

Using audit evidence obtained in previous audits

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

- 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 it is manual or automated
- 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 noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control
 - If a new payroll manager was appointed, the auditor must assess whether their oversight remains as strong as before. If control deviations were found earlier, a retest may be needed.
- Whether the lack of a change in a particular control poses a risk due to changing circumstances and
 - Regulatory changes: New labor laws might impact salary computation may have impact on controls of payroll processing
- The ROMM and the extent of reliance on the control

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

Using previous audit evidence on control effectiveness - factors to be considered - Summary
Other elements of IC
Characteristic of control - Manual Vs. Automated
General IT Controls
Control effectiveness, deviations, and personnel changes
Change in Circumstances
ROMM and Extent of reliance
Check relevance of evidence in the light of changes

Discuss the various points which auditor needs to consider in determining whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous audit, and if so, the length of the time period that may elapse before retesting. (SA, Nov 2019, 4 Marks) (MTP2, May 2023, 4 marks)

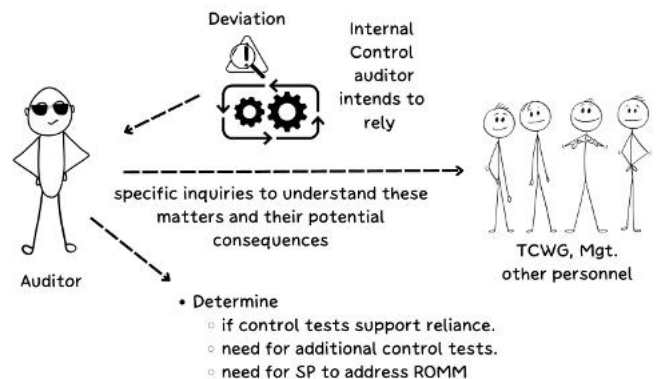
Evaluating the Operating Effectiveness of Controls

- Auditor should evaluate if controls operate as expected based on results of TOC.
 - Auditor will evaluate any deviations from expected control operation
 - Control risk assessment may need revision based on deviation evaluation
 - If revised, modify nature/timing/extent of planned substantive procedures
 - Misstatements detected by substantive procedures indicate potential control ineffectiveness
 - Absence of misstatements doesn't prove control effectiveness
 - Material misstatement strongly indicates significant internal control deficiency
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- Auditor tests ABC Company's payroll controls.
 - Finds 3 out of 25 salary increases lacked authorization.
 - Evaluates deviations to assess significance.
 - Revises control risk from low to moderate.
 - Modifies audit plan: increases sample sizes, adds detailed testing.
 - Expanded testing reveals unauthorized bonus payments.
 - Approval controls are ineffective despite no other misstatements.
 - Unauthorized bonuses are material → significant deficiency in payroll authorization.

Specific inquiries by the auditor when deviations from controls are detected.

When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether

- The tests of controls that have been performed provide an appropriate basis for reliance on the controls
- Additional tests of controls are necessary
- The potential risks of misstatement need to be addressed using substantive procedures.



- Auditor inquires with payroll manager and HR director about missing signatures.
- HR director cites short-staffing; some approvals were verbal but undocumented.

- Auditor assesses control tests (25 salary increases) but finds them unreliable.
- Expands testing to three more months, revealing control lapses in busy periods.
- Determines risks of misstatement require substantive procedures.
- Performs detailed testing of high-risk salary increases and analytical procedures.