

Audit Evidence and Risk Response

Agenda Item 7

IAASB March 2025 meeting



Meet the Team

IAASB Staff



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'Stand-Back' Requirements

Issues identified

- **Insufficient clarity** about how 'stand-backs' work together
- **Perceived proliferation** of 'stand-backs' across the ISAs

Proposed actions

- Determine how, and to what extent, to **integrate and clarify the 'stand-backs'**
- **Highlight the role of 'stand-backs'** in exercising professional skepticism and professional judgment

Views and recommendations – Criteria to determine the purpose of 'stand-backs'



Criteria 1: Sets an explicit expectation for the auditor to **reevaluate a judgment previously made** (or matter previously determined) in the course of the audit



Criteria 2: 'Checkpoint' for the auditor to conclude or evaluate whether they have enough to move forward in the audit

Views and recommendations – Scope of 'stand-backs'

- More complex areas of the audit
- When addressing special considerations
- Pervasive matters to the financial statements as a whole

Other considerations

- Strong work effort
- Opportunities for enhancement

Matters for IAASB Consideration

Question 1:

The Board is asked for its views on Staff's recommendations discussed in **Section I of Agenda Item 7**. In particular:

- a) Does the Board agree that the **identifying criteria** set out in paragraph 24(a)–(b) of Agenda Item 7 are appropriate to use in determining the need for a 'stand-back' requirement in the ISAs?
- b) Does the Board believe that it is necessary to identify **other criteria** for determining the need for a 'stand-back' requirement to address the requirements set out in paragraph 23(c) of Agenda Item 7?
- c) The **scope of 'stand-back' requirements**, including the identified circumstances when it may be appropriate to consider including subject matter-specific 'stand-back' requirements in the ISAs (see paragraphs 30–34 of Agenda Item 7).
- d) The **other considerations** discussed in paragraphs 35–38 of Agenda Item 7.

'Stand-Back' Requirements

Issue identified

- **Misalignment** between the 'stand-back' in paragraph 26 and the objective of ISA 330

Proposed action

- Determine whether the 'stand-back' in paragraph 26 of ISA 330 needs to be **clarified, retained, or relocated to another ISA** (e.g., ISA 500 or ISA 700 (Revised))

Views and recommendations – Alternative placement for paragraph 26 of ISA 330



Option 1: Relocate to Proposed ISA 500 (Revised)

Anchoring the conclusion on whether sufficient appropriate audit evidence (SAAE) has been obtained into Proposed ISA 500 (Revised)



Option 2: Relocate to ISA 700 (Revised)

Anchoring the conclusion on whether SAAE has been obtained into ISA 700 (Revised)



Option 3: Relocate to ISA 700 (Revised)

Anchoring the conclusion on whether SAAE has been obtained into ISA 700 (Revised), supported by an evaluation of the sufficiency and appropriateness of audit evidence obtained at the audit procedure(s) level in Proposed ISA 500 (Revised)

Matter for IAASB Consideration

Question 2:

The Board is asked to **determine which Option** is optimal to proceed with as placement for paragraph 26 of ISA 330.



An Audit Procedure Used for More Than One Purpose

Issue identified

- **Challenges** with appropriately designing and performing audit procedures for more than one purpose

Proposed action

- Strengthen and clarify, as appropriate, multi-purpose procedure or dual-purpose tests

Analysis of ‘audit procedures’ in the ISAs

- Nature of an audit procedure refers to its **purpose** and **type**
- The ISAs allow for the possibility that an audit procedure may achieve more than one purpose:
 - Dual-purpose test
 - “*Multi-purpose procedure*”

Views and recommendations



Consolidating terminology under a broad notion of ‘an audit procedure used for more than one purpose’



Introduce a requirement to evaluate separately whether the audit evidence obtained meets each intended purpose

Matters for IAASB Consideration

Question 3:

The Board is asked for its views on Staff's recommendations discussed in **Section II of Agenda Item 7**. In particular:

- a) **Consolidating extant terminology** and descriptions under a broad notion of “an audit procedure used for more than one purpose.”
- b) **Introducing a requirement** to specify the auditor's responsibilities when using an audit procedure for more than one purpose.



Automated Tools and Techniques (ATT)

Issues identified

- **Lack of clarity** in technology-related terms used in the ISAs
- Whether the term “ATT” is **appropriate to use** and whether its description is **sufficiently clear** as to what it applies to

Proposed actions

- **Enhance the consistency** of terms, including those related to technology, across ISA 330, ISA 500 and ISA 520
- Consider replacing the term “ATT,” **develop a definition or description** of the term and describe what types of technologies are within the scope of that term

Views and recommendations



Placement of the description of [ATT] in ISA 220 (Revised) to reflect that [ATT] has a broader use on audit engagements



Refinements to the description of [ATT] with examples of inclusion and exclusion

Matters for IAASB Consideration

Question 4:

The Board is asked for its views on Staff's recommendations discussed in **Section III of Agenda Item 7**. In particular:

- a) The proposed **placement** of the description for the term ATT in **ISA 220 (Revised)**.
- b) The proposed **refinements to the description** of ATT discussed in paragraph 101 of Agenda Item 7.



Material Classes of Transactions, Account Balances, and Disclosures (COTABDs)

Issue identified

- Difficulties with understanding the rationale for, and operationalizing, the requirement in paragraph 18 of ISA 330

Proposed action

- Explore a way forward with respect to paragraph 18 of ISA 330.

Views and recommendations



Safety net rationale applies broadly to address the needs of stakeholders



Intend to undertake additional outreach to obtain **user perspective**

Matter for IAASB Consideration

Question 5:

The Board is asked for its views on whether there are any other matters that should be considered in relation to the requirement in paragraph 18 of ISA 330, as discussed in **Section IV of Agenda Item 7**.

This may relate to the technical issues highlighted or how best to approach the additional outreach that the project team plans to undertake.



Tests of Controls

Issue identified

- Overarching issue with the auditor's **work on internal control**

Proposed action

- **Explore enhancements** to the standards relating to the design of further audit procedures, to determine **whether the use of tests of controls is appropriate** or needed in response to assessed risks of material misstatement

Views and Recommendations

There may be circumstances where tests of controls alone could address a ROMM at the assertion level. Examples:



The **combination of the level** of assessed inherent risk, and the **reason(s) given** for the assessment



Characteristics of the **entity's control environment** or of those **controls** that the auditor has determined to test



The **responsiveness and precision** of controls



The **nature** of assertions and their **susceptibility to misstatements**

Matters for IAASB Consideration

Question 6:

The Board is asked for its views on Staff's recommendations discussed in **Section V** of **Agenda Item 7**. In particular:

- a) Does the Board agree that tests of controls alone may in certain circumstances provide sufficient appropriate audit evidence at the assertion level?
- b) Any specific matters that Staff should consider in undertaking the further work on tests of controls highlighted in paragraph 130 of Agenda Item 7.



Substantive Procedures

Issue identified

- **Appropriateness of the distinction** between a test of details and a substantive analytical procedure (SAP)

Proposed action

- **Explore whether the distinction** between a test of details and an SAP **remains appropriate**, including whether the use of technology to enhance the precision and scope of SAPs could provide SAAE to respond to a significant risk

Comparative analysis of the following key features of tests of details and SAPs

- Description of the procedure
- Level of disaggregation
- Reference point
- Information used
- Evaluation of the results

Views and recommendations



Distinction between a test of details and an SAP **remains appropriate**



Distinction remains appropriate **irrespective of whether the auditor uses (or does not use) technology** to perform SAPs



SAPs are **insufficient by themselves** to provide SAAE to **respond to a significant risk**

Matters for IAASB Consideration

Question 7:

The Board is asked for its views on Staff's recommendations discussed in **Section VI** of **Agenda Item 7**. In particular:

- a) The recommendation that the distinction between a test of details and substantive analytical procedures remains appropriate, irrespective of whether technology is used to perform the procedures.
- b) The recommendation that substantive analytical procedures alone could not provide sufficient appropriate audit evidence to respond to a significant risk.



Professional Skepticism

Issue identified

- Need to **strengthen and enhance** the in-scope standards to support the appropriate exercise of professional skepticism

Proposed action

- Strengthen and enhance the in-scope standards to support the exercise of professional skepticism.

Views and recommendations



Design and perform further audit procedures in an **unbiased manner** in ISA 330



Evaluating the SAAE from **further audit procedures**

Consider all audit evidence in evaluating whether SAAE has been obtained in ISA 330

Matters for IAASB Consideration

Question 8:

The Board is asked for its views on Staff's recommendations for addressing professional skepticism discussed in **Section VII of Agenda Item 7**. In particular:

- a) A requirement in ISA 330 as discussed in paragraph 153 of Agenda Item 7 to design and perform further audit procedures in an unbiased manner.
- b) Requirements in ISA 330 as discussed in paragraphs 154–155 of Agenda Item 7 to evaluate whether sufficient appropriate audit evidence has been obtained and to consider all evidence obtained, including consistent or inconsistent, and regardless of whether corroborative or contradictory.



Way Forward

