

# Effective Role of Working Papers to Strengthen the Quality of Documents in Auditing-An Overview of Conceptual Study

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## Abstract

*This paper describes the standards and procedures for the preparation, contents, use, retention, and disposition of audit working papers. The diversity of audit assignments does not permit the establishment of a single system or design of working papers to be used throughout the auditor's office but conformity as to quality and standards should exist. Audit working papers are the written documentation of an audit. They can be recorded on any medium, not just paper. Working papers are used for planning the audit and recording both the action taken during the audit and the results. Working papers also document proper procedures being followed by the auditors. As audits vary from one company to another, they can have many different formats.*

**Key words:** working papers- retention- design- auditors- document- preparation- medium

## Introduction

Audit working papers are the documents which record all audit evidence obtained during financial statements auditing, internal management auditing, information systems auditing, and investigations. Audit working papers are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant auditing standards. They show the audit was:

1. Properly planned;
2. Carried out;
3. There was adequate supervision;
4. That the appropriate review was undertaken; & finally and most importantly;
5. That the evidence is sufficient and appropriate to support the audit opinion.

The Institute of Internal Auditors, a global professional audit standards body, has issued practice advisory 2330-1 stating the goals of audit working papers are to

1. Document the planning, performance, and review of audit work;
2. Provide the principal support for audit communication such as observations, conclusions, and the final report;
3. Facilitate third-party reviews and re-performance requirements; and
4. Provide a basis for evaluating the internal audit activity's quality control program.

Audit working papers are the property of the auditor. In order to keep professional

ethic, it cannot discover to third party without consent of the client unless limited specified situations mentioned in ISA 230 Documentation and required by law, the examples are court order, for public interest and so on. The forms of documentation may be flowchart, manual, narrative note, checklist or questionnaire.

### **Proper Feature or Purpose of Working Papers**

1. Reviewed by auditors with supervisors noted.
2. Signed, dated and approved by relevant level of audit staff with sufficient cross reference.
3. With evidence of effective audit planning, work done, sufficient and quality evidence.
4. Outstanding matters are cleared in due course.

There are a number of companies who offer electronic working paper tools for accountants. The leading providers include: Auditing is a systematic process of objectively gathering and evaluating evidence relating to assertions about economic actions and events in which the individual or organization making the assertions has been engaged, to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to users of the reports in which the assertions are made.

### **How do produce quality work papers?**

The main goal of an internal audit project is to add value and improve an organization's operations. This goal is accomplished through the identification of control weaknesses, potential process improvements, and positive change opportunities. While the organization,

Wolters Kluwer, Case Ware, Thomson, Data Prime Solutions, and Work Papers. Their products are Team Mate, Case Ware Working Papers, Engagement CS, Draft work, Work Papers and APEX Audit System respectively.

### **Audit Working Paper Format**

1. The diversity of audit assignment prevents the establishment of a single system or design of working papers to be used. Therefore, a uniform working paper format may not be used but work papers for functional areas such as cash receipts should display conformity in various types of audits.
2. Work papers may be in the form of paper, tapes, disks, diskettes, films, etc. There should be backup copies of electronically generated working papers. The backup copies should not be stored with the original copies.

design, and content of audit work papers will vary depending on the nature of the engagement, several important considerations are necessary to the creation of effective, high-quality work papers.

### **Work paper Objectives**

According to Practice Advisory 2330-1: Recording Information from the International Standards for the Professional Practice of Internal Auditing (Standards), audit work papers should be prepared to achieve four main objectives:

1. Document the planning, performance, and review of audit work.
2. Provide the principal support for audit communication such as

- observations, conclusions, and the final report.
3. Facilitate third-party reviews and re-performance requirements.
  4. Provide a basis for evaluating the internal audit activity's quality control program.

Audit work papers serve a variety of purposes and impact many different stakeholders, both within and outside of the internal audit function.

### **Key Characteristics**

There are five essential characteristics of high-quality work papers that all document preparers should consider throughout the audit process.

1. **Completeness.** Each work paper should be completely self-standing and self-explanatory.
2. **Accuracy.** High-quality work papers include statements and computations that are accurate and technically correct.
3. **Organization.** Work papers should have a logical system of numbering and a reader-friendly layout so a technically competent person unfamiliar with the project could understand the purpose, procedures performed, and results.
4. **Relevance & Conciseness.** Audit work papers and items included on each work paper should be relevant to meeting the applicable audit objective.

### **Work paper Elements**

Work papers should include the following key elements:

1. **Source.** The name and title of the individual providing the

documentation should be recorded to facilitate future follow-up questions or audits.

2. **Scope.** The nature, timing, and extent of procedures performed should be included on each work paper for completeness.
3. **Reference.** A logical work paper number cross-referenced to audit program steps and issues should be included.
4. **Sign-off.** The preparer's signature provides evidence of completion and accountability, which is an essential piece of any third-party quality review.
5. **Tick mark legend.** A concise definition of all tick marks should be included on each audit work paper or at a central location to clearly describe the work performed during the engagement.
6. **Exceptions.** Audit exceptions should be documented and explained clearly on each work paper using logical numbering that cross-references to other work papers.

The consistent inclusion of these key work paper elements on all audit documentation improves the efficiency of internal and external review processes.

### **Importance of Working Papers**

Working papers are instruments vital to the successful accomplishment of all audit assignments performed. The working papers provide documented evidence of an examination and evaluation and provide a connecting link between the work which is performed and the final audit report. Hence, their importance cannot be overly emphasized.

To a major extent, every auditor is judged by his skill and ability in preparing working papers. When working papers are prepared in good form with proper attention to layout, design, and legibility, with complete headings, explanations of sources, and verification of work performed, they create a feeling of confidence in the ability of the staff member. Working papers should always convey an impression of system and order and conscientious attention to detail, coupled with a clear distinction between the important and the trivial. Another test of **Confidential Nature of Working Papers**

Information obtained through audits should be treated as confidential not only as to outsiders but also as to employees of the entity audited who would not otherwise have access to the information. Further, the working papers include information concerning the scope of the examination and the extent of selective tests made, and this information should not be available to the staff of the audited entity. Therefore, audit working papers should be safeguarded at all times against the possibility of their being examined by unauthorized persons. Client or outside agency request to review Audit and Management Services work papers must be approved by an appropriate official.

### **Purposes Served By Work Papers**

Audit working papers serve four major purposes:

1. They constitute a permanent record of the objectives and scope of the audit, as well as the work performed during the audit. Work papers organize and coordinate all phases of the audit.
2. They contain the back-up material in support of the audit findings,

good working papers occurs when it is necessary for one staff member to leave a partially completed assignment and turn it over to another staff member. If the latter can proceed without confusion then the working papers have stood the critical test of being able to stand on their own. Every auditor will be expected to continuously strive for the highest standards of excellence in the preparation of working papers.

conclusions, opinions, and comments.

3. They contain the basic material from which the audit report is prepared.
4. They reflect the quality and reliability of the work performed by the auditor and substantiates and explain in detail the opinions and findings presented to University management.

Working papers have a number of additional uses both during and after the audit. These are to control audit progress by showing the auditor what audit procedures have been completed and what audit procedures have not been completed. Working papers also provide:

1. A basis for study of patterns and trends.
2. Aid in the internal audit staff's professional development.
3. Detailed supporting material for use in discussion with operating personnel.
4. A source of evidence in litigation and in administrative actions.
5. A basis for supervisory review and evaluation of audit performance.

6. A permanent record for use in planning and carrying out future audits.
7. Demonstrate that auditors have complied with the Standards for the Professional Practice of Internal Auditors.
2. Index and file all work papers according to Audit Work paper Checklist.
3. Devise legends (symbols) and a method of cross-referencing. Where applicable, the standard tick marks developed by Audit and Management Services should be used.

### **Planning and Preparing Working Papers**

The preparation of audit working papers must be planned so that they will substantively fulfill the purposes mentioned in Section 3. An audit program provides much help in the planning of working papers. The program reflects the objectives of the audit and the nature of the information required. Thus, many of the areas of inquiry are identified as well as the general types of working papers that will be needed to record the work performed in those areas. However, methods of operations are never precisely the same in two "like" organizational elements, nor are the circumstances under which the operations are carried out identical. For this reason, audits of similar organizations and activities should not be performed exactly alike nor should stereotyped working papers be prepared.

Each section of the working papers must be planned to satisfy some requirement of the audit program. When the audit is completed, the working papers should contain data needed to fulfill all of the objectives of the audit. Adequate planning of working papers requires the auditor to:

1. Determine the nature and extent of the information that will be needed to comply with the audit objectives and to plan the format and preparation of working papers that will be needed to record this information.

Thought should be given in preparation of working papers to their potential use as exhibits in an audit report.

### **Principles and Methods of Documentation**

Working papers are the basis on which the entire audit rests. Since these papers are, in fact, the documentation of the audit, thoroughness in their preparation is essential. Describing the Work Performed. By fully describing the work you have performed in your working papers, you are able to render a complete accounting of the scope and depth of your coverage. Each working paper should identify the following: Scope. Your conclusions usually result from selective tests. By clearly showing the scope of the work performed, you are able to support your conclusions and where probability sampling is used, support the projection of conclusions drawn from selective tests to the entire subject area under audit. In the examination of documents, the scope must identify the size of the sample, the universe from which the sample is drawn, the method of selection, and the basis for these decisions. When sampling methods are used, the sampling plan must be carefully explained.

### **How to Prepare Working Papers for an Audit**

The diversity of audit assignment prevents the establishment of a single system or

design of working papers to be used. Therefore, a uniform working paper format may not be used but work papers for functional areas such as cash receipts should display conformity in various types of audits. Work papers may be in the form of paper, tapes, disks, diskettes, films, etc. There should be backup copies of electronically generated working papers. The backup copies should not be stored with the original copies.

### **Specific Standards for Each Work paper**

#### **a. Descriptive Heading**

1. Each working paper shall be fully identified by a heading at the top center containing:
2. Name of the University/institutions.
3. Name of the department of activity being audited.
4. Subject matter of information presented (specific activity audit procedure or other subdivision of the functional area to which the working paper pertains).

#### **b. Auditor's Name and Date**

Each working paper shall contain the initials of the staff member preparing it and the date of preparation. This information should be placed in the space provided in the upper right-hand corner of the standard working paper. These dates will correspond to the sign-off procedures used for the audit program.

#### **c. Source of Data**

Source of information appearing on the working paper should be shown in the upper left corner of the working paper. If information is supplied by operating

personnel or results from your observation, show this in the working paper. If you prepare information from records on file, identify these records.

#### **d. Purpose and Scope of Audit Work Performed**

The purpose of each audit working paper is to be specifically stated unless otherwise clearly evident from its title.

#### **e. Auditors Verification Procedures**

The nature of verification work performed by the staff member must be disclosed for each working paper. Mere copying of figures from the records is not, in itself, verification. The verification procedures performed must be described in such a manner so as to clearly show what verification procedures were accomplished. Colored tick marks serve this purpose well when adequately explained under the "legend".

#### **f. Auditor's Conclusions**

Working papers must contain a conclusion with respect to each objective of the audit whether or not adverse conditions are disclosed. The formulation of conclusions is one of the most important functions of the auditor. The conclusions are the basis for the recommendations. They must never be a product of a predisposed mind. All evaluations should be made with an attitude of professional skepticism. They must spring from information contained in the auditor's working papers. Conclusions are trustworthy. Only if they are reasonable deductions from relevant information developed during the audit. They are strong only to the extent to which they are buttressed by supporting data.

#### **g. Evidence of Review**

Working papers must contain evidence of review by supervisory personnel. The reviewer's satisfaction with work performed and agreement with conclusions reached should be documented. The evidence of review can be documented by (1) initialing and dating each work paper or (2) initialing and dating the audit binder that contains the work papers. A combination of methods 1 & 2 are also permissible. In addition, each reviewer shall prepare Audit Work paper Review notes which will document any questions raised by the reviewer. Ordinarily, the reviewer should not make any changes in the working papers. The review notes should be discussed between the reviewer and the auditor to answer the questions raised by the reviewer. Any corrections made as a result of this review should be noted on the work paper. The review notes can and should be a valuable tool in supervising and training our auditors.

#### **h. Other Standards**

1. Working papers should be prepared on the front side only.
2. To avoid confusion and complications in filing, only one subject should be dealt with on a working paper.
3. Index numbers are to be indicated on the lower center of the page. The index number should be placed on the outside of folded work papers. The papers should be indexed according to the Audit Work paper Checklist. When numbering a given area consecutive numbers

are to be used (i.e. 2-1, 2-2, 3-1, 3-2, etc.).

4. Indexing audit fieldwork work papers should contain the objective letter between the index number (20) and the work paper number (i.e. 20-F-1, 20-F-2, 20-G-1, 20-G-2, etc.)
5. Working papers should leave no unanswered questions, open points, incomplete notes or other evidence of unfinished work.
6. Working papers should be legible and neat. Sloppy work papers may lose their worth as documented evidence.
7. Where necessary, work papers should be cross-referenced to the appropriate source.

#### **Review of Audit Work papers**

An important standard applicable to all of our work is that the evidence of work performed is to be reviewed on all assignments. The review process is important and must not be carried out in a superficial or perfunctory manner. The following instructions apply to all of our audit work, including accounting system evaluations, surveys, and special studies.

1. Purpose of review of audit work papers. Audit working papers will be reviewed to assure due regard has been given to such factors as:
2. Adequacy of audit coverage, including compliance with the audit

- program and any other specific instructions given.
3. Accuracy, reliability, relevancy and adequacy of the work performed and the acceptability of the related working papers as evidence of such work.
  4. Validity, reasonableness, and adequacy of working paper support for the findings, conclusions, and recommendations made.
  5. Development into findings of weakness in procedures or other deficiencies disclosed in the working papers or inclusion in the working papers of the reasons why findings were not developed.
  6. Conformity with standards and requirements as set forth in this chapter.
  7. Due professional care was exercised by the Auditors assigned to the audit.
  8. Responsibility for review prior to issuance of audit report. All working papers will be reviewed for compliance with our prescribed standards for audit working papers.

### **Arranging and Filing**

Working papers for each audit will be retained in two standard files.

1. Permanent File, where warranted and
2. Current File.

### **Permanent File**

This file provides information which may be used to advantage in conducting

subsequent examinations relating to the same department or activity. It also supplies new staff members, supervisory personnel and others with a summary of the auditee's current policies and procedures and organization structure. It should be maintained on a current basis by updating the file as additional information is obtained as a result of the audit. This file is predominantly used for the annual reviews performed by our office.

### **Current File**

This file consists of working papers containing information primarily related to the purposes of the current audit. The organization of the files should be tailored to each specific assignment. The primary test is convenience in use and ease with which material can be located and reviewed. Generally, audit work papers should be filed as follows:

1. Planning Folder
2. Preliminary Survey Work papers
3. System Understanding Work papers
4. Audit Fieldwork Papers

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. Generally, in more complex audits, individual segment section files will be set up for the following:

1. Each organizational unit to be audited.
2. Each major functional area within such units to be reviewed during the audit.

### **Standardized Work papers**

The following standardized work papers should be used during audit assignments.

1. Audit Work paper Checklist - The Audit Work paper Checklist is to be completed by the auditor in-charge and approved by the Director. The checklist is used to ensure that the standard segments of each audit have been performed.
2. Matters For Attention of Director - The Matters for Attention of Director is to be completed by the auditor-in-charge of each engagement. Administratively, the form is used to record, the auditors assigned to the review, client personnel participating in the review, and any major concern noted during the review.
3. Audit Findings - During each phase of the audit (i.e. preliminary survey, systems understanding, and fieldwork), potential findings should be documented on finding sheets. The auditor-in-charge should submit the finding sheets to the department head, discuss the findings with the department head (via meeting, phone call, e-mail, etc.), and document discussions on the finding sheets. At the conclusion of each phase, findings will be reviewed by the Audit Director.

### **Retirement of Audit Work papers**

#### **a. Permanent File**

Review this file and update it before the completion of each audit. To keep the active file from becoming too bulky, noncurrent material worth retaining should be removed, identified, reasons for removal noted and transferred to an "Inactive" permanent file. Noncurrent material not worth retaining should be removed and referred to the Director.

#### **b. Current Working Papers Files**

Upon completion of an audit, working papers for the prior audit should be discarded. However, prior working papers relating to an objective not performed in the current audit should be carried forward to the current working papers file. Also, care should be taken to ensure that all relevant material in the preliminary survey has been carried forward to the current working papers.

### **Special Project Work papers**

When Audit and Management Services is asked to perform a review which has not been scheduled as part of the audit plan approved by the Audit Committee, the review is called a Special Project. Special Project requests can come from the Audit Committee, other Board of Visitors Members, the President, University Vice Presidents, and other University Managers. The Director of Audit and Management Services must approve all Special Projects. Due to the inherent nature of a special project, the working papers that must be prepared to complete the project depend upon the objectives of the project. However, regardless of the nature of the project, working papers that document the planning

of the engagement, the information or evidence obtained, the conclusions reached, the audit work paper review process, the audit report or memorandum, and subsequent follow-up review, if applicable, should be included in the file. The Audit Work paper Checklist should be utilized to document the standard work papers that were completed and those that were not applicable.

### **Backup and Recovery of Electronic Files**

Each auditor should backup his or her electronic work paper files to the network common drive (\auditor name\backup files) at least weekly. However, fraud investigation work papers (including those for fraud hotline cases) should not be saved on the common drive. At the end of each audit project, the auditor should backup all electronic work paper files for the project to the two backup (external) hard drives. One of these drives should be stored in the office, while the other should be kept offsite until an auditor needs to add files to the drive. If Audit and Management Services physical office space becomes unavailable due to a disaster (or other contingency):

1. The Audit Director will work to obtain resources (an alternate work location, computers, printers, supplies, etc.) that would allow the office to resume operations. The timeframe for resumption of activities would depend on the nature of the situation and space availability on campus.
2. The Director will contact office staff once an alternate location and other resources are available.
3. Once at the alternate location, auditors will

access work papers from the network common drive and/or the backup drives in order to resume audit projects.

4. The Audit Director will evaluate the availability of hard copy work papers created prior to the contingency and will determine which work papers will need to be re-created (i.e., by accessing and printing information from the common drive and backup drives).

### **Conclusion**

Finally in conclude note that Audit working papers are any papers or forms associated with the documentation of facts during the performance of an audit. Proper working papers within an audit help to demonstrate professionalism. These papers also document the work that was done from the preliminary stages of an audit through the final report. Careful documentation of work performed within the audit is necessary for support of the findings, recommendations, and opinions contained in the final audit report or close-out letter. It is a good idea for auditors to prepare and organize their working papers in a manner that helps the auditor carry the auditing service. As a general rule, auditor should try to avoid preparing or collecting unnecessary working papers, and should always try to avoid making multiple copies of the clients accounting records and related paper work. It is neither practical nor is it necessary for the auditor to document every matter considered during the audit. The less clutter involved in an audit the better. Each heading for the audit working paper should include the following information: The name of the client, the date on which it was

prepared, the time period covered by the audit, the subject matter, any files of reference, and the initials or signature of the auditor who prepared the working paper. Audit working papers, when well organized, can work as a step by step guide for the client, and any other interested parties, of what steps were taken and all of the information which was processed during the performance of the audit in question. This also helps to take some of the confusion or misunderstanding out of the process of the final report, and can reassure the client that the audit was performed in a professional manner.

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