Appendix 6 – Summary of Changes Made to Auditing Standard No. 2

Concept in AS2	Paragraph	Concept in Proposed AS5	Paragraph
Testing company level controls alone is not sufficient for the purpose of expressing an opinion on the effectiveness of a company's internal control over financial reporting	54	Omitted statement that "testing company-level controls alone is not sufficient."	N/A
"The auditor should not use the work of others to reduce the amount of work he or she performs on controls in the control environment."	113	Omits the specific restriction on using the work of others for testing controls in the control environment	N/A
Requires auditors to opine on management's evaluation process	40 - 46	Eliminates the requirement for auditors to evaluate management's evaluation process and requires auditors to express only one opinion on internal control	2
Not discussed	N/A	Describes several ways for auditors to integrate their audits of internal control and the financial statements	7, B1 – B11
Discusses management's risk assessment process only. Does not include auditor's risk assessment or risk assessment for planning purposes.	N/A	Emphasizes risk assessment at the top level and all the way down to the control level	8, 28
Size and complexity of company only referred to in terms of the form and extent of documentation used. Does not require auditors to evaluate size and complexity in planning their audit.	43	Advises auditors to evaluate the size and complexity of a company in planning and performing the audit	9
Includes "principal evidence" provision which requires auditors' own work to provide the principal evidence for their opinions on companies' internal control	108	Auditors could determine how much of the work of others could be used by evaluating the nature of the subject matter tested by others, and the competence and objectivity of those who performed the work	13
Advises auditors to use the same conceptual definition of materiality that applies to financial reporting for internal control over financial reporting. References both	23	Advising auditors to plan and perform their audits of internal control using the same materiality measures used to plan and perform the annual financial statement	14

quantitative and qualitative considerations and AU sec. 312, *Audit Risk and Materiality in Conducting an Audit.*		audits.	
Gives examples for Company-level controls	53	Adds “controls over management override” to examples of company-level controls	18
Lists components that make up control environment, but does not supply steps for evaluation	53, 113 - 115	Supplies steps for auditor to assess the control environment	20
Multi-location testing to cover a "large portion" of the company’s operations	B4 – B11	Omits the provision requiring testing of controls over a “large portion” of the company. Multi-location testing focused on risk not coverage	29, B12 – B18
“The auditor should perform at least one walkthrough for each major class of transactions”	79	Requires a walkthrough only for each significant process rather than for each major class of transactions within each significant process	36
“The auditor should perform the walkthroughs himself or herself because of the degree of judgment required in performing this work.”	116	Believes the difference between an audit staff member and another sufficiently competent and objective individual providing direct assistance is minimal and does not believe it would affect audit quality.	40
“When the auditor identifies exceptions to the company's prescribed control procedures, he or she should determine, using professional skepticism, the effect of the exception on the nature and extent of additional testing that may be appropriate or necessary and on the operating effectiveness of the control being tested. A conclusion that an identified exception does not represent a control deficiency is appropriate only if evidence beyond what the auditor had initially planned and beyond inquiry supports that conclusion.”	107	The new standards allows for more flexibility in finding exceptions as it states “because effective internal control over financial reporting cannot, and does not, provide absolute assurance of achieving the company's control objectives, any individual control does not necessarily have to operate without any deviation to be considered effective.”	53
When testing at an interim date, auditors should determine what additional evidence to obtain	100 - 101	Allows for roll-forward procedures for testing controls based on risk	63 - 64

concerning the operation of controls for the remaining period (through the “as of” date)			
“Each year's audit must stand on its own.”	E120	Allows auditors the flexibility to reduce testing in some areas based on knowledge obtained in previous audits and allows this knowledge to affect auditors’ assessment of risk	65 - 69
Benchmarking is not precluded but not addressed	E122	May use a benchmarking strategy for automated application controls in subsequent years' audits	68, B30 – B35
In evaluating deficiencies auditors should determine “the likelihood that a deficiency, or a combination of deficiencies, could result in a misstatement of an account balance or disclosure”	131	In evaluating deficiencies auditors should determine “whether there is a reasonable possibility that the company's controls will fail to prevent or detect a misstatement of an account balance or disclosure”	71
The restatement of previously issued financial statements, an ineffective control environment and uncorrected significant deficiencies from prior years were described as “circumstances that should be regarded as at least significant deficiencies and as strong indicators of a material weakness”	140, E94 – E100	Removed the requirement to consider these circumstances as at least significant deficiencies. The language was changed to “a strong indicator that a material weakness in internal control over financial reporting exists. It allows the auditor to conclude a material weakness (or significant deficiency) exists, but does not require the auditor to reach that conclusion.	79
Major classes of transactions are those classes of transactions that are significant to the company's financial statements.	71	Major classes of transactions are those transaction flows that have a meaningful bearing on the totals accumulated in the company's significant accounts and, therefore, have a meaningful bearing on relevant assertions.	A6
Material weakness defined as, “A significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.”	10	Material weakness defined as, “A control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected.”	A8
Significant deficiency defined as,	9	Significant deficiency defined as,	A12

"A control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected."		"A control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a significant misstatement of the company's annual or interim financial statements will not be prevented or detected."	
"The absence of misstatements detected by substantive procedures [performed in the financial statement audit] does not provide evidence that controls related to the assertion being tested are effective."	158	Directs auditors to consider the results of substantive audit procedures performed in the financial statement audit when determining the overall risk related to controls. Also states effectiveness cannot be inferred solely from the absence of financial statement misstatements detected by the auditor.	B10 – B11