

The Importance of Audit Documentation Integrity

1. Introduction

High-quality audits are the foundation underlying the public's trust in financial reporting and the integrity of capital markets. Audit documentation is the primary means by which auditors evidence their compliance with auditing standards. Therefore, effective documentation has a dual role in enhancing audit quality and reducing risk of non-compliance. Audit documentation also provides the evidence by which both internal reviewers and external inspectors assess the quality of the work undertaken to support the auditor's conclusions.¹

Audit Documentation Integrity

In the context of this article, audit documentation integrity refers to the need to ensure that audit documentation is:

Archived on a timely basis. This means archiving in accordance with the requirements of the Hong Kong Standards on Auditing (HKSA) and Hong Kong Standard on Quality Management (HKSQM) and in line with any audit documentation policies established by the audit firm; and

Not improperly altered. This means that after archiving, audit documentation is not altered, added, or removed from the audit file unless for one of the limited number of reasons described in the auditing and quality management standards.

The key requirements of the auditing and quality management standards are discussed in detail in [Section 2](#) of this article.

Audit documentation integrity is vital, and firms must have an effective system of policies, procedures, and controls to ensure audit documentation is complete, archived on a timely basis and not improperly altered.

¹ HKICPA "[Hong Kong Standard on Auditing 230 Audit Documentation](#)", January 2024

The purpose of this article is to:

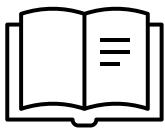
- Remind auditors of the key standards relating to audit documentation integrity.
- Convey the AFRC's concerns and recent findings in respect of audit documentation integrity.
- Explain the importance and urgency of developing an effective system of audit documentation policies, procedures, and controls;
- Illustrate the wider quality benefits of such a system; and
- Urge audit firms to conduct a holistic review of the effectiveness of their audit documentation systems.

2. The AFRC's concerns

2.1 Failure to archive on a timely basis

Public Interest Impact

Failure to archive audit documentation on a timely basis is not only a breach of HKSA 230 Audit Documentation and HKSQM 1 Quality Management for Firms that Perform Audits and a misconduct under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (AFRCO), but it is also indicative of a poor system of internal control at a firm and may cast doubt on the firm's integrity.



HKSQM 1 and HKSA 230 *Audit Documentation*

HKSQM 1² and HKSA 230³ both require audit firms to establish quality objectives and systems of control to ensure that audit documentation is archived on a timely basis.

Both standards state that a timely basis for completion of the final file assembly is ordinarily not more than 60 days.⁴

² HKICPA "[Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits...](#)", Paragraph 31(f)

³ HKICPA "[Hong Kong Standard on Auditing 230 Audit Documentation](#)", Paragraph 14.

⁴ HKICPA "[Hong Kong Standard on Auditing 230 Audit Documentation](#)", Paragraph A21. HKICPA "[Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits...](#)", Paragraph A83.

The AFRC believes that whilst 60 days is a reasonable maximum, firms should consider if a shorter deadline is more appropriate to safeguard audit quality. This is discussed in more detail in [Section 3.3](#) of this article.

Establishing the necessary systems of quality control and archiving on a timely basis enhances audit quality by helping to ensure that audit documentation is an accurate and complete representation of the work undertaken and is readily available for both internal and external review purposes. Unless information is consolidated at an early stage, engagement teams' ability to recall the details of any significant judgements made is likely to fade. Hence, earlier archiving of audit documentation will benefit the firm.

The AFRC is concerned with the number of findings relating to the integrity of audit documentation. In our [2021 inspection report](#) 64% of the Category B and C firms⁵ inspected had insufficient controls to avoid unauthorised alteration or loss of archived audit documentation.⁶ In our [2022 inspection report](#) this had increased to 71% of Category B and C firms⁷. This indicates that these firms have not implemented an effective system of policies, procedures, and controls to ensure audit documentation is complete, archived on a timely basis and not improperly altered.

Of the most concern are cases where it appears the auditor has improperly altered audit documentation once an audit was selected by the AFRC for inspection. In our [2023 Inspection Insights](#) we describe an instance where an engagement team created working papers after the file had been assembled and backdated them to create the impression that they were completed at the time of the audit.⁸

⁵ These refer to the firms which are registered with the AFRC as public interest entity (PIE) auditors. Category A, B, and C PIE auditors completed more than 100, between 10 and 100, and at least one but fewer than 10 listed entity audits annually, respectively.

⁶ AFRC, "[2021 Annual Inspection Report](#)", 23 June 2022

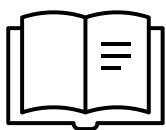
⁷ AFRC, "[2022 Annual Inspection Report](#)", 11 July 2023

⁸ AFRC, "[Inspection Insights](#)", 30 November 2023

2.2 Improper alteration of audit documentation

Public interest impact

Where auditors improperly alter documentation, it is a breach of the HKSA and HKSQM requirements and a misconduct under the AFRCO. Improper alteration compromises audit quality by casting doubt on the accuracy and completeness of audit files and undermines public trust in the audit market.



HKSA 230 Audit Documentation

HKSA 230 prohibits firms from deleting or discarding audit documentation after archiving the audit file.⁹

Permitted Changes

HKSA 230 also states that audit documentation should only be altered after archiving for the following limited reasons¹⁰:

- In exceptional circumstances where new audit procedures must be performed, such as a major event occurring at an entity after the audit is completed, which casts doubt on the entity's ability to continue as a going concern;
- For administrative purposes such as sorting and collating working papers or finalizing completion checklists relating to the file assembly process; and
- For the clarification only of existing audit documentation as a result of comments received during external or internal monitoring inspections.

⁹ HKICPA "[Hong Kong Standard on Auditing 230 Audit Documentation](#)", Paragraph 15.

¹⁰ HKICPA "[Hong Kong Standard on Auditing 230 Audit Documentation](#)", Paragraphs 13, 16, A22 and A24.

3. Failing to maintain audit documentation integrity as a misconduct

3.1 The AFRCO

Under section 37AA¹¹ of the AFRCO, misconduct includes situations where an auditor “does an act or makes an omission that amounts to a “professional irregularity” as defined under section 3B¹² of the AFRCO”.

Professional irregularities include situations where an auditor “fails to observe, maintain or otherwise apply a professional standard”, “falsifies or causes to be falsified a document”, “makes a statement, in respect of a document, that is material, and that the person knows to be false or does not believe to be true”.

3.2 Disciplinary actions

The Hong Kong Institute of Certified Public Accountants (HKICPA) took the following disciplinary actions between November 2018 and November 2023¹³ in relation to practice reviews where either failure to archive on a timely basis or improper alteration of audit documentation were part of the HKICPA’s findings:

	PIE engagements	Non-PIE engagements	Sanctions applied ¹⁴
Failure to archive on a timely basis	1	4	<ul style="list-style-type: none"> Fines ranging from HK\$50,000 to HK\$200,000. Cancellation of Practising Certificates for a period ranging from 6 to 36 months.
Improper alteration of audit documentation	-	4	<ul style="list-style-type: none"> Fines of HK\$100,000. Cancellation of Practising Certificates for a period ranging from 6 to 24 months.

Fig 1. Summary of HKICPA disciplinary actions

¹¹ AFRCO section 37AA covers certified public accountant (CPA) misconduct for professional persons (defined in AFRCO section 2(1) as a CPA or a practice unit (i.e. a CPA (practising), CPA firm or corporate practice registered with the AFRC)). AFRCO section 37A covers FR misconduct for registered PIE auditors (defined in AFRCO section 3A as a practice unit registered under Division 2 of Part 3 of the AFRCO as a PIE auditor. It is eligible for undertaking or carrying out PIE engagements).

¹² AFRCO section 3B sets out the situations under which a professional person commits a professional irregularity that constitutes a CPA misconduct. AFRCO section 4 describes those under which a registered PIE auditor commits a practice irregularity that constitutes a FR misconduct.

¹³ The disciplinary actions undertaken after the regulatory reform refer to disciplinary cases initiated by the HKICPA, and which had already been referred to the HKICPA Disciplinary Committee prior to 1 October 2022, and subsequently continued and concluded by the HKICPA.

¹⁴ The sanctions described in the HKICPA’s disciplinary cases above are in respect of multiple failings to meet HKSA requirements identified in practice reviews and not solely related to a failure to archive or improper alteration of audit documentation. It is not possible to attribute a specific element of the sanction to each individual finding within a case.

3.3 Establishing an effective system of audit documentation integrity policies, procedures, and controls

To safeguard audit documentation integrity, audit firms must have an effective system of policies, procedures and controls including:

- Written policies:
 - A written policy regarding the completion and archiving of audit documentation is a must.
 - Any written policy should effectively communicate the importance of following the firms' policies, procedures, and controls to safeguard audit quality and reduce the risk of non-compliance with standards.

- Reasonable time frames for audit documentation archiving:
 - Although 60 days is stated in HKSA 230 as a reasonable time frame, firms should carefully consider if this is too long for the purpose of safeguarding audit quality. Longer archiving periods are likely to lead to poorer quality audit documentation as the passage of time and the need to complete other engagements might have combined to erode an engagement team's ability to finalise audit documentation in sufficient detail.
 - Additionally, a longer archiving period increases the risk that engagement team members may leave the audit firm without finalising important audit documentation. This should be of particular concern given the high vacancy and attrition rates identified in the AFRC's recent [Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong](#).¹⁵

- Change management procedures:
 - Where audit firms' documentation is predominantly held on a paper-based filing system, a record of when the file is complete to prevent

¹⁵ AFRC, "[Report on the Analysis of the Public Interest Entity Audit Market in Hong Kong](#)," March 2024

improper alteration is a must. This could be a form, dated and stamped on audit file completion. If any changes need to be made for administrative purposes, they should be date and time stamped, with the name of the user who made any changes recorded. Any relevant approvals required for change management should also be recorded.

- Where an electronic filing system which is not specifically designed for use in audit is deployed, for example spreadsheets held on a cloud drive, files should be locked with an administrator password, set in accordance with the firms' security policies, upon completion of the audit file to avoid improper alteration of audit documentation. Subsequent administrative changes should be recorded and the reason for any change clearly documented. Electronic filing systems specifically designed for use in audit always have locking features, which allows for the automatic logging of changes.

- Compliance monitoring procedures:
 - Regardless of whether a paper or electronic filing system is used, there should be procedures for monitoring compliance with the firm's audit documentation policies. This could include spot checks, by the individual responsible for audit quality, on recently completed audit engagements to ensure they have been filed in accordance with policy.

- Sufficient education and training:
 - In our recent article, [Continuing Professional Development \(CPD\) as a Key to Improving Audit Quality in Hong Kong](#), we highlighted the vital importance of CPD to ensuring auditors have an appropriate level of knowledge and skills to undertake their work.¹⁶ Training on the importance of audit documentation integrity is critically important as it ensures that firm's archiving policies are followed.

¹⁶ AFRC, [Continuing Professional Development \(CPD\) as a Key to Improving Audit Quality in Hong Kong](#), 8 January 2024

3.4 Benefits of effective policies, procedures, and controls

The AFRC is concerned that insufficient audit documentation integrity controls are symptomatic of a lack of audit quality at audit firms:

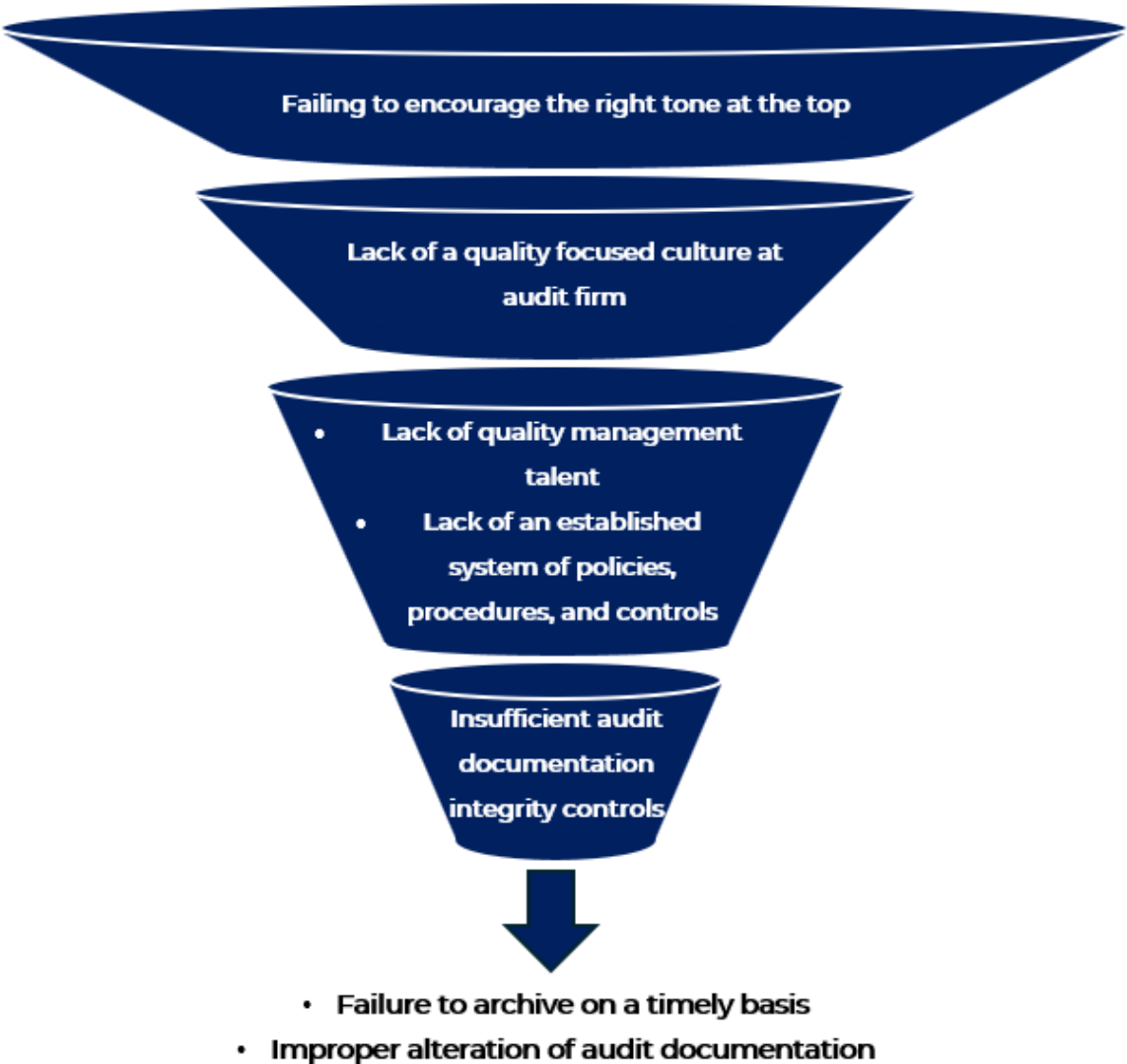


Fig 2. Consequences of a lack of focus on quality

Failing to encourage the right tone at the top, a lack of a quality focused culture and a lack of effective policies, procedures, and controls contributes to poor audit quality and adverse regulatory outcomes. When developing the systems described above, firms should consider the benefits that effective policies, procedures, and controls can deliver which include:

- An improved culture, where effective policies, procedures, and controls drive a focus on audit quality and emphasise the importance the firm attaches to quality.
- Improved monitoring of internal resources, where effective systems can give early warnings of undue time pressure. This allows for these issues to be dealt with proactively, and not just as part of later compliance reviews.
- Reducing the risk of non-compliance with relevant laws, regulations, and professional standards.

4. Summary

The sustainable development of an audit firm depends on its ability to consistently deliver high-quality audit engagements, which are dependent on high-quality audit documentation. Effective policies, procedures, and controls, play a pivotal role in this by:

- Reducing the risk of non-compliance with standards with regard to timely archiving and subsequent alteration of audit documentation
- Helping to prevent acts of misconduct; and
- Promoting a quality focused culture.

High-quality audit documentation also serves as a valuable learning tool for future reference. Demonstrating a clear commitment to audit documentation integrity, through establishing the right tone at the top, fosters a quality focused environment and helps to contribute to the positive public image of audit.