

Microfilm Records and their Audit Implications

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AUDIT GUIDANCE STATEMENT

AGS 3

Microfilm Records and their Audit Implications

Introduction

1. The increased cost of storage has led to the increasing use of microfilming for storing accounting records. This Statement sets out certain considerations in the audit of the financial statements of an entity which uses microfilm records. The legal considerations have been included to draw attention to some of the problems that may arise in keeping only microfilm records and will assist the auditor in responding to inquiries from those considering microfilm application for their accounting records. This Statement does not deal with the retention periods of documents and records whether in their original or in the form of microfilm; the relevant statutory provisions, for example, in the Companies Act, should be complied with in this regard.

Some legal considerations

2. Business records are kept not only because they are necessary to the operations of the business but also because there are several statutes in Singapore that specifically require the retention of documents. **The statements made in this section are of a general nature only and not intended to deal exhaustively with the legal implications of microfilm records.**

Admissibility in evidence

3. There is at present no general statutory provision for the admission in evidence of microfilm copies of original documents. The general rule of evidence is that the original document should be produced to establish its contents. However, section 65 paragraph (c) of the Evidence Act (Cap. 97) provides that when the original has been destroyed or lost, secondary evidence may be given of the existence, condition or contents of the document. Secondary evidence includes copies made from the original by mechanical processes which in themselves ensure the accuracy of the copy (see section 63 paragraph (b) of the Act). Microfilming is a process that should satisfy this requirement of accuracy.
4. Users of microfilm records should familiarise themselves with sections 62 to 67 of the Evidence Act. They should also note that Singapore does not have the equivalent of the English Civil Evidence Act of 1968 where it is provided that in civil court proceedings if the entries are made in records (which include microfilm) and entered in the course of duty or business it could be admitted, but it is a very widely held view among legal circles in Singapore that microfilm copies of entries in books would, notwithstanding that there is no similar English legislation, still be admissible if they were systematically kept and kept in the normal course of business.

Proof of affidavit

5. The law requires evidence of the correctness of a copy of a document. It is often necessary to satisfy the Court as to the genuine nature of the copy by confirming that it has not been tampered with in any way and that the original was not destroyed for any dubious or unlawful reason. This verification of the copy is usually done through an affidavit sworn by the person submitting the copy stating that it is genuine and the reasons why he knows it to be genuine. It is therefore important that there are procedures laid down for the microfilming process to enable the person responsible for the processing to make the necessary affidavit.

Periods of limitation

6. For most actions, periods of limitation are prescribed by statute with the consequence that an action begun after the periods of limitation have expired is not maintainable. For example, the normal period allowed for instituting proceedings with regard to an action for breach of contract is six years from the date of the alleged breach. It would therefore be advisable to keep the originals of material documents leading up to the formation of the contract for that period. The limitation period for debt collection, an action also founded on contract, is six years. Where it is known that a particular document which is otherwise due for destruction is relevant to proceedings, either pending or anticipated, the original document should be retained for production.

Retention of documents for the audit

7. Relevant to the consideration of the acceptability of microfilm records as audit evidence is the distinction between internally generated documents (e.g. sales invoices) and those that are externally generated (e.g. purchase invoices). Microfilm copies of internally generated documents would be considered satisfactory evidence for audit purposes, provided of course that the controls are adequate. With externally generated documents, it is felt that no matter how good the control procedures are, the possibility of their being altered does exist. The auditor should therefore insist that such documents be retained in their original form, at least until after the audit is completed.

Internal control over microfilming process

8. Before the auditor can consider accepting microfilm records for audit purposes, he must satisfy himself as to the internal control over the microfilming process. An audit may be required on the microfilming system to ascertain whether the control procedures ensure that appropriate information is correctly recorded.
9. The control objectives for a microfilm application would be similar to those for an EDP system. In addition, the auditor should consider the following matters:
 - (a) Is there a formally recorded policy approved by senior management setting out the documents which may be destroyed, and are all such destructions properly authorised in accordance with this policy?
 - (b) Is the microfilming done under adequate supervision, for example, by the internal audit department or other responsible official independent of the microfilming personnel?
 - (c) Are registers kept to record and control the documents microfilmed and those destroyed?
 - (d) Are indexing and retrieval controls adequate to ensure easy reference to microfilmed records?
 - (e) Is a complete set of back-up films maintained at a different location?

Audit planning

10. It is essential that the auditor liaises with his client before the implementation of a microfilm application. This would prevent the premature destruction of records for audit purposes. Moreover it would provide an opportunity for internal control aspects to be highlighted and discussed.

Availability of records for the audit

11. In order that the auditor may have access to the microfilm records, a reader would have to be made available during the audit.