

**DRAFT PROPOSAL FOR A PROJECT TO REVISE STANDARDS THAT ADDRESS  
AUDIT EVIDENCE AND THE AUDITOR'S RESPONSES TO ASSESSED RISKS OF  
MATERIAL MISSTATEMENT**

This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the Stakeholder Advisory Council (SAC), which provides public interest input at the strategic level into the development of standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

**I. Subject**

1. This project proposal addresses the revision of:
  - (a) International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*;
  - (b) ISA 500, *Audit Evidence*; and
  - (c) ISA 520, *Analytical Procedures*.
2. The project proposal also addresses conforming and consequential amendments to other relevant ISAs based on the revisions to ISA 330, ISA 500 and ISA 520.

**II. Introduction**

3. The IAASB serves the public interest by establishing robust international standards capable of consistent application throughout the world and strengthening public confidence in external reporting by entities and the world's economies.
4. The IAASB's standards aim to promote trust in external reporting, by establishing requirements and containing guidance that:
  - (a) Enables their consistent and timely worldwide implementation;
  - (b) Promotes consistent practice and behaviors by auditors; and
  - (c) Applies to the audits of entities in any sector, and of any level of complexity.
5. When the environment in which auditors operate evolves significantly, or when the IAASB identifies (including when its stakeholders communicate areas where the ISAs may be enhanced to enable the IAASB to meet these aims), the IAASB proposes projects that seek to either revise existing standards or develop new standards.

## Background

6. The timeline of activities that have resulted in the development of this project proposal is illustrated in the diagram below.



## Audit Evidence Project

7. In March 2019, the IAASB started its information gathering activities for a project to revise ISA 500, recognizing the evolution in the business environment and audit practice, including the use of technology by both the entity and the auditor. As part of the information gathering activities, targeted outreach with key stakeholders were performed that formed the basis for that project proposal.
8. In December 2020, the IAASB approved a [project proposal](#) to revise ISA 500. Section II of the project proposal provided further background on the issues that were identified and an explanation of the information gathering activities performed. The project proposal included three key public interest issues:
  - (a) Responding to changes in the information that is being used by auditors, including the nature and source of the information.
  - (b) Modernizing and supporting a principles-based standard that recognizes the evolution in technology.
  - (c) Fostering the maintenance of professional skepticism when making judgments about information intended to be used as audit evidence, and obtaining sufficient appropriate audit evidence.
9. In determining the scope of the project proposal, the IAASB decided not to include proposed actions to enhance ISAs other than ISA 500, or actions that addressed the use of automated tools and techniques (ATT) in the design and performance of audit procedures.
10. In September 2022, the IAASB approved the [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs](#) (ED-500) and published it in October 2022 with a 180-day comment period. In total, 70 respondents commented on ED-500.

11. Respondents to ED-500 called for the proposed revisions to be more ambitious with respect to relevant audit evidence- and technology-related matters. In their view, the proposed revisions to ISA 500 alone were not sufficient to address all audit evidence-related matters across the ISAs. They also noted that technology-related matters should be more broadly addressed, and urged the IAASB to consider revisions to other ISAs, such as ISA 330 and other targeted standards in the ISA 500-series.

#### *Strategy and Work Plan for 2024–2027*

12. In 2022, the IAASB also started information gathering activities for its Strategy and Work Plan for 2024–2027. This resulted in approval of a [Consultation Paper](#) for the IAASB's Proposed Strategy and Work Plan for 2024–2027 (the "Consultation Paper") in December 2022. The Consultation Paper was published in January 2023 with a 90-day comment period and in total 61 comment letters were received.
13. The Consultation Paper included the revision of ISA 330 as a possible new standard-setting project, intended to better align the requirements of ISA 330 with the changes made to ISA 315 (Revised 2019)<sup>1</sup> and proposed ISA 500 (Revised).<sup>2</sup> The project would also include modernizing ISA 330 as necessary, especially, in relation to technology.
14. Respondents to the Consultation Paper, particularly regulatory authorities, emphasized the need for concurrent revisions to ISA 500 and ISA 330 as both standards address aspects of the auditor obtaining sufficient appropriate audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.
15. In addition, these responses highlighted the following two reasons to revise ISA 330 and ISA 520:
  - (a) The continued, rapid evolution of technology and use by entities and auditors, combined with the continued increase in data available to auditors. Investor confidence in capital markets may be threatened if the auditing standards do not sufficiently or appropriately address how to use technology in designing and performing audit procedures; and
  - (b) Ongoing deficiencies in the quality of audit engagements in the performance of tests of controls and of substantive analytical procedures (SAPs).
16. Based on the feedback on both ED-500 and the Consultation Paper, Board deliberations and ongoing outreach, the IAASB approved its [Strategy and Work Plan for 2024–2027](#) (the "Strategy and Work Plan") in December 2023. The Strategy and Work Plan included pursuing an integrated approach to audit evidence and risk response, including a focus on technology and internal control.

#### *Project on Audit Evidence and Risk Response*

17. The Audit Evidence and Risk Response project would consider:
  - (a) The 'reference framework' aspects relating to judgments about the sufficiency and appropriateness of audit evidence in ISA 500; and

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<sup>1</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>2</sup> Proposed ISA 500 (Revised), *Audit Evidence*

- (b) The ‘performance’ aspects relating to the design and performance of audit procedures in ISA 330 and ISA 520.
18. The IAASB decided to include ISA 520 in the project given that SAPs are a subset of substantive procedures addressed in ISA 330 and given the impact of technology on performing these procedures.
19. The IAASB recognized that while significant work had been performed on the reference framework aspects of the project (also see the “Proposed Actions that Involve Revisions to ISA 500” in the Scope section of this project proposal), limited work had been performed on the performance aspects. Therefore, in January 2024, the IAASB started its information gathering activities to identify and understand the issues related to the auditor’s responses to assessed risks of material misstatement, and to explore possible actions to address them.
20. A summary of the information gathering activities is included in the [Appendix](#). Among other matters, the IAASB:
- (a) Reviewed stakeholder feedback on prior IAASB consultations and exposure drafts, and the analysis of the feedback performed by previous IAASB task forces and working groups;
  - (b) Reviewed non-authoritative guidance and other materials issued by the IAASB;
  - (c) Reviewed non-authoritative guidance and other materials issued by jurisdictional and national standard setters (NSS);
  - (d) Reviewed a range of recent regulatory inspection reports;
  - (e) Reviewed other publications issued by professional accounting organizations and other organizations on relevant topics;
  - (f) Reviewed relevant consultation papers, exposure drafts and final standards issued by other standard-setting bodies;
  - (g) Performed targeted stakeholder outreach;
  - (h) Engaged with the International Association for Accounting Education and Research (IAAER); and
  - (i) Reviewed a selection of academic literature relevant to the subject matter.

### *Technology Position*

21. In parallel with scoping the Audit Evidence and Risk Response project, the IAASB also undertook work to establish a position on addressing the impact of technology in the IAASB’s standards (the “Technology Position”). In March 2024, the Board endorsed a conceptual framework comprised of three components to guide the development of its Technology Position, which in turn, informed the actions included with respect to technology for the Audit Evidence and Risk Response project. The succeeding paragraphs describe “Component 1: Technology Position Statement” and “Component 2: Approach to Operationalize the Position Statement” and its impact on the Audit Evidence and Risk Response project.

22. Component 1, intended to be approved in September 2024, articulates that the IAASB's position in respect of technology is to actively facilitate, and where appropriate, encourage, the use of technology in performing engagements and in systems of quality management. This component is supported by eight guiding principles that will enable the IAASB to achieve this objective. Component 2 includes the performance of a gap analysis of existing standards, to identify opportunities within the suite of standards to enable the IAASB to meet the objective of its Technology Position Statement.
23. This project proposal reflects the outcome of the IAASB's work on these components. Specifically, it includes proposed actions which reflect a consideration of opportunities identified in the IAASB's preliminary gap analysis<sup>3</sup> related to ISA 330 and ISA 500, and the application of the following guiding principles of the Technology Position Statement:
- (a) Removing barriers to the use of technology in the standards.
  - (b) Ensuring scalability and proportionality.
  - (c) Introducing requirements and application material relating to the use of technology-enabled procedures in engagements.

### III. Project Objectives that Support the Public Interest

24. Taking into account the information gathering performed, and an underlying focus on delivering standards that respond to stakeholders' needs as described in the [Public Interest Framework](#) (PIF),<sup>4</sup> the project seeks to achieve the following objectives:
- (a) Reinforce the application of professional judgment and professional skepticism exercised by auditors:
    - (i) When making judgments about information to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and
    - (ii) When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement.
  - (b) Promote consistent practice and auditor behaviors by facilitating effective responses to risks of material misstatement, including a focus on:
    - (i) Strengthening auditors' work on internal controls, reflecting the importance of an effective system of internal control to an entity; and

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<sup>3</sup> The preliminary gap analysis performed as part of Component 2, presented at the [September 2024](#) IAASB meeting, was based on a review of International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, ISA 330 and ISA 500.

<sup>4</sup> The PIF sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the PIF explains for whom standards are developed, what interests need to be served and what characteristics standards should exhibit.

- (ii) Facilitating, and where appropriate, encouraging, auditors' use of technology to obtain audit evidence and evaluate its sufficiency and appropriateness, reflecting the impact of technology on entities and auditors.

25. To achieve these objectives, this project proposal sets out proposed actions to address specific issues identified. The PIF provides a set of qualitative characteristics that will be used to assess the public interest responsiveness of the revisions to ISA 330, ISA 500 and ISA 520. These are referred to herein as “the qualitative standard-setting characteristics.”

#### IV. Scope

26. The table below sets out the issues that the IAASB seeks to resolve, and proposed actions for resolving them, through revisions to ISA 330, ISA 500 and ISA 520. Some of the proposed actions describe proposals that have been included in the “Proposed ISA 500 (Revised) Pre-finalization Holding Package.” These actions are identified with an asterisk (\*).

#	Issue	Proposed Actions
<b>Objective A</b> Reinforce the application of professional judgment and the professional skepticism exercised by auditors:		
(i) When making judgments about information to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and (ii) When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement.		
<i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective A are <b>coherence, comprehensiveness, scalability, ability to be consistently applied and globally operable.</b></i>		
1	The increase in volumes and sources of information available that could be used as audit evidence has contributed to an increased lack of consistency in how auditors make judgments about the sufficiency and appropriateness of audit evidence obtained from their audit procedures.	<p><b>General</b></p> <p>Enhance the consistency of terms that are relevant to obtaining and evaluating the sufficiency and appropriateness of audit evidence across ISA 500, ISA 330 and ISA 520.</p> <p><b>ISA 500</b></p> <p>*Clarify the definitions of 'appropriateness' (of audit evidence) and of 'sufficiency' (of audit evidence), and the relationship of these terms with the notion of persuasiveness.</p> <p>Clarify whether the sufficiency and appropriateness of audit evidence is to be evaluated differently when the audit evidence is obtained using ATT.</p>

#	Issue	Proposed Actions
		<p>*Clarify whether the sufficiency and appropriateness of audit evidence is to be evaluated differently when it is obtained for specific purposes whether obtained:</p> <ul style="list-style-type: none"> <li>• As evidence of the auditor's risk assessment rather than obtained from further audit procedures as part of the auditor's response to assessed risks; or</li> <li>• To evaluate the operating effectiveness of a control compared to evidence obtained in determining whether there is evidence of a material misstatement.</li> </ul> <p><b>ISA 330</b></p> <p>Explore how to more consistently prompt auditors to consider whether the nature, timing and extent of procedures designed in response to assessed risks will enable auditors to obtain sufficient appropriate audit evidence.</p>
2	<p>The increase in volumes and sources of information available that could be used as audit evidence has highlighted a lack of consistency in the attributes or criteria that auditors apply to make judgments about the relevance and reliability of information to be used as audit evidence.</p>	<p><b>ISA 500</b></p> <p>*Develop a principles-based approach to considering and making judgments about information intended to be used as audit evidence, including application material that describes factors to apply in the evaluation of the relevance and reliability of information intended to be used as audit evidence.</p> <p>*Clarify that the requirements to evaluate the relevance and reliability of information intended to be used as audit evidence apply regardless of the source of information.</p> <p>*Add application material to describe biases that may arise relating to different information sources (e.g., automation bias for information obtained through technological means).</p> <p>*Clarify the requirement relating to the evaluation of the 'appropriateness' of work produced by a management's expert.</p> <p>*Clarify the application material relating to evaluating the relevance and reliability of information from external information sources.</p> <p>Consider the need for further application material to clarify whether, and if so, how, the nature and timing of an audit procedure, or the method by which it is performed (e.g., using technology or not), influence the auditor's judgments about the attributes of relevance and reliability of information.</p>



#	Issue	Proposed Actions
3	<p>Concerns about the appropriateness of professional skepticism exercised by auditors:</p> <ul style="list-style-type: none"> <li>When considering the reliability of information to be used as audit evidence;</li> <li>In designing and performing further audit procedures responsive to the assessed risks of material misstatement; and</li> <li>When evaluating and concluding on the sufficiency and appropriateness of audit evidence obtained.</li> </ul> <p>In the context of further audit procedures, these concerns are also reflected in challenges with designing and performing SAPs, including the development of expectations and determining the appropriateness of the threshold selected as the accepted amount of difference from the expectation.</p>	<p><b>ISA 500</b></p> <p>*Clarify that a critical assessment of audit evidence includes designing and performing audit procedures in a manner that is unbiased and evaluating the relevance and reliability of information intended to be used as audit evidence.</p> <p>*Clarify requirements that apply when the auditor obtains audit evidence that is inconsistent with other audit evidence.</p> <p>*Clarify the application material that applies if the auditor has doubts about the reliability of information intended to be used as audit evidence.</p> <p>*Consider additional examples within application material to enable auditors to consistently evaluate the relevance and reliability of different sources of information intended to be used as audit evidence.</p> <p><b>ISA 330</b></p> <p>Reinforce the principle of designing and performing further audit procedures in an unbiased manner, building on the principles in ISA 220 (Revised).</p> <p><b>ISA 520</b></p> <p>Clarify the definition of SAPs and explain how an SAP differs from an analytical procedure.</p> <p>Clarify the requirement to determine the suitability of particular SAPs for given assertions.</p> <p>Clarify the requirement to evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed.</p> <p>Explore developing a principles-based framework to support ways for the auditor to evaluate the precision of an expectation and the accepted amount of difference between expected and recorded amounts in an unbiased manner.</p>
4	<p>The stand-back requirement in ISA 330, which applies to all audit evidence, goes beyond the objective of ISA 330 that is only focused on</p>	<p><b>General</b></p> <p>Consider whether there is a need to optimize and integrate the various subject matter-specific stand-back requirements across</p>



#	Issue	Proposed Actions
	obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. There also is a proliferation of various stand-back requirements across the ISAs that may diminish their effectiveness.	<p>the ISAs to increase their effectiveness and be more distinctive.<sup>5</sup></p> <p><b>ISA 500</b></p> <p>*Develop material that explains the relationship of ISA 500 with other ISAs, including the distinction between ISA 500 and ISA 330.</p> <p>*Reconsider whether some requirements in ISA 500, relevant to the design and performance of audit procedures, are to be retained or relocated to another ISA.</p> <p><b>ISA 330</b></p> <p>Consider whether the requirements in ISA 330 provide a sufficient basis to demonstrate the auditor's achievement of the objective under the standard.</p> <p>Consider whether the stand-back requirement in paragraph 26 of ISA 330 needs to be clarified, retained, or relocated to another ISA (e.g., ISA 500).</p>
<p><b>Objective B:</b></p> <p>Promote consistent practice and auditor behaviors by facilitating effective responses to risks of material misstatement, including a focus on:</p> <ul style="list-style-type: none"> <li>(i) Strengthening auditors' work on internal controls, reflecting the importance of an effective system of internal control to an entity; and</li> <li>(ii) Facilitating, and where appropriate, encouraging auditors' use of technology to obtain audit evidence and evaluate its sufficiency and appropriateness, reflecting the impact of technology on entities and auditors.</li> </ul>		
<p><b>Auditors' Work on Internal Controls</b></p> <p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective B(i) are <b>scalability, relevance, implementability and consistent application, and clarity and consistency.</b></i></p>		
5	The appropriateness of auditor decisions about whether to design and perform a test of controls as part of a response to	<p><b>ISA 330</b></p> <p>Recognizing the definition and the use of tests of controls as set out in ISA 330, consider clarifying whether tests of controls can also separately fulfil other purposes, including evaluating the</p>

<sup>5</sup> In March 2024, the Audit Evidence Task Force presented a possible model for stand-back requirements in the ISAs (see [Agenda Item 5](#) of the March 2024 IAASB meeting).

#	Issue	Proposed Actions
	assessed risks, including inconsistent identification of circumstances where substantive procedures alone are unable to provide sufficient appropriate audit evidence.	<p>relevance and reliability of information intended to be used as audit evidence in accordance with ISA 500.</p> <p>Explore enhancements relating to the design of further audit procedures to encourage the use of tests of controls in response to assessed risks of material misstatement, including:</p> <ul style="list-style-type: none"> <li>Clarifying when the auditor is required to perform tests of controls.</li> <li>Modernizing application material to clarify the attributes of circumstances that indicate that substantive procedures alone may be unable to provide sufficient appropriate audit evidence.</li> </ul>
6	The effective design and performance of tests of controls.	<p><b>ISA 500</b></p> <p>Explore whether additional application material, examples, or other guidance may be needed to assist auditors with evaluating the relevance and reliability of information intended to be used as audit evidence about the operating effectiveness of controls.</p> <p><b>ISA 330</b></p> <p>Strengthen or clarify, as appropriate, requirements and application material that apply when designing and performing tests of control, including:</p> <ul style="list-style-type: none"> <li>How different types of audit procedures<sup>6</sup> may provide evidence about the operating effectiveness of a control.</li> <li>Fulfilling the requirement to obtain more persuasive audit evidence about the operating effectiveness of control the greater the reliance that the auditor places on the effectiveness of that control.</li> <li>How different types of controls (manual, automated, and semi-automated) influence the design of responses to risks of material misstatement.</li> <li>Relating to the requirement to determine whether to test the operating effectiveness of indirect controls, including specific clarifications about general IT controls.</li> <li>The use of audit evidence about the operating effectiveness of controls obtained during an interim period.</li> </ul>

<sup>6</sup> “Types of procedures” as addressed in Appendix 2 to the “Proposed ISA 500 (Revised) Pre-finalization Holding Package.”

#	Issue	Proposed Actions
7	Applying requirements relating to the auditor's intended use of audit evidence about the operating effectiveness of controls obtained in previous audits.	<p><b>ISA 330</b></p> <p>As a result of the enhanced requirements in ISA 315 (Revised 2019), revisit the requirement that enables the auditor to use audit evidence about the operating effectiveness of controls obtained in a previous audit as evidence for the current period engagement.</p>
8	Various recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.	<p><b>ISA 500</b></p> <p>Consider enhancing application material about the concepts of sufficiency and appropriateness of audit evidence, by relating them to the evidence obtained from the design and performance of tests of controls.</p> <p><b>ISA 330</b></p> <p>Explore enhancement relating to the impact on the auditor's work effort of:</p> <ul style="list-style-type: none"> <li>Finding that indirect controls (including general IT controls) supporting the operation of direct controls are not designed, implemented, or operating effectively.</li> <li>The auditor's evaluation of an entity's control environment.</li> <li>Finding that the operation of a control is inconsistently evidenced by an entity, resulting in challenges with evaluating its operating effectiveness.</li> </ul> <p>Clarify the requirements and application material relating to evaluating whether misstatements detected by substantive procedures indicate controls may not be operating effectively.</p> <p>Clarify application material relating to the impact of identified control deviations on further audit procedures.</p> <p>Strengthen the linkages between the outcome of tests of controls and the iterative nature of risk assessment procedures described in ISA 315 (Revised 2019).</p>
<p><b>Auditors' Use of Technology</b></p> <p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective B(ii) are <b>coherence, scalability, timeliness, relevance, and implementability and consistent application.</b></i></p>		

#	Issue	Proposed Actions
9	<p>The increased use of technology by entities and by auditors have highlighted the need for authoritative material relating to the auditor's use of technology in obtaining sufficient appropriate audit evidence, including requirements that:</p> <ul style="list-style-type: none"> <li>• Apply if the auditor uses technology in designing and performing audit procedures.</li> <li>• Address instances where the auditor cannot obtain sufficient appropriate audit evidence without using technology.</li> </ul>	<p><b>Relevant standards as informed by the Technology Position</b></p> <p>Introduce requirements and relevant application material relating to the use of technology in obtaining sufficient appropriate audit evidence, including:</p> <ul style="list-style-type: none"> <li>• Exploring the need for a requirement to determine whether to use ATT in designing and performing further audit procedures (related to the notion that there could be circumstances where the auditor may not be able to obtain sufficient appropriate audit evidence without using ATT).</li> <li>• *Developing a conditional requirement and relevant application material, that applies if the auditor uses ATT to design and perform audit procedures.</li> </ul> <p>*Develop application material that describes the term “automated tools and techniques.”</p> <p>*Develop application material that enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology.</p> <p>Develop application material highlighting instances where the use of ATT may be appropriate.</p>
10	<p>Questions have been raised about where audit procedures performed using ATT fit within the nature of audit procedures as described in the ISAs, which refers to its purpose (i.e., risk assessment procedures, tests of controls or substantive procedures) and its type (i.e., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). The use of sophisticated ATT by auditors have also magnified challenges with appropriately designing and</p>	<p><b>Relevant Standards as Informed by the Technology Position</b></p> <p>Strengthen and clarify, as appropriate:</p> <ul style="list-style-type: none"> <li>• The use of ATT within the constructs of risk assessment procedures and further audit procedures.</li> <li>• Planning for and achieving each of the relevant purposes of the procedure, if the auditor uses audit evidence from an audit procedure performed for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).</li> </ul> <p><b>ISA 500</b></p> <p>*Develop application material that more robustly addresses the nature of audit procedures, in particular, when using ATT.</p>

#	Issue	Proposed Actions
	performing audit procedures that are used for more than one purpose.	
11	The increased use of technology in performing substantive procedures has highlighted a lack of clear distinction between a test of details and an SAP, and challenged whether such a distinction remains appropriate.	<p><b>ISA 330</b></p> <p>Explore whether the distinction between a test of details and an SAP remains appropriate, including considering whether the use of technology to enhance the precision and scope of SAPs could provide sufficient appropriate audit evidence to respond to a significant risk.</p> <p>Consider developing a definition or description of the term “tests of details” and develop application material that addresses the level of disaggregation or detail of information the auditor uses as audit evidence in supporting the auditor’s conclusions.</p>
12	Insufficient clarity regarding the design and performance of audit procedures using ATT, such as, selecting items for testing, and addressing exceptions and outliers identified.	<p><b>ISA 500</b></p> <p>*Develop application material on selecting items for testing.</p> <p><b>ISA 330</b></p> <p>Develop principles and guidance that address when the auditor designs and performs tests of details in accordance with ISA 330 and identifies items for further investigation (e.g., exceptions and outliers). This will include investigating whether the identified items individually or in the aggregate indicate:</p> <ul style="list-style-type: none"> <li>• Misstatements to be dealt with in accordance with ISA 450.<sup>7</sup></li> <li>• Deficiencies in the entity’s internal control over financial reporting to be dealt with in accordance with ISA 265.<sup>8</sup></li> </ul> <p>Furthermore, develop application material clarifying the auditor’s considerations in addressing exceptions and outliers identified, whether the testing approach involves selecting all or specific items in a population, and whether the testing approach involves the use of manual or automated audit procedures that enables the auditor to interrogate all items in a population.</p>
13	The use of new or emerging technologies by	<b>ISA 500</b>

<sup>7</sup> ISA 450, *Evaluation of Misstatements Identified During the Audit*

<sup>8</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

#	Issue	Proposed Actions
	management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks, which stakeholders view as not sufficiently addressed in the ISAs.	<p>*Develop application material related to possible overreliance on information from certain sources.</p> <p><b>ISA 330</b></p> <p>Develop application material (recognizing the need to apply a principles-based approach in the standard) that:</p> <ul style="list-style-type: none"> <li>Explains that the use of new or emerging technologies by management in their financial reporting processes or by auditors in performing audit procedures introduces new or changing audit risks and the nature of such risks; and</li> <li>Provides examples of such audit risks that may affect the relevance and reliability of information intended to be used as audit evidence.</li> </ul>
<p><i>Overarching matters to promote consistent practice and auditor behaviors</i></p> <p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective B are <b>coherence, comprehensiveness, and clarity and conciseness.</b></i></p>		
14	Challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.	<p><b>ISA 330</b></p> <p>Clarify how the requirements of ISA 330 reflect or are linked to the work effort performed as part of the auditor's risk identification and assessment under ISA 315 (Revised 2019).</p> <p>Improve the alignment of terms and concepts between these standards to increase the coherence of the suite of ISAs.</p>
15	Difficulties with understanding the rationale for, and operationalizing the requirement in ISA 330, paragraph 18.	<p><b>ISA 330</b></p> <p>Explore a way forward with respect to paragraph 18 of ISA 330, taking into account the decisions made with respect to this paragraph when developing ISA 315 (Revised 2019). This includes:</p> <ul style="list-style-type: none"> <li>Clarifying the intent and rationale for the requirement in ISA 330, paragraph 18.</li> <li>Exploring alternative proposals to achieve the public interest objective of this requirement.</li> </ul>
16	Insufficient clarity about the expected audit documentation when using	<p><b>ISA 500</b></p> <p>*Develop application material that establishes linkages to relevant requirements and guidance about the form, content and</p>

#	Issue	Proposed Actions
	ATT in designing and performing audit procedures, as well as when designing and performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).	<p>extent of audit documentation in ISA 230 and other ISAs.</p> <p><b>ISA 330</b></p> <p>Develop requirements or application material that clarify the expected audit documentation when using ATT in designing and performing audit procedures, as well as when designing and performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).</p>

### *Basis of Proposed Actions*

27. The proposed actions have been developed on the basis that they will result in revised standards that satisfy the qualitative standard-setting characteristics, thereby enabling the consistent performance of quality engagements (recognizing that any standard-setting project also reflects an appropriate balancing of the qualitative standard-setting characteristics in the context of what informed the project, and the nature and extent of the issues being addressed in the project):
- (a) *Consistency* with public interest and stakeholder needs;
  - (b) *Coherence* with the overall body of standards;
  - (c) An appropriate *scope* to address identified key issues;
  - (d) *Scalability* and *proportionality* to reflect the standards' relative impact on different stakeholders;
  - (e) *Timeliness* in addressing identified needs without sacrificing quality;
  - (f) *Relevance*, including recognizing and responding to emerging issues, changes in business and practice environments, and technology;
  - (g) *Completeness*, reflecting the results of broad consultation and balancing stakeholder priorities;
  - (h) *Comprehensiveness*, through limiting the extent to which there are exceptions to the principles set out;
  - (i) *Clarity* and *conciseness* to enhance understandability and minimize the likelihood of differing interpretations;
  - (j) *Implementability* and ability to be *consistently applied and globally implemented* across entities of all sizes and regions; and
  - (k) *Enforceability*, through clearly stated responsibilities to ensure it is possible to ascertain the extent to which an auditor has complied with the standards.
28. To ensure standards meet the qualitative standard-setting characteristics of clarity and conciseness in particular, the IAASB will follow the [Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines](#) when developing drafts of proposed revised standards.
29. The proposed actions have also been developed through relevant input from a Focus Group of IAASB members, the Chair of the Audit Evidence Task Force, and through collaboration and coordination



with the Technology Consultation Group, the Professional Skepticism Working Group,<sup>9</sup> and any other Working Groups or Task Forces, as well as the International Ethics Standards Board for Accountants (IESBA).

#### Proposed Actions that Involve Revisions to ISA 500

30. The Board resolved in March 2024 that the cumulative work of the Audit Evidence Task Force in 2023 and 2024, post public consultation on ED-500, together with the Board's further input at the March 2024 IAASB meeting, represents the "[Proposed ISA 500 \(Revised\) Pre-finalization Holding Package](#)." This Pre-finalization Holding Package encapsulates Board decisions on key aspects addressed in ED-500 as part of the Board's deliberations of proposals and options based on the feedback received on ED-500.
31. The inclusion of the proposed actions that are already included in the Pre-finalization Holding Package in the table above is intended to provide a comprehensive perspective about how the suite of actions to be taken across the three standards in scope of this project proposal will address the issues identified. They are not to be read as new actions that would override decisions taken after careful deliberation by the IAASB and which are reflected in the Pre-finalization Holding Package.
32. Any re-deliberation relating to these actions would only occur if new information was to arise in the course of the Audit Evidence and Risk Response project that indicates that those decisions are no longer appropriate because they have:
  - (a) Implications for the achievement of a qualitative standard-setting characteristic; or
  - (b) Unintended consequences for the revisions to ISA 330, ISA 520, or for other standards.

#### Coordination Activities

33. To ensure the project addresses issues holistically to serve the public interest, in delivering on the project, there will be continued collaboration and coordination with specific groups, including:
  - (a) The Technology Consultation Group to monitor that any actions taken relating to technology are consistent with the Technology Position Statement, and the further actions that may be taken to operationalize the position statement.
  - (b) The Professional Skepticism Working Group to ensure that proposed actions designed to improve the exercise of professional skepticism in an audit engagement are informed by relevant subject matter information and the consideration of recent best practice.
34. The Audit Evidence and Risk Response project will feature in the IAASB's general outreach program, as well as in project specific outreach to be undertaken by the project team, senior staff, or Board members throughout the project cycle.
35. Additionally, the IAASB will monitor and consider the impact of relevant jurisdictional and national developments, including relevant standard-setting projects, and liaise with relevant parties as appropriate.

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<sup>9</sup> Following the September 2024 IAASB meeting, the project team plans to collaborate with the Professional Skepticism Consultation Group.

## *International Ethics Standards Board for Accountants*

36. The Audit Evidence and Risk Response project will also involve coordination and collaboration with the IESBA on the proposed changes to ISA 330, ISA 500 and ISA 520 to ensure continued alignment with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and coordinate on matters that may impact the work of each Board. The IAASB will also consider, as applicable, the technology-related revisions<sup>10</sup> to the IESBA Code and the results from ongoing or future IESBA workstreams.

## **V. Project Timeline, Project Priorities and Resources**

### *Project Timeline and Project Priorities*

37. The project will commence in accordance with the current Due Process and Working Procedures.<sup>11</sup> However, the project will prospectively adopt the revised Due Process and Operating Procedures which operationalize the PIF, when they are implemented.
38. The IAASB proposes the following timetable,<sup>12</sup> noting that specific project milestones and outputs may change as the project develops:

Standard Setting Phase <sup>13</sup>	Proposed Activities and Deliverables
Development of Exposure Draft	<ul style="list-style-type: none"> <li>Develop exposure drafts of proposed ISA 330 (Revised), proposed ISA 500 (Revised) and proposed ISA 520 (Revised), including IAASB deliberations of issues, proposals and relevant discussion of the exposure drafts.</li> <li>Obtain input from the SAC on public interest issues requiring significant decisions.</li> <li>Perform outreach activities with key stakeholders on proposals as the exposure drafts are developed.</li> </ul>

<sup>10</sup> See the [Final Pronouncement: Technology-related Revisions to the Code](#).

<sup>11</sup> As required by the IAASB's [Terms of Reference](#), this is the [Due Process and Working Procedures](#) as approved by the PIOB and that the IAASB must adhere to in developing its International Standards.

<sup>12</sup> As noted in the IAASB's Strategy and Work Plan for 2024-2027, the IAASB may, at any stage, determine that the full package of 'reference framework' and 'performance' aspects are sufficiently clear. In that case, a decision may be taken to progress certain elements in advance of others. Timelines may thus differ; for example, proposed ISA 500 (Revised) could be finalized before proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* and proposed ISA 520 (Revised), *Analytical Procedures*.

<sup>13</sup> The timeline will be finalized in Q4 of 2024, as it is subject to a wider discussion on the Work Plan schedule and the allocation of resources.

Standard Setting Phase <sup>13</sup>	Proposed Activities and Deliverables
Approval of Exposure Draft	<ul style="list-style-type: none"> <li>• Approve exposure drafts of proposed ISA 330 (Revised), proposed ISA 500 (Revised) and proposed ISA 520 (Revised), with proposed conforming and consequential amendments to other ISAs, and an Explanatory Memorandum.</li> </ul>
Publication of Exposure Draft	<ul style="list-style-type: none"> <li>• Publish exposure drafts of proposed ISA 330 (Revised), proposed ISA 500 (Revised) and ISA 520 (Revised), with proposed conforming and consequential amendments to other ISAs and an Explanatory Memorandum for a 120-day comment period.</li> <li>• Perform outreach activities with key stakeholders on proposals.</li> <li>• Comment period for responses to exposure drafts closes.</li> </ul>
Analysis of Comments and IAASB Deliberation of Responses to the Exposure Draft	<ul style="list-style-type: none"> <li>• Analyze comments and deliberate responses to the exposure drafts and resulting proposed changes to ISA 330 (Revised), ISA 500 (Revised) and ISA 520 (Revised).</li> <li>• Obtain input from the SAC on public interest issues requiring significant decisions.</li> <li>• Perform outreach with key stakeholders on key issues as the final pronouncements are developed.</li> </ul>
IAASB Approval of Revised Standards	<ul style="list-style-type: none"> <li>• Approve final pronouncements of ISA 330 (Revised), ISA 500 (Revised) and ISA 520 (Revised), with conforming and consequential amendments to other ISAs.</li> </ul>
PIOB Certification of Revised Standards	<ul style="list-style-type: none"> <li>• PIOB certification of the revised standards.</li> <li>• Publish final revised standards and basis for conclusions.</li> </ul>

### *Project Resources*

39. The project will be led by IAASB technical staff, informed and supported by a Focus Group consisting of IAASB members or others, as appropriate, with relevant experience and subject-matter expertise. External experts or specialists may be consulted to address targeted issues where specific expertise is required, including as it relates to technology. Throughout the project, other resources may also be engaged to contribute to other actions necessary, for example, for communications with stakeholders.
40. In addition, the IAASB will:
  - (a) Allocate sufficient Board plenary time to deliberate significant matters;
  - (b) Allocate sufficient time to consult with the SAC to discuss public interest issues requiring significant decisions; and

- (c) Allocate sufficient time to consult with the PIOB on its public interest issues relevant to the project.

## **VI. Project Output and Impact**

- 41. The expected output of the project is the approval and issuance of the following three proposed revised standards, which meet the qualitative standard-setting characteristics in the public interest, based on the criteria described in paragraph 27, with conforming and consequential amendments to other ISAs as applicable:
  - (a) Proposed ISA 500 (Revised);
  - (b) Proposed ISA 330 (Revised); and
  - (c) Proposed ISA 520 (Revised).
- 42. Supporting non-authoritative materials, including first-time implementation materials and activities, such as fact sheets, explanatory flow charts or illustrative examples, questions-and-answers, webinars and presentations, may also be issued as part of the project. The need for any such materials, and their specific nature and timing, will be determined as the project goes on.
- 43. The impact of the project will be evaluated following the implementation of revised standards, based on the extent to which the project has achieved its objectives of promoting consistency of auditor behaviors when obtaining audit evidence and evaluating its sufficiency and appropriateness.
- 44. This may involve performing a post-implementation review, to determine whether the revised standards are being consistently understood and implemented in a manner that supports the achievement of the project objectives, including:
  - (a) Engagement with those responsible for monitoring and enforcing the application of the ISAs, to determine whether there is an increase in use of tests of controls and technology, and an increase in confidence in their application, in the years subsequent to the implementation of the standards.
  - (b) Issuing surveys to firms, audit practitioners to evaluate whether they report an increase in the confidence of auditors in testing controls and using technology appropriately when performing audit engagements.

### Sources of Information for this Project Proposal

1. This project proposal has been built on and incorporates the information gathering activities, results from the public consultation on ED-500 and feedback from targeted outreach activities that were undertaken in developing the “Proposed ISA 500 (Revised) Pre-finalization Holding Package.”
2. The project objectives and the scope of the project have been determined based on further information gathering activities performed with a view to:
  - (a) Identify and understand practical challenges and concerns with extant standards;
  - (b) Research and understand how they are being addressed in practice while the extant standards apply;
  - (c) Further understand the underlying factors causing these challenges; and
  - (d) Determine whether a standard-setting project to concurrently revise three standards relating to the auditor's approach to obtain sufficient appropriate audit evidence that provides a basis for the auditor's opinion, may contribute to resolving these challenges.
3. Further activities performed in developing this project proposal are summarized as follows:
  - (a) Reviews of stakeholder feedback on prior IAASB consultation papers and exposure drafts (and of the associated board papers incorporating staff and task force analysis of responses), including on:
    - (i) [Exposure Draft of Proposed ISA 315 \(Revised\), Identifying and Assessing the Risks of Material Misstatement, and Proposed Consequential and Conforming Amendments to Other ISAs.](#)
    - (ii) [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs.](#)
    - (iii) [Consultation Paper](#) for the IAASB's Proposed Strategy and Work Plan for 2024–2027.
    - (iv) [Survey Consultation](#) on the IAASB's Work Plan for 2022–2023.
  - (b) Reviews of non-authoritative guidance and other materials issued by the IAASB, including:
    - (i) [Frequently Asked Questions on Investigating Exceptions and Relevance of Performance Materiality When Using Automated Tools and Techniques.](#)
    - (ii) [Frequently Asked Questions on Audit Planning When Using Automated Tools and Techniques.](#)
    - (iii) [Frequently Asked Questions on the Use of Automated Tools and Techniques When Identifying and Assessing Risks of Material Misstatement in Accordance with ISA 315 \(Revised 2019\).](#)
    - (iv) [Frequently Asked Questions on the Use of Automated Tools and Techniques in Performing Audit Procedures.](#)
    - (v) [Audit Documentation When Using Automated Tools and Techniques.](#)

- (vi) [The Risk of Overreliance on Technology from the Use of Automated Tools and Techniques and from Information Produced by an Entity's Systems](#).
- (vii) The [feedback statement](#) from the request for input from 2017 into the growing use of technology in an audit, with a focus on data analytics.
- (viii) The [Basis for Conclusions](#) of ISA 315 (Revised 2019).
- (c) Reviews of non-authoritative guidance and other materials issued by other standard-setting bodies<sup>14</sup> on relevant topics, including:
  - (i) Canadian Public Accountability Board (CPAB) Exchange, [Technology in the Audit](#).
  - (ii) United States (U.S.) Public Company Accounting Oversight Board (PCAOB) Spotlight, [Staff Update on Outreach Activities Related to the Integration of Generative Artificial Intelligence in Audits and Financial Reporting](#).
  - (iii) U.S. PCAOB Spotlight, [Inspection Observations Related to Public Company Audits Involving Crypto Assets](#).
  - (iv) U.S. PCAOB Spotlight, [Audits Involving Cryptoassets – Information for Auditors and Audit Committees](#).
  - (v) U.S. PCAOB Spotlight, [Data and Technology Research Project Update](#).
  - (vi) Institute of Chartered Accountants of India, [Guidance Note on Audit of Internal Financial Controls Over Financial Reporting](#).
- (d) Reviews of recent inspection reports, including:
  - (i) International Forum of Independent Audit Regulators (IFIAR), [Survey of Inspection Findings 2023 and 2022](#).
  - (ii) Committee of European Auditing Oversight Bodies (CEAOB), [Annual Report, 2022 and 2023](#).
  - (iii) CPAB, [2022 Annual Inspections Results, March 2023](#) and [2023 Interim Inspections Results, October 2023](#).
  - (iv) Financial Reporting Council – United Kingdom, [Tier 1 Firms Reports \(July 2024 and 2023\)](#) and [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2023](#).
  - (v) Independent Regulatory Board for Auditors, [2023, Public Inspections Report on Audit Quality](#).
- (e) Reviews of other publications issued by professional accountancy organizations, including:
  - (i) Implementation Tool for Auditors from Chartered Professional Accountants of Canada, [Designing and Performing Tests of Relevant Controls](#).

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<sup>14</sup> Responses to a Request for Input received from NSS members were also reviewed, and were instrumental in identifying relevant materials for consideration as part of the information gathering activities. Items identified herein are not an exhaustive list of all materials read.

- (ii) Resources issued by the Institute of Chartered Accountants of England and Wales on professional skepticism, including [Scepticism: The Practitioners' Take](#).
- (f) Reviews of relevant consultation papers, exposure drafts and final standards issued by other standard-setting bodies, including:
  - (i) U.S. PCAOB Release No. 2023-004, [Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form](#).
  - (ii) U.S. PCAOB Release No. 2024-007, [Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form](#).
  - (iii) U.S. PCAOB Release No. 2024-006, [Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards](#).
  - (iv) [Global Internal Audit Standards](#), issued by the International Internal Audit Standards Board.
- (g) Targeted stakeholder outreach with the following groups:
  - (i) Jurisdictional and National Auditing Standards Setters.
  - (ii) The Forum of Firms.
  - (iii) The International Federation of Accountants' Small and Medium Practices Advisory Group.
  - (iv) International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure.
  - (v) IFIAR's Standards Coordination Working Group.
  - (vi) CEAOB's Standards and Inspections Subgroups.
- (h) Engagement with the IAAER, including:
  - (i) Obtaining a summary of relevant academic literature identified by experienced researchers in the field, which summarized research about analytical procedures, the use of technology by auditors, and internal controls.
  - (ii) Collaborating in the design and performance of a research study involving interviews with auditors from across several jurisdictions.
- (i) Reviews of a selection of academic literature relevant to the subject matter.