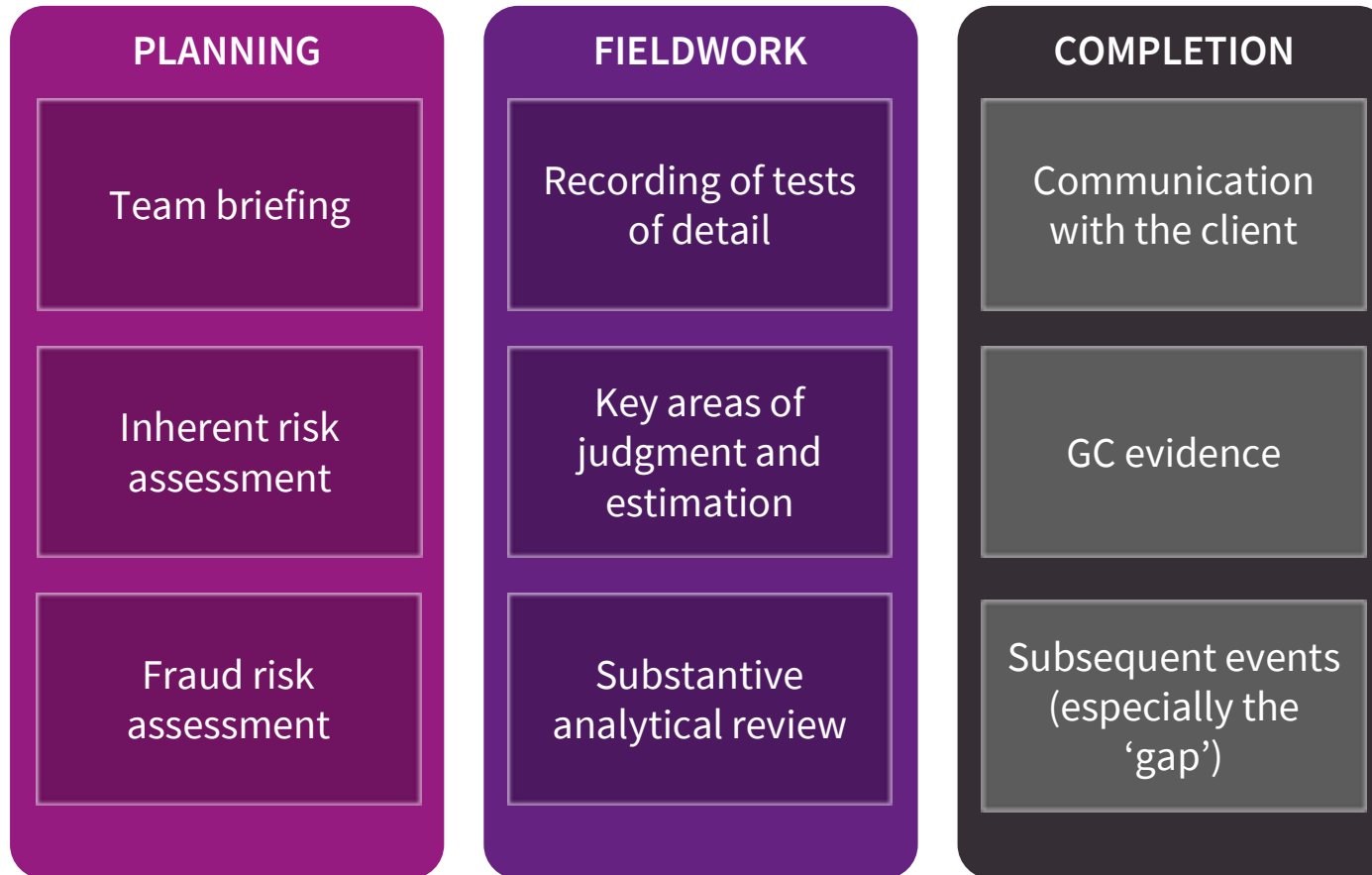
Many ISAs have specific documentation requirements.

If an ISA does not expressly refer to documentation requirements, ISA 230 still requires there is sufficient documentation and evidence to demonstrate compliance with those ISAs.

A checklist on its own may not be enough.

Common Challenges & Pitfalls

Common documentation weaknesses



Audit planning: gathering client knowledge

Common pitfalls

Knowledge of business checklists are rarely completed with clear explanations. Sometimes the extent of knowledge appears to be solely quoting the 'principal activity' note from the accounts!

Permanent files are often established, but then never updated. Key information, including tailored programmes are often left on the current file instead of being transferred to the permanent file.

Permanent files are rarely an integral part of the auditor's work. Firms who have embraced electronic filing appear to find this easier to achieve.

Understanding the entity and its environment



WHAT do you know?

WHY is this relevant?

HOW does this impact audit approach?

The five-step model...

EXPECTATION

CALCULATION

INVESTIGATION

SUBSTANTIATION

CONCLUSION

MUST SUBSTANTIATE...

ASSUMPTIONS
IN EXPECTATION



EXPLANATIONS
FOR VARIANCES

AFTER DATE CASH TEST XXX

REF

Aim:

To ensure that trade debtors are reasonable

Method:

After-date cash review (see REF XX1)
20 large balances selected as per planning

Results:

16 fully paid
2 partially paid, only small amounts left
2 outstanding, no problems with recoverability per client

Conclusion:

Trade debtors are correct



AFTER DATE CASH TEST XXX

REF

Aim:

To ensure that trade debtors are recoverable

Method:

After-date cash review (see REF XX1)

20 large balances selected as per planning

Results:

16 fully paid

2 partially paid, only small amounts left

2 outstanding, no problems with recoverability per client

Conclusion:

[to be followed up by closing meeting]



CLOSING MEETING MINUTES

A26

...

The two outstanding debtors were discussed. X Ltd has now paid, and an email from Y Ltd confirms that a dispute is now resolved and payment will be made next week.

...

AFTER DATE CASH TEST

H101

Aim:

To ensure that trade debtors are recoverable

Method:

After-date cash review (see H102)

20 large balances selected as per planning

Results:

46 17 fully recovered

2 partially recovered, only small amounts left

~~1 outstanding, customer confirmed payment due~~

Now received 21/3 – see H103

Conclusion:

Debtors are recoverable.



CLOSING MEETING MINUTES

A26

...

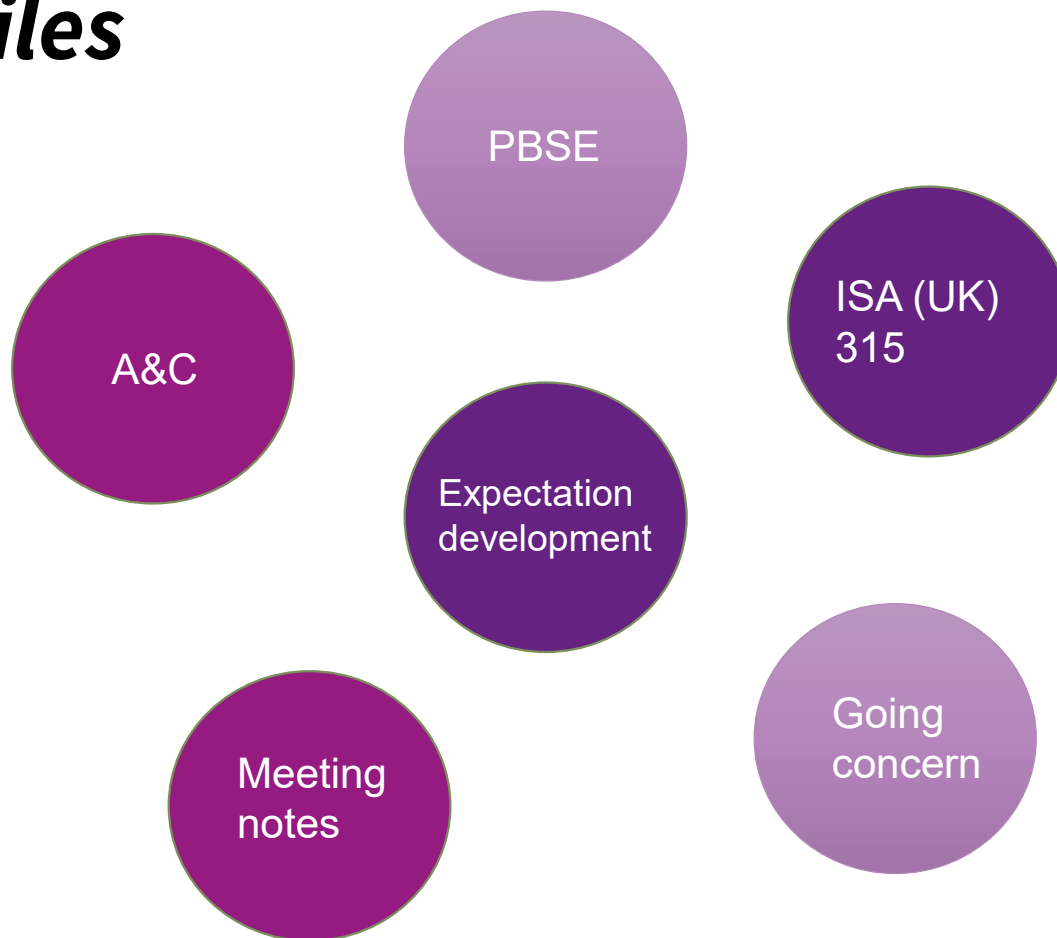
The two outstanding debtors were discussed. X Ltd has now paid, and an email from Y Ltd confirms that a dispute is now resolved and payment will be made next week.

[Now received 21/3]

...

AI – Opportunities & challenges

Use of AI on audit files



DOCUMENTATION CONSIDERATIONS



REVIEW & CHALLENGE

USE OF EXPERT

DIGITAL ASSISTANT

USE OF PROMPTS

Assembly & Archiving

What is allowed after the opinion is signed?

Assembly – No more, No less

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on **completion checklists** relating to the file assembly process (**not other checklists**).
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

Archiving

- No later than 60 days
 - In all honesty, it is too late
 - Inefficient
 - High risk
- Lock the file
- Restricted access
- Protocols for access and, in extreme cases amendment.

Must be able to evidence that the was available and had been evaluated before the audit opinion was signed

Don't be tempted by the dark side, it is easy to interrogate documents – regulators and litigators will check the date of amendments



The True Cost of False Economies

A Legal Perspective



‘if it isn’t written down, it didn’t happen’

Why does it matter?

- The impact of a lack of contemporaneous evidence on claims and complaints
- Claims can be brought by clients and third parties who rely on the audited accounts
- Complaints can be brought by clients and your regulator.

The hidden cost of a claim or complaint

What sort of evidence is needed?

What sort of errors in evidence do we see and why are they important?



Documentation issues – why does it matter?

Any claim or complaint (or audit review) will be largely based on what is on the file.

Any explanations or ‘after the event’ created documents will be of significantly less value.

If there isn’t evidence on the file of a review, of consideration of issues, of reasons for a judgement, of time spent on an issue, the implication is that it didn’t happen.

When a question is raised or a challenge is made on that point, you are extremely vulnerable – it will be difficult, time-consuming and costly to obtain evidence to support a defence to the issue – and the defence is less likely to succeed.

Why put your professional reputation, and time and cost at risk, when taking simple steps during the audit process could minimise the damage?



The 7 hidden costs of a complaint or claim (1)

The PII excess

- If a claim payment is made

The increased cost of insurance

- If it impacts on underwriters' view of the firm's risk profile

Time spent on PII renewal

- Renewal may be more difficult, can take up much more time – preparing for, presenting, perhaps meeting with underwriters, to get insurance on commercially acceptable terms

Time spent investigating and dealing with the issue

- Obtaining all the papers (may not be all in one place!)
- Obtaining statements (as there aren't sufficient documents/explanations on file)
- Liaising with solicitors
- Negotiating/dealing with claimant/complainant/responding to regulator
- Can be 1000s of hours, all of which could otherwise be spent on chargeable client work



The 7 hidden costs of a complaint or claim (2)

Damage to client relationship

- The client is unhappy with the work performed
- You may not get paid
- Your retainer may get terminated

Impact on staff

- Negative impact on confidence
- Impacts on fee earning ability as time spent on dealing with the issue
- May leave – cost to replace/retrain

Lost income stream/reputation

- How many clients would that client have recommended you to?
- What are they going to say about you in the marketplace?
- Will any disciplinary issue get published and what impact will that have?

The cost, of even a small matter, can be significant, and can be £100,000s



What evidence is needed?

What have you seen on the client's files?

What did you think about it?

What time did you spend on the matter?

What were your reasons for making any decision or judgement?

Not just 'what you did' but 'why you did it'



Common errors and why do they matter?(1)

Checklist failures/shortcuts

- **Copy last year planning and redating**
 - What if things have changed since last year?
 - Implication is that no 'real' planning was done in this year.
 - Implication is that no thought was given to the changes since last year.
- **No walkthrough to test if controls still work**
 - What if they have changed since last year?
 - Risk that the changes to controls aren't picked up
 - Implication is that the changes are not identified, not considered, no thought given
- **Issues falling off the radar**
 - Junior might raise 5 issues, 3 dealt with by manager, 1 dealt with by senior
 - Failure to review before sign-off that all issues raised/queries have been resolved
 - If a claim is made, it will be the ones that get 'lost' in the process that are likely to cause the problem



Common errors and why do they matter?(2)

Assumptions (1)

- **Confirmation bias**

- Can lead to a biased search for information, a biased interpretation of information and/or a biased recall
 - Don't jump to conclusions and document all thought processes, any further enquiries made, all discussions in the wider audit team/further testing undertaken
- Be aware of the potential for confirmation bias!
 - Can damage the ability to properly audit and impacts on application of professional scepticism



Common errors and why do they matter?(3)

Assumptions (2)

- **Assuming the company is a Going concern**

- Don't assume the company is a going concern, look for evidence to support why it is one
- Don't assume funding etc will continue or get repeated or a deal will complete, look for the evidence
- Don't rely on statements without back-up
- Don't forget the firm faces potential claims from creditors who may rely on a 'clean' audit if the company was not a GC and the directors also may face personal liabilities for trading whilst insolvent
- You are not doing anyone a favour by 'issuing' a clean audit if the company is not a GC



Common errors and why do they matter?(4)

Terminology

- **Identifying as the client in the documents 'we' etc**
 - Implies a lack of independence – did the auditor truly stand back and consider matters as auditor, away from the wider firm's interest in keeping the client happy?
 - If a claim is made against the firm for failing to audit the file correctly, such language could draw adverse implications, especially if judgements are made by the auditor and no evidence is on file to support those judgements
- **'Slack' use of wording on testing and elsewhere**
 - Eg 'debts are reasonable' when in fact the true test is whether or not the provisions shown are correct/recoverable.
 - What does 'reasonable' mean?
 - Follow the correct terminology, think about what you are actually doing, what you are testing, what your thought processes are and record it accordingly.
 - The slack use of wording implies you didn't do this and leaves you open to challenge



Common errors and why do they matter?(5)

Engagement letter issues

- **Who is the client? And what are you doing?**
 - Make it clear who you are acting for and who you are not
 - All too often there isn't clarity, especially in a group scenario
 - Set it out, what entities are you auditing and what entities are you not auditing
 - Where you rely on information from third parties that you are not auditing, make that clear and in relation to which entities
- **Who has authority to give you instructions?**
- **Who has authority to give you information**
 - The two may be different – don't confuse the two!
- **Informing the team**
 - How does the team know that information?
 - Lack of clarity causes issues



Common errors and why do they matter?(6)

Group issues

- **Managing document retention and privacy when acting for a group**
 - Tendency to think 'it doesn't matter' so keep all on one file
 - But what if one member of group is sold or has conflicting interests?
 - How do you manage confidentiality in relation to the documents
 - A if kept in one file
 - B if documents are created for more than one entity?
 - Significant hidden cost of resolving the issue
 - You may have to cease to act for both
 - May cause harm to both
 - Shortcuts cause cost and damage!



Common errors and why do they matter?(7)

Onboarding issues

- **Lack of evidence of consideration of risk issues when taking on the client**
 - Why has the client come to you?
 - Is it out of the usual cycle to change auditor?
 - Are you the 'typical' size of firm to audit this type of client?
 - Is the client going to be a 'problem' client that doesn't want to be properly audited?
 - Is the job properly priced for the work that needs to be undertaken?
 - Has a proper analysis of the work that needs to be done been undertaken?
 - Or will shortcuts be taken?
 - Consideration of relationship with the client
 - Ensuring that independence isn't compromised
 - Or seen to be compromised
 - Such risk issues if not documented can give rise to the implication that pressure to earn fees have overridden independence – if something goes wrong on the audit or a claim is made, this could be potentially damaging.

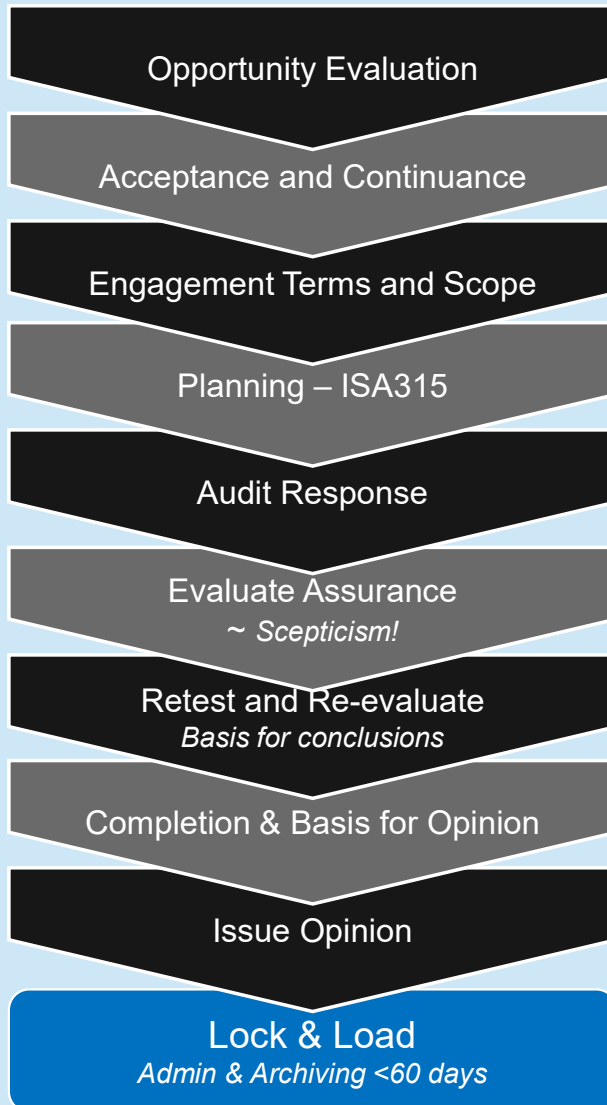


Common errors and why do they matter?(8)

- **Common errors can arise easily**
- **And are likely to be reviewed when a claim/complaint is raised**
- **BUT...**
- **Are easily avoided and now you have a checklist to help you do so!**
- **In most cases the work has been done, and all that is needed is a reminder to just document the work to avoid any pitfalls.**

What Good Looks Like

Tell the story



Critical Hygiene

Activity Performance

- Who
- When
- What
- Why
- How
- Expectations
- Results
- Follow up
- Basis for conclusions

Reviewed

- Who
- When
- Resolution

Avoid:

- Confetti statements and opinions :
“done”, “Considered”, “deemed ok”
- Judgments presented as
unsubstantiated facts
- Standing in the shoes of
management

- Build in time for review and a
sense check.
- Will it still make sense in 6 months
and 6 years.
- Don’t rely solely on checklists
- Remember management may not
be the client

Write it right; write it once!

Audit of key judgments & estimates

Everything from the previous slide on telling the story & critical hygiene, plus.....

- Linkage to:
 - Inherent risk assessment
 - Fraud risk assessment
- Audit Team's own rationalised expectations
- *Evaluation and briefing of auditor's expert (where appropriate)*
- *Evaluation of management's expert (where appropriate)*
- Identification of most reasonable alternative scenarios/treatments/assumptions.
- Quantification of the impact of these alternatives and consider if this could be indicative of bias
- Evidence both for and against management's approach
- Basis for conclusions
- Communication to TcwG

- Size is not a proxy for a considered analysis!
- A proportionate approach focused on key issues – less is more!
- Allow time for a considered review and evaluation

Group
Evidence

Write it right; write it once!



Q&A



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