

NSA 03

NEPAL STANDARDS ON AUDITING DOCUMENTATION

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Introduction

01. The purpose of this Nepal Standard on Auditing (NSA) is to establish standards and provide guidance regarding documentation in the context of the audit of financial statements. This NSA is to be read in conjunction with the Preface to Nepal Standards on Auditing.
02. This NSA contains the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material.
03. This NSA needs only be applied to material matters.

Documentation

04. **The auditor should document matters which are important in providing evidence to support the audit opinion and evidence that the audit was carried out in accordance with Nepal Standards on Auditing (NSA).**
05. "Documentation" means the material (working papers) prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit. Working papers may be in the form of data stored on paper, film, electronic media or other media.
06. Working papers:
 - assist in the planning and performance of the audit,
 - assist in the supervision and review of the audit work and
 - provide evidence of the audit work performed to support the auditor's opinion.

Form and Content of Working Papers

07. **The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit.**

08. **The audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidence obtained should be recorded in working papers. All significant matters, which require the exercise of judgement, together with the auditor's conclusion thereon, should be included in the working paper.**
09. The form and content of working papers are affected by matters such as the:
- nature of the engagement,
 - form of the auditor's report,
 - nature and complexity of the client's business,
 - nature and condition of the client's records and degree of reliance on internal control,
 - needs in the particular circumstances for direction, supervision and review of work performed by assistants and
 - specific audit methodology and technology used in the course of the audit.
10. Working papers are designed and organised to meet the circumstances and the auditor's needs for each individual audit. The use of standardised working papers (for example, checklists, specimen letters, organisation of working papers) may improve the efficiency with which such working papers are prepared and reviewed. They facilitate the delegation of work while providing a means to control its quality.
11. Working papers should be sufficiently complete and detailed for an auditor to obtain an overall understanding of the audit. The extent of documentation is a matter of professional judgement since it is neither necessary nor practical to document every observation, consideration or conclusion by the auditor in his working papers.
12. To improve audit efficiency, the auditor may utilise schedules, analyses and other documentation prepared by the client. In such circumstances, the auditor would need to be satisfied that those materials have been properly prepared.
13. Working papers normally include:
- information concerning the legal and organisational structure of the client,
 - extracts or copies of important legal documents, agreements and minutes,
 - information concerning the industry, economic environment and legislative environment within which the client operates,
 - evidence of the planning process including audit programs and any changes thereto,
 - evidence of the auditor's understanding of the accounting and internal control systems,
 - evidence of inherent and control risk assessments and any revisions thereof,
 - evidence of the auditor's consideration of the work of internal auditing and conclusions reached,
 - analyses of transactions and balances,
 - analyses of significant ratios and trends,
 - a record of the nature, timing and extent of audit procedures performed and the results of such procedures,

- evidence that the work performed by assistants was supervised and reviewed,
 - an indication as to who performed the audit procedures and when they were performed,
 - details of procedures applied regarding components whose financial statements are audited by another auditor,
 - copies of communications with other auditors, experts and other third parties,
 - copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in internal control,
 - letters of representation received from the client,
 - conclusions reached by the auditor concerning significant aspects of the audit, including how exceptions and unusual matters, if any, disclosed by the auditor's procedures were resolved or treated and
 - copies of the financial statements and auditor's report.
14. In the case of the recurring audits, some working paper files may be classified as "permanent" audit files which are updated with new information of continuing importance to succeeding audits, as distinct from current audit files which contain information relating primarily to the audit of a single period.
15. A permanent audit file normally includes:
- information concerning the legal and organisational structure of the client. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions,
 - extracts or copies of important legal documents, agreements and minutes relevant to the audit,
 - a record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof,
 - copies of audited financial statements of previous years,
 - analysis of significant ratios and trends,
 - copies of management letters issued by the auditor, if any,
 - record of communication with the retiring auditor, if any before acceptance of the appointment as auditor,
 - notes regarding significant accounting policies and
 - significant audit observations of earlier years.
16. The current audit file normally includes:
- correspondence relating to acceptance of annual reappointment,
 - extracts of important matters in the minutes of Board Meetings and General Meetings, as are relevant to audit,
 - evidence of the planning process of the audit and audit programme,
 - analysis of transactions and balances,

- a record of the nature, timing and extent of auditing procedures performed, and the results of such procedures,
- evidence that the work performed by assistants was supervised and reviewed,
- copies of communications with other auditors, experts and other third parties,
- copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant internal controls,
- letters of representation or confirmation received from the client,
- conclusions reached by the auditor concerning significant aspects of the audit, including the manner in which exceptions and unusual matters, if any, disclosed by the auditor's procedures were resolved or treated and
- copies of the financial information being reported on and the related audit reports.

Confidentiality, Safe Custody, Retention and Ownership of Working Papers

17. **The auditor should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record retention.**
18. Working papers are the property of the auditor. Although portions of or extracts from the working papers may be made available to the client at the discretion of the auditor, they are not a substitute for the client's accounting records.

Compliance with International Standards on Auditing

19. Compliance with this NSA ensures compliance in all material respects with ISA 230 (Documentation).

Effective Date

20. This Nepal Standard on Auditing becomes operative for the audit commencing on or after 01 Magh 2060 corresponding to 15 January 2004.