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## **BRIEFING PAPER**

### **BOARD CONSIDERS AUDIT DOCUMENTATION STANDARD AND NEW RULE**

**JUNE 9, 2004, PUBLIC MEETING OF THE BOARD**

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At its meeting today, the Public Company Accounting Oversight Board ("Board" or "PCAOB") will consider the adoption of its third auditing standard, *Audit Documentation*, and a related amendment. The Board will also consider a new rule regarding certain terms used in its standards.

This auditing standard, proposed on November 12, 2003, would establish general requirements for documentation the auditor should prepare and retain in connection with engagements conducted pursuant to the standards of the PCAOB. The Sarbanes-Oxley Act of 2002 expressly directs the Board to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation "in sufficient detail to support the conclusions reached" in the auditor's report.

Auditors document the evidence supporting the conclusions reached in their reports with a work product commonly referred to as *audit documentation* or *working papers*. Sufficient audit documentation is an integral part of a quality audit. That is, the auditor documents not only the nature, timing, and extent of the work performed, but also the professional judgments made by members of the engagement team and others.

In addition to providing the basis for the conclusions in the auditor's report, audit documentation facilitates the planning, performance, and supervision of the engagement and provides the basis for the review of the quality of the work by providing the reviewer with written documentation of the evidence supporting the auditor's significant conclusions.

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The objectives of this audit documentation standard are to improve audit quality and to enhance public confidence in the quality of auditing and other engagements. Complete and thorough audit documentation improves the quality of the work performed in many ways. One important example is that quality audit documentation is a record of the actual work performed, which provides assurance that the auditor accomplished the planned objectives. Further, the need to document the procedures performed, the evidence obtained, and the conclusions reached demands a disciplined approach to planning and performing the engagement. Also, audit documentation facilitates the reviews performed by supervisors, managers, partners, and PCAOB inspectors.

The Board will also consider a new rule, proposed on October 7, 2003, which sets forth the terminology the Board will use to describe the degree of responsibility that the auditing and related professional practice standards impose on auditors. If adopted, the new rule would also apply to the Board's interim standards.

This standard and rule, if adopted today, will not take effect unless approved by the Securities and Exchange Commission pursuant to Section 107(b) of the Sarbanes-Oxley Act. Background information on this standard and rule is available on the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org) under Rulemaking.

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The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.