CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Implementation Tool for Auditors

CANADIAN AUDITING STANDARD (CAS)

MAY 2018

STANDARD DISCUSSED
CAS 330, *The Auditor's Responses to Assessed Risks*

Common Pitfalls Auditors May Encounter When Designing and Performing Tests of Relevant Controls

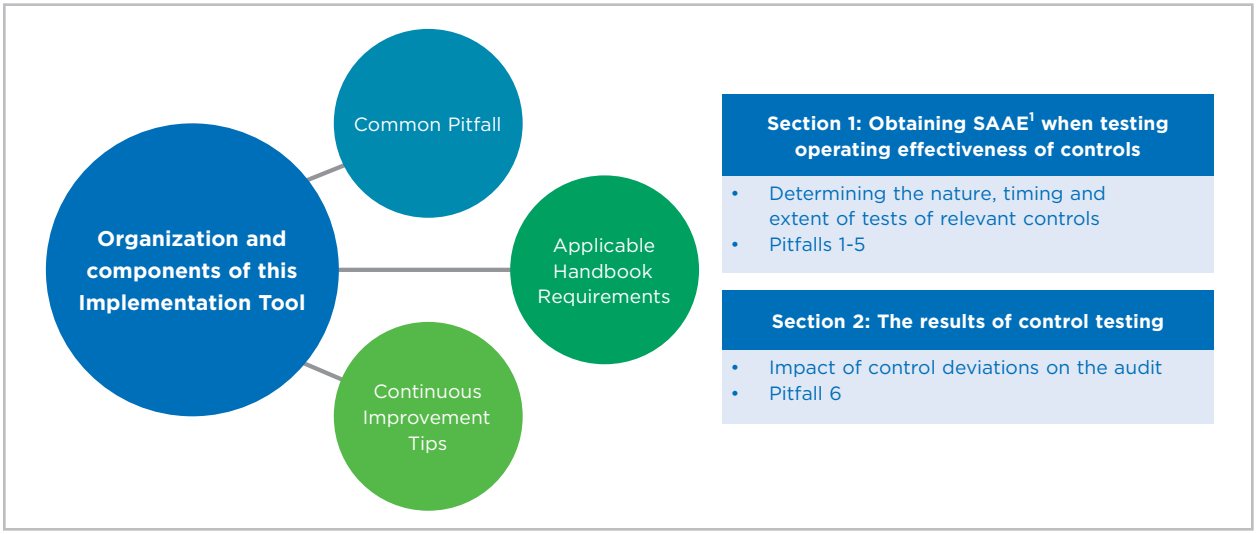
There are many steps involved in meeting the requirements of CAS 330. This *Implementation Tool for Auditors* discusses only select requirements of CAS 330, that have been identified through practice inspection as areas where auditors struggle to meet the requirements of CAS 330 in Canada as it relates to designing and performing tests of relevant controls.

Auditors are encouraged to use this *Implementation Tool for Auditors* (*Tool*) as part of their planning and/or preparation for the year-end audit engagement to assist in meeting the requirement of CAS 330 as it relates to designing and performing tests of relevant controls. This *Tool* does not replace the need to read the entire standard, including the application and other explanatory material.

This publication does not include situations covered by the requirements of CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.* For example, guidance for identifying and assessing risks of material misstatement, relating those risks to what can go wrong at the assertion level and controls relevant to the audit is not covered by this publication. For common pitfalls related to CAS 315, see CPA Canada's CAS 315 *Implementation Tool for Auditors.*

CPA Canada's companion publication, *Information Technology (IT): Why Should Auditors Care?*, addresses implications of IT for the audit when certain requirements of CAS 330 are being applied. Specifically, when the auditor has decided to test the operating effectiveness of relevant controls, that companion Implementation Tool assists the auditor in determining a) whether the controls to be tested depend upon general information technology controls (GITCs), and b) if so, whether it is necessary to obtain audit evidence supporting the effective operation of those GITCs. This companion Implementation Tool also assists auditors in determining whether the relevant controls being tested for operating effectiveness use information produced by the entity in the performance of such control and, if so, assists in evaluating whether the information is sufficiently reliable for the auditor's purposes, including obtaining audit evidence about the accuracy and completeness of the information.

How This *Tool* Is Organized



Auditors are reminded of the documentation requirements in CAS 230, *Audit Documentation* as well as the documentation requirements in paragraphs 28 and 29 of CAS 330. Paragraphs 28 and 29 of CAS 330 require the audit documentation to include the:

- overall responses to address the assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of the further audit procedures performed
- linkage of those procedures with the assessed risks at the assertion level
- results of the audit procedures, including the conclusions where these are not otherwise clear
- conclusions reached about relying on controls that were tested in a previous audit if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits.

1 Sufficient Appropriate Audit Evidence

Section 1: Obtaining Sufficient Appropriate Audit Evidence When Testing Operating Effectiveness of Relevant Controls

The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the **operating effectiveness** of relevant controls if:

- The auditor's assessment of the risks of material misstatement at the assertion level includes an expectation that the controls are **operating effectively,** and that the auditor intends to rely on the **operating effectiveness** of controls in determining the nature, timing and extent of substantive procedures; or
- substantive procedures alone do not provide sufficient and appropriate audit evidence at the assertion level. (CAS 330.08)

Common pitfalls with respect to determining the nature, timing and extent of tests of relevant controls are summarized below and explored further in this section of the *Tool.*

Nature

Nature includes not only whether the auditor is performing a test of controls or substantive procedure, but also the *specific* type of procedure performed. In addition to inquiry, the nature of audit procedures relevant to tests of controls include: inspection, observation (provides audit evidence only at a point in time) and re-performance (CAS 330.A5). Inquiry alone is not sufficient to obtain audit evidence about operating effectiveness (CAS 330.A26). The following are some common pitfalls with respect to the nature of the tests of controls:

- Auditors do not design and perform control testing procedures that provide sufficient appropriate audit evidence to support whether a control is operating effectively (see Pitfall 1).
- When choosing to perform dual-purpose tests, auditors do not perform both or either of the substantive tests or control tests appropriately (see Pitfall 2).
- Auditors do not vary the nature of their tests of controls appropriately (in order to obtain more persuasive audit evidence) when placing greater reliance on those controls (see Pitfall 5).

Timing

Timing of an audit procedure refers to when it is performed, or the period or date to which audit evidence applies (CAS 330.A6). When testing controls, the auditor is required to test relevant controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls (CAS 330.11). There are, however, opportunities for the auditor to perform the audit more efficiently with respect to timing by using audit evidence obtained:

- in previous audits; and/or (CAS 330.13-14) (see Pitfall 3)
- during an interim period (e.g., performing procedures during less busy times of the year) (CAS 330.12) (see Pitfall 4).

Extent

The extent of an audit procedure refers to the quantity of tests to be performed (e.g., a sample size or number of observations of a control activity (CAS 330.A7)). Typically, the extent of tests of controls depends on the frequency with which the control operates. The extent to which a control is tested is directly related to the degree of reliance being placed on that control. A common pitfall with respect to the extent of the tests of controls includes:

- auditors not varying the extent of their tests of controls (in order to obtain more persuasive audit evidence) when placing greater reliance on those controls (see **Pitfall 5**).

Pitfall 1 (Nature) — Auditors do not design and perform control testing procedures that provide sufficient appropriate audit evidence to support whether a control is operating effectively.

What is the common pitfall?

- Auditors do not perform other audit procedures, in combination with inquiry. (CAS 330.10(a))
- In obtaining audit evidence about the operating effectiveness of relevant controls, auditors do not obtain audit evidence related to:
  i. how the controls were applied at relevant times during the period under audit
  ii. the consistency with which the controls were applied
  iii. by whom (or by what means) the controls were applied (CAS 330.10(a)).

Examples of this pitfall	Why is this a pitfall?
accepting a client signature as the only evidence that a control was performed without further consideration of what other evidence is necessary to demonstrate that the control operated effectively.	A client signature may provide evidence of "by whom" the control was applied (item iii.) but it does not provide evidence regarding items i. or ii.
inferring that a control is operating effectively by verifying that a transaction or balance agrees with source documents or because no misstatements were found as part of substantive testing (e.g., the auditor concluding that management's review control over the accounts receivable (A/R) reconciliation operated effectively after finding that the A/R sub ledger agrees to the general ledger (G/L)).	Performing a substantive test that verifies a transaction is not a test of controls because it does not demonstrate how the entity applies the control and therefore does not provide evidence regarding items i., ii. or iii. (e.g., the inspection of the agreement of the A/R sub ledger with the G/L does not address i. to iii.).

By not designing and performing tests of controls that provide sufficient appropriate audit evidence about the operating effectiveness of relevant controls (including items i., ii. and iii), the auditor may incorrectly conclude the entity's controls are able to prevent or detect and correct material misstatements.

CAS Requirement

Paragraph 10(a) of CAS 330

Continuous Improvement Tips

Auditors do not perform other audit procedures, in combination with inquiry.

- Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry (CAS 330.A26). Such procedures may include:
  - inspection
  - observation (provides audit evidence only at a point in time)
  - re-performance.
- Inquiry combined with inspection or re-performance may provide more assurance than inquiry combined with observation since an observation is pertinent only at the point in time at which it is made (CAS 330.A26). The higher the assessed risk, the more persuasive audit evidence (i.e., inquiry combined with inspection or re-performance) is needed to assess the operating effectiveness of the relevant controls.

In obtaining audit evidence about the operating effectiveness of relevant controls, auditors do not obtain audit evidence related to items i., ii. and iii.

- Obtaining audit evidence about the operating effectiveness of relevant controls needs to address each of the following items:
- Note: The examples below are illustrative in nature and are not intended to depict all controls that relate to "what can go wrong" at the assertion level (CAS 315.26(c)), nor all the steps necessary to perform in order for the control to be appropriately designed (CAS 315.A74).

Items of CAS 330.10 (a)	Example procedures to test each item
i. *how* the control was applied at *relevant times* during the period under audit	**Re-performance** re-performance of the monthly control the controller performs For example, the controller may review the allowance for doubtful accounts (AFDA) calculation prepared by the A/R clerk by performing the following steps: 1. agreeing the A/R invoice amount and the date of the invoice in the spreadsheet, on a test basis, with the sub ledger 2. verifying the percentages applied to each aging category agrees with company policy 3. verifying the formula in the AFDA provision for each category is correct 4. verifying the formula for the totals is correct. Therefore, when the auditor selects a *sample of the monthly* reviews to test for operating effectiveness, the auditor independently *re-performs the same steps* described by the controller to determine whether the auditor arrives at the same conclusion as the controller and that the control was performed for the *monthly period* and operates as designed. **Observation** observation of cycle counts of inventory throughout the period to determine that the control was performed at relevant times and operates as it was designed
ii. the *consistency* with which the controls were applied	**Inspection** inspection of evidence of the controller's: • review of the AFDA provision as described through tickmarks, • investigation of reconciling items and making adjustments and corrections as needed based on their investigation, • review of underlying or supporting documentation if it has been cross-referenced to the reconciliation, and • signed off *each time* the control was performed
iii. by whom (or by what means) the controls were applied	**Inspection** inspection of evidence of the controller's review of the AFDA provision to confirm the control was in fact *performed by the controller* (e.g., inspection of correspondence between the controller and preparer of the AFDA provision following up on matters arising from their review) **Observation** observing the controller performing the control

Pitfall 2 (Nature) — When choosing to perform dual-purpose tests (one where a test of controls is performed concurrently with a test of details on the same transaction), auditors do not perform them appropriately

What is the common pitfall?

Auditors do not consider the purpose of each test (test of controls and test of details) in order to:

- properly design each test
- perform procedures for each test
- conclude on each test separately.

CAS Requirement

Paragraph 8 and A23 of CAS 330

Continuous Improvement Tips

Dual purpose tests provide efficiencies for an auditor where they can perform a test of controls concurrently with a test of details on the same transaction. These tests may be performed concurrently; each test has its own purpose, procedures to be performed and conclusion.

EXAMPLE DEMONSTRATING A DUAL-PURPOSE TEST

Test of Controls

Control

Invoices for property, plant and equipment over $100,000 are approved for payment by the controller by comparing the supplier invoice with the receiving document.

Test of Control

The auditor inspects the invoice to see that it was approved (through signature and date) by the controller and that the controller has evidenced that they compared the invoice to the receiving document.

Test of Details

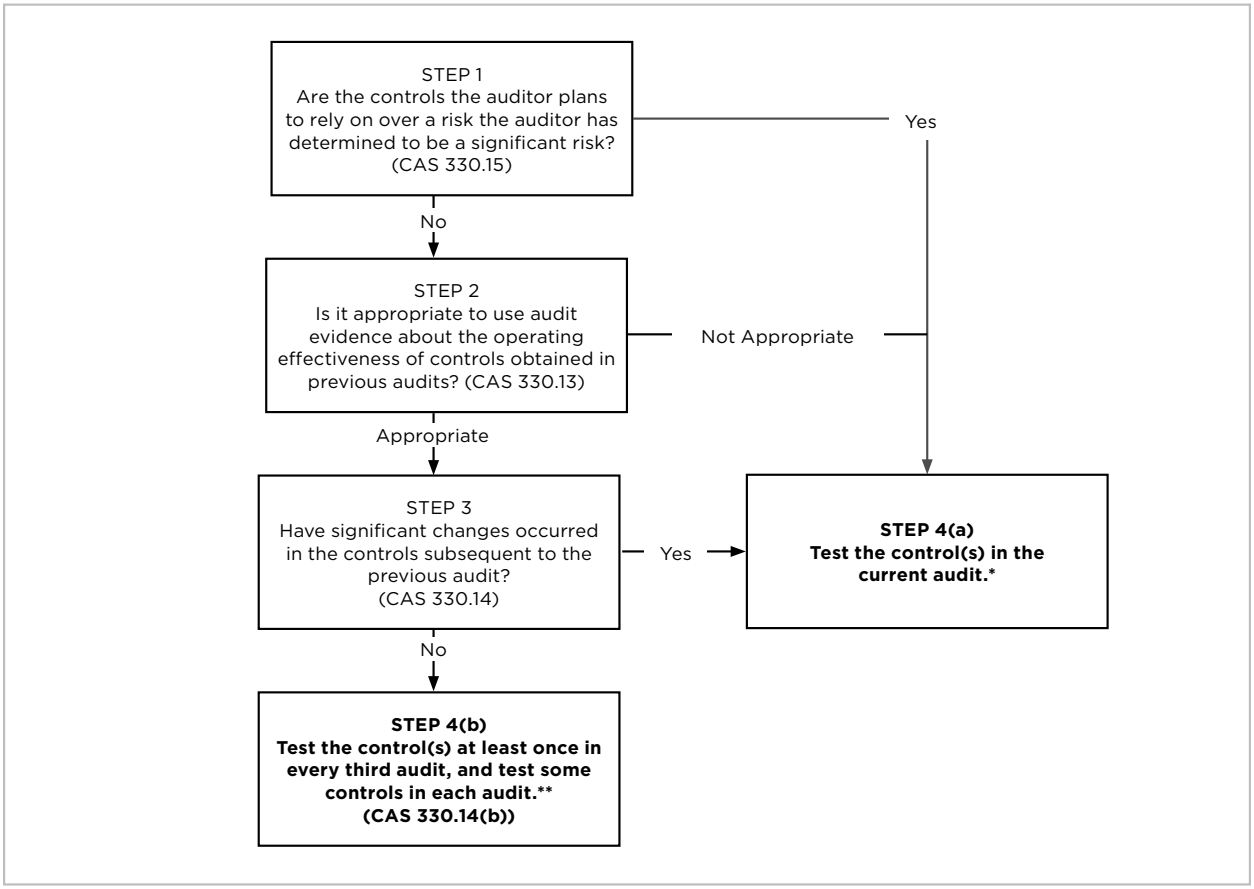
When performing substantive tests regarding additions to equipment, the auditor examines the supplier invoice and the receiving document (i.e., the same supplier invoice and receiving document used for the test of controls) to verify the quantity and value.

Auditors are reminded of the following:

- The purpose, performance of procedures and conclusion of each test (test of controls and test of details) are to be clearly distinguished and documented.
- The determination of the extent of each test (test of controls and test of details) is documented separately even though the same underlying transactions are being used for both tests.

Pitfall 3 (Timing)—Auditors do not establish the continuing relevance of audit evidence obtained in previous audits

When responding to risks of material misstatement other than significant risks (Step 1 in the diagram below and paragraph 15 of CAS 330), an auditor is permitted to use audit evidence about the operating effectiveness of relevant controls obtained in previous audits when the auditor performs audit procedures to establish the continuing relevance of such audit evidence in the current year. Paragraphs 13-15 of CAS 330 lay out the following process:



*The need to test controls in the current audit may result from determinations made in Step 1 (CAS 330.15), Step 2 (CAS 330.13) or Step 3 (CAS 330.14(a)).

**This frequency will avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. (CAS 330.14(b))

What is the common pitfall?

In some instances auditors do not:

- determine whether it is appropriate to use prior audit evidence (**Step 2**)
- perform procedures to determine whether there have been changes (**Step 3**)
- test controls in the current year audit when there have been changes that affect the continuing relevance of the audit evidence from a previous audit (**Step 3**)
- test some controls each audit where there have not been such changes (**Step 4(b)**)
- test controls at least once in every third audit (**Step 4(b)**).

CAS Requirement

Paragraphs 13—15, 29, A36—A39 of CAS 330

Continuous Improvement Tips

Step 2: Determining the appropriateness of prior audit evidence

When determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, auditors consider the following factors (CAS 330.13):

- effectiveness of other elements of internal controls, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process
- risks arising from the characteristics of the control, including whether it is manual or automated
- effectiveness of general IT controls[2]
- 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
- whether the lack of a change in a particular control poses a risk due to changing circumstances
- risks of material misstatement and the extent of reliance on the control.

Step 3: Changes that affect the continuing relevance of the audit evidence

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. The auditor shall obtain this evidence by performing an inquiry combined with observation or inspection to confirm the understanding of those specific controls, and:

- Step 4(a)—If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit.
- Step 4(b)—If there have been no such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods (CAS 330.14).

Step 4(a): Test the control(s) in the current audit

Changes may affect the relevance of the audit evidence obtained in previous audits 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 audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently does affect it (CAS 330.A36). When continued reliance is no longer warranted, the auditor tests those controls in the current audit.

2 See CPA Canada's companion publication, ***Information Technology (IT): Why Should Auditors Care?*** which addresses implications of IT on the audit when applying certain requirements of CAS 330.

Step 4(b): Testing some controls in each audit and testing the controls at least once in every third audit

- Notwithstanding that the auditor may use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor is required to test **some** controls **each** audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. In order to assist in determining **which** controls to test **each** audit, the auditor may consider that, 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 before retesting a control.
- Factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following (CAS 330.A38):
  - deficient control environment
  - deficient monitoring of controls
  - 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
  - deficient general IT controls.
- If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor is required to include documentation regarding the conclusions reached about relying on such controls that were tested in a previous audit (CAS 330.29). As a result, auditors may consider:
  - maintaining a tracking document in their audit documentation and highlighting the date the relevant controls were tested for operating effectiveness; some may have been brought forward from the previous audit, and some may have been tested in the current audit
  - highlighting in some manner when audit documentation is carried forward from the previous audit and being used as audit evidence in the current audit.
- Irrespective of the ability for the auditor to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor is required to test each control being tested for operating effectiveness at least once in every third audit.

Pitfall 4 (Timing) — When testing controls at an interim period, auditors do not perform additional procedures on the operating effectiveness of relevant controls in the remaining period

When performing control testing, auditors may test controls for a period that ends prior to the balance sheet date (i.e., an interim period) in order to conclude on the operating effectiveness of those controls at the interim period. The period of time between the interim period and the balance sheet date is often referred to as the "remaining period" (CAS 330.12(b)). Do not confuse this with an efficiency strategy where the auditor tests a portion of the sample size (e.g., a pro rata share) early during interim work and the remaining portion during period-end work.

What is the common pitfall?

When auditors test relevant controls at an interim period *and* conclude on the operating effectiveness of those controls during the interim period they*:*

- do not obtain audit evidence about the **significant changes** to those controls in the remaining period, if any
- do not determine the **additional audit evidence** to be obtained for the remaining period.

CAS Requirement

Paragraphs 12, A33 and A34 of CAS 330

Continuous Improvement Tips

- An auditor may obtain audit evidence about **significant changes** to the controls in the remaining period by inquiring about the control. In addition, the auditor may consider:
  - observing the operation of the control to confirm there have or have not been changes
  - inspecting results of monitoring of the control to confirm there have or have not been changes
  - inquiring about personnel changes that significantly affect the operation of the control.

  Performing walkthroughs may be the most effective way of *identifying* the controls that management has implemented and therefore may assist in determining whether such controls continue to exist in the remaining period. Once the controls are identified as still existing in the remaining period, walkthrough procedures may be extended to include inspection/observation of the identified controls which may assist in determining that the control continues to be implemented as previously designed. If no significant changes to the controls are identified and no contradictory evidence identified (e.g., no misstatements are identified related to the relevant assertion addressed by the control), then the auditor may not need to perform other procedures in addition to inquiry.
- An auditor may consider the following factors in determining what additional audit evidence to obtain for the remaining period (CAS 330.A33):
  - significance of the assessed risks of material misstatement at the assertion level
  - specific controls tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel
  - degree to which audit evidence about the operating effectiveness of those controls was obtained
  - length of the remaining period
  - extent to which the auditor intends to reduce further substantive procedures based on the reliance on controls
  - control environment.
- If the auditor determines that additional audit evidence needs to be obtained for the remaining period, the auditor may do so by either:
  - extending tests of controls over the remaining period
  - testing the operating effectiveness of the entity's monitoring of controls (CAS 330.A34).

Pitfall 5 (Nature and Extent)—Auditors do not appropriately vary the extent and/or nature of their tests of controls when placing greater reliance on those controls

What is the common pitfall?

In designing the further audit procedures to be performed, the auditor shall obtain more persuasive audit evidence the higher the auditor's assessment of risk (CAS 330.07(b)). Therefore, when auditors do not design tests of controls to obtain more persuasive evidence when placing greater reliance on the effectiveness of a control, this results in relevant assertions not being appropriately addressed by the control test and insufficient procedures being performed.

CAS Requirement

Paragraphs 330.07, 330.09, A25 and A27-A28

Continuous Improvement Tips

- A higher level of assurance may be sought about the operating effectiveness of controls when the approach adopted consists primarily of tests of controls, in particular where it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures (CAS 330.A25).
- The **nature** of the particular control influences the **type** of audit procedures required to obtain audit evidence about whether the control was operating effectively. For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it. For other controls, however, documentation may not be available or relevant (e.g., documentation of operations 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 computer-assisted audit techniques (CAATs) (CAS 330.A27).
- When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. The auditor may consider the following when determining the **extent** of tests of controls in addition to the degree of reliance on controls:

Extent of control testing ← Less	Consideration (CAS 330.A28)	Extent of control testing → More
infrequent	frequency of the performance of the control by the entity during the period	frequent
short period	length of time during the audit period that the auditor is relying on the operating effectiveness of the control	long period
low rate of deviation	expected rate of deviation from a control	high rate of deviation
low relevance and reliability	relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level	high relevance and reliability
high extent	extent to which audit evidence is obtained from tests of other controls related to the assertion	low extent

Section 2: The Results of Control Testing

The concept of evaluating the operating effectiveness of controls recognizes that some deviations in the way controls are applied by the entity may occur. Deviations in controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in the volume of transactions, and human error. The detected rate of deviation, in particular in comparison with the expected rate, may indicate that the control cannot be relied on to reduce risk at the assertion level to that assessed by the auditor (CAS 330.A41).

Pitfall 6 — Auditors do not consider the potential impact of control deviations on the audit

What is the common pitfall?

- Auditors do not evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively (CAS 330.16).
- If deviations from controls upon which the auditor intends to rely are detected, auditors do not consider the impact on the audit (CAS 330.17).

CAS Requirement

Paragraphs 16, 17, A41 of CAS 330 and Paragraphs 12-13 of CAS 530

Continuous Improvement Tips

To evaluate whether misstatements detected by substantive procedures indicated that controls are not operating effectively, the auditor may:

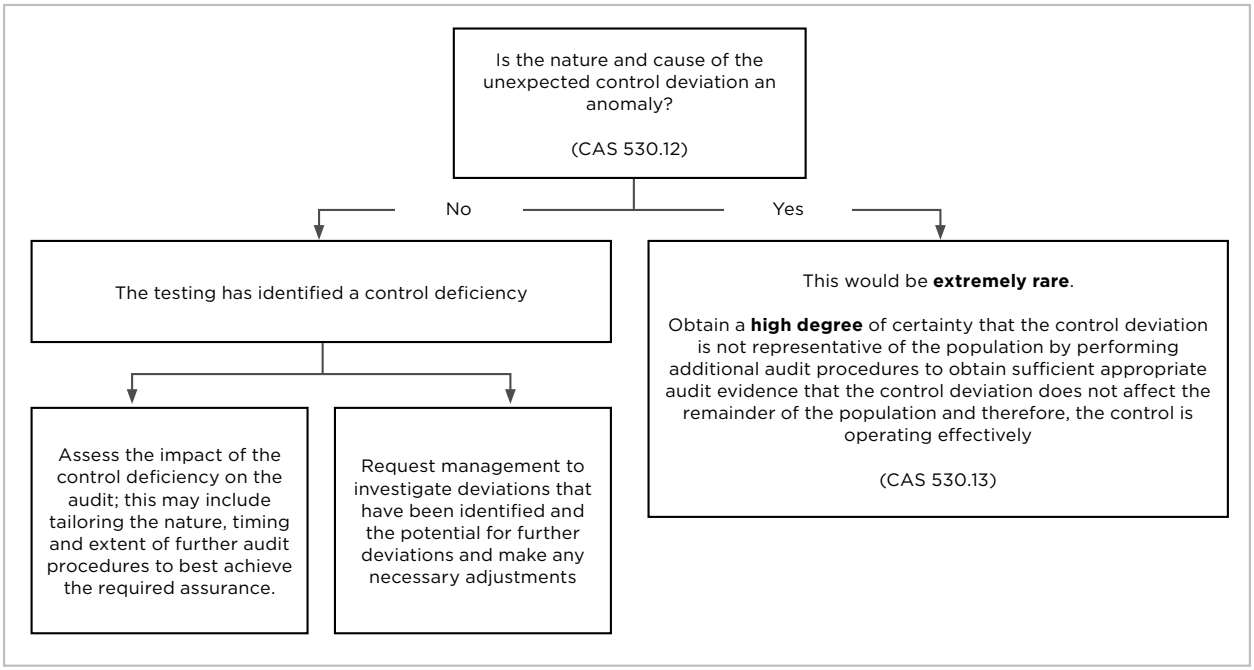
- consider that:
  - a material misstatement is a strong indicator of a significant deficiency in internal control (CAS 330.A40)
  - misstatements (not necessarily material misstatements) detected by the auditor's procedures that were not prevented or detected and corrected are an indicator of a significant deficiency (CAS 265.A7)
- perform a root cause analysis (i.e., investigate the nature and cause) to understand why the misstatement occurred and whether there was a control breakdown that allowed the misstatement not to be prevented or detected and corrected
- review the auditor's summary of identified misstatements and document the auditor's consideration of whether the misstatements indicate that controls are not operating effectively.

The impact of deviations from controls upon which the auditor intends to rely

If deviations from the controls upon which the auditor intends to rely are detected, the auditor is required by paragraph 17 of CAS 330, to make specific inquiries to understand these matters and their potential consequences, and to determine whether:

a) the tests of controls that have been performed provide an appropriate basis for reliance on the controls
b) additional tests of controls are necessary
c) the potential risks of misstatement need to be addressed using substantive procedures (CAS 330.17).

Therefore, the auditor is required to investigate the nature and cause of any deviations identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit (CAS 530.12). When evaluating such control deviations in the operating effectiveness of relevant controls, an auditor considers the following (CAS 530.12-13):



In determining the impact of a deficiency in internal control on an audit, the auditor may consider:

- revising the risk assessment (see paragraph 31 of CAS 315)
- extending the sample size for the test of the control
- testing other relevant controls that address the same what can go wrong
- modifying the nature, timing and extent of substantive procedures addressing the same assertion.

Appendix—Glossary of Terms

For the purposes of this publication, the following table provides a summary of key terms and their sources.

Terminology		
Term	**Description**	**Source**
manual control	These may be independent of IT, may use information produced by IT, or may be limited to monitoring the effective functioning of IT and of automated controls, and to handling exceptions.	CAS 315.A62
automated control	Automated controls such as edit checks of input data and numerical sequence checks (e.g., controls embedded in computer programs).	CAS 315.A62 CAS 315 Appendix 1, paragraph 9
general IT controls (GITCs)	These are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. GITCs commonly include controls over data centre and network operations, system software acquisition, change and maintenance, access security, and application system acquisition, development, and maintenance.	*CPA Canada Handbook—Assurance*, Glossary of Terms
internal control	This is the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.	*CPA Canada Handbook—Assurance*, Glossary of Terms
control environment	The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.	*CPA Canada Handbook—Assurance*, Glossary of Terms

Terminology

Term	Description	Source
control activities	These are the policies and procedures that help ensure management directives are carried out. Control activities are a component of internal control.	*CPA Canada Handbook—Assurance*, Glossary of Terms
monitoring of controls	This is a process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.	*CPA Canada Handbook—Assurance*, Glossary of Terms
deficiency in internal control	This exists when: (a) a control is designed, implemented or operated in such a way that it is unable to prevent or detect and correct misstatements in the financial statements on a timely basis (b) a control necessary to prevent or detect and correct misstatements in the financial statements on a timely basis is missing.	*CPA Canada Handbook—Assurance*, Glossary of Terms
significant deficiency in internal control	This is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.	*CPA Canada Handbook—Assurance*, Glossary of Terms
tests of controls	These tests form an audit procedure designed to evaluate the operating effectiveness of controls in preventing or detecting and correcting material misstatements at the assertion level.	*CPA Canada Handbook—Assurance*, Glossary of Terms
dual-purpose tests	The auditor designs a test of controls to be performed concurrently with a test of details on the same transaction. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing a test of controls and a test of details on the same transaction.	CAS 330 A.23

Additional Resources

Visit the **CPA Canada website** where you will find resources on related topics:

- ***Implementation Tool for Auditors on CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment***
- ***Implementation Tool for Auditors: Information Technology (IT): Why Should Auditors Care?***

Consultation and Feedback

Comments on this *Implementation Tool for Auditors*, or suggestions for future *Implementation Tools* should be sent to:

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