

Audit Evidence and Risk Response (AE&RR) – Investigating the Results of Analytical Procedures

This Agenda Item sets out Staff's views and recommendations for addressing requirements and application material when investigating the results of analytical procedures in ISA 520,¹ including for substantive analytical procedures.

Background

AE&RR Project Proposal – Proposed Action(s)

1. The AE&RR project proposal includes an action to develop requirements or application material that apply when the auditor designs and performs substantive analytical procedures and identifies matters for further investigation.²

Previous IAAAB Deliberations

2. In June 2025, the Board supported Staff's recommendation to clarify the definition of the term 'analytical procedures' in ISA 520 by removing the investigation element from the definition given that it was repetitive with paragraph 7 of ISA 520 to investigate, as necessary, the results of analytical procedures. In addition, the Board agreed to revise the scope of ISA 520 to provide clarity regarding the auditor's use of analytical procedures across all stages of an audit, including when investigating the results of analytical procedures performed as risk assessment procedures.

Relevant Paragraphs in ISA 520

3. Paragraph 7 of ISA 520 sets an obligation to investigate the results of analytical procedures, including substantive analytical procedures, which is conditional on identifying fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. If this is the case, the auditor is required to:
 - (a) Inquire of management and obtain appropriate audit evidence relevant to management's responses; and
 - (b) Perform other audit procedures as necessary in the circumstances.
4. Application material highlights that audit evidence relevant to management's responses may be obtained by evaluating those responses (i.e., by taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit). It also provides examples of circumstances when the need to perform other audit procedures may arise (e.g., when management is unable to provide an explanation or the explanation is not considered adequate).³

¹ International Standard on Auditing (ISA) 520, *Analytical Procedures*

² See Action C.12 of **Agenda Item 9–I**.

³ See ISA 520, paragraphs A20–A21.

Input from Outreach Activities⁴

5. Outreach with individual firms indicated that firm methodologies require an investigation of the results of substantive analytical procedures when the auditor identifies differences exceeding the amount that is acceptable without further investigation.⁵ Broadly, such work includes:
 - Performing audit procedures, beyond inquiry with management, to investigate differences, for example, by inspecting the entity's documents and performing a comparison of information obtained from alternative sources with information obtained from management.
 - Reconsidering and revising, as necessary, the methods and factors used in developing the auditor's expectation to improve precision, when the auditor identified relevant information of which the auditor was not aware when initially designing the substantive analytical procedures.
 - Considering that unexplained differences may indicate a heightened risk of material misstatement.
6. Discussions with individual regulators and audit oversight authorities highlighted concern about the lack of distinction between analytical procedures and substantive analytical procedures. Instances are observed when auditors rely solely on management inquiries and fail to corroborate management's explanations when investigating the results of substantive analytical procedures.

Other Standard-Setting Initiatives

7. The PCAOB's proposed amendments to analogous ISA 520 auditing standard include requirements to evaluate differences exceeding the threshold that is acceptable without an investigation, by performing audit procedures beyond inquiry, to determine whether there is a misstatement. In addition, the proposal specifies auditor responsibilities for situations that may be encountered when investigating results of substantive analytical procedures, including for when: (i) the auditor determines there is a misstatement; (ii) the auditor is unable to determine whether there is a misstatement; and (iii) the auditor identifies relevant information of which the auditor was not aware when initially designing the substantive analytical procedure.⁶

Staff Views and Recommendations

Enhancement to Requirements

8. Paragraph 7 of ISA 520 is all-encompassing as it applies to analytical procedures broadly, including to substantive analytical procedures. Staff propose to separate the requirements for investigating the results of analytical procedures, as follows:
 - (a) Retain but revise the extant requirement in paragraph 7 of ISA 520 that would apply to analytical procedures, except when they are performed as substantive procedures; and
 - (b) Develop a new requirement to evaluate differences exceeding the amount of difference that is

⁴ 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.

⁵ See ISA 520, paragraphs 5(d) and A16.

⁶ See the Public Company Accounting Oversight Board (PCAOB): [Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards](#).

acceptable without further investigation that would be specific to substantive analytical procedures.

9. In doing so, Staff is of the view that this would:
- (a) Appropriately differentiate investigation procedures required for substantive analytical procedures from other types of analytical procedures,⁷ given that the purpose of the former is to detect material misstatements at the assertion level. The current combined structure of the requirement leads to confusion about the nature and extent of the investigation that is required in the case of substantive analytical procedures compared to analytical procedures that are not used as substantive procedures. Clearly differentiating the requirements for investigating the results of substantive analytical procedures from other types of analytical procedures would provide a clarified framework for determining the appropriate nature and extent of the auditor's procedures, while also helping to ensure the auditor's response is proportionate to the purpose of the procedures being performed.
 - (b) Emphasize that inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level. When investigating the results of substantive analytical procedures, the auditor needs to obtain audit evidence to adequately explain the difference between the expectation developed by the auditor and the recorded amounts in determining whether a misstatement exists. This includes obtaining audit evidence that may corroborate or contradict management's explanations, even if the explanations initially appear reasonable to the auditor. In doing so, the auditor applies professional judgment to determine the appropriateness of the audit procedures and exercises professional skepticism by critically evaluating management's explanations and other audit evidence relevant to management's responses.
10. The box below illustrates the proposed drafting for the requirements in ISA 520:

Substantive Analytical Procedures

5. When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with ISA 330,⁸ the auditor shall: (Ref: Para. A4–A5)

...

- (d) Determine the amount, at or below performance materiality,⁹ of any difference between the expectation developed by the auditor and the recorded amounts or amounts derived from recorded amounts that is acceptable without further investigation of whether a misstatement exists as required by paragraph 5(e). (Ref: Para. A16–A16A)

⁷ Other types of analytical procedures comprise analytical procedures that are performed as risks assessment procedures required under paragraph 14 of ISA 315 (Revised 2019) and analytical procedures that are performed near the end of the audit to assist the auditor when forming an overall conclusion under paragraph 6 of ISA 520.

⁸ ISA 330, paragraph 18

⁹ ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 11 and A13

[Note that the paragraphs above (i.e., paragraphs 5 and 5(d)) are included as in extant ISA 520 (for paragraph 5) and as in Agenda Item 4 of the June 2025 IAASB meeting (not marked or updated based on Board's feedback, except for adding a cross reference to paragraph 5(e) below). These paragraphs are provided for context only and Staff is not seeking views from Board on these requirements in September 2025.]

- (e) If the auditor identifies a difference that exceeds the amount determined in accordance with paragraph 5(d), investigate the difference by performing audit procedures in addition to inquiries to determine whether a material misstatement exists. In doing so, the auditor shall (Ref: Para. A16B–A16D):
 - (i) Make inquiries of management and, as appropriate, others within the entity;
 - (ii) Perform audit procedures to obtain audit evidence relevant to management's responses, or the responses of others, to the inquiries as required by paragraph 5(e)(i); and (Ref: Para. A16E)
 - (iii) Perform other audit procedures as necessary in the circumstances. (Ref: Para. A16F)

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Investigating Results of Analytical Procedures Performed as Risk Assessment Procedures and Analytical Procedures that Assist When Forming an Overall Conclusion

- 7. If, in performing analytical procedures performed as risk assessment procedures or analytical procedures that assist when forming an overall conclusion, the auditor performed in accordance with this ISA identifies fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from the expected values by a significant amount results, the auditor shall investigate such differences by: making inquiries of management. The auditor shall also consider management's responses and perform other audit procedures in addition to inquiries as necessary in the circumstances. (Ref: Para. A21A-A21B)
 - ~~(a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and~~
 - ~~(b) Performing other audit procedures as necessary in the circumstances.~~

New Application Material

- 11. Staff also propose new application material in ISA 520, as illustrated in the box below, in support of:
 - (a) The requirement for investigating the results of substantive analytical procedures. Such application material provides illustrative examples of audit procedures the auditor may perform to obtain audit evidence, refers the auditor to ISA 450¹⁰ when there are misstatements to be dealt with and sets out guidance when obtaining new information during investigation.

¹⁰ ISA 450, *Evaluation of Misstatements Identified During the Audit*

- (b) The revised requirement for investigating the results of other types of analytical procedures.

Substantive Analytical Procedures (Ref: Para. 5)

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Investigating Results of Substantive Analytical Procedures (Ref: Para. 5(e))

A16B. A difference exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement. ISA 450 requires the auditor to consider both the size and the nature of a misstatement, and the particular circumstances of its occurrence, when evaluating whether the misstatement is material.¹¹

A16C. The following are examples of audit procedures that the auditor may perform to investigate a difference between the auditor's expectation and the recorded amounts or amounts derived from recorded amounts:

Examples:

- In testing an entity's interest expense, the auditor developed an expectation based on the principal amounts and applicable interest rates of the entity's bank loans. If a decrease in interest expense is attributed to the redemption of a bank loan during the period, the auditor may inspect supporting documents, such as the proof of loan payment, or independently confirm the payoff with the bank.
- In testing an entity's product sales, the auditor developed an expectation based on quantity of products sold and the unit price. If a monthly sales increase has resulted from an unusually large, one-time sales contract modification, the auditor may inspect supporting documents, such as amendments to the sales contract and related shipping reports, or independently confirm the sales contract amendment with the customer.

A16D. The auditor may obtain new information when investigating differences of which the auditor was not aware when developing the auditor's initial expectation of the recorded amounts. In such circumstances, the auditor may determine to revise the identification or assessment of the risks of material misstatement,¹² modify the design of the substantive analytical procedures or perform other substantive procedures.

A16E. Audit evidence relevant to management's responses, or the responses of others, comprises both information that supports and corroborates such responses, and any information that contradicts such responses. Proposed ISA 500 (Revised) requires the auditor to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory.¹³

A16F. The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence

¹¹ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11(a). Paragraph A21 of ISA 450 provides guidance on the circumstances that may affect the evaluation of a misstatement.

¹² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 37

¹³ Proposed ISA 500 (Revised), paragraph 8(a)

obtained relevant to management's response, is not considered adequate. [Moved from Para. Ref: A21]

Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 6)

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~~A18. The results of such analytical procedures may identify a previously unrecognized risk of material misstatement. In such circumstances, ISA 315 (Revised 2019) requires the auditor to revise the auditor's assessment of the risks of material misstatement and modify the further planned audit procedures accordingly.¹⁴~~ [Moved to Para. Ref: A21B]

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Investigating Results of Analytical Procedures Performed as Risk Assessment Procedures and Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 7)

~~A20. Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.~~

~~A21. The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.~~ [Moved to Para. Ref: A16F]

A21A. In the case of analytical procedures performed as risk assessment procedures, the results of the analytical procedures together with management's responses to the auditor's inquiries may assist the auditor in identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019). The auditor also may become aware of information relating to other areas of the audit where risks of material misstatement had not been previously identified, or of new information that may cause the auditor to revise the identification or assessment of risks of material misstatement.¹⁵

A21B. In the case of analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion, the need to perform other audit procedures may arise when, for example, management responses are inconsistent with the auditor's understanding of the entity or is not considered adequate. ¶The results of such analytical procedures together with management's responses to the auditor's inquiries may identify a previously unrecognized risk of material misstatement. In such circumstances, ISA 315 (Revised 2019) requires the auditor to revise the auditor's assessment of the risks of material misstatement and modify the further planned audit procedures accordingly.¹⁶ [Moved from Para. Ref: A18]

¹⁴—ISA 315 (Revised 2019), paragraph 37

¹⁵ ISA 315 (Revised 2019), paragraph 37

¹⁶ ISA 315 (Revised 2019), paragraph 37

Matters for the IAASB Consideration:

1. The Board is asked for their views on Staff's views and recommendations discussed in paragraphs 8–11, including the proposed drafting to the requirements and application material presented in paragraphs 10–11.
2. The Board is asked whether there are any other matters that should be considered in relation to investing results of analytical procedures, including substantive analytical procedures.