

Proposed Disposition of the Present Tense and Other Statements in the Proposed ISA 530 (Redrafted)

I. Those That Have Been Elevated to a Requirement

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
15	Based on the auditor's understanding of internal control, the auditor identifies the characteristics or attributes that indicate performance of a control, as well as possible deviation conditions which indicate departures from adequate performance.	7	Task force believes that when designing tests of controls or tests of details, it is important that the auditor has identified deviation or misstatement conditions. Elevated to a requirement.
33	The auditor considers what conditions constitute an error by reference to the objectives of the audit procedure.	7	See note re paragraph 15.
34	When performing tests of controls, the auditor generally makes an assessment of the rate of error the auditor expects to find in the population to be tested. Similarly, for tests of details, the auditor generally makes an assessment of the expected amount of error in the population.	7	See note re paragraph 15.
23	... the auditor needs to be satisfied that methods used are effective in providing sufficient appropriate audit evidence to meet the objectives of the audit procedure.	5	Essential that method of selection is appropriate for procedures to be performed.
35.	It is important for the auditor to ensure that the population is: Appropriate... Complete...	9	Existing language suggests that the auditor is required to determine that the population is appropriate, complete and accurate. Detail remains as application material (see paragraph A19).
35a	When performing audit sampling, the auditor performs audit procedures to ensure that the information upon which the sampling is performed is sufficiently complete and accurate.	9	Elevated and combined with the requirement in paragraph 35 (redrafted paragraph 9). Detail remains in application material (see paragraph A19).
45	If a selected item is not appropriate for the application of the audit procedure, the audit procedure is ordinarily performed on a replacement item.	12	
46	... If suitable alternative audit procedures cannot be performed on that item, the auditor ordinarily considers that item to be an error.	12	

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48	<p>...However, when such errors are identified, the auditor makes specific inquiries to understand these matters and also needs to consider matters such as:</p> <ul style="list-style-type: none"> (a) The direct effect of identified errors on the financial statements; and (b) The effectiveness of internal control and their effect on the audit approach when, for example, the errors result from management override of a control. 	14	
48	In these cases the auditor determines whether the tests of controls performed provide an appropriate basis for use as audit evidence, whether additional tests of controls are necessary, or whether the potential risks of misstatement need to be addressed using substantive procedures.	14	
50	<p>Sometimes, the auditor may be able to establish that an error arises from an isolated event that has not recurred other than on specifically identifiable occasions and is therefore not representative of similar errors in the population (an anomalous error). To be considered an anomalous error, the auditor has to have a high degree of certainty that such an error is not representative of the population.</p> <p>The auditor obtains this certainty by performing additional audit procedures. The additional audit procedures depend on the situation, but are adequate to provide the auditor with sufficient appropriate audit evidence that the error does not affect the remaining part of the population.</p>	<p>15</p> <p>15</p>	<p>Retained in the requirements section as essential explanation to the requirement.</p> <p>Redrafted to eliminate present tense and elevated.</p>
51	The auditor projects the total error for the population to obtain a broad view of the scale of errors, and to compare this to tolerable error.	17	Redrafted.
52	... If a class of transactions or account balance has been divided into strata, the error is projected for each stratum separately.	16	

II. Those That Have Been Treated as Application Material and Redrafted

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
16	Audit sampling for tests of controls is generally appropriate when application of the control leaves audit evidence of performance (for example, initials of the credit manager on a sales invoice indicating credit approval, or evidence of authorization of data input to a microcomputer based data processing system).	A4	Redrafted to remove present tense.
23	The decision as to which approach to use will depend on the circumstances, and the application of any one of the above means may be appropriate in the particular circumstances. While the decision as to which means, or combination of means, to use is made on the basis of the risk of material misstatement related to the assertion being tested and audit efficiency, <i>the auditor needs to be satisfied that methods used are effective in providing sufficient appropriate audit evidence to meet the objectives of the audit procedure.</i>	A8 5	Redrafted to remove present tense. Italicized text elevated - see section I.
26	The auditor considers the need to obtain sufficient appropriate audit evidence regarding the remainder of the population when that remainder is material.	A11	Present tense changed to may.
37	... To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population. ...The auditor evaluates the results of this sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).	Appendix 4.	Present tense remains. Task force view is that this is a factual statement. Present tense changed to may.
39	...This approach to defining the sampling unit ensures that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes.	Appendix 4	Redrafted to eliminate use of <i>ensures</i> .
42	... Because the purpose of sampling is to draw conclusions about the entire population, the auditor endeavors to select a representative sample by choosing sample items which have characteristics typical of the population, and the sample needs to be selected so that bias is avoided.	A23	Redrafted to eliminate present tense.

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
55	<p>If the total amount of projected error plus anomalous error is less than but close to that which the auditor deems tolerable, the auditor considers the persuasiveness of the sample results in the light of other audit procedures, and may consider it appropriate to obtain additional audit evidence.</p> <p>... Thus when the best estimate of error is close to the tolerable error, the auditor recognizes the risk that a different sample would result in a different best estimate that could exceed the tolerable error.</p>	<p>A32</p> <p>A32</p>	<p>Set up as an example and changed considers to <i>would consider</i>.</p> <p>Redrafted to eliminate use of present tense.</p>

III. Those That Have Been Deleted

§ in Extant ISA	Statements	§ in Redrafted ISA	Rationale or Comments
20	Depending on their nature, these methods will be subject to sampling and/or non-sampling risks. For example, the auditor may choose an inappropriate substantive analytical procedure (non-sampling risk) or may find only minor misstatements in a test of details when, in fact, the population misstatement is greater than the tolerable amount (sampling risk).	N/A	Task force found the example confusing rather than helpful. Definitions provide a detailed discussion of sampling and non sampling risk.
50	One example is an error caused by a computer breakdown that is known to have occurred on only one day during the period. In that case, the auditor assesses the effect of the breakdown, for example by examining specific transactions processed on that day, and considers the effect of the cause of the breakdown on audit procedures and conclusions. Another example is an error that is found to be caused by use of an incorrect formula in calculating all inventory values at one particular branch. To establish that this is an anomalous error, the auditor needs to ensure the correct formula has been used at other branches.		The task force is of the view that the examples are not consistent with the idea of anomalous error.
52	<p>...The effect of any such error, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous errors.</p> <p>...Projected errors plus anomalous errors for each stratum are then combined when considering the possible effect of errors on the total class of transactions or account balance.</p>		Task force believes that the auditor's consideration of anomalous errors is implicit in ED ISA 450.