

**Practice Management:
Efficient File Review**

ASK KSA Consulting Inc.

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Introduction and Overview

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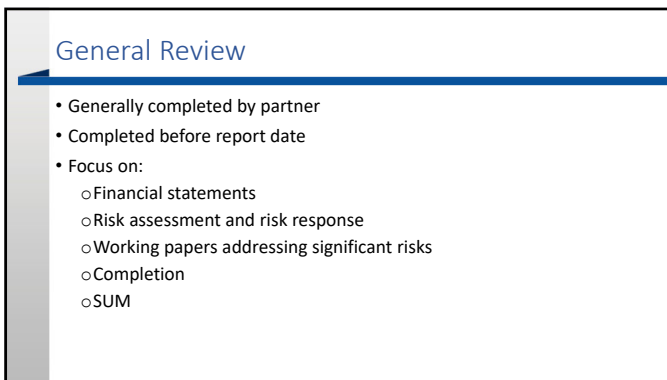
Objectives of File Review and Documentation

- Meet professional standards
- Sufficient and appropriate evidence
- Document the nature, timing and extent of work performed
- Support conclusions reached
- Demonstrate objectives achieved
- Identify significant matters for further consideration
- Protect the firm

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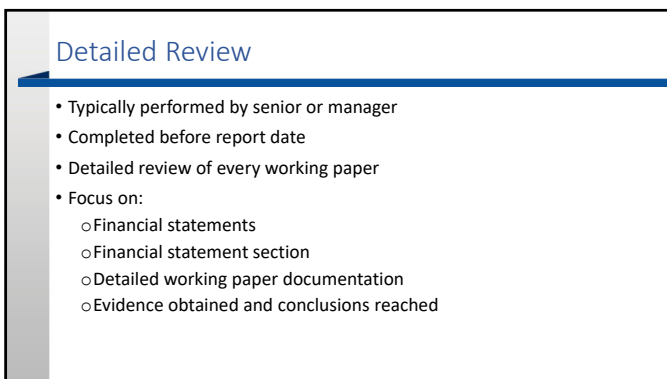
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General Review

- Generally completed by partner
- Completed before report date
- Focus on:
 - Financial statements
 - Risk assessment and risk response
 - Working papers addressing significant risks
 - Completion
 - SUM



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Detailed Review

- Typically performed by senior or manager
- Completed before report date
- Detailed review of every working paper
- Focus on:
 - Financial statements
 - Financial statement section
 - Detailed working paper documentation
 - Evidence obtained and conclusions reached

EQCR Review

- Firm policy sets out when required
- Completed by a partner not a member of the engagement team
- Completed before report date
- Focus on:
 - Financial statements
 - Risk assessment and identification
 - Risk response to significant risks
 - Communication with TCWG
 - SUM

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Review Requirements

- Quality Management:
 - CSQM 1, CSQM 2
- Audits:
 - CAS 220
- Reviews
 - CSRE 4200
- Related Services
 - CSRS 4200/CSRS 4400/Others

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Review Requirements

Quality Management Standards

- New suite of Quality Management standards
- Engagement teams understand and fulfill responsibilities in engagements, including the overall responsibility of engagement partners
- Nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate

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Review Requirements

CAS 220

- Engagement partner shall take responsibility for direction and supervision and review work
- Engagement partner shall determine nature, timing and extent of direction, supervision and review is planned and responsive to the nature and circumstances of engagement
- Engagement partner shall review the audit documentation at appropriate points

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Review Requirements

- Work performed in accordance with professional standards
- Significant matters raised
- Appropriate consultations occurred
- Conclusions documented
 - Work performed supports conclusions reached
- Documentation
- Evidence obtained is sufficient and appropriate

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EQ Review

- “When” an EQ Reviewer is required is set out in CSQM 1
- “Who” is an EQ Review set out in CSQM 2
- Must be competent, capable with appropriate authority
- Must be objective

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CSQM 2

EQ Reviewer Performance

- Objective evaluation of judgements made by engagement team
- Sufficient and timely
- Specific requirements related to performance
- Focus on significant judgements and matters
- Enhanced documentation
- Stand-back requirement

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Documentation Requirements

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Primary Objectives

- Engagement planned and performed in accordance with applicable standards
- Significant judgements
- Conclusions reached
- Supports appropriate engagement report issued

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Secondary Objectives

- Planning and performing
- Discharge review responsibilities
- Engagement team accountable for work performed
- Record of matters of continuing significance
- Conduct of EQ reviews and inspections
- External inspections

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Documentation Requirements

- Documentation requirements in every standard
 - Audit (CAS)
 - Review (CSRE 2400)
 - Compilation (CSRS 4200)
 - Agreed upon Procedures (CSRS 4400)
 - Others (CSAE 3000)

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Documentation Requirements

CAS 230.5
The objective of the auditor is to prepare documentation that provides:

- a) A sufficient and appropriate record of the basis for the auditor's report; and
- b) Evidence that the audit was planned and performed in accordance with standards and applicable legal and regulatory requirements.

- CSRE 2400
- CSRS 4400

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Documentation Requirements

CAS 230.9
 In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- a) The identifying characteristics of the specific items or matters tested;
- b) Who performed the audit work and the date such work was completed; and
- c) Who reviewed the audit work performed and the date and extent of such review.

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Documentation

Nature

- Purpose of a procedure and specific type

Timing

- When a procedure is performed or the period or date to which evidence applies

Extent

- Quantity of a specific procedure to be performed

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Documentation Requirements

Re-performance standard

- Documentation sufficient to enable experienced auditor, having no previous connection with the audit, to understand:
 - The nature, timing and extent of the procedures
 - Audit evidence obtained
 - The results of procedures
 - Significant matters and conclusions reached

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Documentation Requirements

Examples:

- Programs
- Analyses
- Issues memoranda
- Summary of significant matters
- Confirmation letters
- Representation letters
- Checklists
- Other correspondence

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General and EQCR Reviews

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General and EQCR Reviews

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Objectives

- High level overview of file
- Planning procedures performed
- Significant risks addressed
- Judgements documented
- Completion procedures performed
- Presentation and disclosure

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Strategy

- Obtain copy of financial statements
- Skim file to ensure all required procedures included in file
- Discuss significant risks with engagement team
- Review key components of planning
- Review risk assessment
- Review planned responses
- Review detailed working papers related to significant risks
- Review communication with TCWG
- Finish with completion

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File Clutter

- File clutter:
 - Extraneous information
 - Unnecessary information or documents
 - Not well organized

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File Clutter

- Why does file clutter occur?
 - There last year
 - Client gave it to me
 - I may need it next year
 - I may need it this year
 - Earlier version of an existing work paper
 - Related to tax work
 - Working papers from an issue 10 year ago

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File Clutter

- Examples:
 - Copies of invoices/agreements/minutes
 - Checklists for immaterial balances
 - Unnecessary checklists
 - Superseded documents
 - Analytical review schedules
 - Prior year documentation
 - Prior year's tabs on spreadsheets
 - Printouts of account balance details
 - Steps not applicable

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File Clutter

- Costs to file clutter
- The more file clutter, the more difficult for the reviewer
- Significant impact on the dollar cost
- Minimize file clutter
 - If in file, must be reviewed

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Final Considerations

- Ensure risk assessment procedures completed
- Consider risk responses
- Ensure dates are correct
- Ensure client names are correct
- Ensure information is relevant
- Ensure significant risks identified
- Review evidence supporting conclusions related to significant risks
- Review documentation related to significant judgements made and conclusion reached
- Review all required documentation

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Financial Statement Review

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Objectives

- Ensure the presentation and disclosure requirements of applicable financial reporting framework are met

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Strategy

- Engagement Report:
 - Read report in detail
 - Agree reference to each statement
 - Appropriate financial reporting framework
 - Ensure wording is appropriate
 - Consider:
 - Modifications
 - Emphasis of matter paragraph
 - Other matter paragraph

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Strategy

- Financial Statements:
 - Overview of each of statement
 - Ensure all note references tie in
 - Ensure all numbers tie in
- Notes:
 - Read in detail
 - Read for clarity and transparency

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Final Considerations

- Use presentation and disclosure checklist if necessary
- Ensure new facts and circumstances considered

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Overall Section and Detailed Working Paper Reviews

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Overall Section Review

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Objectives

- All material balances have appropriate procedures performed
- Assertions addressed
- Program completed and work documented
- Conclusions reached

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Strategy

- Understand what is required and what is not necessary
- Meet re-performance standard

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Documentation

- Examples of poor/weak documentation:
 - Signing off on audit steps with no supporting working papers
 - Not including purpose of a working papers
 - Not signing off audit steps
 - Failing to reference audit steps
 - Not performing a procedure

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Documentation

- Examples of poor/weak documentation:
 - Including balances without explaining source
 - Not signing off as preparer
 - Not signing off as reviewer
 - Not done on a timely basis
 - Done after report date

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Documentation

- Examples of poor/weak documentation:
 - No documentation of thresholds used
 - No documentation of how sample size was calculated/selected
 - Failing to place excerpts of key documents in file
 - Failing to describe what documents reviewed
 - Not documenting who was interviewed (name) and when (date)

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Documentation

- Examples of poor/weak documentation:
 - Not documenting objectives of a procedure (assertions addressed)
 - No documentation supporting conclusions reached
 - Documenting "Y/N/NA" with no explanation
 - Not obtaining corroborating evidence
 - Ignoring contradictory evidence

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Strategy

- Start with leadsheet
- Review audit program from overall perspective
- Review audit program from detailed perspective
- Assess evidence of work performed
- Finish with the leadsheet

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Final Considerations

- Program review:
 - Ensure responses more than Yes/No/NA
 - Verify accuracy of referencing
- Section review:
 - Step back to determine if evidence is sufficient
 - Consider alternative approaches to procedures
 - Evaluate presentation and disclosure

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Detailed Working Paper Review

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Objectives

- Ensure procedure on audit program completed
- Sufficient appropriate evidence obtained
- Meet re-performance standard

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Documentation

- Documentation includes:
 - Objective
 - Selection criteria
 - Identifying characteristics of items tested (evidence obtained)
 - Results of procedure (conclusion reached)
 - Who performed the work
 - Who reviewed the work

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Scenario 1

- Audit engagement of Practical Application Co. (PAC)
- Accounts receivable balance of \$540,000
- Not efficient to send confirmations
- Performance materiality of \$35,000
- Listing tested for completeness, accuracy and existence

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Initial Documentation

Audit program step	PSC?	Completed by:
Obtain the list of accounts receivable and test completeness, accuracy and existence assertions	Y (Code 1)	KSA
Code 1 Obtained listing of AR from controller. Selected a sample of outstanding balances and tested for assertions noted above. No exceptions noted.		

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Requirements

Requirement Met?	Yes	No
Objective	X	
Selection criteria		X
Identifying characteristics of items tested		X
Results of procedure		X
Who performed the work and when	X	X

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Scenario 2

- Review engagement for Practical Application Co. (PAC)
- Accounts payable and accrued liability balance of \$380,000
- Cut-off identified as area where misstatement is likely to arise
 - Client records payable when invoice received
- Materiality is \$10,000
- Listing for completeness, accuracy and existence

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Initial Documentation

Review program step	PSC?	Completed by:
Unrecorded transactions/transactions recorded to the proper period		
a) Inquire about possible unrecorded liabilities.	Completed, no exceptions	KSA
b) Inquire about the entity's procedures for ensure amounts are recorded in the correct period.	Completed, no exceptions	KSA
c) Where potential misstatements are identified, document the additional procedures performed.	Not required	KSA

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Requirements

Requirement Met?	Yes	No
Objective	X	
Selection criteria		X
Identifying characteristics of items tested		X
Results of procedure		X
Who performed the work and when		X

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Revised Documentation

Documentation	Code 1 (or WP)
<p>Per discussion with the accountant on March 1, 20X1, client recorded the invoices in the year to which they relate. This is different than in the past when invoices were recorded when received.</p> <p>To ensure that invoices were recorded in the correct period, selected accounts payable balances greater than materiality and traced to the supporting invoices to ensure recorded in the correct period. In addition, selected 5 unpaid invoices to ensure recorded appropriately. Of the 5 invoices selected, 4 related to the prior year and were appropriately recorded; 1 invoice related to the current year and was appropriately not recorded.</p> <p>Accounts payable balance is reasonable.</p>	

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Scenario 3

- Audit engagement of Practical Application Co. (PAC)
- Accounts receivable balance \$290,000
- Allowance for doubtful accounts \$40,000.
- Allowance for doubtful accounts identified as a significant risk
- Performance materiality \$10,000

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Initial Documentation

Scenario 3 Initial File Documentation

Program step	PSC?	Completed by:
Test the adequacy of the allowance for doubtful accounts (considering overdue and disputed amounts).	Y (Code 1)	KSA
Code 1 Per discussion with management and review of the allowance for doubtful accounts, balance is reasonable.		

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Requirements

Scenario 3 Documentation Assessment

Requirement Met?	Yes	No
Objective	X	
Selection criteria		X
Identifying characteristics of items tested		X
Results of procedure		X
Who performed the work and when		X

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Revised Documentation

Documentation	Code 1 (or WP)
<p>The clients books the allowance based on specific identification. Reviewed listing of accounts receivable and discussed all balance greater than \$5,000 and greater than 90 days outstanding with the accounts receivable clerk (listing totalled \$90,000) on February 29, 20X1. Obtained explanations as to why the amounts were either classified as collectible or uncollectible and therefore included in the allowance balance.</p> <p>Further audit procedures: Traced the following items to subsequent receipts (documented on C3).</p>	

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Documentation

- Documentation of significant judgements includes:
 - Nature of findings
 - When and with whom discussions took place
 - Technical guidance considered
 - Additional procedures performed
 - Alternatives considered
 - Confirming evidence obtained
 - Contradictory evidence and how dispelled
 - Consultations made
 - Conclusions reached

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Documentation

- Examples of professional judgement:
 - Presentation and disclosure matters
 - Unrecorded assets or liabilities
 - Alternative options within accounting standards
 - Interpretation of accounting standards
 - Unusual transactions

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Strategy

- Open working paper
- Skim top for dates/headings/client name/codes
- Ensure objective/purpose and assertions documented
- Ensure proper performance of procedures
- Consider reasonableness of judgement
- Understand identification and follow up of exceptions
- Consider evaluation of errors
- Ensure conclusion appropriate and documented

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Final Considerations

- Do codes/explanations make sense
- Check referencing
- Check calculations
- Consider conclusions reached

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File Review Tips

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File Review Tips

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File Review Tips

Setting the stage

- Time
- Undivided attention
- Take breaks
- Know when to turn the file back to preparer
- Location
- Be timely
- Iterative process

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File Review Tips

Starting off

- Use financial statements/trial balance as basis for review
- Document performance materiality
- Check for current dates
- Know when new standards are effective
- Be aware of common deficiencies

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File Review Tips

Common deficiencies: Risk assessment procedures

- Fraud discussions in team planning meeting
- Components of internal control
- Documentation of ITGCs
- Inquiry is not enough
- Significant risks include:
 - Management override of controls
 - Revenue recognition

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File Review Tips

Common deficiencies: Execution

- Re-performance standard not met
- Incorrect dates
- Documentation of sample size
- Documentation of sample selection

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File Review Tips

Common deficiencies: Completion

- Final dates
- Subsequent events procedures
- Approval of financial statements

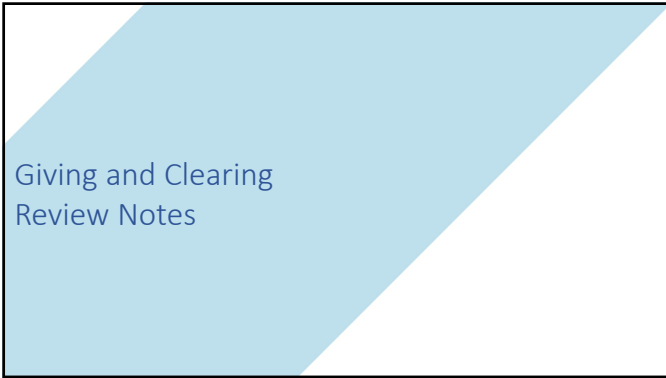
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File Review Tips

Final considerations

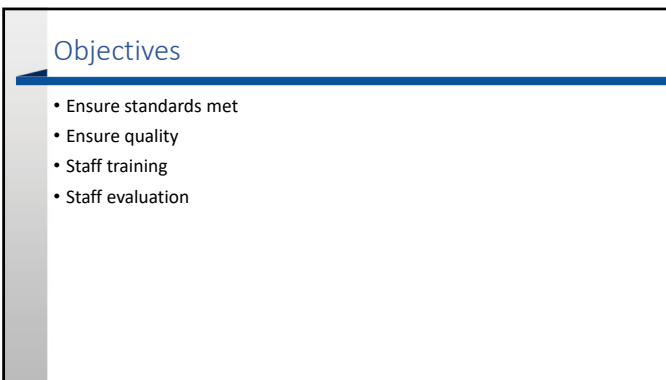
- Know when to leave review note and when to fix yourself
- Professional skepticism
- Do not gloss over responses
- Separate “must do” versus “training” points
- Consider internal consistency of documentation
- Self review by preparer
- Leave clear review notes

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Giving and Clearing
Review Notes

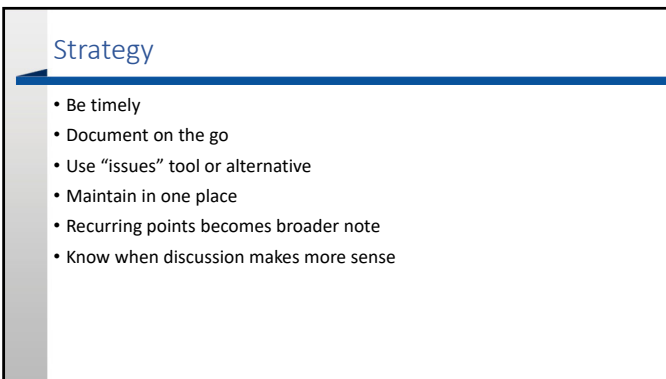
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Objectives

- Ensure standards met
- Ensure quality
- Staff training
- Staff evaluation

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Strategy

- Be timely
- Document on the go
- Use "issues" tool or alternative
- Maintain in one place
- Recurring points becomes broader note
- Know when discussion makes more sense

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Strategy

Giving review notes

- No shorthand
- Concise
- Include sufficient information
- Conscious of tone
- Clarify between “future points” and “need to change for this file” points

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Strategy

Clearing review notes

- Set expectations with preparer
- Be timely
- Determine when may need to meet
- Preparer to document what changed
 - Response documented on working paper
- Ensure response addresses point raised
- Update PBC listing and/or tailor audit program
- Consider matters for inclusion in performance appraisal

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Final Considerations

- Document nature, timing and extent
- Document significant judgements and conclusions reached
- Meet re-performance standard

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