

Audit Evidence and Risk Response (AE&RR) – Material Classes of Transactions, Account Balances, and Disclosures (COTABDs)

This Agenda Item sets out the key messages from the stakeholder feedback received from the outreach for the auditors work for material COTABDs that are not determined to be significant COTABDs,¹ and the related Staff's views and recommendations on a way forward.

Background

AE&RR Project Proposal – Proposed Action(s)

1. Paragraph 18 of ISA 330² requires the auditor to design and perform substantive procedures for each material COTABD, irrespective of the assessed risks of material misstatement (ROMM). To comply with this requirement, even if the auditor has not identified a ROMM for a COTABD that is nevertheless material,³ the auditor would need to consider the aspects of the COTABD that could most likely give rise to a material misstatement(s), if such misstatement(s) were to occur.⁴
2. During information gathering, there have been a range of views from different stakeholder groups on whether paragraph 18 of ISA 330 remains appropriate, in view of difficulties with understanding the rationale for, and operationalizing the requirement. The AE&RR project proposal includes actions to explore a way forward with respect to paragraph 18 of ISA 330, taking into account the decisions made with respect to this paragraph when developing ISA 315 (Revised 2019). This may include alternative proposals for this requirement (referred to as a 'safety net'⁵), or if determined that paragraph 18 of ISA 330 remains appropriate, clarify its intent and rationale.⁶

Previous IAAAB Deliberations

3. In March 2025, the Board supported Staff undertaking further outreach with stakeholders, including with users of financial statements, on the auditor's work for material COTABDs. In doing so, the Board directed Staff to gather insights on a range of matters, including about the nature, size and frequency of material COTABDs identified in audit engagements and whether material COTABDs occur more frequently in particular types of audit engagements.

Paragraph 18 of ISA 330

4. Paragraph 18 of ISA 330 applies in two circumstances, as follows:

¹ For the purpose of this Agenda Item, material COTABDs that are not determined to be significant COTABDs is referred to in an abbreviated manner as 'material COTABDs'.

² International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*

³ See ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph A233.

⁴ See ISA 330, paragraphs A43–A44.

⁵ In previous IAASB deliberations, this requirement has colloquially been referred to as a 'safety net' because it sets an obligation to design and perform substantive procedures for each material COTABD irrespective of the assessed ROMM.

⁶ See Actions B.18–B.19 of **Agenda Item 9–I**.

- (a) When the auditor has determined that a material COTABD is not a significant COTABD.⁷
- (b) When further audit procedures for a significant COTABD do not include substantive procedures (i.e., when they include only tests of controls).

Application material explains that the requirement reflects the fact that: (i) the auditor's assessment of risk is judgmental and so may not identify all ROMM, and (ii) there are inherent limitations to controls, including management override.⁸

Overview of the Feedback from Outreach Activities

Stakeholder Engagement

5. Since March 2025, Staff have engaged with a broad range of stakeholder groups to obtain views on paragraph 18 of ISA 330, including focused discussions with users of financial statements, regulators, audit firms, Forum of Firms (FoF) representatives, Jurisdictional Standard Setters (JSS) and with members of the Small and Medium Practices Advisory Group (SMPAG). In addition, this topic was discussed among participants at a roundtable in July 2025 with a diverse stakeholder representation. The roundtable convened representatives from the audit oversight and regulatory community and the auditing profession to discuss varying stakeholder perspectives for selected topics being considered under the project and to inform future actions of the IAASB.

Highlights from the Feedback⁹

Frequency, Nature and Size of Material COTABDs

- Material COTABDs are not widespread on audit engagements. However, they do surface more commonly than the 'likely rare' scenario.
- Their size varies and in some cases such balances can be just above performance materiality while in others could be multiples of performance materiality.
- Typically, material COTABDs are balance sheet items that don't have a lot of activity, such as land, equity balances without year-on-year changes or prepayments. However, they can also be income statement items, such as certain revenue streams, performance bonuses, other expenses or cost of goods sold.
- Material COTABDs vary from engagement to engagement, based on facts and circumstances. Examples of instances where they may surface more commonly may be an audit of a parent company accounts and on smaller or less complex entity audits.
- A factor that could drive the volume of material COTABDs on audit engagements is the level of aggregation at which significant COTABDs are being determined. For example, revenue may be disaggregated based on a number of criteria, such as by the type of customer, by product or

⁷ A significant COTABD is one for which there is one or more relevant assertions. A relevant assertion is an assertion about a COTABD which has an identified ROMM. Thus, while a significant COTABD is always material, there may be a material COTABD for which no relevant assertions have been identified (i.e., a material COTABD that is not determined to be a significant COTABD).

⁸ See ISA 330, paragraph A43.

⁹ Refer to **Agenda Item 9** for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

service, geographical location or sales channel.

Risk-Based Approach

- Strong support among all stakeholder groups for requiring more work over financial statement items where ROMMs are identified and assessed (i.e., a risk-based audit model).
- Clear and consistent documentation to support auditor's professional judgments when identifying and assessing ROMM was noted as critical by some stakeholder groups (e.g., from outreach with users of financial statements).

The Notion of a 'Safety Net'

- There remains a range of views on the appropriateness of having a 'safety net' in the standards that requires designing and performing substantive procedures for each material COTABD irrespective of the assessed ROMM. Some stakeholders:
 - Support a 'safety net' on the basis of concerns about imperfect risk assessment. For example, auditors may recognize that a COTABD is strategically or operationally significant to the entity (such as a major asset) but fail to appropriately identify the ROMM that exist for such COTABDs.
 - Agree that the requirement aligns with stakeholder expectations of work being performed for all material COTABDs because by their nature such items matter or are important to users, or because material balances are 'inherently risky.'
 - Believe the notion of a 'safety net' undermines the risk-based audit model as it requires substantive procedures to be performed irrespective of the auditor's judgment where ROMM exists.
 - Consider the requirement is not necessary given that ISA 315 (Revised 2019) already includes a 'stand-back' requirement for the auditor to evaluate whether the determination of material COTABDs not determined to be significant remains appropriate.

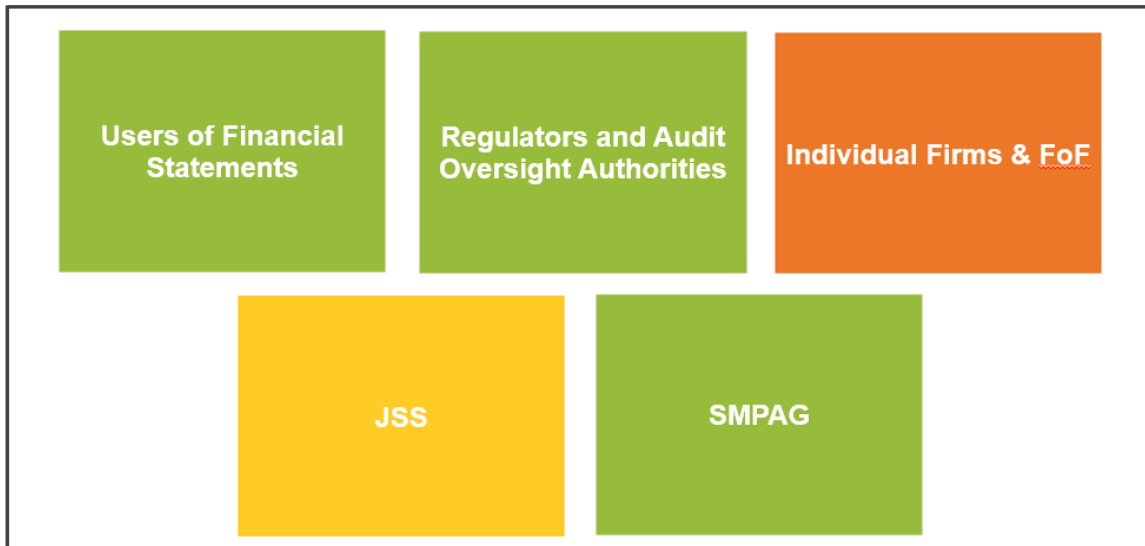
Alternatives to Substantive Procedures

- While stakeholders remained open minded to explore alternatives to substantive procedures for material COATBDs not determined as significant COATBDs, there was acknowledgment that in some instances substantive procedures would still be necessary (e.g., when internal controls are undocumented).

Staff Views and Recommendations

Heat Map

6. The chart below depicts a heat map illustrating the cumulative sentiment expressed by different stakeholder groups as noted from the outreach. It intends to provide a high-level steer on which stakeholder groups were supportive (or where there was lack of support) for requiring auditors to perform substantive procedures for material COTABDs. In the chart below, green indicates a supportive sentiment; yellow indicates mixed views (i.e., both views of support as well as those who disagree); and orange depicts overall lack of support.



Varying Stakeholder Perspectives

7. From the feedback, the majority of the users of financial statements and regulators, and the SMPAG members broadly supported performing audit procedures for material COTABDs. There were messages in the feedback from these respondents that emphasize the public interest value of auditors being required to do some level of substantive work on material COTABDs. In particular, users of financial statements broadly supported retaining the notion of a 'safety-net' in some shape or form in the standards, including comments that this approach is useful because it aligns with user expectations who are looking for comfort that work has been done for material COTABDs.
8. Individual firms and the majority of FoF members disagreed with the requirement in paragraph 18 of ISA 330 on the basis that it undermines the risk-based audit approach and may result in a checklist mentality. In addition, such stakeholders believe the requirement is redundant because paragraph 36 in ISA 315 (Revised 2019) includes a 'stand-back' requirement for the auditor to evaluate whether the auditor's determination of ROMM remains appropriate (i.e., the 'stand-back' requirement will either result in the auditor identifying and assessing ROMM for a material COTABD that was not previously determined to be a significant COTABD, or confirming that no ROMM exist for a material COTABD).
9. There were mixed views among JSS. Some JSS representatives raised concern that the requirement may lead to unnecessary audit effort and potentially undermine the robustness of the risk-based approach. Other views supported the need for the 'safety net' in cases where no further audit procedures are performed for material COTABDs and questioned whether such an approach would

be acceptable to users of financial statements because by their nature these COTABDs are important to users. In addition, some JSS representatives believed that the requirement should be strengthened, and that the auditor should be required to perform substantive procedures for all assertions related to material COTABDs.

Views on the Feedback

10. On the basis of the collective feedback across all stakeholder constituencies, Staff is of the view that there continues to be a basis to retain, with appropriate refinement, the notion in the standards for performance of audit procedures for material COTABDs. This notion remains responsive to the public interest expectation of auditors to ensure that the risks of material omissions, misstatements or obscured information in material COTABDs have been adequately addressed. It is also an accountable approach in relation to the feedback from the outreach with users of financial statements.

Options Considered

11. In exploring a way forward with respect to the circumstance discussed in paragraph 4(a) above, Staff considered three Options, as discussed below. Illustrative drafting is also presented for each Option to demonstrate how it could be operationalized, in a simplified manner. In addition, refer to **Agenda Item 9–G** which sets out Staff's views and recommendations for a way forward with respect to the circumstance discussed in paragraph 4(b) above.

Option 1 – Remove Paragraph 18 of ISA 330 and Introduce a Presumption that there is a ROMM in all Material COTABDs in ISA 315 (Revised 2019)

12. Outreach has indicated that in order to operationalize the requirement in paragraph 18 of ISA 330 some firms have introduced a presumption that there is a ROMM in all material COTABD. Such a presumption means that even when the auditor has determined, based on risk assessment procedures performed, that a material COTABD is not a significant COTABD, the auditor would nevertheless be required to identify one or more assertions of that COTABD, for which to design and perform substantive procedures in response to the presumed risk(s).
13. The rationale for this Option is that if users' decisions would be influenced by *any* omission, misstatement or obscured information of any type or value in a COTABD, then there could be a presumed ROMM in that COTABD for at least one assertion.
14. The box below illustrates drafting for the requirements of ISA 330 and ISA 315 (Revised 2019) to operationalize this Option. In addition, supporting application material would also be necessary to fully operationalize this Option, including explaining why the auditor should determine one or more assertions for material COTABDs that are not determined to be significant COTABDs and how the auditor may determine such assertions.

ISA 330:

Substantive Procedures

~~18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A43–A49)~~

...

ISA 315 (Revised 2019):

29. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures.

...

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but Which Are Material

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall determine one or more assertions for which to design and perform substantive procedures in accordance with ISA 330 ~~evaluate whether the auditor's determination remains appropriate.~~

...

15. This Option directly safeguards against imperfect risk assessment as it effectively repositions the 'safety net' from paragraph 18 of ISA 330 into paragraph 36 of ISA 315 (Revised 2019). Also, this Option could alleviate the practical challenges around applying paragraph 18 of ISA 330 as there would be an presumption for material COTABDs to have one or more relevant assertions. However, Staff are of the view that this Option is not feasible on the basis of limiting support for the auditors application of professional judgment by driving an enforced risk assessment for each material COTABD that has not been determined to be a significant COTABD by presuming a relevant assertion(s). It will place an unnecessary burden on auditors because of the additional work effort involved and could drive inconsistent judgment in determining materiality.

Option 2 – Remove Paragraph 18 of ISA 330 and Revise the 'Stand-Back' Requirement in ISA 315 (Revised 2019)

16. Paragraph 36 of ISA 315 (Revised 2019) includes a 'stand-back' requirement for the auditor to evaluate that their determination of material COTABDs that are not significant COTABDs is appropriate but does not explain how the auditor makes this evaluation.
17. Another Option would be to remove paragraph 18 of ISA 330 and enhance the clarity and expectations around the auditor's evaluation in paragraph 36 of ISA 315 (Revised 2019), supporting a more consistent application of the requirement. The Option includes extending the 'stand-back' requirement in paragraph 36 of ISA 315 (Revised 2019) to incorporate aspects of a 'safety net' by requiring the auditor to perform additional risk assessment procedures to obtain audit evidence to support the evaluation.
18. The box below illustrates drafting for the requirements in ISA 330 and ISA 315 (Revised 2019) to operationalize this Option. In addition, supporting application material would also be necessary to fully operationalize this Option, including explaining why the auditor is required to perform additional risk assessment procedures and what those entail.

ISA 330:

Substantive Procedures

~~18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A43–A49)~~

...

ISA 315 (Revised 2019):

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but Which Are Material

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall perform additional risk assessment procedures to evaluate whether the auditor's determination remains appropriate.

...

19. This Option has the benefit of not undermining the auditors' professional judgment about the existence (or not) of ROMMs, but to strengthen the audit evidence obtained to support the auditor's determination of ROMM. However, unlike a 'stand-back' requirement that asks the auditor to reflect on whether their determination of significant COTABDs remains appropriate, this Option imposes performance of additional risk assessment procedures. By doing so, Staff is of the view is that Option 2 could be perceived as unclear about the extent of additional work required. Stakeholder focus may shift from clarification about which assertion to focus on and the extent of substantive work to perform, to clarification about what else should be done, after having performed procedures to support a robust risk identification and assessment, including how much 'additional risk assessment procedures' are enough. In addition, this Option envisions removing paragraph 18 of ISA 330. By doing so, it moves away from requiring substantive work to be performed which could be perceived as being less robust than the extant requirement which safeguards against imperfect risk assessment.

Option 3 – Revising the Extant Requirement to a Conditional Requirement and Clarify the Purpose and Rationale of Paragraph 18 of ISA 330

20. Option 3 is to modify the existing requirement to make it conditional, meaning the obligation to perform substantive procedures would apply only when specific criteria are met, such as the presence of specific information needs of users. This approach allows auditors to exercise professional judgment, so that procedures are focused on, and proportionate to, the circumstances of the engagement. It also helps avoid unnecessary work in areas where a ROMM has not been identified, while maintaining the integrity and effectiveness of the audit. By retaining some level of substantive work it also continues to set a guardrail against imperfect risk assessment. On this basis, the Option sets an obligation for the auditor to determine the need to design and perform substantive procedures for material COTABDs based on the rationale that such balances are of particular importance to users.
21. The box below illustrates drafting in ISA 330 to operationalize this Option. In addition, supporting application material would also be necessary to fully operationalize this Option, including explaining

the rationale for why the auditor may determine to perform substantive procedures for material COTABDs which are not determined as significant COTABDs, provide considerations relevant to the auditor's professional judgment and set out guidance for the auditor's consideration of assertions to focus on (see paragraph 24(a) below).

ISA 330:

Substantive Procedures

18. ~~Irrespective of the assessed risks of material misstatement, t~~The auditor shall determine the need to design and perform substantive procedures for each material class of transactions, account balance, and disclosure that has not been determined to be a significant class of transactions, account balance or disclosure. (Ref: Para. A43–A49)

22. This Option has the benefit of not undermining the auditors' professional judgment about the existence (or not) of ROMMs. Instead, it aims to establish a justifiable threshold for when substantive work is necessary, such as intended users' interest in a material COTABDs. Given the matters highlighted in paragraph 20, Staff is of the view that this Option effectively moves the 'safety net' from a required safeguard to one that is exercised through auditor judgment, i.e., it is up to the auditor to determine if substantive procedures are required for material COTABDs. Although still being a guardrail against imperfect risk identification and assessment, the conditionality of the proposed requirement may be viewed as less robust than the extant requirement. It also assumes that the auditor would have some level of insight into matters that are of particular importance to intended users, which could be less practical in certain circumstances or for certain types of entities.

Proposed Way Forward

23. On balance, Staff recommends Option 3 for the Board to pursue as a way forward for paragraph 18 of ISA 330. This is because it continues to offer a solution to perform substantive procedures for material COTABDs that have not been determined to be significant COTABD, but which remain of importance to users. In doing so, the refinements to the requirement work in a cohesive manner with the risk-based nature of an audit as they do not imply a flawed risk identification and assessment.
24. In addition to revising the requirement in paragraph 18 of ISA 330 (see paragraph 21 above), Staff also proposes:
- (a) New application material in ISA 330, as illustrated in the box below, to support the auditor's professional judgment in applying the revised requirement in paragraph 18 of ISA 330. Subject to the directional views from the Board, post September 2025, Staff intend to pursue further refinements to the proposed application material presented.

ISA 330:

Substantive Procedures (Ref: Para. 6,18)

- A43. In applying the concept of materiality, the auditor considers the financial information needs of users of the financial statements.¹⁰ Classes of transactions, account balances or disclosures are material

¹⁰ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 4

if omitting, misstating or obscuring information about them could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.¹¹ In identifying and assessing the risks of material misstatement in accordance with ISA 315 (Revised 2019), the auditor may determine that certain material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures.¹² Such material classes of transactions, account balances or disclosures may nevertheless be of particular importance to users of the financial statements (e.g., due to regulatory, strategic, or market-specific considerations). Therefore, paragraph 18 requires the auditor to determine the need to design and perform substantive procedures on such material classes of transactions, account balances or disclosures.

~~Paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 6 requires the auditor to design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level. Accordingly, substantive procedures are required to be designed and performed in accordance with paragraph 18:~~

- ~~• When the further audit procedures for significant classes of transactions, account balances or disclosures, designed and performed in accordance with paragraph 6, did not include substantive procedures; or~~
- ~~• For each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as material in accordance with ISA 315 (Revised 2019).~~

~~This requirement reflects the facts that: (a) the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and (b) there are inherent limitations to controls, including management override.~~

A43A. The need to perform substantive procedures is a matter of professional judgment in the circumstances. For example, the auditor may have determined that the risk of material misstatement for the entity's disclosure of segment information is at an acceptably low level, however, the auditor's understanding of the financial information needs of users of the financial statements indicates that users rely on segment information to understand the performance and risks of different parts of the entity's business. In determining the information needs of users, the auditor may consider factors such as management's materiality judgments in preparing the financial statements, as well as particular areas of interest related to the industry in which the users of the financial statements operate.

A44. Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, the in designing the substantive procedures to be performed, the auditor's consideration of the may focus on the assertion(s) that, in which, if a misstatement were to occur, it is expected to be of particular importance to users of the financial statements. there is a

¹¹ ISA 315 (Revised 2019), paragraph A233

¹² ISA 315 (Revised 2019), paragraph 36

~~reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.~~

- (b) A new documentation requirement in ISA 315 (Revised 2019), as illustrated in the box below, to strengthen and clarify the documentation expectations about the significant judgments made by the auditor when performing the ‘stand-back’ evaluation in paragraph 36 of ISA 315 (Revised 2019). This aims to be explicit that the auditor documents their determination that no ROMM is identified and assessed for a material COTABD and serves as a guardrail against imperfect risk assessment.

ISA 315 (Revised 2019):

Documentation

38. The auditor shall include in the audit documentation: ¹³ (Ref: Para. A237–A241)

- (a) The discussion among the engagement team and the significant decisions reached;
- (b) Key elements of the auditor’s understanding in accordance with paragraphs 19, 21, 22, 24 and 25; the sources of information from which the auditor’s understanding was obtained; and the risk assessment procedures performed;
- (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 26; ~~and~~
- (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made; ~~and~~
- (e) The evaluation of the auditor’s determination that there are no risks of material misstatement for a material class of transactions, account balance or disclosure in accordance with paragraph 36.

Matters for IAASB Consideration:

1. The Board is asked for their views on Staff’s views and recommendations discussed in this Agenda Item. In particular:
 - (a) The recommended Option 3 as a way forward for paragraph 18 of ISA 330.
 - (a) The proposed revised requirement in paragraph 18 of ISA 330 (see paragraph 21 above) and the direction of the accompanying application material (see paragraph 24(a) above).
 - (b) The proposed documentation requirement when performing the ‘stand-back’ evaluation in paragraph 36 of ISA 315 (Revised 2019) discussed in paragraph 24(b) above.
2. The Board is asked whether there are any other Options or matters that should be considered in relation to the auditor’s work for material COTABDs not determined to be significant COTABDs.

¹³ ISA 230, Audit Documentation, paragraphs 8–11, and A6–A7