



Institute of Certified Public Accountants of Kenya

Technical Release No. 7/2003

Guideline on Retention of Audit Working Papers

The information contained in this publication is the property of the Institute of Certified Public Accountants of Kenya. Reproduction in any form whatsoever without prior authority is prohibited.

ICPAK
November 2003

1. Preamble

The question of the period of retention of audit working papers remains a contentious and challenging issue to the accountancy profession in Kenya and beyond. This is in view of the various uses for which the working papers may be required, some of which have far reaching implications. A case in point is the highly publicised collapse of Arthur Andersen for which audit working papers played a role.

In reviewing the subject the following observations have been made:

- a) Some audit firms have been operating in Kenya for a long period of time with some close to a century. Such firms may have accumulated a large volume of information over the period of time. Although many will have disposed of out-of-date files in a systematic way, keeping these files is a costly exercise.
- b) The audit working papers are the property of the auditor and are not part of the records required to be maintained for tax purposes by the audited entity. They therefore do not fall under the records regulated under the various taxation statutes such as the Income Tax Act, VAT Act, Customs and Excise Tax among others.
- c) While the primary duty of care is owed to the person(s) appointing the auditor, other parties can take action under civil or criminal proceedings against the auditor. The working papers can therefore be produced as evidence of work done by the auditor or be required to be produced by the court as evidence in a matter before the court.

In view of the above issues, the Institute has deemed it necessary to draw the attention of its members to the importance of the subject and to guide them in handling the retention of working papers.

The Approach taken is:

- i) To review the purpose of retention of audit working papers
- ii) To review the practice elsewhere in respect of retention of audit working papers
- iii) To make recommendations.

2. Purpose of retention.

It is generally agreed that working papers are the property of the auditor and although portions of, or extracts from, the working papers may be made available to the entity at the discretion of the auditor, they are not a substitute of the entity's accounting records. The working papers are therefore primarily maintained for the needs of the auditor that include among others;

- a) To provide evidence of work done where necessary. Such would be the case where the work of the auditor is being questioned or the auditor is required to provide evidence in a court-case in which the client has an interest.
- b) To enable the auditor to follow-up his recommendations to the client.
- c) To retain information that is likely to be used for future work.

It will therefore be expected that the auditor will determine how long he needs to retain the working papers based on the above and other considerations.

While it is possible for the auditor to determine the time span for which the working papers are required for the purpose of follow-up with client and for use in future work, the retention period required for the purpose of adducing evidence for work done when required to do so is not easily determinable and is primarily the issue of concern to the auditor and the accountancy profession locally and globally.

3. Practices elsewhere.

This section provides an overview of how the subject matter is dealt with in a number of other countries for comparative purposes.

	Country	Statutory requirement	Professional requirement	Reference
1	Australia	No specific legislation.	8 years considered appropriate based on the requirement of Limitation of Actions Act which requires 6 years and an additional 2 years to take into account the possible period of reliance that could be placed on an auditors report and the initial period for the commencement of legal proceedings.	AUS 208 "DOCUMENTA TION"

2	Hong Kong	No specific statutory requirement	No explicit period required. Auditors are expected to exercise judgment to determine the appropriate retention period bearing in mind possible needs of their clients.	Statement of auditing standards no. 230, Documentation.
3	United States of America	Sarbanes-Oxley Act of 2002.- ③Section 103 provides that the oversight Board established by section 101 of the Act will require registered accounting firms to maintain audit related materials for at least 7 years ③Section 802 requires any accountant that conducts an audit of any issuer to retain all audit or (?) review paperwork for a period of 5 years	SAS 96 – Makes no specific reference to the period.	-Sarbanes-Oxley Act of 2002. -SEC Release No.2003-11, Retention of Records Relevant to Audits and Reviews. Compliance date 31 st October 2003.
4	South Africa	No Specific Provision.	No specific reference to the period	SAAS 230 Public Accountants and Auditors Act 1991

IFAC has not specified the period of retention. ISA 230, Documentation provides that 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 keeping.

4. Review of Local legislation

4.1 Limitation of Actions Act Cap 22,

- a) Actions founded on contract may not be brought after the end of six (6) years from the date on which the cause of action accrued.

- b) Actions founded on tort may not be brought after the end of three years from the date on which the cause of action accrued. Provided that an action for libel or slander may not be brought after the end of twelve months from such date.
- c) Action upon a judgment may not be brought after the end of 12 years from the date on which the judgment was delivered, or (where the judgment or a subsequent order directs any payment of money or the delivery of any property to be made at a certain date or at recurring periods) the date of the default in making the payment or delivery in question.

4.2. Criminal proceedings as a general rule have no time limitation.

5. Recommendations.

Having considered the practice in a number of other countries and the provisions of our local legislation, the following recommendations are made:

- 5.1 Audit working papers relating to an engagement which is the subject of existing litigation should not be destroyed until the litigation is over and the judgment thereon settled. If the judgment is not settled the working papers should be maintained for at least 12 years from the date of the judgment or the from the date the action required by the judgment becomes due.
- 5.2 Under other circumstances, the working papers should be retained for at least 8 years after the date of adoption of the financial statements by the owners of the entity, to cater for 6 years required by the Limitation of Actions Act for actions founded on contracts and an additional **2 years** to take into account the possible period of reliance that could be placed on an auditor's report and the initial period for the commencement of legal proceedings.
- 5.3 The period of retention should become law through an Act of parliament to provide the appropriate legal backing. This will be achieved through revision of the Accountants Act currently under review.

Council continues to provide guidance on complex issues relating to the implementation of Professional Standards with a view to enhancing compliance with the Standards. Such guidance is meant to assist in dealing with various issues and does not in anyway replace the Standards or absolve members from complying with the Standard(s) in question.