

Audit Evidence & Risk Response (AE&RR) – Alignment with Concepts of ISA 315 (Revised 2019)¹

This Agenda Item sets out Staff's views and recommendations related to alignment matters in ISA 330² arising from the revisions of ISA 315 (Revised 2019).

Background

1. The IAASB project to revise ISA 315 (Revised 2019) was a comprehensive revision of the standard to support a robust identification and assessment of the risks of material misstatement (ROMM) at the financial statement and assertion level. The approved revisions included introducing new concepts, terminology, and strengthened requirements and application material. Notwithstanding conforming and consequential amendments to other ISAs, including ISA 330, at the time, stakeholders have noted certain challenges which are driving a need to clarify how such concepts and revisions are linked to the work effort performed under ISA 330 when designing and implementing responses to ROMM.

AE&RR Project Proposal – Proposed Action(s)

2. The AE&RR project proposal includes actions to clarify how the requirements of ISA 330 reflect or are linked to the work effort performed as part of the auditor's risk identification and assessment under ISA 315 (Revised 2019). In addition, there is a general action to improve the alignment of terms and concepts between ISA 330 and ISA 315 (Revised 2019) to increase the coherence of the suite of ISAs.³

Separate Consideration of Inherent and Control Risk, and the Spectrum of Inherent Risk

3. ISA 315 (Revised 2019) requires a separate assessment of inherent risk and control risk for the identified ROMM at the assertion level to provide a basis for designing and performing further audit procedures to respond to the assessed ROMM at the assertion level in accordance with ISA 330.⁴ The requirements for assessing ROMM at the assertion level are in paragraphs 31–33 (for inherent risk) and paragraph 34 (for controls risk) of ISA 315 (Revised 2019). In relation to inherent risk specifically, ISA 315 (Revised 2019) specifies that the assessed *inherent risk* relating to a particular ROMM at the assertion level 'represents a judgment within a range, from lower to higher, on the *spectrum of inherent risk*',⁵ and that 'the auditor's assessment of *inherent risk* is appropriate' when the design and implementation of further audit procedures to address the identified ROMM at the

¹ International Standard on Auditing (ISA) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

² ISA 330, *The Auditor's Responses to Assessed Risks*

³ See Actions B.16 and B.17 of **Agenda Item 9–I**.

⁴ See ISA 200, *Overall Objectives of The Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A44 and ISA 315 (Revised 2019), paragraph 5. Paragraph A44 of ISA 200 also explains that the ISAs typically refer to the 'risks of material misstatement,' rather than to inherent risk and control risk separately.

⁵ ISA 315 (Revised 2019), paragraph A209.

assertion level 'is appropriately responsive to the *assessment of inherent risk* and the reasons for that assessment.'⁶

4. ISA 330 requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed ROMM at the assertion level.⁷ While a consideration of inherent and control risk separately is captured in paragraph 7 of ISA 330, which requires the auditor to consider the reasons for the assessment given to a ROMM at the assertion level for each significant class of transactions, account balance and disclosure (COTABD), the linkage between the assessment of inherent risk on a spectrum of risk, the assessment of control risk, and the design and performance of further audit procedures may be insufficiently clear.
5. As illustrated in the box below, Staff propose to improve the alignment between the separate assessments of inherent risk and control risk required under ISA 315 (Revised 2019) and paragraph 7 of ISA 330. Staff are also of the view that this proposed change more clearly supports the relationship between the auditor's assessment of control risk related to a relevant assertion, and the auditor's decision to design and perform tests of controls. Additionally, it establishes the linkage between the auditor's assessment of inherent risk on a spectrum, and the persuasiveness of the audit evidence that is required to appropriately address the risk. Further, it supports the conciseness of the standard (in view of the apparent repetition between subparagraph 7(a)(ii) and 8(a) of ISA 330), and its clarity, through the use of more direct language.

7. In designing the further audit procedures to be performed, the auditor shall:
 - (a) Consider the reasons for the auditor's assessment of inherent risk for each relevant assertion given to the risk of material misstatement at the assertion level for each of a significant class of transactions, account balance, and disclosure, including the likelihood and magnitude of misstatement in accordance with ISA 315 (Revised 2019).⁸:
 - ~~(i) The likelihood and magnitude of due to the particular characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and~~
 - ~~(ii) Whether the risk assessment takes account of controls that address the risk of material misstatement (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and~~
 - (b) Consider the assessment of control risk made in accordance with ISA 315 (Revised 2019);⁹ and (Ref: Para. A9–A18)
 - ~~(b)~~ (c) Plan to Obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. (Ref: Para. A19)

⁶ ISA 315 (Revised 2019), paragraph A214

⁷ ISA 330, paragraph 6

⁸ ISA 315 (Revised 2019), paragraph 31

⁹ ISA 315 (Revised 2019), paragraph 34

Further Work for Alignment with Concepts of ISA 315 (Revised 2019)

6. In addition to the proposed revisions for paragraph 7 of ISA 330 discussed above, and subject to the Board's views in September 2025, Staff also intend to enhance related application material in paragraphs A9–A19 of ISA 330.
7. In addition, post September 2025, Staff will continue to progress the work on addressing the alignment of ISA 330 with concepts of ISA 315 (Revised 2019) which will be presented to the Board in due course. Such work includes, for example, providing clarity for the references to the auditor 'relying' or 'placing reliance' on controls in ISA 330 versus terminology used in paragraph 34 of ISA 315 (Revised 2019) about the auditor planning to test the operating effectiveness of controls.

Matter for IAASB Consideration:

1. The Board is asked for their views on Staff's views and recommendations discussed in paragraphs 3–5 above, including the proposed drafting presented in paragraph 5.