

Overview of Issues Related to Risk Response

1. In March 2024, the Board directed Staff to:
 - (a) Perform further analysis of the issues presented in [Agenda Item 6](#) of the March 2024 IAASB Meeting; and
 - (b) Refine the list to those that represent challenges that may impact the standards' ability to be responsive to the public interest.
2. This paper includes the revised list of issues that may be addressed through revisions to ISA 330¹ and ISA 520.² The revised issues are often more expansive than a mere aggregation of the individual issues initially presented in March 2024, because they reflect the project team's refined understanding and analysis based on further information gathering activities performed.

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Theme 1: The Overall Consistency and Coherence of ISA 330 with ISA 315 (Revised 2019)³ and ISA 500⁴	
RR 1 – Challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.	<p>ISA 315 (Revised 2019) introduced new and enhanced requirements and concepts relating to identifying and assessing risks of material misstatement. Given that the auditor's response to assessed risks of material misstatement is based on the outcome of the risk assessment procedures performed, conforming and consequential amendments were made to ISA 330. However, stakeholder feedback indicates that there have nonetheless been challenges with fully aligning the requirements of ISA 315 (Revised 2019) and those of ISA 330, including:</p> <ul style="list-style-type: none"> • How to integrate the iterative nature of the risk assessment process set out in ISA 315 (Revised 2019) and the perceived expectation of a sequential approach of performing risk assessment procedures and then further audit procedures that respond to the identified risks of material misstatement. This includes understanding: <ul style="list-style-type: none"> ○ Whether the concurrent performance of risk assessment procedures and risk response procedures is

¹ International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*

² ISA 520, *Analytical Procedures*

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴ ISA 500, *Audit Evidence*

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	<p style="text-align: center;">appropriate (see also Issue 9); and</p> <ul style="list-style-type: none"> ○ How the results of further audit procedures are intended to influence revisions to the auditor's risk assessment and any further actions by the auditor (see also Issue 7). • How the “spectrum of risk” and “inherent risk factors,” and the auditor's work effort on understanding the entity's system of internal control, are intended to influence the nature, timing and extent of procedures designed and performed in response to assessed risks. • How the auditor’s understanding of the control environment (as required by ISA 315 (Revised 2019)) is intended to influence the auditor’s design and performance of responses to risks of material misstatement. • Whether, and if so, how, the type of control activity performed as part of an entity's system of internal control (a manual, automated, or semi-automated control) is intended to influence the design of procedures in response to risks of material misstatement. • Whether, and if so, how the auditor is expected to design and perform procedures that respond to “risks arising from the use of information technology (IT).” • How the auditor's work effort relating to understanding and evaluating the design and implementation of an entity's IT general controls (ITGCs) and IT application controls is intended to influence the design of procedures in response to risks of material misstatement.
<p>RR 2 – The stand-back requirement in ISA 330, which applies to all relevant audit evidence, goes beyond the objective of ISA 330 that is only focused on obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. There is also a proliferation of various stand-back requirements</p>	<p>Stakeholders noted that the stand-back requirement in ISA 330, which applies to all relevant audit evidence, goes beyond the objective of ISA 330 that is only focused on obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. This has led to questions as to which standard (i.e., whether ISA 330 or ISA 500) needs to deal with evaluating whether sufficient appropriate audit evidence has been obtained throughout the audit to be able to draw reasonable conclusions on which to base the auditor’s opinion.</p> <p>Stakeholders also observed that there is a proliferation of stand-back requirements in the ISAs to evaluate whether sufficient appropriate audit evidence has been obtained, including in:</p> <ul style="list-style-type: none"> • Foundational standards (e.g., ISA 330 and ISA 315 (Revised 2019)); and

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across the ISAs that may diminish their effectiveness.	<ul style="list-style-type: none"> Subject matter ISAs addressing specific topics (e.g., ISA 540 (Revised)⁵ for accounting estimates, proposed ISA 570 (Revised 202X)⁶ for going concern and ISA 600 (Revised)⁷ for group audits). <p>Such proliferation of stand-back requirements may result in possible overlap and confusion or may diminish their effectiveness. It was also recognized that there is insufficient clarity about the interrelationship of an overall stand-back requirement that is currently located in ISA 330 with the various subject matter-specific standard-back requirements across the ISAs. Stakeholders noted that the stand-back requirements in ISA 540 (Revised) and ISA 600 (Revised) link back to the overall conclusion in ISA 330 whether sufficient appropriate audit evidence has been obtained, but the stand-back requirement in proposed ISA 570 (Revised 202X) does not. There is also insufficient clarity about what warrants a need for a subject matter-specific stand-back requirement. Stakeholders questioned why there is a need for a separate stand-back requirement in proposed ISA 570 (Revised 202X) but not in proposed ISA 240 (Revised).⁸</p>
RR 3 – Difficulties with understanding the rationale for, and with operationalizing the requirement in ISA 330, paragraph 18.	<p>ISA 315 (Revised 2019) introduced the concept of significant classes of transactions, account balances and disclosures (COTABD), defined as a COTABD for which there is one or more relevant assertion. A relevant assertion was defined as one which has an identified risk of material misstatement, as determined before consideration of related controls. ISA 330, paragraph 18, which requires that irrespective of the assessed risk of material misstatement, the auditor design and perform substantive procedures for each material COTABD, was not revised. The rationale for this requirement is that it serves as a ‘safety net’⁹ or as a ‘safeguard against imperfect risk assessment.’</p> <p>However, some stakeholders continue to perceive that such a requirement undermines an auditor’s professional judgments made under ISA 315 (Revised 2019) and undermines the concepts reflected in the objective of ISA 330 to design and implement appropriate responses to assessed risks of material misstatement to obtain sufficient appropriate audit evidence regarding the assessed risks. Also, stakeholders questioned how ISA 330, paragraph 18, interacts with paragraph 36 of ISA 315 (Revised 2019) as the auditor may determine that a material COTABD</p>

⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁶ Proposed ISA 570 (Revised 202X), *Going Concern*

⁷ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁸ Proposed ISA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁹ Refer to the [March 2019](#) and [December 2019](#) agenda papers relating to ISA 315 (Revised 2019).

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	<p>is not a significant COTABD when the COTABD has no relevant assertions (i.e., there is no risk of material misstatement relating to that COTABD).</p> <p>Furthermore, stakeholder feedback has highlighted that this results in practical challenges with operationalizing this paragraph, including:</p> <ul style="list-style-type: none"> (a) Determining which assertion(s) to consider when designing these substantive procedures, given that the auditor has determined that there are no relevant assertions for the COTABD. (b) Determining the appropriate nature and extent of substantive procedures, given that the auditor ordinarily uses the reasons for their assessment of identified risks of material misstatement at the assertion level as a basis for designing and performing further audit procedures; and (c) Whether the determination of a material COTABD is intended to be made based on materiality for the financial statements as a whole or performance materiality, and how qualitative considerations about materiality influence the determination of a material COTABD.
Theme 2: The Appropriateness of Further Audit Procedures Designed and Performed in Response to Risks of Material Misstatement	
<i>Tests of Controls</i>	
<p>RR 4 – The appropriateness of auditor decisions about whether to design and perform a test of controls as part of a response to assessed risks, including inconsistent identification of circumstances where substantive procedures alone are unable to provide</p>	<p>ISA 330¹⁰ requires that the auditor designs and performs tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if:</p> <ul style="list-style-type: none"> • The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that controls are operating effectively; and • Substantive procedures alone will not provide sufficient appropriate audit evidence at the assertion level. <p>Regulatory inspections indicate that auditors do not always test controls in the situations described by ISA 330, paragraph 8, raising concerns about the sufficiency and appropriateness of audit evidence obtained in these instances.</p> <p>In the first circumstance, there is some evidence that auditors “presume some level of expected control</p>

¹⁰ ISA 330, paragraph 8

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sufficient appropriate audit evidence.	<p>effectiveness when assessing inherent risk” even when they do not explicitly assess control risk because they do not plan to test the operating effectiveness of controls. As a result, auditors do not consistently design and perform tests of controls when this situation arises, which indicates there is an opportunity to clarify how to operationalize this requirement of ISA 330 in conjunction with the requirements of ISA 315 (Revised 2019) relating to the assessment of risks of material misstatement.</p> <p>On the other hand, identifying events and conditions that reflect the second circumstance is subject to significant auditor judgment, and stakeholders have indicated that auditors do not often identify conditions other than those described in paragraph A24 of ISA 330 (“an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system”) even though other conditions may indicate that substantive procedures alone would not provide sufficient appropriate audit evidence at the assertion level. Moreover, a range of information sources indicate that auditors sometimes follow the prior year’s audit approach in planning further audit procedures so that when controls have not previously been tested, there may be no re-evaluation of the decision in subsequent periods. Thus, if a situation has not previously been determined to be one for which substantive procedures alone would be unable to provide sufficient appropriate audit evidence and the substantive procedures performed in prior periods did not detect a material misstatement, auditors may not consider changing the approach to incorporate tests of controls as part of their design and performance of further audit procedures.</p>
RR 5 – The effective design and performance of tests of controls.	<p>ISA 330, paragraph 9, requires that, in designing and performing tests of controls, the auditor obtains more persuasive evidence the greater the reliance the auditor places on the effectiveness of a control. However, inspection findings indicate that auditors do not consistently meet this requirement, resulting in relevant assertions not being appropriately addressed by further audit procedures.</p> <p>In addition, stakeholders:</p> <ul style="list-style-type: none"> • Questioned how to apply reperformance procedures to obtain evidence of the operating effectiveness of controls, when applying the requirements of ISA 330, paragraph 10, and whether such procedures were substantive in nature. • Identified a potential area of clarification about how tests of controls may be used. Because the definition in ISA 330 presents them as procedures to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level, it is unclear whether, from the

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	<p>perspective of ISA 500, tests of controls can also separately and specifically be designed and performed for the purpose of evaluating the relevance and reliability of information intended to be used as audit evidence.</p> <ul style="list-style-type: none"> Noted challenges with achieving consistency from the requirements that apply when the auditor uses evidence obtained about the effectiveness of a control in an interim period (see ISA 330, paragraph 12) and there have been significant changes in the design and implementation of controls subsequent to that period. The judgment involved in determining what additional evidence, if any, is necessary for the remaining period, has resulted in inconsistent application of the requirements, and stakeholders have called for more clarity on this matter.
RR 6 – Applying requirements relating to the auditor's intended use of audit evidence about the operating effectiveness of controls obtained in previous audits.	<p>Under ISA 330, the auditor may determine that it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits (see ISA 330, paragraphs 13 and 14). However, given that enhancements to ISA 315 (Revised 2019) have resulted in auditors obtaining more detailed understanding of an entity's system of internal control each period, some stakeholders have challenged whether those requirements of ISA 330 remain appropriate. Stakeholders have also questioned whether, given the extent of work required to be performed to establish the continued relevance and reliability of the evidence obtained in a prior period, the requirement may be impracticable. Others have questioned whether the requirement is consistent with there being inherent limitations in internal controls, as acknowledged in the ISAs.</p>
RR 7 – Various recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.	<p>Stakeholders have noted that when auditors perform tests of controls as part of their planned response to assessed risks of material misstatement, auditors are inconsistently applying requirements in paragraphs 16 and 17 of ISA 330, relating to:</p> <ul style="list-style-type: none"> The evaluation of whether misstatements detected by substantive procedures indicate that controls may not be operating effectively; and The impact of identified deviations when performing tests of controls. <p>In particular, they have highlighted differences in interpretations of the requirement in paragraph 17(a) of ISA 330 to determine whether tests of controls in which deviations have been detected, provide an appropriate basis for reliance on the controls.</p> <p>In addition, the impact of identified deficiencies in design, implementation, or operating effectiveness of ITGCs or IT application controls appears to be inconsistently understood, with questions raised about the consequence of</p>

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	such deficiencies on the auditor’s further audit procedures, especially when a wholly substantive response is planned.
<i>Substantive Analytical Procedures</i>	
RR 8 – Challenges with designing and performing substantive analytical procedures (SAPs), including the development of expectations, and determining the appropriateness of the threshold selected as the accepted amount of difference from the expectation.	<p>ISA 520 includes requirements and application material that apply when the auditor plans to perform SAPs. It also includes requirements and application material that apply when the auditor performs analytical procedures near the end of the audit when forming an overall conclusion on the financial statements. Some stakeholders have noted that the terms “analytical procedures” and “substantive analytical procedures” may not be sufficiently distinct to enable consistent application of requirements.</p> <p>Furthermore, respondents noted practical challenges with consistently implementing the requirements of ISA 520 related to:</p> <ul style="list-style-type: none"> • Determining that a COTABD is suitable to be tested through an SAP; • Determining the suitability of information sources (including their relevance and reliability) for use in developing an expectation as the basis of an SAP; and • Determining the appropriateness of the threshold selected as the accepted amount of difference from the expectation and understanding whether this threshold may be permitted to exceed overall materiality. <p>Some academic research has also highlighted ways that auditor biases may more easily appear in SAPs than other substantive procedures. In combination, these matters indicate that some of the performance challenges relating to SAPs reflect underlying challenges with the appropriate exercise of professional skepticism.</p>
Theme 3: The Use of Technology in Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Evidence	
RR 9 – There have been challenges with appropriately designing and performing audit procedures that are used for more than one purpose (i.e., “multi-	<p>ISA 330 and ISA 520 were written before advancements in technology facilitated the increased use of ATTs in audits. Relevant application material in the ISAs (e.g., paragraph A19 of ISA 315 (Revised 2019)) acknowledged that the auditor may design and perform an audit procedure that achieves more than one purpose. However, stakeholders’ feedback indicated that the use of ATT in concurrently performing audit procedures to achieve more than one purpose have magnified certain challenges for the auditor in obtaining sufficient appropriate audit evidence when using ATT in concurrently performing:</p>

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purpose procedures” and “dual-purpose tests”), which have been magnified by, though do not exclusively arise from, the increased use of automated tools and techniques (ATT) by auditors.	<ul style="list-style-type: none"> • Risk assessment procedures under ISA 315 (Revised 2019) and further audit procedures under ISA 330 (i.e., generally referred to as “multi-purpose procedures” by stakeholders); or • Test of controls and substantive procedures under ISA 330 (described as “dual-purpose tests” in paragraph A23 of ISA 330). <p>In such instances, the challenges in performing multi-purpose procedures or dual-purpose tests, whether these procedures are performed with the assistance of ATT or not, relate to the design and performance of audit procedures, the nature, timing and extent of which are appropriate in the circumstances to achieve each of the auditor’s purposes.</p>
RR 10 – 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>New technologies have raised questions about how audit procedures performed using ATT fall within the types of substantive procedures described in ISA 330. Stakeholders’ feedback indicated that the use of ATT to perform audit procedures makes the distinction between a test of details and an SAP more challenging because using ATT to perform substantive procedures may exhibit characteristics, or involve a blend, of both procedures. The distinction between test of details and SAPs is important because ISA 330 requires the auditor to perform test of details when the approach to respond to a significant risk consists only of substantive procedures. This distinction may also impact the auditor’s evaluation of the audit evidence obtained and any further actions that the auditor may need to take based on the results of the procedures performed.</p>
RR 11 – There is a lack of authoritative material, including requirements, relating to the auditor’s use of technology in obtaining sufficient appropriate audit evidence.	<p>Stakeholders’ feedback highlighted that the requirements in ISA 330 and ISA 520 do not specifically address aspects of designing and performing audit procedures that involve the use of technology (including ATT). In particular, there are no explicit requirements in the ISAs that apply if the auditor uses technology in performing audit procedures. It was noted that this may result in inconsistent application of what the auditor needs to consider in designing and performing audit procedures using technology.</p> <p>In addition, ISA 330 does not address instances where the auditor cannot obtain sufficient appropriate audit evidence without using technology, nor sufficiently highlight instances where the use of technology may be appropriate. This may result in auditors defaulting to not using technology even when the results of the auditor’s risk assessment procedures indicate that the use technology may be required or may be appropriate. Instances that may indicate the use of technology in designing and performing further audit procedures include:</p>

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	<ul style="list-style-type: none"> • Large volume of transactions. It may be impracticable to manually audit large volume of transactions. • Complex calculations. Responding to an assessed risks of material misstatement may involve complex calculations that are beyond the capabilities of manual audit procedures such those that may involve sophisticated models and algorithms. Auditing certain complex financial instruments (such as derivatives, securitizations, or hedge funds) may require specialized software to model and value these instruments accurately. • Blockchain and cryptocurrency. Auditing blockchain transactions and cryptocurrency holdings may require specific technology / specialized audit software to verify transactions on the blockchain and assess the integrity and ownership of digital assets. • Detecting fraud or anomalies. When responding to the risks of material misstatement due to fraud, using manual audit procedures may be not be as effective and efficient as using ATT to identify patterns or anomalies indicative of fraud. • Data integration from multiple sources. Responding to an assessed risks of material misstatement may involve integrating data from various sources (e.g., different databases or systems). <p>Moreover, stakeholders noted that ISA 330 nor ISA 520 neither include:</p> <ul style="list-style-type: none"> • A definition or description of the term “automated tools and techniques;” • Considerations of when ATT may be used in performing further audit procedures in ISA 330, including analytical procedures in ISA 520; and • Considerations to explain how the auditor may apply certain requirements in ISA 330 and ISA 520 when using ATT.

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RR 12 – There is 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>Certain ATTs may enable the auditor to interrogate or analyze all items in a population and in some cases, such interrogation or analysis may return a significant number of items within the population that meet one or more criteria established by the auditor. The auditor’s appropriate investigation of exceptions / outliers identified is important both for identifying and assessing risks of material misstatement and for designing and performing appropriate responses to assessed risks of material misstatement. However, stakeholders’ feedback included that there is currently insufficient guidance in the ISAs when using ATT in performing audit procedures, including guidance on selecting items for testing and addressing exceptions / outliers identified. This may result to inconsistency in practice as to:</p> <ul style="list-style-type: none"> • What qualifies as an exception / outlier and whether an exception / outlier may be indicative of a misstatement or a deficiency as a basis for selecting items for further testing. • Whether there is a need to further investigate all exceptions / outliers identified or are there circumstances when it may be appropriate to only further investigate a selection of the exceptions / outliers identified. • What qualifies as inappropriate reasons for refining the parameters of an ATT after initial application. • Whether evidence obtained would be considered sufficient and appropriate, or whether further audit procedures is needed, when using ATT to interrogate 100% of the population did not identify items for investigation. • The work effort over items in the population not identified for further investigation.
RR 13 – The use of new or emerging technologies (e.g., artificial intelligence, machine learning or robotics process automation), by management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks.	<p>Stakeholders observed that the use of new or emerging technologies (e.g., artificial intelligence, machine learning or robotics process automation), by management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks:</p> <ul style="list-style-type: none"> • The integration of artificial intelligence in decision-making processes, such as in predictive analytics and automated financial reporting, introduces complexity. Auditors may face challenges in understanding how these systems generate outputs, making it difficult to evaluate the relevance and reliability of information intended to be used as audit evidence. • Automated processes, such as robotics process automation, can introduce errors if not properly designed, tested, and monitored. Errors in automated systems can propagate quickly, leading to risks of material

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	<p style="text-align: center;">misstatements in the financial statements.</p> <ul style="list-style-type: none"> • New or emerging technologies can lead to large volumes of unstructured data being incorporated into financial reporting. Ensuring the accuracy and completeness of this data poses a significant challenge.
<p>RR 14 – Insufficient clarity about 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>	<p>The auditor is required to comply with the documentation requirements in ISA 230¹¹ and other relevant ISAs regardless of whether the auditor uses ATT or manual tools and techniques in performing risk assessment procedures or further audit procedures. However, stakeholders’ feedback indicated that there is insufficient guidance relating to the expected audit documentation when using ATT in performing audit procedures, including:</p> <ul style="list-style-type: none"> • Considerations of the form, content and extent of audit documentation when using ATT approved by the firm and when using ATT not subject to a firm’s approval process. • Whether the use of ATT may affect the documentation of the results of audit procedures performed to review and analyze large data sets. • Whether there may be a need to document the different iterations of procedures performed when applying different filters to data before arriving at a final result. • Whether the use of ATT may impact the documentation of a significant matter. <p>Stakeholders also noted that when auditors perform audit procedures for more than one purpose (i.e., “multi-purpose procedures” and “dual-purpose tests”), the documentation retained is not always consistent. In particular, the documentation of work performed and the audit evidence that results from each test, is not clearly distinguishable. Also, the determination of the extent of tests of controls and tests of detail performed for dual-purpose tests, is not consistently documented separately.</p>

¹¹ ISA 230, *Audit Documentation*