

Preliminary Drafting for the Positioning of Paragraph 26 of ISA 330

This Agenda Item sets out the preliminary drafting, in mark-up from extant, for the affected ISAs to operationalize Option 3 as determined by the Board in March 2025.

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

Requirements

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Overall Evaluation Based on Audit Procedures Performed

54. In applying ISA 330,¹ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:
- (a) The assessments of the risks of material misstatement due to fraud remain appropriate; and
 - (b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

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

Requirements

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Identifying and Assessing the Risks of Material Misstatement (Ref: Para. A184–A185)

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall ~~take into account~~consider all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions made by management. (Ref: Para. A230–A232)

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¹ ISA 330, paragraphs 25–25B6, A62–A634

Application and Other Explanatory Material

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Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28-37)

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures (Ref: Para. 35)

Why the Auditor Evaluates the Audit Evidence from the Risk Assessment Procedures

A230. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risks of material misstatement. This provides the basis for the auditor's design of the nature, timing and extent of further audit procedures responsive to the assessed risks of material misstatement, at the assertion level, in accordance with ISA 330. Accordingly, the audit evidence obtained from the risk assessment procedures provides a basis for the identification and assessment of risks of material misstatement whether due to fraud or error, at the financial statement and assertion levels.

The Evaluation of the Audit Evidence

A231. Audit evidence from risk assessment procedures comprises both evidence that may ~~information that supports and corroborates, the management's assertions, made by management, or evidence and any information that may~~ contradicts such assertions.²

Professional Skepticism

A232. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether there is any evidence that is contradictory that may indicate a risk of material misstatement.

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ISA 330, *The Auditor's Responses to Assessed Risks*

Objective

6. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

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² Proposed ISA 500 (Revised), paragraph A12C4

Requirements

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Evaluating the Sufficiency and Appropriateness of Audit Evidence

25. Based on the **further** audit procedures performed and the audit evidence obtained, the auditor shall evaluate ~~before the conclusion of the audit~~ whether the assessments of the risks of material misstatement at the assertion level remain appropriate. (Ref: Para. A62–A63)

25A. The auditor shall evaluate whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement.

25B. In making the evaluation required by paragraph 25A, the auditor shall consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

26. [Moved to Para. 11A of ISA 700 (Revised)]

27. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to ~~do so obtain sufficient appropriate audit evidence,~~ the auditor shall consider the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).³ ~~express a qualified opinion or disclaim an opinion on the financial statements.~~

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Application Material and Other Explanatory Material

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Evaluating the Sufficiency and Appropriateness of Audit Evidence

- A62. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgment about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.

³ ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

- Analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognized risk of material misstatement.

In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement and the effect on the significant classes of transactions, account balances, or disclosures and their relevant assertions. ISA 315 (Revised 2019) contains further guidance on revising the auditor's risk assessment.⁴

A63. The auditor cannot assume that an instance of fraud or error is an isolated occurrence. Therefore, the consideration of how the detection of a misstatement affects the assessed risks of material misstatement is important in determining whether the assessment remains appropriate.

A64. [Moved to Para. A0B of ISA 700 (Revised)]

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Proposed ISA 500 (Revised), *Audit Evidence*

Objective

3. The objective of the auditor is to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence.

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ISA 505, *External Confirmations*

Requirements

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Evaluating the Evidence Obtained

16. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary. (Ref: Para A24–A25)

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Application Material and Other Explanatory Material

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⁴ ISA 315 (Revised 2019), paragraph 37

Evaluating the Evidence Obtained (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

A25. The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether further audit evidence is necessary, as required by ISA ~~700 (Revised)~~330.⁵

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

Requirements

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Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA 330 to accounting estimates,⁶ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)

- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
- (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
- (c) Sufficient appropriate audit evidence has been obtained.

34. In making the evaluation required by paragraph 33(c), ~~the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.~~⁷ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).⁸

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⁵ ISA ~~700 (Revised)~~330, *Forming an Opinion and Reporting on Financial Statements*, paragraphs ~~11A~~26–27

⁶ ISA 330, paragraphs 25–~~25B~~6

⁷ ~~ISA 500, paragraph 11~~

⁸ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Application Material and Other Explanatory Material

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Overall Evaluation Based on Audit Procedures Performed

A137. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures.⁹ In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.¹⁰

A138. With respect to accounting estimates that have not been recognized, a particular focus of the auditor's evaluation may be on whether the recognition criteria of the applicable financial reporting framework have in fact been met. When an accounting estimate has not been recognized, and the auditor concludes that this treatment is appropriate, some financial reporting frameworks may require disclosure of the circumstances in the notes to the financial statements.

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ISA 570 (Revised 2024), *Going Concern*

Requirements

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Evaluating the Audit Evidence Obtained and Concluding

30. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. In doing so, the auditor shall: (Ref: Para. A67)
- (a) Evaluate whether the judgments and decisions made by management in making its assessment of the entity's ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. (Ref: Para. A68–A71)

⁹ ISA 330, paragraph A62

¹⁰ See also ISA 315 (Revised 2019), paragraph 37.

- (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

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Application Material and Other Explanatory Material

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Evaluating the Audit Evidence Obtained and Concluding (Ref: Para. 30–31)

A67. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, in accordance with ISA 705 (Revised) the auditor is required to consider the implications for the audit.

Indicators of Possible Management Bias (Ref: Para. 30)

A68. The susceptibility to management bias, whether intentional or unintentional, may increase with the degree of estimation uncertainty, complexity and subjectivity in management's assessment of the entity's ability to continue as a going concern.

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

Requirements

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Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying ISA ~~330~~ 700 (Revised),¹¹ the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151–A155)

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Application Material and Other Explanatory Material

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¹¹ ISA 700 (Revised)~~330~~, Forming an Opinion and Reporting on Financial Statements, paragraph 11A26

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 51)

A151. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The misstatements identified at a component may need to be considered in relation to other components; or
- The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

In such circumstances, the group auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related assertions.

A152. The evaluation required by paragraph 51 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330¹² for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

A153. The group auditor may consider the engagement team's exercise of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to:

- Obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability;
- Obtain less persuasive evidence than is necessary in the circumstances; or
- Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

A154. ISA 220 (Revised)¹³ requires the engagement partner to determine, on or before the date of the auditor's report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. Information that may be relevant to the group auditor's evaluation

¹² ISA 330, paragraph 18

¹³ ISA 220 (Revised), paragraph 32

of the audit evidence obtained from the work performed by component auditors depends on the facts and circumstances of the group audit, and may include:

- The communications from the component auditors required by paragraph 45, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit;
- Other communications from the component auditors throughout the group audit, including those required by paragraph 32; and
- The group auditor's direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 47.

A155. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor

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ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Objective

6. The objectives of the auditor are:
- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) To express clearly that opinion through a written report.

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Requirements

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Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{14,15}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material

¹⁴ ISA 200, paragraph 11

¹⁵ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

misstatement, whether due to fraud or error. That conclusion shall take into account:

- (a) The auditor's conclusion, in accordance with ~~ISA 330~~ paragraph 11A, whether sufficient appropriate audit evidence has been obtained;⁴⁶
- (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹⁷ and
- (c) The evaluations required by paragraphs 12–15.

11A. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all ~~relevant~~ audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. ~~A0–A0CA64~~)

[Moved from Para. 26 of ISA 330]

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)

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Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
- (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

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Application and Other Explanatory Material

Concluding on the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 11A)

A0. As explained in ISA 200, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material

⁴⁶ ~~ISA 330, The Auditor's Responses to Assessed Risks, paragraph 26~~

¹⁷ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

misstatement, whether due to fraud or error.¹⁸ Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.¹⁹

A0A. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.²⁰

A0B. The auditor's professional judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of the available information.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

[Moved from Para. A64 of ISA 330]

A0C. The auditor is required to use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to evaluate whether sufficient appropriate audit evidence has been obtained.²¹ Other relevant ISAs also establish separate evaluations of the audit evidence obtained throughout the audit to support the auditor in concluding whether sufficient appropriate audit evidence has been obtained. Appendix 1 lists the other ISAs that contain separate evaluations of the audit evidence obtained.

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.

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¹⁸ ISA 200, paragraph 5

¹⁹ ISA 200, paragraph 17

²⁰ ISA 200, paragraph A34

²¹ ISA 200, paragraph 21(b)

Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using an electronic medium.

A19. ~~The~~ Appendix 2 to this ISA contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 21–49. With the exception of the Opinion and Basis for Opinion sections, this ISA does not establish requirements for ordering the elements of the auditor's report. However, this ISA requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in ~~the~~ Appendix 2 to this ISA.

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Appendix 1 (Ref: Para. A0C)

Separate Evaluations of the Audit Evidence Obtained in Other ISAs

This appendix identifies paragraphs in other ISAs that contain requirements to evaluate the audit evidence obtained. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 54
- ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 35
- ISA 330, *The Auditor's Responses to Assessed Risks* – paragraph 25A
- ISA 505, *External Confirmations* – paragraph 16
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 33(c)
- ISA 570 (Revised 2024), *Going Concern* – paragraph 30
- ISA 600 (Revised), *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 51

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Appendix 2 (Ref: Para. A19)

Illustrations of Independent Auditor's Reports on Financial Statements

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