

# Agenda Item 4-D.1

## Analysis of ISA 330 and Mapping Document

1. Exhibit 1 sets out statements in ISA 330 that use the present tense to describe auditor actions, and the proposed treatment of whether the actions should be redrafted as a requirement, or redrafted to make clear that it is explanatory material. Paragraph references to extant ISA 330 and to the redrafted ISA 330 (shown in Agenda Item 4-D) are provided.
2. Exhibit 2 sets out extant ISA 330 and maps each of its paragraphs (which may have been reworded as necessary) to the redrafted ISA 330. The highlight material indicates sentences and paragraphs that are proposed to be deleted as part of the redrafting. An explanation of the proposed deletion and other comments are provided, where appropriate.

### Exhibit 1

Para	Existing present tense statements	Change to "shall"	New para	Rationale and comment
3	... the auditor also complies with the requirements and guidance in ISA 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements" in responding to assessed risks of material misstatement due to fraud.	No	–	Deleted as part of revised format
7	In designing further audit procedures, the auditor considers such matters as the following: <ul style="list-style-type: none"> <li>• The significance of the risk.</li> <li>• The likelihood that a material misstatement will occur</li> <li>• The characteristics of the class of transactions, account balance, or disclosure involved.</li> <li>• The nature of the specific controls used by the entity and in particular whether they are manual or automated.</li> <li>• Whether the auditor expects to obtain audit evidence to determine if the entity's controls are effective in preventing, or detecting and correcting, material misstatements.</li> </ul>	Yes No No Yes Yes Yes	6 – – 7(a)(i) 7(a)(ii) 7(a)(ii)	These 2 dot points are very generic and are covered by new para 6. ) ) ) These considerations are ) essential in all cases to ) give effect to new para 7 ) ) )
8	... the auditor needs to be satisfied that performing only substantive procedures for the relevant assertion would be effective in reducing the risk of material misstatement to an acceptably low level. ... Irrespective of the approach selected, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure as required by paragraph 49.	No Yes	– 18 & F/n 2	A restatement of the general principle of the ISA Repetition of existing "bold" requirement
9	... in addition to the matters referred to in paragraph 8 above, the auditor considers whether in the absence of controls it is possible to obtain sufficient appropriate audit evidence.	No	A5	Rephrased as a statement of fact, rather than appearing to impose an additional responsibility on SMSs

11	The auditor's selection of audit procedures is based on the assessment of risk. The higher the auditor's assessment of risk, the more reliable and relevant is the audit evidence sought by the auditor from substantive procedures. This may affect both the types of audit procedures to be performed and their combination.	Y/N Y/N		Covered by new para 6 New 7(b) contains a similar thought
12	In determining the audit procedures to be performed, the auditor considers the reasons for the assessment of the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure. ... For example, if .... On the other hand, if the auditor expects that there is a lower risk that a material misstatement may arise because an entity has effective controls and the auditor intends to design substantive procedures based on the effective operation of those controls, then the auditor performs tests of controls to obtain audit evidence about their operating effectiveness.	Yes  No	7(a)  A8	  Clearly intended as an example only
13	The auditor is required to obtain audit evidence about the accuracy and completeness of information produced by the entity's information system when that information is used in performing audit procedures. For example, if the auditor uses non-financial information or budget data produced by the entity's information system in performing audit procedures, such as substantive analytical procedures or tests of controls, the auditor obtains audit evidence about the accuracy and completeness of such information. See ISA 500, "Audit Evidence" paragraph 11 for further guidance.	No	–	This para deleted as it is a repeat of requirements contained in ISA 500.11
15	If the auditor performs tests of controls or substantive procedures prior to period end, the auditor considers the additional evidence required for the remaining period (see paragraphs 37-38 and 56-61).	No	–	Sentence deleted – generic repetition of requirement under new paras 11 and 21-23.
16	In considering when to perform audit procedures, the auditor also considers such matters as the following: <ul style="list-style-type: none"> <li>• The control environment</li> <li>• When relevant information is available (for example, electronic files may subsequently be overwritten, or procedures to be observed may occur only at certain times).</li> <li>• The nature of the risk (for example, if there is a risk of inflated revenues to meet earnings expectations by subsequent creation of false sales agreements, the auditor may wish to examine contracts available on the date of the period end).</li> <li>• The period or date to which the audit evidence relates.</li> </ul>	No	A13	These are not matters auditors should necessarily consider individually each time they plan substantive procedure.
17	If there is a risk that the entity may have entered into improper sales contracts or transactions may not have been finalized at period end, the auditor performs procedures to respond to that specific risk. For example, when transactions are individually material or an error in cutoff may lead to a material misstatement, the auditor ordinarily inspects transactions near the period end.	No	A12	This is an illustration only

21	However, the auditor considers whether the extent of testing is appropriate when performing different audit procedures in combination.	No	A15	Application only - the principle is adequately covered by the general requirement of new para 6
22	The auditor is required to perform tests of controls when the auditor's risk assessment includes an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level.	No	–	Para deleted – repetition of new paras 8(a) and 8(b)
24	The auditor's assessment of risk of material misstatement at the assertion level may include an expectation of the operating effectiveness of controls, in which case the auditor performs tests of controls to obtain audit evidence as to their operating effectiveness.	No	–	Para deleted – repetition of new para 8(a).
26	When obtaining audit evidence of implementation by performing risk assessment procedures, the auditor determines that the relevant controls exist and that the entity is using them. When performing tests of the operating effectiveness of controls, the auditor obtains audit evidence that controls operate effectively.... If substantially different controls were used at different times during the period under audit, the auditor considers each separately.	No  Y/N  No	   A17	Deleted – repetition of ISA 315  Now in definition at new 4(b)  Adequately covered by the principle in new para 10
27	For example, the auditor may have made inquiries about..., and inspected .... These audit procedures provide knowledge about ..., and may also provide audit evidence about .... In such circumstances, the auditor considers whether the audit evidence provided by those audit procedures is sufficient.	No		Deleted - repeats general principle of ISA 500 to gather sufficient appropriate audit evidence.
28	The auditor selects audit procedures to obtain assurance about the operating effectiveness of controls. As the planned level of assurance increases, the auditor seeks more reliable audit evidence.	No Y/N		Now in the definition Similar to new para 7(b)
29	Since inquiry alone is not sufficient, the auditor uses a combination of audit procedures to obtain sufficient appropriate audit evidence regarding the operating effectiveness of controls.	No	A23	Covered by redrafted IA 500.
31	In designing tests of controls, the auditor considers the need to obtain audit evidence supporting the effective operation of controls directly related to the assertions as well as other indirect controls on which these controls depend. For example, the auditor may identify a user review of an exception report of credit sales over a customer's authorized credit limit as a direct control related to an assertion. In such cases, the auditor considers the effectiveness of the user review of the report and also the controls related to the accuracy of the information in the report (for example, the general IT-controls).	Yes   No	9(c)   A25	Important step to consider in all cases before relying on controls   Application of principle – example only
33	(Re dual-purpose tests) The auditor carefully considers the design and evaluation of such tests to accomplish both objectives.	No	A20	Achieving objectives is inherent in basic requirements; this is application only.
34	However, misstatements that the auditor detects by	Yes	16	This should be done in all



	<p>discussion of specific risks arising from manual and automated elements of a control).</p> <ul style="list-style-type: none"> <li>• The effectiveness of general IT-controls.</li> <li>• The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control from tests of operating effectiveness noted in prior audits.</li> <li>• Whether the lack of a change in a particular control poses a risk due to changing circumstances.</li> <li>• The risk of material misstatement and the extent of reliance on the control.</li> </ul>			
43	Therefore, when the auditor determines in accordance with paragraphs 39-42 that it is appropriate to use audit evidence obtained in prior audits for a number of controls, the auditor plans to test a sufficient portion of the controls in that population in each audit period, and at a minimum, each control is tested at least every third audit.	No		Repeats requirement of new para 13(b)
44	The greater the risk of material misstatement, the more audit evidence the auditor obtains that relevant controls are operating effectively. Accordingly, although the auditor often considers information obtained in prior audits in designing tests of controls to mitigate a significant risk, the auditor does not rely on audit evidence obtained in a prior audit about the operating effectiveness of controls over such risks, but instead obtains the audit evidence about the operating effectiveness of controls over such risks in the current period.	Y/N		Substantially covered by new para 7(b)
		No		Deleted - already covered by principle in new para 14
45	The auditor designs tests of controls to obtain sufficient appropriate audit evidence that the controls operated effectively throughout the period of reliance..	No		Unnecessary repetition
46	The more the auditor relies on the operating effectiveness of controls in the assessment of risk, the greater is the extent of the auditor's tests of controls. In addition, as the rate of expected deviation from a control increases, the auditor increases the extent of testing of the control. However, the auditor considers whether the rate of expected deviation indicates that the control will not be sufficient to reduce the risk of material misstatement at the assertion level to that assessed by the auditor.	Yes	15	Key determinant of the extent of tests of control
		No		Only one of the matters the auditor may consider per old para 45, rather than a key determinant.
		No	(A38)	Deleted, related more to audit efficiency than effectiveness. The effectiveness issue is adequately picked up in new para 17
47	Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor considers performing tests to determine that the control continues to function effectively..	No	A36	Procedural guidance only – application of the general principle in new para 10
48	The auditor plans and performs substantive procedures to be responsive to the related assessment of the risk of material misstatement.	Y/N		Now part of the definition at new 4(a)
49	... the auditor always performs substantive procedures	No		Deleted - repetition of

	for each material class of transactions, account balance, and disclosure.			Requirement at new para 18.
52	The auditor considers the guidance in paragraphs 53-64 in designing the nature, timing, and extent of substantive procedures for significant risks.	No		Deleted - cross reference only
54	The auditor designs tests of details responsive to the assessed risk with the objective of obtaining sufficient appropriate audit evidence to achieve the planned level of assurance at the assertion level. In designing substantive procedures related to the existence or occurrence assertion, the auditor selects from items contained in a financial statement amount and obtains the relevant audit evidence. On the other hand, in designing audit procedures related to the completeness assertion, the auditor selects from audit evidence indicating that an item should be included in the relevant financial statement amount and investigates whether that item is so included.	Y/N  No  No	A42  A42	Deleted – repetition old para 48  ) Procedural matters, now ) expressed as statements of ) fact e.g. “tests of details related ) to the existence or ) occurrence assertion involve ) selecting from items ) contained in a financial ) statement amount”.
55	In designing substantive analytical procedures, the auditor considers such matters as the following: The suitability of using substantive analytical procedures given the assertions...(a list)	No		Deleted – covered by ISA 520 “Analytical Procedures”
55	The auditor considers testing the controls, if any, over the entity’s preparation of information used by the auditor in applying analytical procedures. ... In determining the audit procedures to apply to the information upon which the expectation for substantive analytical procedures is based, the auditor considers the guidance in paragraph 11 of ISA 500.	No		Deleted – repeats ISA 500.11
57	In considering whether to perform substantive procedures at an interim date, the auditor considers such factors as the following: <ul style="list-style-type: none"> <li>• The control environment and other relevant controls.</li> <li>• The availability of information at a later date that is necessary for the auditor’s procedures.</li> <li>• The objective of the substantive procedure.</li> <li>• The assessed risk of material misstatement.</li> <li>• The nature of the class of transactions or account balance and related assertions.</li> <li>• The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that exist at period end are not detected.</li> </ul>	No	A46	Application guidance only – a “grab bag” of generally relevant matters, rather than a list of specific items that should be considered individually each time the auditor considers substantive procedures at an interim date
58	Although the auditor is not required to obtain audit evidence about the operating effectiveness of controls in order to have a reasonable basis for extending audit conclusions from an interim date to the period end, the auditor considers whether performing only substantive procedures to cover the remaining period is sufficient. If the auditor concludes that substantive procedures alone would not be sufficient, tests of the operating effectiveness of relevant controls are performed or the	No		Deleted – repetition of principle in new para 21

Agenda Item 4-D.1  
Page 7 of 30

	functions. The auditor determines whether the tests of controls performed provide an appropriate basis for reliance on the controls, whether additional tests of controls are necessary, or whether the potential risks of misstatement need to be addressed using substantive procedures.	Yes	17	) effective ) )
69	The auditor cannot assume that an instance of fraud or error is an isolated occurrence, and therefore considers how the detection of a misstatement affects the assessed risks of material misstatement. Before the conclusion of the audit, the auditor evaluates whether audit risk has been reduced to an acceptably low level and whether the nature, timing, and extent of the audit procedures may need to be reconsidered.	No No Y	A50  26/7	Repeats ISA 240 Repeats old para 70 Redrafted - Necessary to ensure other steps in the audit process have achieved the objective of reducing risk to an acceptable level.
70	In developing an opinion, the auditor considers all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	No		Moved to ISA 500



## Mapping Document

## Exhibit 2

Original ISA 330	New Par Ref	Comment on proposed deletion of highlighted material and other notes
<b>Introduction</b>		
<p>1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial statement and assertion levels in a financial statement audit. The auditor's understanding of the entity and its environment, including its internal control, and assessment of the risks of material misstatement are described in ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement."</p>		<p>Purpose restated in new para 1</p> <p>Not necessary in new format</p>
<p>2. The following is an overview of the requirements of this standard:</p> <ul style="list-style-type: none"> <li>• Overall responses. This section requires the auditor to determine overall responses to address risks of material misstatement at the financial statement level and provides guidance on the nature of those responses.</li> <li>• Audit procedures responsive to risks of material misstatement at the assertion level. This section requires the auditor to design and perform further audit procedures, including tests of the operating effectiveness of controls, when relevant or required, and substantive procedures, whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level. In addition, this section includes matters the auditor considers in determining the nature, timing, and extent of such audit procedures.</li> <li>• Evaluating the sufficiency and appropriateness of audit evidence obtained. This section requires the auditor to evaluate whether the risk assessment remains appropriate and to conclude whether sufficient appropriate audit evidence has been obtained.</li> <li>• Documentation. This section establishes related documentation requirements.</li> </ul>		<p>Overview not included in new format</p>

<p>3. In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level. The overall responses and the nature, timing, and extent of the further audit procedures are matters for the professional judgment of the auditor. In addition to the requirements of this ISA, the auditor also complies with the requirements and guidance in ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” in responding to assessed risks of material misstatement due to fraud.</p>	5 & 6	<p>Note: Split and reworded</p> <p>Unnecessary reference to “professional judgement”</p> <p>Unnecessary reference to need to comply with other ISAs</p>
<b>Overall Responses</b>		
<p>4. The auditor should determine overall responses to address the risks of material misstatement at the financial statement level. Such responses may include emphasizing to the audit team the need to maintain professional skepticism in gathering and evaluating audit evidence, assigning more experienced staff or those with special skills or using experts,<sup>1</sup> providing more supervision, or incorporating additional elements of unpredictability in the selection of further audit procedures to be performed. Additionally, the auditor may make general changes to the nature, timing, or extent of audit procedures as an overall response, for example, performing substantive procedures at period end instead of at an interim date.</p>	5 A1	
<p>5. The assessment of the risks of material misstatement at the financial statement level is affected by the auditor’s understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at period end. If there are weaknesses in the control environment, the auditor ordinarily conducts more audit procedures as of the period end rather than at an interim date, seeks more extensive audit evidence from substantive procedures, modifies the nature of audit procedures to obtain more persuasive audit evidence, or increases the number of locations to be included in the audit scope.</p>	A2	<p>Note: “modifies the nature of audit procedures to obtain more persuasive audit evidence” moved to A1 last bullet</p>

<sup>1</sup> The assignment of engagement personnel to the particular engagement reflects the auditor’s risk assessment, which is based on the auditor’s understanding of the entity.

6.	Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).	A3	
<b>Audit Procedures Responsive to Risks of Material Misstatement at the Assertion Level</b>			
7.	<b>The auditor should design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level.</b> The purpose is to provide a clear linkage between the nature, timing, and extent of the auditor's further audit procedures and the risk assessment. <b>In designing further audit procedures, the auditor considers such matters as the following:</b>	6	Note: In new para 6 "based on" added Replaced by lead-in wording from old para 12
<ul style="list-style-type: none"> <li>The significance of the risk</li> <li>The likelihood that a material misstatement will occur.</li> <li>The characteristics of the class of transactions, account balance, or disclosure involved.</li> <li>The nature of the specific controls used by the entity and in particular whether they are manual or automated.</li> <li>Whether the auditor expects to obtain audit evidence to determine if the entity's controls are effective in preventing, or detecting and correcting, material misstatements.</li> </ul> <p>The nature of the audit procedures is of most importance in responding to the assessed risks.</p>		7(a)(i)	These 2 dot points are very generic and are covered by new para 6
		7(a)(ii)	
		7(a)(ii)	
		7(b)	
8.	The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. In some cases, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion. In other cases, the auditor may determine that performing only substantive procedures is appropriate for specific assertions and, therefore, the auditor excludes the effect of controls from the relevant risk assessment. This may be because the auditor's risk assessment procedures have not identified any effective controls relevant to the assertion, or because testing the operating effectiveness of controls would be inefficient. <b>However, the auditor needs to be satisfied that performing only substantive procedures for the relevant assertion would be effective in reducing the risk of material misstatement to an acceptably low level.</b> Often the auditor may determine that a combined approach using both tests of the operating effectiveness	A4	A restatement of the general principle of the ISA and therefore not a separate requirement

of controls and substantive procedures is an effective approach. Irrespective of the approach selected, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure as required by paragraph 49.	18 & F/n 2	
9. In the case of very small entities, there may not be many control activities that could be identified by the auditor. For this reason, the auditor's further audit procedures are likely to be primarily substantive procedures. In such cases, in addition to the matters referred to in paragraph 8 above, the auditor considers whether in the absence of controls it is possible to obtain sufficient appropriate audit evidence.	A5	Note: Final sentence reworded
<b>Considering the Nature, Timing, and Extent of Further Audit Procedures</b>		
<i>Nature</i>		
10. The nature of further audit procedures refers to their purpose (tests of controls or substantive procedures) and their type, that is, inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedures. Certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of misstatement of the completeness assertion, whereas substantive procedures may be most responsive to the assessed risk of misstatement of the occurrence assertion.	A6 A7	
11. The auditor's selection of audit procedures is based on the assessment of risk. The higher the auditor's assessment of risk, the more reliable and relevant is the audit evidence sought by the auditor from substantive procedures. This may affect both the types of audit procedures to be performed and their combination. For example, the auditor may confirm the completeness of the terms of a contract with a third party, in addition to inspecting the document.	A7	Covered by new para 6 This sentence is very similar to the requirement of new para 7(b)
12. In determining the audit procedures to be performed, the auditor considers the reasons for the assessment of the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure. This includes considering both the particular characteristics of each class of transactions, account balance, or disclosure (i.e., the inherent risks) and whether the auditor's risk assessment takes account of the entity's controls (i.e., the control risk). For example, if the auditor considers that there is a lower risk that a material misstatement may occur because of the particular characteristics of a class of transactions without consideration of the related controls, the auditor may determine that substantive analytical procedures alone may provide sufficient appropriate audit evidence. On the other hand, if the auditor expects that there is a lower risk that a material misstatement may arise because an entity has effective controls and the auditor intends to design substantive	7(a) 7(a)(i) 7(a)(ii) A8	Note: Redrafted

	procedures based on the effective operation of those controls, then the auditor performs tests of controls to obtain audit evidence about their operating effectiveness. This may be the case, for example, for a class of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.		
13.	The auditor is required to obtain audit evidence about the accuracy and completeness of information produced by the entity's information system when that information is used in performing audit procedures. For example, if the auditor uses non-financial information or budget data produced by the entity's information system in performing audit procedures, such as substantive analytical procedures or tests of controls, the auditor obtains audit evidence about the accuracy and completeness of such information. See ISA 500, "Audit Evidence" paragraph 11 for further guidance.		Repetition of ISA 500.11
<i>Timing</i>			
14.	Timing refers to when audit procedures are performed or the period or date to which the audit evidence applies.	A9	
15.	The auditor may perform tests of controls or substantive procedures at an interim date or at period end. The higher the risk of material misstatement, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). On the other hand, performing audit procedures before the period end may assist the auditor in identifying significant matters at an early stage of the audit, and consequently resolving them with the assistance of management or developing an effective audit approach to address such matters. If the auditor performs tests of controls or substantive procedures prior to period end, the auditor considers the additional evidence required for the remaining period (see paragraphs 37-38 and 56-61).	A10 A11	Unnecessary internal cross reference
16.	In considering when to perform audit procedures, the auditor also considers such matters as the following: <ul style="list-style-type: none"> <li>• The control environment</li> <li>• When relevant information is available (for example, electronic files may subsequently be overwritten, or procedures to be observed may occur only at certain times).</li> <li>• The nature of the risk (for example, if there is a risk of inflated revenues to meet earnings expectations by subsequent creation of false sales agreements, the auditor may wish to examine contracts available on the date of the period end).</li> <li>• The period or date to which the audit evidence relates</li> </ul>	A13	
17.	Certain audit procedures can be performed only at or after period end, for example, agreeing the financial statements to the	A12	



	accounting records and examining adjustments made during the course of preparing the financial statements. If there is a risk that the entity may have entered into improper sales contracts or transactions may not have been finalized at period end, the auditor performs procedures to respond to that specific risk. For example, when transactions are individually material or an error in cutoff may lead to a material misstatement, the auditor ordinarily inspects transactions near the period end.		Unnecessary example
<i>Extent</i>			
18.	Extent includes the quantity of a specific audit procedure to be performed, for example, a sample size or the number of observations of a control activity. The extent of an audit procedure is determined by the judgment of the auditor after considering the materiality, the assessed risk, and the degree of assurance the auditor plans to obtain. In particular, the auditor ordinarily increases the extent of audit procedures as the risk of material misstatement increases. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk; therefore, the nature of the audit procedure is the most important consideration.	A14 A15  7 (b)	
19.	The use of computer-assisted audit techniques (CAATs) may enable more extensive testing of electronic transactions and account files. Such techniques can be used to select sample transactions from key electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.	A16	
20.	Valid conclusions may ordinarily be drawn using sampling approaches. However, if the quantity of selections made from a population is too small, the sampling approach selected is not appropriate to achieve the specific audit objective, or if exceptions are not appropriately followed up, there will be an unacceptable risk that the auditor's conclusion based on a sample may be different from the conclusion reached if the entire population was subjected to the same audit procedure. ISA 530, "Audit Sampling and Other Means of Testing" contains guidance on the use of sampling.		Unnecessary repetition of concepts from ISA 530
21.	This standard regards the use of different audit procedures in combination as an aspect of the nature of testing as discussed above. However, the auditor considers whether the extent of testing is appropriate when performing different audit procedures in combination.	A15	Note: Redrafted as 2 <sup>nd</sup> sentence of A15
<b>Tests of Controls</b>			
22.	The auditor is required to perform tests of controls when the auditor's risk assessment includes an expectation of the operating effectiveness of controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level.		Repeats new para 8(a) Repeats new para 8(b)
23.	<b>When the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that</b>	8(a)	Note: Reworded – in

	<b>controls are operating effectively, the auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. See paragraphs 39-44 below for discussion of using audit evidence about the operating effectiveness of controls obtained in prior audits.</b>		particular reference to timing deleted (picked up in new para 10) Unnecessary internal cross reference
24.	The auditor's assessment of risk of material misstatement at the assertion level may include an expectation of the operating effectiveness of controls, in which case the auditor performs tests of controls to obtain audit evidence as to their operating effectiveness. Tests of the operating effectiveness of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in an assertion. Paragraphs 104-106 of ISA 315 discuss the identification of controls at the assertion level likely to prevent, or detect and correct, a material misstatement in a class of transactions, account balance or disclosure.	A17	New para 8(a) requires testing of controls in this case  Unnecessary reference to ISA 315
25.	<b>When, in accordance with paragraph 115 of ISA 315, the auditor has determined that it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures, the auditor should perform tests of relevant controls to obtain audit evidence about their operating effectiveness.</b> For example, as discussed in paragraph 115 of ISA 315, the auditor may find it impossible to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence at the assertion level when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system.	8(b)  A21	Note: Redrafted
26.	Testing the operating effectiveness of controls is different from obtaining audit evidence that controls have been implemented. <b>When obtaining audit evidence of implementation by performing risk assessment procedures, the auditor determines that the relevant controls exist and that the entity is using them. When performing tests of the operating effectiveness of controls, the auditor obtains audit evidence that controls operate effectively.</b> This includes obtaining audit evidence about how controls were applied at relevant times during the period under audit, the consistency with which they were applied, and by whom or by what means they were applied. If substantially different controls were used at different times during the period under audit, the auditor considers each separately. The auditor may determine that testing the operating effectiveness of controls at the same time as evaluating their design and obtaining audit evidence of their implementation is efficient.	A18  9(b)  A17  A18	Covered in ISA 315 Now part of the definition at new para 4(b)
27.	Although some risk assessment procedures that the auditor performs to evaluate the design of controls and to determine that they have been implemented may not have been specifically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls. For example, the auditor	A19	Note: Wording of 1 <sup>st</sup> sentence contracted

<p>may have made inquiries about management's use of budgets, observed management's comparison of monthly budgeted and actual expenses, and inspected reports pertaining to the investigation of variances between budgeted and actual amounts. These audit procedures provide knowledge about the design of the entity's budgeting policies and whether they have been implemented, and may also provide audit evidence about the effectiveness of the operation of budgeting policies in preventing or detecting material misstatements in the classification of expenses. In such circumstances, the auditor considers whether the audit evidence provided by those audit procedures is sufficient.</p>		<p>Repetition of general requirement of ISA 500 to obtain sufficient appropriate audit evidence</p>
<p><i>Nature of Tests of Controls</i></p>		
<p>28. The auditor selects audit procedures to obtain assurance about the operating effectiveness of controls. As the planned level of assurance increases, the auditor seeks more reliable audit evidence. In circumstances when the auditor adopts an approach consisting primarily of tests of controls, in particular related to those risks where it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures, the auditor ordinarily performs tests of controls to obtain a higher level of assurance about their operating effectiveness.</p>	A22	<p>Subsumed in definition at new para 4(b) Similar thought to new para 7(b)</p>
<p>29. The auditor should perform other audit procedures in combination with inquiry to test the operating effectiveness of controls. Although different from obtaining an understanding of the design and implementation of controls, tests of the operating effectiveness of controls ordinarily include the same types of audit procedures used to evaluate the design and implementation of controls, and may also include reperformance of the application of the control by the auditor. Since inquiry alone is not sufficient, the auditor uses a combination of audit procedures to obtain sufficient appropriate audit evidence regarding the operating effectiveness of controls. Those controls subject to testing by performing inquiry combined with inspection or reperformance ordinarily provide more assurance than those controls for which the audit evidence consists solely of inquiry and observation. For example, an auditor may inquire about and observe the entity's procedures for opening the mail and processing cash receipts to test the operating effectiveness of controls over cash receipts. Because an observation is pertinent only at the point in time at which it is made, the auditor ordinarily supplements the observation with inquiries of entity personnel, and may also inspect documentation about the operation of such controls at other times during the audit period in order to obtain sufficient appropriate audit evidence.</p>	<p>9(a) A18  A23</p>	<p>Adequate mention below of reperformance Note: Redrafted  Unnecessary examples</p>
<p>30. The nature of the particular control influences the type of audit procedure required to obtain audit evidence about whether the control was operating effectively at relevant times during the period under audit. For some controls, operating effectiveness is evidenced by documentation. In such circumstances, the auditor may decide to inspect the documentation to obtain audit evidence about operating effectiveness. For other controls, however, such documentation may not be available or relevant. For</p>	A24	<p>Unnecessary repetition of concept</p>



<p>example, documentation of operation may not exist for some factors in the control environment, such as assignment of authority and responsibility, or for some types of control activities, such as control activities performed by a computer. In such circumstances, audit evidence about operating effectiveness may be obtained through inquiry in combination with other audit procedures such as observation or the use of CAATs.</p>		
<p>31. In designing tests of controls, the auditor considers the need to obtain audit evidence supporting the effective operation of controls directly related to the assertions as well as other indirect controls on which these controls depend. For example, the auditor may identify a user review of an exception report of credit sales over a customer's authorized credit limit as a direct control related to an assertion. In such cases, the auditor considers the effectiveness of the user review of the report and also the controls related to the accuracy of the information in the report (for example, the general IT-controls).</p>	<p>9(c) A25</p>	<p>Note: Redrafted in 9(c) Note: Redrafted in A25</p>
<p>32. In the case of an automated application control, because of the inherent consistency of IT processing, audit evidence about the implementation of the control, when considered in combination with audit evidence obtained regarding the operating effectiveness of the entity's general controls (and in particular, change controls) may provide substantial audit evidence about its operating effectiveness during the relevant period.</p>	<p>A26</p>	
<p>33. When responding to the risk assessment, the auditor may design a test of controls to be performed concurrently with a test of details on the same transaction. The objective of tests of controls is to evaluate whether a control operated effectively. The objective of tests of details is to detect material misstatements at the assertion level. Although these objectives are different, both may be accomplished concurrently through performance of a test of controls and a test of details on the same transaction, also known as a dual-purpose test. For example, the auditor may examine an invoice to determine whether it has been approved and to provide substantive audit evidence of a transaction. The auditor carefully considers the design and evaluation of such tests to accomplish both objectives.</p>	<p>A20 A20</p>	<p>Repetitive of definition s</p>
<p>34. The absence of misstatements detected by a substantive procedure does not provide audit evidence that controls related to the assertion being tested are effective. However, misstatements that the auditor detects by performing substantive procedures are considered by the auditor when assessing the operating effectiveness of related controls. A material misstatement detected by the auditor's procedures that was not identified by the entity ordinarily is indicative of the existence of a material weakness in internal control, which is communicated to management and those charged with governance.</p>	<p>16 A37</p>	<p>ISA 260 will require communication of weaknesses</p>
<p><i>Timing of Tests of Controls</i></p>		
<p>35. The timing of tests of controls depends on the auditor's objective and determines the period of reliance on those controls. If the</p>	<p>10</p>	<p>Note: Substantially</p>

auditor tests controls at a particular time, the auditor only obtains audit evidence that the controls operated effectively at that time. However, if the auditor tests controls throughout a period, the auditor obtains audit evidence of the effectiveness of the operation of the controls during that period.		redrafted
36. Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, for example, when testing controls over the entity's physical inventory counting at the period end. If, on the other hand, the auditor requires audit evidence of the effectiveness of a control over a period, audit evidence pertaining only to a point in time may be insufficient and the auditor supplements those tests with other tests of controls that are capable of providing audit evidence that the control operated effectively at relevant times during the period under audit. Such other tests may consist of tests of the entity's monitoring of controls.	A27	
37. <b>When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor should determine what additional audit evidence should be obtained for the remaining period.</b> In making that determination, the auditor considers the significance of the assessed risks of material misstatement at the assertion level, the specific controls that were tested during the interim period, the degree to which audit evidence about the operating effectiveness of those controls was obtained, the length of the remaining period, the extent to which the auditor intends to reduce further substantive procedures based on the reliance of controls, and the control environment. The auditor obtains audit evidence about the nature and extent of any significant changes in internal control, including changes in the information system, processes, and personnel that occur subsequent to the interim period.	11(b) A28	Note: Substantially redrafted
38. Additional audit evidence may be obtained, for example, by extending the testing of the operating effectiveness of controls over the remaining period or testing the entity's monitoring of controls.	A29	
39. <b>If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should obtain audit evidence about whether changes in those specific controls have occurred subsequent to the prior audit. The auditor should obtain audit evidence about whether such changes have occurred by performing inquiry in combination with observation or inspection to confirm the understanding of those specific controls.</b> Paragraph 23 of ISA 500 states that the auditor performs audit procedures to establish the continuing relevance of audit evidence obtained in prior periods when the auditor plans to use the audit evidence in the current period. For example, in performing the prior audit, the auditor may have determined that an automated control was functioning as intended. The auditor obtains audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning, for example, through inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to	13  A30	

	be obtained in the current period about the operating effectiveness of the controls.		
40.	<b>If the auditor plans to rely on controls that have changed since they were last tested, the auditor should test the operating effectiveness of such controls in the current audit.</b> Changes may affect the relevance of the audit evidence obtained in prior periods such that there may no longer be a basis for continued reliance. For example, changes in a system that enable an entity to receive a new report from the system probably do not affect the relevance of prior period audit evidence; however, a change that causes data to be accumulated or calculated differently does affect it.	13(a) A31	
41.	<b>If the auditor plans to rely on controls that have not changed since they were last tested, the auditor should test the operating effectiveness of such controls at least once in every third audit.</b> As indicated in paragraphs 40 and 44, the auditor may not rely on audit evidence about the operating effectiveness of controls obtained in prior audits for controls that have changed since they were last tested or controls that mitigate a significant risk. The auditor's decision on whether to rely on audit evidence obtained in prior audits for other controls is a matter of professional judgment. In addition, the length of time period between retesting such controls is also a matter of professional judgment, but cannot exceed two years.	13(b) A32	Unnecessary internal cross-reference
42.	<p>In considering whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in prior audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor considers the following:</p> <ul style="list-style-type: none"> <li>The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process.</li> <li>The risks arising from the characteristics of the control, including whether controls are manual or automated (see ISA 315, paragraphs 57-63 for a discussion of specific risks arising from manual and automated elements of a control).</li> <li>The effectiveness of general IT-controls.</li> <li>The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control from tests of operating effectiveness in prior audits.</li> <li>Whether the lack of a change in a particular control poses a risk due to changing circumstances.</li> <li>The risk of material misstatement and the extent of reliance on the control.</li> </ul> <p>In general, the higher the risk of material misstatement, or the greater the reliance on controls, the shorter the time period elapsed, if any, is likely to be. Factors that ordinarily decrease the period for retesting a control, or result in not relying on audit evidence obtained in prior audits at all, include the following:</p>	12	Unnecessary cross-reference
		A33	

<ul style="list-style-type: none"> <li>• A weak control environment.</li> <li>• Weak monitoring of controls.</li> <li>• A significant manual element to the relevant controls.</li> <li>• Personnel changes that significantly affect the application of the control.</li> <li>• Changing circumstances that indicate the need for changes in the control.</li> <li>• Weak general IT-controls.</li> </ul>		
<p>43. <b>When there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of some controls each audit.</b> The purpose of this requirement is to avoid the possibility that the auditor might apply the approach of paragraph 41 to all controls on which the auditor proposes to rely, but test all those controls in a single audit period with no testing of controls in the subsequent two audit periods. In addition to providing audit evidence about the operating effectiveness of the controls being tested in the current audit, performing such tests provides collateral evidence about the continuing effectiveness of the control environment and therefore contributes to the decision about whether it is appropriate to rely on audit evidence obtained in prior audits. Therefore, when the auditor determines in accordance with paragraphs 39-42 that it is appropriate to use audit evidence obtained in prior audits for a number of controls, the auditor plans to test a sufficient portion of the controls in that population in each audit period, and at a minimum, each control is tested at least every third audit.</p>	13(b)  A34	Repeats the requirement of new para 13(b)
<p>44. <b>When, in accordance with paragraph 108 of ISA 315, the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk and the auditor plans to rely on the operating effectiveness of controls intended to mitigate that significant risk, the auditor should obtain the audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period.</b> The greater the risk of material misstatement, the more audit evidence the auditor obtains that relevant controls are operating effectively. Accordingly, although the auditor often considers information obtained in prior audits in designing tests of controls to mitigate a significant risk, the auditor does not rely on audit evidence obtained in a prior audit about the operating effectiveness of controls over such risks, but instead obtains the audit evidence about the operating effectiveness of controls over such risks in the current period.</p>	14	<p>Note: Substantially redrafted</p> <p>Substantially covered by new para 7(b)</p> <p>Unnecessary to state this as redrafted</p> <p>Repeats the requirement of new para 14</p>
Extent of Tests of Controls		

<p>45. The auditor designs tests of controls to obtain sufficient appropriate audit evidence that the controls operated effectively throughout the period of reliance. Matters the auditor may consider in determining the extent of the auditor's tests of controls include the following:</p> <ul style="list-style-type: none"> <li>• The frequency of the performance of the control by the entity during the period.</li> <li>• The length of time during the audit period that the auditor is relying on the operating effectiveness of the control.</li> <li>• The relevance and reliability of the audit evidence to be obtained in supporting that the control prevents, or detects and corrects, material misstatements at the assertion level.</li> <li>• The extent to which audit evidence is obtained from tests of other controls related to the assertion.</li> <li>• The extent to which the auditor plans to rely on the operating effectiveness of the control in the assessment of risk (and thereby reduce substantive procedures based on the reliance of such control).</li> <li>• The expected deviation from the control.</li> </ul>	A35	Unnecessary repetition
<p>46. The more the auditor relies on the operating effectiveness of controls in the assessment of risk, the greater is the extent of the auditor's tests of controls. In addition, as the rate of expected deviation from a control increases, the auditor increases the extent of testing of the control. However, the auditor considers whether the rate of expected deviation indicates that the control will not be sufficient to reduce the risk of material misstatement at the assertion level to that assessed by the auditor. If the rate of expected deviation is expected to be too high, the auditor may determine that tests of controls for a particular assertion may not be effective.</p>	15  (A38)	<p>Unnecessary repeat of new para 15 (old para 46)</p> <p>Repetition of final dot point in previous para. Related more to audit efficiency than effectiveness. The effectiveness issue is adequately picked up in new para 17</p>
<p>47. Because of the inherent consistency of IT processing, the auditor may not need to increase the extent of testing of an automated control. An automated control should function consistently unless the program (including the tables, files, or other permanent data used by the program) is changed. Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor considers performing tests to determine that the control continues to function effectively. Such tests might include determining that changes to the program are not made without being subject to the appropriate program change controls, that the authorized version of the program is used for processing transactions, and that other relevant general controls are effective. Such tests also might include determining that changes to the programs have not been made, as may be the case when the entity uses packaged software</p>	A36	



	applications without modifying or maintaining them. For example, the auditor may inspect the record of the administration of IT security to obtain audit evidence that unauthorized access has not occurred during the period.		
	<b>Substantive Procedures</b>		
48.	Substantive procedures are performed in order to detect material misstatements at the assertion level, and include tests of details of classes of transactions, account balances, and disclosures and substantive analytical procedures. <b>The auditor plans and performs substantive procedures to be responsive to the related assessment of the risk of material misstatement.</b>	4(a)	Repeats para 6
49.	<b>Irrespective of the assessed risk of material misstatement, the auditor should design and perform substantive procedures for each material class of transactions, account balance, and disclosure.</b> This requirement reflects the fact that the auditor's assessment of risk is judgmental and may not be sufficiently precise to identify all risks of material misstatement. Further, there are inherent limitations to internal control including management override. <b>Accordingly, while the auditor may determine that the risk of material misstatement may be reduced to an acceptably low level by performing only tests of controls for a particular assertion related to a class of transactions, account balance or disclosure (see paragraph 8), the auditor always performs substantive procedures for each material class of transactions, account balance, and disclosure.</b>	28	Unnecessary repetition of new para 18
50.	<p>The auditor's substantive procedures should include the following audit procedures related to the financial statement closing process:</p> <ul style="list-style-type: none"> <li>• Agreeing the financial statements to the underlying accounting records; and</li> <li>• Examining material journal entries and other adjustments made during the course of preparing the financial statements.</li> </ul> <p>The nature and extent of the auditor's examination of journal entries and other adjustments depends on the nature and complexity of the entity's financial reporting process and the associated risks of material misstatement.</p>	20	
51.	<b>When, in accordance with paragraph 108 of ISA 315, the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk.</b> For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a risk that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the	19 A44	

<p>auditor may, for example, design external confirmations not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmations with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.</p>		
<p>52. When the approach to significant risks consists only of substantive procedures, the audit procedures appropriate to address such significant risks consist of tests of details only, or a combination of tests of details and substantive analytical procedures. The auditor considers the guidance in paragraphs 53-64 in designing the nature, timing, and extent of substantive procedures for significant risks. In order to obtain sufficient appropriate audit evidence, the substantive procedures related to significant risks are most often designed to obtain audit evidence with high reliability.</p>	19	<p>Note: Reworded</p> <p>Unnecessary internal cross reference</p> <p>Purpose of stating this is not clear – does not add substance</p>
<p><i>Nature of Substantive Procedures</i></p>		
<p>53. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Tests of details are ordinarily more appropriate to obtain audit evidence regarding certain assertions about account balances, including existence and valuation. In some situations, the auditor may determine that performing only substantive analytical procedures may be sufficient to reduce the risk of material misstatement to an acceptably low level. For example, the auditor may determine that performing only substantive analytical procedures is responsive to the assessed risk of material misstatement for a class of transactions where the auditor's assessment of risk is supported by obtaining audit evidence from performance of tests of the operating effectiveness of controls. In other situations, the auditor may determine that only tests of details are appropriate, or that a combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.</p>	A41	<p>Does not add substance</p> <p>Unnecessary statement</p> <p>Unnecessary example</p>
<p>54. The auditor designs tests of details responsive to the assessed risk with the objective of obtaining sufficient appropriate audit evidence to achieve the planned level of assurance at the assertion level. In designing substantive procedures related to the existence or occurrence assertion, the auditor selects from items contained in a financial statement amount and obtains the relevant audit evidence. On the other hand, in designing audit procedures related to the completeness assertion, the auditor selects from audit evidence indicating that an item should be included in the relevant financial statement amount and investigates whether that item is so included. For example, the auditor might inspect subsequent cash disbursements to determine whether any purchases had been omitted from accounts payable.</p>	A42	<p>Repeats old para 48</p> <p>Unnecessary example</p>

<p><b>55.</b> In designing substantive analytical procedures, the auditor considers such matters as the following:</p> <ul style="list-style-type: none"> <li>• The suitability of using substantive analytical procedures given the assertions</li> <li>• The reliability of the data, whether internal or external, from which the expectation of recorded amounts or ratios is developed</li> <li>• Whether the expectation is sufficiently precise to identify a material misstatement at the desired level of assurance</li> <li>• The amount of any difference in recorded amounts from expected values that is acceptable</li> </ul> <p>The auditor considers testing the controls, if any, over the entity's preparation of information used by the auditor in applying analytical procedures. When such controls are effective, the auditor has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. Alternatively, the auditor may consider whether the information was subjected to audit testing in the current or prior period. In determining the audit procedures to apply to the information upon which the expectation for substantive analytical procedures is based, the auditor considers the guidance in paragraph 11 of ISA 500.</p>		<p>Covered by ISA 520 "Analytical Procedures"</p> <p>Effectively repeats ISA 330.13, which repeats ISA 500.11</p>
<p><i>Timing of Substantive Procedures</i></p>		
<p><b>56.</b> When substantive procedures are performed at an interim date, the auditor should perform further substantive procedures or substantive procedures combined with tests of controls to cover the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.</p>	<p>21</p>	



<p>57. In some circumstances, substantive procedures may be performed at an interim date. This increases the risk that misstatements that may exist at the period end are not detected by the auditor. This risk increases as the remaining period is lengthened. In considering whether to perform substantive procedures at an interim date, the auditor considers such factors as the following:</p> <ul style="list-style-type: none"> <li>• The control environment and other relevant controls.</li> <li>• The availability of information at a later date that is necessary for the auditor's procedures.</li> <li>• The objective of the substantive procedure.</li> <li>• The assessed risk of material misstatement.</li> <li>• The nature of the class of transactions or account balance and related assertions.</li> <li>• The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that exist at period end are not detected.</li> </ul>	A46	
<p>58. Although the auditor is not required to obtain audit evidence about the operating effectiveness of controls in order to have a reasonable basis for extending audit conclusions from an interim date to the period end, the auditor considers whether performing only substantive procedures to cover the remaining period is sufficient. If the auditor concludes that substantive procedures alone would not be sufficient, tests of the operating effectiveness of relevant controls are performed or the substantive procedures are performed as of the period end.</p>		Unnecessary – effectively repeats new para 21
<p>59. In circumstances where the auditor has identified risks of material misstatement due to fraud, the auditor's response to address those risks may include changing the timing of audit procedures. For example, the auditor might conclude that, given the risks of intentional misstatement or manipulation, audit procedures to extend audit conclusions from an interim date to the period end would not be effective. In such circumstances, the auditor might conclude that substantive procedures need to be performed at or near the end of the reporting period to address an identified risk of material misstatement due to fraud (see ISA 240).</p>	A10	<p>Repetitive of ISA 240</p> <p>Unnecessary example</p>
<p>60. Ordinarily, the auditor compares and reconciles information concerning the balance at the period end with the comparable information at the interim date to identify amounts that appear unusual, investigates any such amounts, and performs substantive analytical procedures or tests of details to test the intervening period. When the auditor plans to perform substantive analytical procedures with respect to the intervening period, the auditor considers whether the period end balances of the particular classes of transactions or account balances are reasonably predictable with respect to amount, relative significance,</p>	A45 23	<p>Note: Redrafted</p>

<p>and composition. The auditor considers whether the entity's procedures for analyzing and adjusting such classes of transactions or account balances at interim dates and for establishing proper accounting cutoffs are appropriate. In addition, the auditor considers whether the information system relevant to financial reporting will provide information concerning the balances at the period end and the transactions in the remaining period that is sufficient to permit investigation of: significant unusual transactions or entries (including those at or near period end); other causes of significant fluctuations, or expected fluctuations that did not occur; and changes in the composition of the classes of transactions or account balances. <b>The substantive procedures related to the remaining period depend on whether the auditor has performed tests of controls.</b></p>		Unnecessary
<p>61. If misstatements are detected in classes of transactions or account balances at an interim date, the auditor ordinarily modifies the related assessment of risk and the planned nature, timing, or extent of the substantive procedures covering the remaining period that relate to such classes of transactions or account balances, or extends or repeats such audit procedures at the period end.</p>	22	Note: Final lines redrafted
<p>62. The use of audit evidence from the performance of substantive procedures in a prior audit is not sufficient to address a risk of material misstatement in the current period. In most cases, audit evidence from the performance of substantive procedures in a prior audit provides little or no audit evidence for the current period. In order for audit evidence obtained in a prior audit to be used in the current period as substantive audit evidence, the audit evidence and the related subject matter must not fundamentally change. An example of audit evidence obtained from the performance of substantive procedures in a prior period that may be relevant in the current year is a legal opinion related to the structure of a securitization to which no changes have occurred during the current period. As required by paragraph 23 of ISA 500, if the auditor plans to use audit evidence obtained from the performance of substantive procedures in a prior audit, the auditor performs audit procedures during the current period to establish the continuing relevance of the audit evidence.</p>	A47 24 A47 24	
<p><i>Extent of the Performance of Substantive Procedures</i></p>		
<p>63. The greater the risk of material misstatement, the greater the extent of substantive procedures. Because the risk of material misstatement takes account of internal control, the extent of substantive procedures may be increased as a result of unsatisfactory results from tests of the operating effectiveness of controls. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.</p>	A39	
<p>64. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size, which is affected by the risk of material misstatement. However, the auditor also considers other matters, including whether it is more effective to use other selective means of testing, such as selecting large or unusual items from a population as opposed to performing</p>	A43	Adequately covered in ISA 530

<p>representative sampling or stratifying the population into homogeneous subpopulations for sampling. ISA 530 contains guidance on the use of sampling and other means of selecting items for testing. In designing substantive analytical procedures, the auditor considers the amount of difference from the expectation that can be accepted without further investigation. This consideration is influenced primarily by materiality and the consistency with the desired level of assurance. Determination of this amount involves considering the possibility that a combination of misstatements in the specific account balance, class of transactions, or disclosure could aggregate to an unacceptable amount. In designing substantive analytical procedures, the auditor increases the desired level of assurance as the risk of material misstatement increases. ISA 520, “Analytical Procedures” contains guidance on the application of analytical procedures during an audit.</p>	A43	<p>Unnecessary examples</p> <p>Repeats ISA 520.12f</p>
<p><b>Adequacy of Presentation and Disclosure</b></p> <p>65. The auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. The auditor considers whether the individual financial statements are presented in a manner that reflects the appropriate classification and description of financial information. The presentation of financial statements in conformity with the applicable financial reporting framework also includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. The auditor considers whether management should have disclosed a particular matter in light of the circumstances and facts of which the auditor is aware at the time. In performing the evaluation of the overall presentation of the financial statements, including the related disclosures, the auditor considers the assessed risk of material misstatement at the assertion level. See paragraph 17 of ISA 500 for a description of the assertions related to presentation and disclosure.</p>	<p>25</p> <p>A48</p> <p>A48</p>	<p>Incomplete repetition of ISA 500.17</p> <p>Merely an application of ISA 500, Materiality and ISA 700</p>
<p><b>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained</b></p> <p>66. Based on the audit procedures performed and the audit evidence obtained, the auditor should evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate.</p> <p>67. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing, or extent of other planned audit procedures. Information may come to the auditor’s attention that differs significantly from the information on which the risk assessment was based. For example, the extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor’s judgment about the risk assessments and may indicate a material weakness in internal control. In addition, analytical</p>	<p>26</p> <p>A49</p>	<p>Note: Redrafted</p>

procedures performed at the overall review stage of the audit may indicate a previously unrecognized risk of material misstatement. In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions. Paragraph 119 of ISA 315 contains further guidance on revising the auditor's risk assessment.		
<p>68. The concept of effectiveness of the operation of controls recognizes that some deviations in the way controls are applied by the entity may occur. Deviations from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human error. When such deviations are detected during the performance of tests of controls, the auditor makes specific inquiries to understand these matters and their potential consequences, <b>for example, by inquiring about the timing of personnel changes in key internal control functions</b>. The auditor determines whether the tests of controls performed provide an appropriate basis for reliance on the controls, whether additional tests of controls are necessary, or whether the potential risks of misstatement need to be addressed using substantive procedures.</p>	A38  17  17	Unnecessary example
<p>69. The auditor cannot assume that an instance of fraud or error is an isolated occurrence, and therefore considers how the detection of a misstatement affects the assessed risks of material misstatement. Before the conclusion of the audit, the auditor evaluates whether audit risk has been reduced to an acceptably low level and <b>whether the nature, timing, and extent of the audit procedures may need to be reconsidered</b>. For example, the auditor reconsiders the following:</p> <ul style="list-style-type: none"> <li>• The nature, timing, and extent of substantive procedures.</li> <li>• The audit evidence of the operating effectiveness of relevant controls, including the entity's risk assessment process.</li> </ul>	26/A50	Note: Reworded Repeats (old) para 70 Part of old) para 67 Unnecessary examples
<p>70. The auditor should conclude <b>whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial statements</b>. In developing an opinion, the auditor considers all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.</p>	27	Moved to ISA 500
<p>71. The sufficiency and appropriateness of audit evidence to support the auditor's conclusions throughout the audit are a matter of professional judgment. The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:</p> <ul style="list-style-type: none"> <li>• Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.</li> <li>• Effectiveness of management's responses and controls to address the risks.</li> </ul>		Moved to ISA 500

<ul style="list-style-type: none"> <li>• Experience gained during previous audits with respect to similar potential misstatements</li> <li>• Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.</li> <li>• Source and reliability of the available information.</li> <li>• Persuasiveness of the audit evidence</li> <li>• Understanding of the entity and its environment, including its internal control.</li> </ul>	<p>72. If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or a disclaimer of opinion. See ISA 700, “The Auditor’s Report on Financial Statements”<sup>2</sup> for further guidance.</p>	28	Unnecessary reference
<b>Documentation</b>			
73.	<p>The auditor should document the overall responses to address the assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level, and the results of the audit procedures. In addition, if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should document the conclusions reached with regard to relying on such controls that were tested in a prior audit. The manner in which these matters are documented is based on the auditor’s professional judgment. ISA 230, “Documentation” establishes standards and provides guidance regarding documentation in the context of the audit of financial statements.</p>	29 30	Unnecessary reference to ISA 230
<b>Effective Date</b>			
74.	This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2004.	2	
<b>Public Sector Perspective</b>			
1.	<p><i>When carrying out audits of public sector entities, the auditor takes into account the legislative framework and any other relevant regulations, ordinances or ministerial directives that affect the audit mandate and any other special auditing</i></p>		Statement is general in nature. Proposed to address the first sentence, which is

<sup>2</sup> ISA 700, “The Auditor’s Report on Financial Statements” will be withdrawn when ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and ISA 701, “Modifications to the Independent Auditor’s Report” become effective. ISA 700 (Revised) and ISA 701 are effective for auditor’s reports dated on or after December 31, 2006.



	<i>requirements. Such factors might affect, for example, the extent of the auditor's discretion in establishing materiality and judgments on the nature and scope of audit procedures to be applied. Paragraph 3 of this ISA may have to be applied only after giving consideration to such restrictions.</i>		applicable to all of the ISAs, in redrafted ISA 200
--	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------------------------------------------------