

Audit Evidence and Risk Response – Issues Paper

Objective

The objective of the IAASB discussion in September 2024 is to obtain the Board’s input and direction on:

- (a) The draft project proposal on audit evidence and risk response, presented in **Agenda Item 6-A**.
- (b) The issues identified relating to risk response, presented in **Agenda Item 6-B**

Materials Presented

Agenda Item 6-A	Draft Project Proposal on Audit Evidence and Risk Response
Agenda Item 6-B	Overview of Issues Related to Risk Response

Appendices

Appendix 1	Information Gathering Activities Related to Risk Response
Appendix 2	Reconciliation of Issues Presented in Agenda Item 6 of the March 2024 IAASB Meeting to the Revised Risk Response Issues in Agenda Item 6-B
Appendix 3	Integration of Issues in the Extant Approved Audit Evidence Project Proposal with the Identified Risk Response Issues in Agenda Item 6-B
Appendix 4	Staff and Focus Group Members and Activities

Introduction

1. In March 2024, the Risk Response Project Team (the “project team”) presented to the Board a preliminary description of possible issues to be addressed in revising ISA 330¹ and ISA 520,² which had been identified from reviews of stakeholder feedback to prior consultations and exposure drafts, and of regulatory inspection results, among other sources.³ The Board directed the project team to further develop their understanding of the issues identified and refine the list of issues to retain solely those that reflected a public interest concern. The Board also supported the project team’s proposed approach to further information-gathering.⁴

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

² ISA 520, *Analytical Procedures*

³ Refer to Agenda Item 6 of the [March 2024 IAASB meeting](#).

⁴ Refer to the minutes of the [March 2024 IAASB meeting](#).

2. This agenda item first describes the outcome of the further information gathering and coordination activities performed since March 2024 (Section I), and then presents the project team’s approach to developing the project proposal (Section II), and illustrates its alignment with the principles of the [Public Interest Framework](#)⁵ (PIF) and the extent to which its development has followed the [IAASB’s Framework for Activities](#).

I. Information Gathering and Coordination Activities

Information Gathering Activities

3. The project team performed the information gathering activities described in [Agenda Item 6](#) of the March 2024 IAASB meeting to ensure there was an informed basis for the development of a project proposal. Those activities included reading and analyzing papers from a wide range of sources (among others, stakeholder responses to prior consultations and exposure drafts, inspection findings, and academic research papers), targeted outreach with stakeholders, and ongoing collaboration with the International Association for Accounting Education and Research (IAAER). More details of the information gathering performed since March 2024, including summaries of feedback from the outreach performed, are included in [Appendix 1](#).
4. The project team also periodically sought the insights of a group of designated IAASB members (the “Focus Group”), which included practitioner, standard-setter, and academic perspectives, to inform their understanding of the issues identified related to ISA 330 and ISA 520, to analyze the causes of these issues, and to develop proposed actions to address them. The Focus Group also provided its views on a draft version of the project proposal.

Coordination Activities

International Ethics Standards Board for Accountants (IESBA)

5. Coordination calls with IESBA were held to identify projects for which coordination efforts may be necessary. Two topics were identified as possibly requiring ongoing coordination:
 - (a) [Technology-related revisions to the Code](#); and
 - (b) [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).
6. These topics are of relevance to the Audit Evidence and Risk Response project because of its focus on technology, and on ensuring appropriate responses to risks of material misstatements, which may require differential consideration for different types of entities. Both IESBA projects are effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

Audit Evidence Task Force

7. The project team held discussions with the Audit Evidence Staff Lead and the Task Force Chair to ensure their input was obtained on matters of relevance to revisions to ISA 500,⁶ including the description of issues relating to ISA 500, and the actions taken to date in developing the “Proposed

⁵ The PIF was published by the Monitoring Group in July 2020 in their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)” and agreed to by the Public Interest Oversight Board.

⁶ ISA 500, *Audit Evidence*

ISA 500 (Revised) Pre-finalization Holding Package” presented to the IAASB in March 2024 as [Agenda Item 5-A](#).⁷

Technology Consultation Group

8. The project team also coordinated with staff working on the development of the IAASB's Technology Position and collaborated with them in the development of the preliminary gap analysis presented in **Agenda Item 5** of this meeting. More information about how the IAASB's work on a Technology Position continues to inform this project, including the development of the project proposal, is set out in paragraphs 21–23 of **Agenda Item 6-A**.

II. Development of the Project Proposal

An ‘Integrated Approach’ to Audit Evidence and Risk Response

9. Following the description in the IAASB's [Strategy and Work Plan for 2024-2027](#) (the “Strategy and Work Plan”), the draft project proposal in **Agenda Item 6-A** presents an integrated approach to audit evidence and risk response, with a focus on internal controls and technology.
10. The project team, with input from the Focus Group and from senior staff of the IAASB, considered various options in determining what approach to take in developing the project proposal:
 - (a) Option 1: Develop a ‘hybrid’ project proposal, which would bring in the [Audit Evidence Project Proposal \(December 2020\)](#) as previously approved through cross-reference, and include the following components:
 - (i) Component 1, reflecting objectives, issues and proposed actions specific to ISA 330 and ISA 520; and
 - (ii) Component 2, reflecting shared objectives and issues affecting ISA 500, ISA 330 and ISA 520.
 - (b) Option 2: Develop a fully ‘integrated’ project proposal that represents an evolution and expansion of the public interest objectives of the project proposal to revise ISA 500, by also concurrently revising ISA 330 and ISA 520. Such a project proposal would support the delivery of revised standards addressing the issues affecting both ‘reference framework’ aspects relating to audit evidence in ISA 500, and ‘performance’ aspects relating to risk response in ISA 330 and ISA 520.
11. In the project team's view, option 1 did not reflect an ‘integrated approach’ to revising ISA 330, ISA 500 and ISA 520 that was described in the approved Strategy and Work Plan. Rather, it would result in an ‘aggregated approach,’ and would retain largely separate perspectives on the standards in scope of the project.
12. Option 2 appeared most responsive to the public interest, by appropriately responding to stakeholder comments on [ED-500](#) and on the [Consultation Paper](#) for the IAASB's Proposed Strategy and Work Plan for 2024–2027 (the “Consultation Paper”). These stakeholders called for a concurrent

⁷ This version of the Pre-finalization Holding Package reflects the result of IAASB's cumulative work effort including deliberations and decisions until March 2024, based on feedback received from stakeholders on the Exposure Draft of Proposed ISA 500 (Revised), *Audit Evidence*, and *Proposed Conforming and Consequential Amendments to Other ISAs* (ED-500) as exposed in September 2022.

consideration of the impact of the proposed revisions in ED-500 on ISA 330. Because of this, the project proposal set out in **Agenda Item 6-A** is developed as a fully integrated project proposal to concurrently revise ISA 330, ISA 500 and ISA 520.

Structuring the Project Proposal

Introduction

13. The introduction, in paragraphs 3–23 of the project proposal, sets out the rationale, based on information gathering activities performed, for a standard-setting project⁸ to concurrently revise ISA 330, ISA 500 and ISA 520. Paragraph 15 calls out two key public interest reasons for this integrated approach:
 - (a) The continued, rapid evolution of technology and use by entities and auditors, combined with the continued increase in data available to auditors; and
 - (b) Ongoing deficiencies in the quality of audit engagements in the performance of tests of controls and of substantive analytical procedures (SAPs).
14. Paragraph 16 highlights that this project was included in the Strategy and Work Plan, which was informed by feedback from both ED-500 and the Consultation Paper, Board deliberations and outreach activities.
15. Paragraphs 21–23 describe how the IAASB's work on establishing a Technology Position, interacts with this project. That work effort remains in process, with the intended final clearance of the Technology Position presented in **Agenda Item 4**, and with further input and direction expected from the IAASB in developing the preliminary gap analysis presented in **Agenda Item 5**. Thus, the proposed actions in scope of this project proposal that relate to technology are subject to change.

Project Objectives that Support the Public Interest

16. The objectives as presented in paragraph 24 of the project proposal follow from the rationale for the project set out in the introduction and reflect a response to the public interest issues driving the need for this project. In determining the project objectives, the project team made use of the PIF and:
 - (a) Considered how each of the five broad groups of IAASB stakeholders⁹ are impacted by the issues that the project is seeking to address to ensure the project proposed was responsive to the public interest; and
 - (b) Considered the remit of the IAASB in setting standards that appropriately serves the interests of its stakeholders.

⁸ Based on the [Framework for Activities](#)

⁹ The five broad groups of stakeholders considered were those set out in the PIF: (a) Users of financial statements, who rely on the audited financial statements to make resource allocation decisions; (b) Auditors in public practice who apply the standards ("the profession"); (c) Those in charge of adoption, implementation and enforcement of the standards as well as monitoring of the capital markets (including jurisdictional or national standard setters, regulators and audit inspectors, market authorities, public sector bodies, and professional accountancy organizations); (d) Preparers of financial statements, including management and those charged with governance (e.g., audit committees who oversee the audit process); and (e) Other users affected by the reliability of financial and non-financial information in society.

17. Based on their understanding of the issues that the project would seek to resolve (see paragraph 26 and onwards), the project team determined that the objectives described in the project proposal reflect how the project aims to serve users of financial statements and others in the ecosystem who rely on financial information reported by entities.

Matter for IAASB Consideration

1. The Board is asked for their views on the proposed Subject, Introduction and Project Objectives that Support the Public Interest, as included in the project proposal (see **Agenda Item 6-A**, Sections I, II and III).

Scope

Revising the Issues Relating to Risk Response

18. **Agenda Item 6-B** presents revised descriptions of a condensed list of 14 issues relating to auditors' responses to assessed risks, including ones relating to performing SAPs. [Appendix 2](#) to this paper shows how the revised issues reconcile to the issues presented in March 2024 (Table 1), including a quick-reference table to show the decisions taken on each issue presented in March 2024 (Table 2).
19. The process of refining the issues involved obtaining a more detailed understanding of the underlying practical challenges that were described, and their impact on audit quality and therefore on the public interest. It also included analyzing the extent to which the root cause of the challenges may reside in an ISA and therefore the extent to which they could be addressed by the IAASB through standard-setting actions.
20. Thematically, the identified issues indicate a challenge with consistently determining that the nature, timing and extent of audit procedures designed and performed are responsive to assessed risks, and enable the auditor to obtain sufficient appropriate audit evidence to support their opinion. This includes auditor challenges with making professional judgments and exercising professional skepticism with respect to such matters.
21. The issues were refined to determine the extent to which these performance challenges may arise at least in part due to a need to modernize or enhance the ISAs to take account of the evolving environment that auditors are operating in an increasingly digital environment, in which volumes and sources of data or information available have expanded and continue to grow.

Integrating Audit Evidence Issues with Revised Risk Response Issues

22. To arrive at the issues presented in the scope table of the project proposal (below paragraph 26 in **Agenda Item 6-A**), the project team considered the relationships between the risk response issues (as set out in **Agenda Item 6-B**) and the issues that had originally driven the approval of the Audit Evidence Project Proposal in December 2020. [Appendix 3](#) of this paper shows how they were integrated.
23. Because of the conceptual nature of issues previously included in the Audit Evidence Project Proposal, most issues that arose from the information gathering on risk response specifically could have been related to fundamental underlying challenges described in the Audit Evidence Project Proposal, of consistency of professional judgments and the exercise of professional skepticism.

24. However, to reflect the specific practical challenges experienced by auditors relating to obtaining audit evidence from the design and performance of procedures that respond to assessed risks of material misstatement, and to reflect the intended focus on internal controls and technology of this project, many issues identified through information gathering performed since January 2024 have been separately identified in the project proposal.

Proposed Actions

25. The scope of the project proposal also sets out the proposed actions in response to issues the IAASB is seeking to resolve through revisions to ISA 330, ISA 500 and ISA 520. The revision of ISA 330, ISA 500 and ISA 520 may give rise to conforming and consequential amendments in other ISAs, to resolve actual or perceived inconsistencies and maintain coherence so that the standards can be applied together without conflict. The need for any non-authoritative materials, and their specific nature and timing, will be determined through the course of the project.
26. Paragraphs 27–36 of **Agenda Item 6-A** describe the basis of development of the proposed actions to revise ISA 330, ISA 500 and ISA 520, including giving due consideration to the qualitative standard-setting characteristics of the PIF and the [Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines](#). They highlight how the development of proposed actions was also informed by a wide range of information-gathering activities as set out in the appendix to the project proposal, and through continued collaboration and coordination with the project's Focus Group, the Audit Evidence Task Force, the Technology Consultation Group and other relevant task forces, consultation or working groups as well as the IESBA.
27. Paragraphs 30–32 emphasize that the inclusion of the proposed actions that involve revisions to ISA 500:
- (a) 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; and
 - (b) Is not to intended to be read as proposing new actions that would override decisions taken after careful deliberation by the IAASB, which are reflected in the "Proposed ISA 500 (Revised) Pre-finalization Holding Package."

Matters for IAASB Consideration

2. The Board is asked for their views on whether the issues identified relating to risk response (see **Agenda Item 6-B**) are complete and appropriately reflect issues to be explored in revising ISA 330 and ISA 520.
3. The Board is asked for their views on whether the issues identified are complete and appropriately reflect the issues to be addressed by this project (see **Agenda Item 6-A**, Section IV, left hand column of table).
4. The Board is asked for their views on whether the proposed actions are sufficient and appropriate to address the issues identified and achieve the project objectives (see **Agenda Item 6-A**, Section IV, right hand column of table).

Project Timeline, Project Priorities and Resources, and Project Output and Impact

28. It is anticipated that the Audit Evidence and Risk Response project will be completed over a period of approximately two years. A detailed timeline will be finalized in Q4, subject to discussions and decisions on the Work Plan schedule and the allocation of resources.

Matters for IAASB Consideration

5. The Board is asked for their views on the project timeline (see **Agenda Item 6-A**, Section V).
6. The Board is asked whether there are any other matters within the project proposal that should be considered in its finalization, including any matters not already specifically addressed.

Way Forward

29. Following the September 2024 IAASB meeting, the project team plans to:
- (a) Address key matters raised at the Board meeting as it finalizes the project proposal, with input from the Focus Group.
 - (b) Collaborate with the IAAER on their research study. The IAAER's research study includes interviews with auditors at the senior manager level and above, and will be conducted in September and October 2024. The objective of the study will be to better understand factors that influence how auditors make decisions about the nature, timing and extent of audit procedures to respond to assessed risks of material misstatement, and factors that influence or empower auditors to use technology in performing audit procedures.
 - (c) Continue to engage with the IESBA.
 - (d) Collaborate with the Professional Skepticism Consultation Group.
30. In December 2024, the project team will present an updated project proposal for the IAASB's approval.

Appendix 1

Information Gathering Activities Related to Risk Response

1. This Appendix summarizes the activities performed by the project team since March 2024 to further understand the issues related to ISA 330 and ISA 520, and summarizes the feedback heard from outreach performed. A comprehensive summary of all information-gathering activities performed that informed the development of the project proposal is included in the Appendix to **Agenda Item 6-A**.

Desktop-Based Activities

2. A substantial part of the information gathering activities consisted of desktop-based activities, such as reading and analyzing a selection of the following types of documents:¹⁰
 - (a) The analysis of comment letters as presented in prior Board papers, and the minutes of prior Board discussions about them.
 - (b) Relevant non-authoritative materials issued by the IAASB.
 - (c) Relevant non-authoritative materials issued by other standard-setting bodies.
 - (d) Recent inspection reports from across jurisdictions, from a range of organizations with responsibility for enforcement of standards.
 - (e) Relevant publications issued by professional accountancy organizations.
 - (f) Relevant consultation papers, exposure drafts and final standards issued by other standard-setting bodies.
 - (g) Relevant academic research papers, as detailed in paragraph 14 of this appendix.
3. These documents further informed the project team's understanding of issues initially presented at the March 2024 IAASB meeting and enabled the project team to identify areas of the ISAs that would benefit from modernization or clarification to resolve these issues.

Targeted Outreach

4. The project team also planned and performed targeted outreach with key stakeholders to strengthen their understanding of the issues identified and to develop appropriate actions.

Jurisdictional and National Auditing Standard Setters (NSS) Meeting (May 2, 2024)

5. NSS representatives largely expressed support for a proposed standard-setting project to revise ISA 330 and ISA 520, and encouraged the IAASB to ensure they prioritized public interest issues, resolving them with due consideration to the timeliness of the actions. In particular, they provided input into concerns relating to the alignment of ISA 315 (Revised 2019)¹¹ and ISA 330, and highlighted local stakeholder feedback from auditors on the challenges with operationalizing the requirement in paragraph 18 of ISA 330. They also provided insights into sources of challenges relating to the

¹⁰ The review of responses from members of the Jurisdictional and National Auditing Standard Setters (NSS) to Requests for Input, highlighting jurisdictional developments for 2019–2023, informed the selection of documents reviewed. Specific items of most relevance are named in the Appendix to **Agenda Item 6-A**.

¹¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

auditor's work effort on internal controls, and further insights into how the ISAs might be contributing to auditors' decisions about the extent to which they use technology in responding to assessed risks.

6. They noted that some of the issues raised may sit at the intersection of issues that arise because of how standards have been interpreted in audit methodologies ('methodology issues'), ones that arise because of the auditor performance ('performance issues'), and ones that arise because of underlying issues of principle with standards. However, methodology issues and recurring performance issues both reflect how standards have been implemented and are being applied in practice, and they have therefore been deemed relevant for this project to ensure that the ISAs meet the qualitative characteristics of standards as set out in the PIF including implementability and ability to be consistently applied and globally operable.

International Federation of Accountants' Small and Medium Practices Advisory Group (May 6, 2024)

7. The primary takeaways from this session included:
 - (a) Acknowledgement that auditors may default to a 'substantive procedures only' approach (or more specifically, to a 'tests of details only' approach) to obtaining audit evidence in response to assessed risks, without questioning whether testing the operating effectiveness of controls in combination with substantive procedures may provide more persuasive audit evidence to support the conclusions that form the basis for the auditor's opinion.
 - (b) A reminder that the system of internal control in some small- and medium-sized entities or owner-managed business, are less formalized than in larger or more complex entities, and that this can make it more challenging for auditors to design and perform tests of controls in response to assessed risks.
 - (c) Encouragement to modernize ISA 330 and ISA 520 to reflect the increased availability of technology, with due consideration of the resources available to small- and medium-sized practices, to ensure modernizations are scalable, proportional, and capable of global adoption.

Forum of Firms (June 25, 2024)

8. The primary takeaways from this event included:
 - (a) A need for consistent terminology across the ISAs, and for ensuring the rationale of requirements is clear, as these enable their consistent interpretation and support their consistent application.
 - (b) A perception by practitioners that the revisions in ISA 315 (Revised 2019) do not consistently result in any substantial change to the nature, timing and extent of responses to assessed risks under ISA 330. Some described a desire to 'get credit for evidence obtained from risk assessment procedures.' In particular, paragraph 18 of ISA 330 was highlighted as appearing to conflict with the revisions in ISA 315 (Revised 2019), as the auditor is required to perform substantive procedures on all material classes of transactions, account balances or disclosures irrespective of the assessed risks of material misstatement.
 - (c) Support for enhancements to the clarity of requirements, rationale, or application material, relating to the auditor's work on internal controls, while acknowledging that challenges in this area likely result from the interaction of multiple factors (including how the methodology is

designed, auditor behaviors, and entities' control environments and systems of internal control), which are not all in the IAASB's remit to resolve.

- (d) A perceived barrier to using technology to design and perform further audit procedures arising from the lack of clear distinction between categories of substantive procedures, as well as how such categories may be blurred owing to what is possible with the use of certain technological tools.
- (e) Views that some requirements in the ISAs may unintentionally be prompting unconsciously biased actions by auditors, so addressing such circumstances may enhance skeptical or unbiased behaviors.

*International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) (July 18, 2024)*¹²

9. The primary takeaways from this session included:

- (a) Feedback that some of the practical challenges relating to internal controls arise from entities' design of internal controls. Others arise from a lack of clarity about when general IT controls are required to be tested, and about the implications of different outcomes from testing them. For example, if an entity has an IT environment without effective general IT controls, would it be possible for the auditor to obtain sufficient appropriate audit evidence, and what would the impact be on the audit?
- (b) Varying interpretations about documentation requirements when an auditor performs procedures using technology, in particular, about the data to be retained as audit documentation based on the requirements of ISA 230,¹³ when large entity-generated data sets are used.
- (c) Feedback on the importance for any technology-related revisions to ISA 330 and ISA 520 to take into account the varying levels of access to technology by different firms worldwide.
- (d) Feedback that many challenges relating to the performance of SAPs reflect a lack of consistent understanding of requirements, rather than a fundamental challenge with the principles underpinning the requirements. However, clarifying requirements or providing additional application material could enable more consistent application.

*International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group (SCWG) (July 22, 2024)*¹⁴

10. The primary takeaways from this session included:

- (a) Views that ISA 330, paragraph 18, is intended to be in the public interest, but it is difficult to apply and to enforce because it is being operationalized inconsistently by practitioners. It would

¹² Members of the IOSCO's Committee 1 provided their views in their individual capacities. The takeaways highlighted here are therefore not to be read as the views of IOSCO's Committee 1.

¹³ ISA 230, *Audit Documentation*

¹⁴ Members of the IFIAR's SCWG provided input in their individual capacities. The takeaways highlighted are therefore not to be read as the views of the IFIAR's SCWG.

benefit from being reviewed. The application of this requirement on group audit engagements based on ISA 600 (Revised)¹⁵ is also unclear.

- (b) Support for emphasizing the importance of developing expectations as a distinction between SAPs (as substantive procedures) and other analytical procedures, as it sometimes appears unclear in practice.
- (c) Feedback that the ISAs are sometimes interpreted as discouraging controls testing, rather than as facilitating controls testing. However, any consideration of requirements for the auditor to test controls will also have to consider potential unintended consequences, including the possibility that certain entities cannot be audited if their system of internal control is not designed and implemented effectively.
- (d) Feedback that auditors are not consistently testing controls in circumstances when they are required. This arises because they do not consistently identify that the nature and circumstances of an entity indicates that substantive procedures alone would not provide sufficient appropriate evidence; or because they have apparently been unaware that their risk assessment included a presumption that certain controls were operating effectively.
- (e) Views that technological resources can improve audit quality, but care must be taken to ensure that the standards remain scalable and proportional.

Engagement with the IAAER

11. The project team also continues to engage with the IAAER to identify relevant research to inform the project. While there is limited literature available on relevant topics, the IAAER provided a summary of some of the relevant literature, including:

- (a) SAPs
 - (i) Brazel & Schmidt (2019). Do Auditors and Audit Committees Lower Fraud Risk by Constraining Inconsistencies between Financial and Nonfinancial Measures? *AUDITING: A Journal of Practice & Theory* 38(1): 103–122
 - (ii) Brazel, Jones & Prawitt (2014). Auditors' Reactions to Inconsistencies between Financial and Nonfinancial Measures: The Interactive Effects of Fraud Risk Assessment and a Decision Prompt *Behavioral Research in Accounting* 26(1): 131–156
 - (iii) Brazel, Jone & Zimbelman (2009). Using Nonfinancial Measures to Assess Fraud Risk. *Journal of Accounting Research* 47(5): 1135–1166
- (b) Technology
 - (i) Appelbaum, Kogan & Vasarhelyi (2017). Big Data and Analytics in the Modern Audit Engagement: Research Needs, *AUDITING: A Journal of Practice & Theory* 36(4): 1–27.
 - (ii) Barr-Pulliam, Brazel, McCallen & Walker (2023). Data Analytics and Skeptical Actions: The Countervailing Effects of False Positives and Consistent Rewards for Skepticism, *Working Paper*

¹⁵ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (iii) Barr-Pulliam, Brown-Liburd & Munoko (2022). The Effects of Person-Specific, Task, And Environmental Factors on Digital Transformation and Innovation in Auditing: A Review of The Literature. *Journal of International Financial Management & Accounting* 33(2): 337–374
- (iv) Moffitt, Rozario, & Vasarhelyi (2018). Robotic Process Automation for Auditing, *Journal of Emerging Technologies in Accounting* 15(1): 1–10
- (v) Rose, Rose, Sanderson & Thibodeau (2017). When Should Audit Firms Introduce Analyses of Big Data into the Audit Process? *Journal of Information Systems* 31(3): 81–99
- (c) Internal Controls
 - (i) Barr-Pulliam, Brown-Liburd & Sanderson (2022). The Effects of the Internal Control Opinion and Use of Audit Data Analytics on Perceptions of Audit Quality, Assurance, and Auditor Negligence, *AUDITING: A Journal of Practice & Theory* 41(1): 25–48
 - (ii) Cohen, Joe, Thibodeau & Trompeter (2020). Audit Partners' Judgments and Challenges in The Audits of Internal Control Over Financial Reporting *AUDITING: A Journal of Practice & Theory* 39(4): 57–85
- (d) Skepticism
 - (i) Brazel, Jackson, Schaefer & Stewart (2016). The Outcome Effect and Professional Skepticism. *The Accounting Review* 91(6): 1577–1599
 - (ii) Brazel, Leiby & Schaefer (2022). Do Rewards Encourage Professional Skepticism? It Depends. *The Accounting Review* 97(4): 131–154
- 12. However, as many of the issues relating to risk response appeared to relate to inconsistent application of requirements in ISAs, the project team, in coordination with the IAAER, determined that there would be value in obtaining an understanding of how auditors themselves believe that they make certain judgments in practice (e.g., whether to test controls, use new technology, or perform SAPs, or how to design responses to assessed risks), as this would provide clarity about:
 - (a) Whether, and which, specific requirements or application material are misunderstood or interpreted in ways that appear to prevent a consistent understanding of what an appropriate professional judgment might be in a circumstance; and
 - (b) Whether, and what kind of, new requirements or application material may be necessary or useful to prompt behavioral changes that would better support informed professional judgments.
- 13. The project team identified an opportunity to obtain more persuasive evidence about these matters through the IAAER. As a result, a US-based researcher¹⁶ is in the process of obtaining approval from their Institutional Review Board (IRB) for a project involving confidential and anonymized interviews with experienced practitioners above manager level, seeking to understand their perspectives about how they make judgments on matters of relevance to the Audit Evidence and Risk Response project.

¹⁶ More details will be made available following approval being granted by their IRB.

Review of Academic Research Papers

14. The project team reviewed a further selection of papers, including:¹⁷

(a) SAPs

- (i) Appelbaum, D.A., Kogan, A., & Vasarhelyi, M.A. (2018) Analytical procedures in external auditing: a comprehensive literature survey and framework for external audit analytics, *Journal of Accounting Literature*, 40, 83–101. <https://doi.org/10.1016/j.acclit.2018.01.001>
- (ii) Ballou, B., Grenier, J. H., Mitchell, L., Ngwa, T., & Reffett, A. (2022). How do non-professional investors, jurors, and AICPA peer reviewers evaluate data and analytics-based substantive auditing procedures? *Current Issues in Auditing*, 16(2), P1–P8. <https://doi.org/10.2308/CIIA-2021-028>
- (iii) Ballou, B., Grenier, J. H., & Reffett, A. (2021) Stakeholder Perceptions of Data and Analytics Based Auditing Techniques, *Accounting Horizons*, 35(3), 47–68. <https://doi.org/10.2308/HORIZONS-19-116>
- (iv) Glover, S. M., Prawitt, D. F., & Drake, M. S. (2015). Between a rock and a hard place: A path forward for using SAPs in auditing large P&L accounts: Commentary and analysis. *Auditing: A Journal of Practice and Theory*, 34(3), 161–179. <https://doi.org/10.2308/ajpt-50978>
- (v) Glover, S. M., Prawitt, D. F., & Wilks, T. J. (2005). Why do auditors over-rely on weak analytical procedures? the role of outcome and precision. *Auditing: A Journal of Practice and Theory*, 24(Supplement), 197–220. <https://doi.org/10.2308/aud.2005.24.Supplement.197>
- (vi) Hirst, D.E. & Koonce, L. (1996) Audit Analytical Procedures: A Field Investigation, *Contemporary Accounting Research*, 13(2), 457–486.
- (vii) Hoitash, R., Kogan, A., and Vasarhelyi, M. A. (2006) Peer-Based Approaches for Analytical Procedures. *Auditing: A Journal of Practice and Theory*, 25 (2), 53–84. <https://doi.org/10.2308/aud.2006.25.2.53>
- (viii) Kinney, W.R. & Hanes, C.M. (1990) Analytical Procedure Results as Substantive Evidence, *Auditing Symposium X: Proceedings of the 1990 Deloitte & Touche/University of Kansas Symposium on Auditing Problems*, pp. 083–103
- (ix) Yoon, K., Kogan, A., Vasarhelyi, M. A., & Pearce, T. (2024). External nonfinancial measures in SAPs: Contributions of weather information. *The Journal of Information Systems*, 38(2), 143-162. <https://doi.org/10.2308/ISYS-2023-066>
- (x) Yoon, K., & Pearce, T. (2021). Can SAPs with data and data analytics replace sampling as tests of details? *Journal of Emerging Technologies in Accounting*, 18(2), 185–199. <https://doi.org/10.2308/JETA-19-03-23-10>

¹⁷ This list is not an exhaustive list of works consulted. Further relevant papers have also informed the IAASB's understanding of the matters to be addressed in this project.

(b) Internal Controls

- (i) Haislip, J. Z., Peters, G. F., & Richardson, V. J. (2016). The effect of auditor IT expertise on internal controls. *International Journal of Accounting Information Systems*, 20, 1–15. <https://doi.org/10.1016/j.accinf.2016.01.001>
- (ii) Haskins, M. E., & Dirsmith, M. W. (1995). Control and inherent risk assessments in client engagements: An examination of their interdependencies. *Journal of Accounting and Public Policy*, 14(1), 63–83. [https://doi.org/10.1016/0278-4254\(94\)00023-T](https://doi.org/10.1016/0278-4254(94)00023-T)
- (iii) Miller, T. C., Cipriano, M., & Ramsay, R. J. (2012). Do auditors assess inherent risk as if there are no controls? *Managerial Auditing Journal*, 27(5), 448–461. <https://doi.org/10.1108/02686901211227931>

(c) Auditor Judgment and Professional Skepticism

- (i) Lombardi, D. R., Sipior, J. C., & Dannemiller, S. (2023). Auditor judgment bias research: A 50-year trend analysis and emerging technology use. *The Journal of Information Systems*, 37(1), 109–141. <https://doi.org/10.2308/ISYS-2020-079>

(d) Technology

- (i) Ahmi, A., & Kent, S. (2012). The utilisation of generalized audit software (GAS) by external auditors. *Managerial Auditing Journal*, 28(2), 88–113. <https://doi.org/10.1108/02686901311284522>
- (ii) Bradford, M., Henderson, D., Baxter, R. J., & Navarro, P. (2020). Using generalized audit software to detect material misstatements, control deficiencies and fraud: How financial and IT auditors perceive net audit benefits. *Managerial Auditing Journal*, 35(4), 521–547. <https://doi.org/10.1108/MAJ-05-2019-2277>

Appendix 2

Reconciliation of Issues Presented in Agenda Item 6 of the March 2024 IAASB Meeting to the Revised Risk Response Issues in Agenda Item 6-B

1. To understand how the project team arrived at the revised schedule of issues and their description, this appendix presents two tables:
 - (a) Table 1 shows how the revised risk response issues presented in **Agenda Item 6-B** relate to the issues presented in [Agenda Item 6](#) of the March 2024 IAASB meeting, including the rationale for the changes; and
 - (b) Table 2 is a reference table of decisions made for each of the 29 issues presented in Agenda Item 6 of the March 2024 IAASB meeting.

Table 1: How the Revised Risk Response Issues Incorporate Issues Presented in March 2024

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
RR 1	Challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.	Issue #2 – Impact of Separately Assessing Inherent Risk and Control Risk on the Auditor’s Response to ROMM	The two issues from March both reflected specific examples of practical challenges arising from perceived misalignments between the requirements of ISA 315 (Revised 2019) and the requirements of ISA 330.
		Issue #18 – Misalignment Between the Level of Requirements to Understand the Entity’s System of Internal Control and the Control Testing Required	
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	Issue #6 – Questions About the Need to Apply an Integrated Lens to the Objectives of ISA 330 and Proposed ISA 500 (Revised)	These issues have been revised to focus on: <ul style="list-style-type: none"> The appropriate location of an overall stand-back requirement to evaluate 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.
		Issue #7 – Questions About the Need to Apply an Integrated Lens to a Stand-Back Requirement Relating to the Sufficiency and Appropriateness of Audit Evidence	

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
	proliferation of various stand-back requirements across the ISAs that may diminish their effectiveness.		<ul style="list-style-type: none"> The considerations whether there is a need for a subject matter-specific stand-back requirements in the ISAs (e.g., subject-specific stand-back requirements for accounting estimates, fraud or going concern).
RR 3	Difficulties with understanding the rationale for, and with operationalizing the requirement in ISA 330, paragraph 18.	Issue #1 – Scope of Work Related to ISA 330 Paragraph 18	
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 sufficient appropriate audit evidence.	Issue #16 – Insufficient Clarity About When to Test Relevant Controls Where Substantive Procedures Alone Cannot Provide Sufficient Appropriate Audit Evidence	The description of this issue has been revised to include an improved description of the underlying challenges presented in Issue #16.
RR 5	The effective design and performance of tests of controls.	Issue #17 – Ambiguity Relating to the Requirement to Obtain More Persuasive Audit Evidence When Placing Greater Reliance on the Effectiveness of Controls	An analysis of these issues highlighted that they relate to challenges with the consistent design and performance of tests of controls, and point to different aspects of ISA 330

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
		Issue #19 – Insufficient Clarity About How to Obtain Sufficient Appropriate Audit Evidence as to the Operating Effectiveness of Controls	that may benefit from clarifications to support enhancing the auditors' work in this area.
		Issue #21 – Insufficient Clarity of Requirements Relating to the Sufficiency of Audit Evidence When Testing Controls at an Interim Period	
RR 6	Applying requirements relating to the auditor's intended use of audit evidence about the operating effectiveness of controls obtained in previous audits.	Issue #22 – Insufficient Clarity about How to Use Audit Evidence About the Operating Effectiveness of Controls Obtained in Previous Periods	
RR 7	Various recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.	Issue #23 – Insufficient Clarity about How to Evaluate the Operating Effectiveness of Controls	The description of the issue has been changed and reflects that the underlying challenges identified relate to the evaluation of the results of tests of controls, rather than the evaluation of the operating effectiveness of the controls themselves. In particular, they relate to the inconsistent performance of further procedures that may be required based on the evaluation of the operating effectiveness of controls.
RR 8	Challenges with designing and performing SAPs, including the	Issue #24 – Varying Uses of the Term Analytical Procedures Throughout the ISAs	These issues relate to challenges with different aspects of performing SAPs.

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
	development of expectations, and determining the appropriateness of the threshold selected as the accepted amount of difference from the expectation.	<p>Issue #25 – Ambiguous Requirements and Application Material Relating to Developing Expectations</p> <p>Issue #26 – Ambiguous Requirements and Application Material Relating to Investigating of the Results of Variances</p>	While they may arise from different sources, including the increased availability of technology to be used in performing analytical procedures, these issues indicate that there remains an underlying practical challenge with applying the requirements in ISA 520.
RR 9	There have been challenges with appropriately designing and performing audit procedures that are used for more than one purpose (i.e., “multi-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.	<p>Issue #8 – Insufficient Guidance When the Use of ATT Allows for Multi-Purpose Procedures</p> <p>Issue #20 – Insufficient Clarity About How to Perform and Document Dual-Purpose Tests Appropriately</p>	<p>These issues were merged as they relate to challenges with concurrently designing and performing audit procedures for more than one purpose. For example:</p> <ul style="list-style-type: none"> • Risk assessment procedures under ISA 315 (Revised 2019) and further 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 (i.e., described as “dual-purpose tests” in paragraph A23 of ISA 330).
RR 10	The increased use of technology in performing substantive procedures has highlighted a lack of clear distinction between	Issue #9 – Ambiguity Relating to Whether Substantive Procedures Using ATT Are Considered Tests of Details or SAPs	These issues were merged as they relate to concerns raised, highlighted by the increased use of ATT in performing procedures, about a lack of

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
	a test of details and an SAP, and challenged whether such a distinction remains appropriate.	Issue #10 and #27 – Ambiguity Relating to Whether Audit Data Analytics is a Type of Audit Procedure or a Type of ATT	clarity, in the conceptual distinction between a test of details and an SAP, and the ongoing relevance of such a distinction in light of the ability of many tools to interrogate 100% of a population to obtain audit evidence.
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.	Issue #4 – Lack of Linkages in ISA 330 to the Description of the Term ATT in Proposed ISA 500 (Revised)	These issues were merged as they relate to the lack of authoritative material, including requirements in the ISAs, addressing the use of ATT in the design and performance of audit procedures.
		Issue #11 and #28 – Lack of Requirement(s) Addressing the Use of ATT	
		Part of Issue #15 – Need to Clarify Audit Considerations Relating to the Use of New or Emerging Technologies by the Entity or the Auditor	
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.	Issue #12 – Insufficient Guidance Relating to the Use of ATT When Selecting Items for Testing	These issues were merged as they relate to insufficient guidance regarding the auditor's use of ATT in designing and performing audit procedures.
		Issue #13 and #29 – Insufficient Guidance Addressing Exceptions / Outliers Identified When Using ATT	
RR 13	The use of new or emerging technologies (e.g., artificial intelligence, machine learning or robotics process automation), by	Part of Issue #15 – Need to Clarify Audit Considerations Relating to the Use of New or Emerging Technologies by the Entity or the Auditor	Part of Issue #15 relating to new or changing audit risks was bifurcated as a stand-alone issue.

Revised Risk Response Issues (see Agenda Item 6-B for detailed descriptions)		Issues Identified in Agenda Item 6 of the March 2024 IAASB Meeting	Rationale for Change
	management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks.		
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>Issue #14 – Need to Clarify the Expected Audit Documentation When Using ATT</p> <p>Issue #20 – Insufficient Clarity About How to Perform and Document Dual-Purpose Tests Appropriately</p>	These issues were merged as they relate to challenges regarding the expected documentation in ISA 330, for example, when using ATT and when performing dual-purpose tests.

Table 2: Quick-reference Guide to Decisions Made About Issues Presented in March 2024

Issues Presented in March 2024 in Agenda Item 6	Decisions Based on Further Understanding and Analysis of the Underlying Challenges in the Issues
Issue #1 – Scope of Work Related to ISA 330 Paragraph 18	Retained as standalone issue and presented as Revised Risk Response Issue #3.
Issue #2 – Impact of Separately Assessing Inherent Risk and Control Risk on the Auditor’s Response to ROMM	Retained, but combined with other issues and presented as Revised Risk Response Issue #1.

Issues Presented in March 2024 in Agenda Item 6	Decisions Based on Further Understanding and Analysis of the Underlying Challenges in the Issues
Issue #3 – Unclear How to Make ISA 330 Scalable	Not retained. Notwithstanding the validity and importance of concerns raised by certain stakeholders that there have been challenges with scaling the requirements of ISA 330, the project team is of the view that the scalability of the ISAs is a matter that is always taken into account when revising a standard in order to meet the qualitative characteristic of 'scalability' as set out in the PIF, and that a standalone issue about this matter is therefore not necessary.
Issue #4 – Lack of Linkages in ISA 330 to the Description of the Term ATT in Proposed ISA 500 (Revised)	Retained, but combined with other issues and presented as Revised Risk Response Issue #11.
Issue #5 – Lack of Linkages in ISA 330 to the Explanation of the Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence in Proposed ISA 500 (Revised)	Not retained. Notwithstanding the validity and importance of concerns raised by stakeholders who have identified areas where terms and concepts appear to not be fully aligned across the ISAs, the project team is of the view that the alignment of terms and concepts across the ISAs is a matter that is always taken into account when revising a standards in order to meet the qualitative characteristic of 'coherence' as set out in the PIF, and that a standalone issue about this matter is therefore not necessary.
Issue #6 – Questions About the Need to Apply an Integrated Lens to the Objectives of ISA 330 and Proposed ISA 500 (Revised) ¹⁸	Retained, but combined with other issues and presented as Revised Risk Response Issue #2.
Issue #7 – Questions About the Need to Apply an Integrated Lens to a Stand-Back Requirement Relating to the Sufficiency and Appropriateness of Audit Evidence	Retained, but combined with other issues and presented as Revised Risk Response Issue #2.
Issue #8 – Insufficient Guidance When the Use of ATT Allows for Multi-Purpose Procedures	Retained, but combined with other issues and presented as Revised Risk Response Issue #9.

Issues Presented in March 2024 in Agenda Item 6	Decisions Based on Further Understanding and Analysis of the Underlying Challenges in the Issues
Issue #9 – Ambiguity Relating to Whether Substantive Procedures Using ATT Are Considered Tests of Details or SAPs	Retained, but combined with other issues and presented as Revised Risk Response Issue #10.
Issue #10– Ambiguity Relating to Whether Audit Data Analytics is a Type of Audit Procedure or a Type of ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #10.
Issue #11 – Lack of Requirement(s) Addressing the Use of ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #11.
Issue #12 – Insufficient Guidance Relating to the Use of ATT When Selecting Items for Testing	Retained, but combined with other issues and presented as Revised Risk Response Issue #12.
Issue #13 – Insufficient Guidance Addressing Exceptions / Outliers Identified When Using ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #12.
Issue #14 – Need to Clarify the Expected Audit Documentation When Using ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #14.
Issue #15 – Need to Clarify Audit Considerations Relating to the Use of New or Emerging Technologies by the Entity or the Auditor	Retained, but combined with other issues and presented as Revised Risk Response Issues #11 and #13.
Issue #16 – Insufficient Clarity About When to Test Relevant Controls Where Substantive Procedures Alone Cannot Provide Sufficient Appropriate Audit Evidence	Retained as standalone issue and presented as Revised Risk Response Issue #4.
Issue #17 – Ambiguity Relating to the Requirement to Obtain More Persuasive Audit Evidence When Placing Greater Reliance on the Effectiveness of Controls	Retained, but combined with other issues and presented as Revised Risk Response Issue #5.
Issue #18 – Misalignment Between the Level of Requirements to Understand the Entity’s System of Internal Control and the Control Testing Required	Retained, but combined with other issues and presented as Revised Risk Response Issue #1.
Issue #19 – Insufficient Clarity About How to Obtain Sufficient Appropriate Audit Evidence as to the Operating Effectiveness of Controls	Retained, but combined with other issues and presented as Revised Risk Response Issue #5.
Issue #20 – Insufficient Clarity About How to Perform and Document Dual-Purpose Tests Appropriately	Retained, but combined with other issues and presented as Revised Risk Response Issues #9 and #14.

Issues Presented in March 2024 in Agenda Item 6	Decisions Based on Further Understanding and Analysis of the Underlying Challenges in the Issues
Issue #21 – Insufficient Clarity of Requirements Relating to the Sufficiency of Audit Evidence When Testing Controls at an Interim Period	Retained, but combined with other issues and presented as Revised Risk Response Issue #5.
Issue #22 – Insufficient Clarity about How to Use Audit Evidence About the Operating Effectiveness of Controls Obtained in Previous Periods	Retained as standalone issue and presented as Revised Risk Response Issue #6.
Issue #23 – Insufficient Clarity about How to Evaluate the Operating Effectiveness of Controls	Retained as standalone issue and presented as Revised Risk Response Issue #7.
Issue #24 – Varying Uses of the Term Analytical Procedures Throughout the ISAs	Retained, but combined with other issues and presented as Revised Risk Response Issue #8.
Issue #25 – Ambiguous Requirements and Application Material Relating to Developing Expectations	Retained, but combined with other issues and presented as Revised Risk Response Issue #8.
Issue #26 – Ambiguous Requirements and Application Material Relating to Investigating of the Results of Variances	Retained, but combined with other issues and presented as Revised Risk Response Issue #8.
Issue #27 – Ambiguity Relating to Whether Audit Data Analytics is a Type of Audit Procedure or a Type of ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #10.
Issue #28 – Lack of Requirement(s) Addressing the Use of ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #11.
Issue #29 – Insufficient Guidance Addressing Exceptions / Outliers Identified When Using ATT	Retained, but combined with other issues and presented as Revised Risk Response Issue #12.

Appendix 3

Integration of Issues in the Extant Approved Audit Evidence Project Proposal with the Identified Risk Response Issues in Agenda Item 6-B

1. This appendix sets out how the issues presented in the project proposal as presented in **Agenda Item 6-A** represent the integration¹⁹ as appropriate, of issues presented in the approved [Audit Evidence Project Proposal](#), and the issues identified by the project team related to risk response, as presented in **Agenda Item 6-B**.
2. The table below sets out the following:
 - (a) Project Proposal Issue # and Description: These columns include the issues as described in the draft project proposal in **Agenda Item 6-A**;
 - (b) Issues Presented in the Audit Evidence Project Proposal: Quoted or paraphrased descriptions of the matters identified as 'major issues that will be addressed' in paragraphs 29–45 of the approved Audit Evidence Project Proposal; and
 - (c) Revised Risk Response Issues: The streamlined issues relating to Risk Response as presented in **Agenda Item 6-B**.
3. The project team acknowledges that the understanding of the issues presented in the Audit Evidence Project Proposal approved in December 2020 evolved as the Audit Evidence Task Force developed ED-500, and further evolved as a result of comments received on ED-500, in arriving at the 'Pre-finalization Holding Package'. These further refinements have not been described in the column "Issues Presented in the Audit Evidence Project Proposal." However, these have been incorporated into the description of the issues and the proposed actions as set out in the project proposal (**Agenda Item 6-A**).

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
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	AEPP paragraphs 34 and 37 There is a lack of consistency in auditor judgments about the concept and evaluation of sufficient appropriate audit evidence. "Many of the audit evidence issues creating the most difficulties in practice are closely related to the concept	

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
	audit procedures.	<p>and evaluation of sufficient appropriate audit evidence.”</p> <p>“The evolution in the nature and sources (as well as volume) of information and the use of technology in designing and performing audit procedures have raised questions about the factors or attributes that are considered by the auditor in relation to information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.”</p>	
2	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>AEPP paragraphs 38 and 39</p> <p>There is a lack of consistency in auditor judgments about the reliability of information to be used as audit evidence when it is not produced by the entity.</p> <p>“ISA 500 addresses specific characteristics of the reliability of information produced by the entity that the auditor is required to evaluate [; but] such work effort is not specifically addressed in relation to information from other sources.”</p> <p>“There are challenges related to:</p> <ul style="list-style-type: none"> • Distinguishing between internal and external information (including whether the distinction between information obtained from internal 	

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
		<p>and external information sources is clear in the context of pre-existing concepts)</p> <ul style="list-style-type: none"> • Considering the reliability of external information, • Possible overreliance on information from certain sources, <p>Whether information to be used as audit evidence should be subject to consideration of the same factors or attributes and work effort, irrespective of its source, when considering its relevance and reliability.”</p>	
3	<p>Concerns about the appropriateness of professional skepticism exercised by auditors:</p> <ul style="list-style-type: none"> • When considering the reliability of information to be used as audit evidence; • In designing and performing further audit procedures responsive to the assessed risks of material misstatement; and • When evaluating and concluding on the sufficiency and appropriateness of audit evidence obtained. <p>In the context of further audit</p>	<p>AEPP paragraph 43</p> <p>“ISA 500 could more robustly address the need for professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained [...for example through a] focus on elaborating what the phrase ‘a critical assessment of evidence’ in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500).”</p>	<p>RR 8</p> <p>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>

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
	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.		
4	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 obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. There is also a proliferation of various stand-back requirements across the ISAs that may diminish their effectiveness.	<p>AEPP paragraph 31</p> <p>“... Questions have arisen about the purpose of ISA 500 in the context of the other ISAs, and in particular whether:</p> <ul style="list-style-type: none"> ISA 500 is intended to be a performance standard;²⁰ as opposed to a standard designed to provide context for auditor performance requirements in other standards; and <p>The objective of the standard is sufficiently distinct from the objective in ISA 330.”</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 across the ISAs that may diminish their effectiveness.
5	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		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

²⁰ For example, the objective of ISA 500 indicates that ‘the objective of the auditor is to design and perform audit procedures,’ and paragraph 6 requires the auditor to ‘design and perform audit procedures.’

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
	substantive procedures alone are unable to provide sufficient appropriate audit evidence.		where substantive procedures alone are unable to provide sufficient appropriate audit evidence.
6	The effective design and performance of tests of controls.		RR 5: The effective design and performance of tests of controls.
7	Applying requirements relating to the auditor's intended use of audit evidence about the operating effectiveness of controls obtained in previous audits.		RR 6: Applying requirements relating to the auditor's intended use of audit evidence about the operating effectiveness of controls obtained in previous audits.
8	Various recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.		RR 7: Various recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.
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"> • Apply if the auditor uses technology in designing and performing audit procedures. • Address instances where the auditor cannot 	<p>AEPP paragraph 42</p> <p>“...challenges arising from the continual developments in technology, for example technology enabling the auditor to use information from a wider range of sources, the use of innovative audit techniques to obtain, prepare or analyze information, and to process and consider increasing volumes of information and data...”</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.

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
	obtain sufficient appropriate audit evidence without using technology.		
10	<p>Questions have been raised about where audit procedures performed using ATTs 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 performing audit procedures that are used for more than one purpose.</p>	<p>AEPP paragraph 40</p> <p>“New technologies have raised questions about where audit procedures performed using ATTs fit within:</p> <ul style="list-style-type: none"> • The types of audit procedures that may be performed (i.e., inspection, observation, inquiry etc.); and • The nature of audit procedures (i.e., risk assessment procedures or further audit procedures comprising tests of controls and substantive procedures). <p>In addition, questions are being asked about whether an audit procedure could be both a risk assessment procedure and a further audit procedure at the same time. This question is particularly relevant, but not limited, to circumstances where the auditor uses automated tools and techniques.”</p> <p>AEPP paragraph 41</p> <p>“... It was therefore questioned, for example:</p> <ul style="list-style-type: none"> • Under which conditions (if any) do risk assessment 	<p>RR 9: There have been challenges with appropriately designing and performing audit procedures that are used for more than one purpose (i.e., “multi-purpose procedures” and “dual-purpose tests”), which have been magnified by, though do not exclusively arise from, the increased use of ATT by auditors.</p>

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
		<p>procedures reduce risks of material misstatement to an acceptably low level; and</p> <ul style="list-style-type: none"> Can data analytics be designed in such a way to simultaneously serve the purpose of identifying and assessing risks of material misstatement and detecting material misstatements at the assertion level (and if so, when and how) ...” 	
11	The increased use of technology in performing procedures has highlighted a lack of clear distinction between a test of details and an SAP, and challenged whether such a distinction remains appropriate.		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.
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>AEPP paragraph 42 “...challenges arising from the continual developments in technology... include:</p> <ul style="list-style-type: none"> ... Whether the standard remains relevant and appropriate in relation to the selection of items for testing. The required work effort to follow up on exceptions identified 	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.

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
		when using automated tools and techniques in performing audit procedures.”	
13	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, which stakeholders view as not sufficiently addressed in the ISAs.	<p>AEPP paragraph 42</p> <p>“...challenges arising from the continual developments in technology... include:</p> <ul style="list-style-type: none"> • The impact of technology in relation to sources of information and whether and how the risk of the auditor over-relying on technology should be addressed or clarified. • ...” 	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.
14	Challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.		RR 1: Challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.
15	Difficulties with understanding the rationale for, and operationalizing the requirement in ISA 330, paragraph 18.		RR 3: Difficulties with understanding the rationale for, and with operationalizing the requirement in ISA 330, paragraph 18.
16	Insufficient clarity about the expected audit documentation when using ATT in designing and performing audit procedures, as well as when designing and performing audit		RR 14: Insufficient clarity about the expected audit documentation when using ATT in designing and performing audit procedures, as well as when designing and

Project Proposal Issue # and Description (refer to Agenda Item 6-A)		Source of Issue	
		Issues Presented in the Audit Evidence Project Proposal (AEPP)	Revised Risk Response Issues (refer to Agenda Item 6-B)
	procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).		performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).

Appendix 4

Staff and Focus Group Members and Activities

IAASB Staff Contacts

1. The IAASB contacts consists of the following staff:
 - Ana Espinal-Rae
 - Megan Leicht
 - Hankenson Jane L. Talatala
 - Jasper van den Hout

Focus Group Members

2. The Focus Group consists of the following members:
 - Julie Corden
 - Vishal Doshi
 - Sachiko Kai
 - Edo Kienhuis
 - Warren Maroun

Focus Group Activities

3. The Focus Group held three virtual meetings in April, June and August 2024, as well as one in-person meeting in July 2024.