

EXPOSURE DRAFT

ED 2/05
(August 2005)

Proposed Auditing Standard: The Auditor's Procedures in Response to Assessed Risks (Re-issuance of AUS 406)

Prepared and Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

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PREFACE

Reasons for Issuing ED 2/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 406) *The Auditor's Procedures in Response to Assessed Risks* due to the requirements of the legislative provisions explained below.

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

Main Proposals

This proposed Auditing Standard:

- (a) requires the auditor to determine overall responses to address the risks of material misstatements at the financial report level;
- (b) requires the auditor to design and perform further audit procedures to respond to the assessed risks of material misstatement at the assertion level;
- (c) provides guidance concerning the nature, timing and extent of further audit procedures;
- (d) identifies the circumstances where tests of controls and/or substantive procedures are required;
- (e) requires the auditor to perform audit procedures to determine the adequacy of presentation and disclosure;
- (f) requires the auditor to evaluate the sufficiency and appropriateness of audit evidence obtained; and
- (g) outlines the documentation requirements of the auditor.

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Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 406 (February 2004)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 406 *The Auditor's Procedures in Response to Assessed Risks (February 2004)*, is that in this proposed Auditing Standard:

1. the word 'shall', in the '**bold-type**' paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should';
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. the following implied obligations, previously in AUS 406, have been elevated and re-stated as specific mandatory requirements:
 - (a) when the auditor plans to perform only substantive procedures, the auditor shall design substantive procedures, for the relevant assertions, that are effective in reducing risks of material misstatement to an acceptably low level (paragraph 14);
 - (b) when the auditor performs substantive procedures prior to period end, the auditor shall determine what additional evidence shall be obtained for the remaining period (paragraph 22);
 - (c) if the auditor's procedures detect a material misstatement that was not identified by the entity and that is indicative of a material weakness in internal control, the auditor shall communicate that weakness to management and those charged with governance on a timely basis (paragraph 45);

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- (d) when the auditor plans to use audit evidence about the operating effectiveness of controls obtained in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 53);
- (e) when the approach to significant risks consists only of substantive procedures, the auditor shall perform tests of details only or a combination of tests of details and substantive analytical procedures to address such significant risks (paragraph 74);
- (f) when the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 85); and
- (g) in designing substantive analytical procedures, the auditor shall determine the amount of difference from the expectation that can be accepted without further investigation (paragraph 89).

A Table of Proposed Changes is provided as an attachment to the Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 406) *The Auditor's Procedures in Response to Assessed Risks* by 14 October 2005. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

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AUTHORITY STATEMENT

Auditing Standard << >> *The Auditor's Procedures in Response to Assessed Risks* is set out in paragraphs 1 to 104.

The requirements of this Auditing Standard set out in **bold-type** paragraphs are mandatory. These requirements are to be applied by auditors in conjunction with the requirements of other applicable Auditing Standards.

The explanatory paragraphs in this Auditing Standard provide guidance and illustrative examples to assist auditors in the application of the mandatory requirements.

AUDITING STANDARD

The Auditor's Procedures in Response to Assessed Risks

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish standards and to 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 report and assertion levels in a financial report 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 AUS 402, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement."
- 5 The following is an overview of this standard:
 - *Overall responses.* This section requires the auditor to determine overall responses to address risks of material misstatement at the financial report level and provides guidance on the nature of those responses.
 - *Audit procedures responsive to risks of material misstatement at the assertion level.* This section requires the

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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.

- *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.
- *Documentation.* This section establishes related documentation requirements.

6 In order to reduce audit risk to an acceptably low level, the auditor shall determine overall responses to assessed risks at the financial report level, and shall design and perform further audit procedures to respond to assessed risks at the assertion level.

7 The overall responses and the nature, timing, and extent of the further audit procedures are matters for the professional judgement of the auditor. In addition to the requirements of this Auditing Standard, the auditor is required to comply with the requirements in AUS 210, “The Auditor’s Responsibility to Consider Fraud and Error in an Audit of a Financial Report”, in responding to assessed risks of material misstatement due to fraud.

Overall Responses

8 The auditor shall determine overall responses to address the risks of material misstatement at the financial report level.

9 Such responses may include emphasising to the audit team the need to maintain professional scepticism in gathering and evaluating audit evidence, assigning more experienced staff or those with special skills or using experts,¹ 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

¹ 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.

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procedures as an overall response, for example, performing substantive procedures at period end instead of at an interim date.

- 10 The assessment of the risks of material misstatement at the financial report 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.
- 11 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).

Audit Procedures Responsive to Risks of Material Misstatement at the Assertion Level

- 12 **The auditor shall design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level.**
- 13 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. In designing further audit procedures, the auditor ordinarily considers such matters as the following:
- The significance of the risk.
 - The likelihood that a material misstatement will occur.
 - The characteristics of the class of transactions, account balance, or disclosure involved.
 - The nature of the specific controls used by the entity and in particular whether they are manual or automated.

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- 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.

The nature of the audit procedures is of most importance in responding to the assessed risks.

14 When the auditor plans to perform only substantive procedures, the auditor shall design substantive procedures, for the relevant assertions, that are effective in reducing the risks of material misstatement to an acceptably low level.

15 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. Often the auditor may determine that a combined approach using both tests of the operating effectiveness of controls and substantive procedures is an effective approach. Irrespective of the approach selected, pursuant to paragraph 68 of this Auditing Standard, the auditor is required to design and performs substantive procedures for each material class of transactions, account balance, and disclosure.

16 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 15 above, pursuant to AUS 502, "Audit Evidence", the auditor is required to consider whether in the absence of effective controls it is possible to obtain sufficient appropriate audit evidence.

Considering the Nature, Timing and Extent of Further Audit Procedures

Nature

17 The nature of further audit procedures refers to their purpose (tests of controls or substantive procedures) and their type, that is,

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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.

- 18 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.
- 19 In determining the audit procedures to be performed, the auditor ordinarily 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 ordinarily 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 procedures based on the effective operation of those controls, then pursuant to paragraph 31 of this Auditing Standard the auditor is required to perform 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.
- 20 Pursuant to AUS 502, 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

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obtains audit evidence about the accuracy and completeness of such information. See AUS 502 for further guidance.

Timing

- 21 Timing refers to when audit procedures are performed or the period or date to which the audit evidence applies.
- 22 When the auditor performs substantive procedures prior to period end, the auditor shall determine what additional audit evidence shall be obtained for the remaining period.**
- 23 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, pursuant to paragraphs 22 and 49 of this Auditing Standard, the auditor is required to consider the additional evidence required for the remaining period.
- 24 In considering when to perform audit procedures, the auditor ordinarily considers such matters as the following:
- The control environment.
 - When relevant information is available (for example, electronic files may subsequently be overwritten, or procedures to be observed may occur only at certain times).
 - 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).
 - The period or date to which the audit evidence relates.

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25 Certain audit procedures can be performed only at or after period end, for example, agreeing the financial report to the accounting records, examining adjustments made during the course of preparing the financial report or if there is a risk that the entity may have entered into improper sales contracts or transactions may not have been finalised at period end, 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.

Extent

26 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 judgement 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.

27 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.

28 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. AUS 514, "Audit Sampling and Other Selective Testing Procedures", contains guidance on the use of sampling.

29 This Auditing Standard regards the use of different audit procedures in combination as an aspect of the nature of testing as discussed above. However, the auditor ordinarily considers whether the extent of testing is appropriate when performing different audit procedures in combination.

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Tests of Controls

- 30 Pursuant to paragraphs 31 and 34 of this Auditing Standard, 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.
- 31 When the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that controls are operating effectively, the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit.**
- 32 See paragraphs 52-63 below for discussion of using audit evidence about the operating effectiveness of controls obtained in prior audits.
- 33 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, pursuant to paragraph 31 of this Auditing Standard, the auditor is required to perform 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. AUS 402 discusses 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.
- 34 When, in accordance with AUS 402, 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 shall design and perform tests of relevant controls to obtain audit evidence about their operating effectiveness.**
- 35 For example, as discussed in AUS 402, 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.

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- 36 Testing the operating effectiveness of controls is different from obtaining audit evidence that controls have been implemented. When obtaining audit evidence of implementation by performing risk assessment procedures, pursuant to AUS 402, the auditor is required to determine that the relevant controls exist and that the entity is using them. When performing tests of the operating effectiveness of controls, pursuant to paragraphs 31 and 34 of this Auditing Standard, the auditor is required to obtain audit evidence that controls operate effectively. This ordinarily 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 ordinarily 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.
- 37 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 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, pursuant to AUS 502, the auditor is required to consider whether the audit evidence provided by those audit procedures is sufficient.

Nature of Tests of Controls

- 38 Pursuant to paragraphs 31 and 34 of this Auditing Standard, the auditor is required to select audit procedures to obtain assurance about the operating effectiveness of controls. As the planned level of assurance increases, the auditor ordinarily 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

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auditor ordinarily performs tests of controls to obtain a higher level of assurance about their operating effectiveness.

- 39 The auditor shall perform other audit procedures in combination with inquiry to test the operating effectiveness of controls.**
- 40 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, pursuant to paragraph 39 of this Auditing Standard, the auditor is required to use 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.
- 41 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 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.
- 42 In designing tests of controls, the auditor ordinarily considers the need to obtain audit evidence supporting the effective operation of controls directly related to the assertions as well as other indirect

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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 authorised credit limit as a direct control related to an assertion. In such cases, the auditor ordinarily 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).

- 43 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.
- 44 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, which accomplishes the objectives of both tests. 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.
- 45 If the auditor's procedures detect a material misstatement that was not identified by the entity and that is indicative of a material weakness in internal control, the auditor shall communicate that weakness to management and those charged with governance on a timely basis.**
- 46 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 ordinarily considered by the auditor when assessing the operating effectiveness of related controls.

Timing of Tests of Controls

- 47 The timing of tests of controls depends on the auditor's objective and determines the period of reliance on those controls. If the auditor tests controls at a particular time, the auditor only obtains audit evidence that the controls operated effectively at that time.

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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.

- 48 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 ordinarily 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.
- 49 **When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall determine what additional audit evidence shall be obtained for the remaining period.**
- 50 In making that determination, the auditor ordinarily 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 ordinarily 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.
- 51 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.
- 52 **If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor shall obtain audit evidence about whether changes in those specific controls have occurred subsequent to the prior audit. The auditor shall 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.**
- 53 **When the auditor plans to use audit evidence about the operating effectiveness of controls obtained in a prior audit, the**

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auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence.

- 54 For example, in performing the prior audit, the auditor may have determined that an automated control was functioning as intended. In this example, 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 be obtained in the current period about the operating effectiveness of the controls.
- 55 If the auditor plans to rely on controls that have changed since they were last tested, the auditor shall test the operating effectiveness of such controls in the current audit.**
- 56 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.
- 57 If the auditor plans to rely on controls that have not changed since they were last tested, the auditor shall test the operating effectiveness of such controls at least once in every third audit.**
- 58 Pursuant to paragraphs 55 and 62 of this Auditing Standard, 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 judgement. In addition, the length of time period between retesting such controls is also a matter of professional judgement, but cannot exceed two years.
- 59 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 ordinarily considers the following:

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- 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.
- The risks arising from the characteristics of the control, including whether controls are manual or automated (see AUS 402 for a discussion of specific risks arising from manual and automated elements of a control).
- The effectiveness of general IT-controls.
- 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.
- Whether the lack of a change in a particular control poses a risk due to changing circumstances.
- The risk of material misstatement and the extent of reliance on the control.

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:

- A weak control environment.
- Weak monitoring of controls.
- A significant manual element to the relevant controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.
- Weak general IT-controls.

60 **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 shall test the operating effectiveness of some controls in each audit.**

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- 61 The purpose of this requirement is to avoid the possibility that the auditor might apply the approach of paragraph 57 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 52-59 that it is appropriate to use audit evidence obtained in prior audits for a number of controls, pursuant to paragraphs 57 and 60 of this Auditing Standard, the auditor is required 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.
- 62 **When, in accordance with AUS 402, 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 shall obtain the audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period.**
- 63 The greater the risk of material misstatement, the more audit evidence the auditor ordinarily 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, pursuant to paragraph 62 of this Auditing Standard, is required to obtain the audit evidence about the operating effectiveness of controls over such risks in the current period.

Extent of Tests of Controls

- 64 Pursuant to paragraphs 31 and 34 of this Auditing Standard, the auditor is required to design 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:
- The frequency of the performance of the control by the entity during the period.

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- The length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
- 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.
- The extent to which audit evidence is obtained from tests of other controls related to the assertion.
- 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).
- The expected deviation from the control.

65 Ordinarily, 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 ordinarily increases the extent of testing of the control. However, the auditor ordinarily 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.

66 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 ordinarily 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 authorised 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 applications without modifying or maintaining them. For example, the auditor may inspect the record

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of the administration of IT security to obtain audit evidence that unauthorised access has not occurred during the period.

Substantive Procedures

- 67 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. Pursuant to paragraphs 12 and 68 of this Auditing Standard, the auditor is required to design and perform substantive procedures to be responsive to the related assessment of the risk of material misstatement.
- 68 Irrespective of the assessed risk of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.**
- 69 This requirement reflects the fact that the auditor's assessment of risk is judgemental and may not be sufficiently precise to identify all risks of material misstatement. Further, there are inherent limitations to internal control including management override. 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 15), pursuant to paragraph 68 of this Auditing Standard, the auditor is required to always perform substantive procedures for each material class of transactions, account balance, and disclosure.
- 70 The auditor's substantive procedures shall include the following audit procedures related to the financial report closing process:**
- **Agreeing the financial report to the underlying accounting records; and**
 - **Examining material journal entries and other adjustments made during the course of preparing the financial report.**
- 71 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.
- 72 When, in accordance with AUS 402, the auditor has determined that an assessed risk of material misstatement at the assertion**

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level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

- 73 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 recognising revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the 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.
- 74 **When the approach to significant risks consists only of substantive procedures, the auditor shall perform tests of details only or a combination of tests of details and substantive analytical procedures to address such significant risks.**
- 75 See paragraphs 76-90 for further guidance in relation to 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.

Nature of Substantive Procedures

- 76 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.

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77 Pursuant to paragraph 12 of this Auditing Standard, the auditor is required to design 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 ordinarily selects from items contained in a financial report amount and obtains the relevant audit evidence. On the other hand, in designing audit procedures related to the completeness assertion, the auditor ordinarily selects from audit evidence indicating that an item should be included in the relevant financial report 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.

78 In designing substantive analytical procedures, the auditor ordinarily considers such matters as the following:

- The suitability of using substantive analytical procedures given the assertions.
- The reliability of the data, whether internal or external, from which the expectation of recorded amounts or ratios is developed.
- Whether the expectation is sufficiently precise to identify a material misstatement at the desired level of assurance.
- The amount of any difference in recorded amounts from expected values that is acceptable.

The auditor ordinarily 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. See AUS 502 for guidance in relation to determining the audit procedures to apply to the information upon which the expectation for substantive analytical procedures is based.

Timing of Substantive Procedures

79 When substantive procedures are performed at an interim date, the auditor shall perform further substantive procedures or substantive procedures combined with tests of controls to cover

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the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

- 80 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 ordinarily considers such factors as the following:
- The control environment and other relevant controls.
 - The availability of information at a later date that is necessary for the auditor's procedures.
 - The objective of the substantive procedure.
 - The assessed risk of material misstatement.
 - The nature of the class of transactions or account balance and related assertions.
 - 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.
- 81 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, pursuant to paragraph 79 of this Auditing Standard, the auditor is required to consider 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, pursuant to paragraph 34 of this Auditing Standard, or the substantive procedures are performed as of the period end.
- 82 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

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- 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 AUS 210).
- 83 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 ordinarily considers whether the period end balances of the particular classes of transactions or account balances are reasonably predictable with respect to amount, relative significance, and composition. The auditor ordinarily considers whether the entity's procedures for analysing and adjusting such classes of transactions or account balances at interim dates and for establishing proper accounting cutoffs are appropriate. In addition, the auditor ordinarily 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. The substantive procedures related to the remaining period depend on whether the auditor has performed tests of controls.
- 84 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.
- 85 Where the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence.**
- 86 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

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current period as substantive audit evidence, pursuant to paragraph 85 of this Auditing Standard, the audit evidence must have continuing relevance 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 securitisation to which no changes have occurred during the current period.

Extent of the Performance of Substantive Procedures

- 87 Ordinarily, 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.
- 88 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 ordinarily 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 representative sampling or stratifying the population into homogeneous subpopulations for sampling. AUS 514 contains guidance on the use of sampling and other means of selecting items for testing.
- 89 In designing substantive analytical procedures, the auditor shall determine the amount of difference from the expectation that can be accepted without further investigation.**
- 90 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 ordinarily increases the desired level of assurance as the risk of material misstatement increases. AUS 512, "Analytical Procedures", contains guidance on the application of analytical procedures during an audit.

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Adequacy of Presentation and Disclosure

- 91 The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial report, including the related disclosures, is in accordance with the applicable financial reporting framework.**
- 92 For example, the auditor considers whether the individual financial report is presented in a manner that reflects the appropriate classification and description of financial information. The presentation of a financial report 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 report and its appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the report, and the bases of amounts set forth. Pursuant to paragraph 91 of this Auditing Standard, the auditor is required to consider whether management ought to 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 report, including the related disclosures, pursuant to AUS 502, the auditor is required to consider the assessed risk of material misstatement at the assertion level. See AUS 502 for a description of the assertions related to presentation and disclosure.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

- 93 Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate.**
- 94 An audit of a financial report 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 judgement about the risk assessments and may indicate a material weakness in internal control. In addition, analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognised risk of material misstatement. In such circumstances, the auditor

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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. AUS 402 contains further guidance on revising the auditor's risk assessment.

- 95 The concept of effectiveness of the operation of controls recognises 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 ordinarily makes specific inquiries to understand these matters and their potential consequences, for example, by inquiring about the timing of personnel changes in key internal control functions. The auditor ordinarily 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.
- 96 The auditor cannot assume that an instance of fraud or error is an isolated occurrence, and therefore ordinarily considers how the detection of a misstatement affects the assessed risks of material misstatement. Before the conclusion of the audit, pursuant to paragraphs 93 and 100 of this Auditing Standard, the auditor is required to evaluate 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. For example, the auditor reconsiders the following:
- The nature, timing, and extent of substantive procedures.
 - The audit evidence of the operating effectiveness of relevant controls, including the entity's risk assessment process.
- 97 **The auditor shall conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial report.**
- 98 Pursuant to AUS 702, "The Audit Report on a General Purpose Financial Report", and AUS 502, the auditor is required to review and assess the conclusions drawn from the audit evidence obtained in developing an opinion, regardless of whether it appears to corroborate or to contradict the assertions in the financial report.

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99 The sufficiency and appropriateness of audit evidence to support the auditor's conclusions throughout the audit are a matter of professional judgement. The auditor's judgement as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- 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 report.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of the available information.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, including its internal control.

100 If the auditor has not obtained sufficient appropriate audit evidence as to a material financial report assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express an "except for" opinion or an "inability to form an opinion."

101 See AUS 702 for further guidance.

Documentation

102 The auditor shall document the overall responses to address the assessed risks of material misstatement at the financial report 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 shall document the conclusions

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reached with regard to relying on such controls that were tested in a prior audit.

- 103 The manner in which these matters are documented is based on the auditor's professional judgement. AUS 208, "Documentation", establishes standards and provides guidance regarding documentation in the context of the audit of a financial report.

Conformity with International Standards on Auditing

- 104 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 330, "The Auditor's Procedures in Response to Assessed Risks" issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The difference between this Auditing Standard and ISA 330 are:

- (a) This Auditing Standard includes the following specific mandatory requirements which are included only as guidance in the explanatory paragraphs of ISA 330:
 - (i) when the auditor plans to perform only substantive procedures, the auditor shall design substantive procedures, for the relevant assertions, that are effective in reducing risks of material misstatement to an acceptably low level (paragraph 14);
 - (ii) when the auditor performs substantive procedures prior to period end, the auditor shall determine what additional evidence is to be obtained for the remaining period (paragraph 22);
 - (iii) if the auditor's procedures detect a material misstatement that was not identified by the entity and that is indicative of a material weakness in internal control, the auditor shall communicate that weakness to management and those charged with governance on a timely basis (paragraph 45);
 - (iv) when the auditor plans to use audit evidence about the operating effectiveness of controls obtained in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 53);

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- (v) when the approach to significant risks consists only of substantive procedures, the auditor shall perform tests of details only or a combination of tests of details and substantive analytical procedures to address such significant risks (paragraph 74);
- (vi) when the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence (paragraph 85); and
- (vii) in designing substantive analytical procedures, the auditor shall determine the amount of difference from the expectation that can be expected without further investigation (paragraph 89).

Compliance with this Auditing Standard enables compliance with ISA 330.

Table of Proposed Changes from AUS 406 *The Auditor’s Procedures in Response to Assessed Risks*

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1 and 2	Requirement and Guidance	New Application paragraph.
3	Requirement	Re-position Operative Date paragraph.
N/A	Former Appendix	Delete Public Sector Perspective as proposed Auditing Standards will be sector neutral.
6, 8, 12, 31, 34, 39, 49, 52, 55, 57, 60, 62, 68, 70, 72, 79, 91, 93, 97, 100, 102	Requirement	Replace “should’ with “shall”.
14, 22, 45, 53, 74, 85, 89	Guidance	Implied obligation elevated to a mandatory requirement.
13, 19, 24, 29, 36, 38, 42, 46, 48, 50, 59, 63, 65, 66, 77, 78, 80, 83, 88, 90, 95, 96	Guidance	Insert “ordinarily” to clarify implied obligations.
15, 16, 19, 20, 23, 30, 33, 36, 37, 38, 40, 58, 61, 63, 64, 67, 69, 77, 81, 86, 92, 96,	Guidance	Insert “pursuant to...the auditor is required to...” to clarify implied obligations.
7	Guidance	Replace reference to “this AUS” with “this Auditing Standard.”

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
20, 33, 34, 35,59, 62, 72, 94	Guidance / Requirement	Remove the specific reference to paragraphs in other AUSs.
25, 44, 75, 78, 92, 98,	Guidance	Minor re-write of existing text.
7	Guidance	Re-write “the auditor also complies” as “the auditor is required to comply.”
67	Guidance	Re-write “the auditor shall perform tests of controls” as “the auditor shall design and perform tests of controls.”
31, 34	Requirement	Re-write “the auditor shall perform tests of controls” as “the auditor shall design and perform tests of controls.”
60	Requirement	Re-write “the auditor shall test the operating effectiveness of some controls each audit” as “the auditor shall test the operating effectiveness of some controls in each audit.”
16	Guidance	Re-write “the auditor is required to consider whether in the absence of controls” as “the auditor is required to consider whether in the absence of effective controls.”
86	Guidance	Re-write “the audit evidence and the related subject matter must not fundamentally change” as “the audit evidence must have continuing relevance and the related subject matter must not fundamentally change.”
91	Guidance	Re-write “..including the related disclosures, are in accordance with..” as “..including the related disclosures, is in accordance with.”
100	Requirement	Re-write “the auditor shall express a qualified opinion or disclaimer of opinion” as “the auditor shall express an “except for” opinion or an “inability to express an opinion.”