

### Audit Evidence and Risk Response (AE&RR) – ‘Stand-Back’ Requirements

This Agenda Item considers further matters based on comments received from the Board (in plenary or offline) and members of the Professional Scepticism Consultation Group (PSCG) for the ‘stand-back’ requirements in the ISAs, including the proposed drafting presented to the Board in June 2025 for the positioning of paragraph 26 of ISA 330<sup>1</sup> into ISA 700 (Revised)<sup>2</sup> (see [Agenda Item 4–A](#) discussed by the Board in June 2025).

#### Refinements to the Proposed Revisions for ISA 700 (Revised)

1. In June 2025, Staff proposed positioning the conclusion on whether sufficient appropriate audit evidence has been obtained into a separate paragraph of ISA 700 (Revised) following the reasonable assurance conclusion (see paragraphs 11A, A0–A0C and Appendix 1 of ISA 700 (Revised) presented in [Agenda Item 4–A](#) discussed by the Board in June 2025).
2. In response to directional feedback from the Board and input from members of the PSCG, Staff propose the following refinements to ISA 700 (Revised) (see **Appendix 1** to this Agenda Item):
  - (a) Integrating the conclusions on whether sufficient appropriate audit evidence has been obtained with the reasonable assurance conclusion as this enables better alignment with paragraph 5 of ISA 200.<sup>3</sup>
  - (b) Streamlining and enhancing the application material. This also includes enhancing the linkages with Proposed ISA 500 (Revised)<sup>4</sup> and by doing so aiming to enhance the auditor’s application of professional skepticism at the final ‘stand-back’ stage of an audit.

#### Streamlining Efforts for Subject Matter ‘Stand-Backs’

3. In June 2025, Staff proposed removing the proactive consideration requiring the auditor to consider all audit evidence obtained (including consistent or inconsistent, and regardless of whether corroborative or contradictory) from ISA 540 (Revised)<sup>5</sup> (see paragraph 34 of ISA 540 (Revised) presented in [Agenda Item 4–A](#) discussed by the Board in June 2025). This was considered appropriate in view of the new ‘stand-back’ evaluation proposed in ISA 330<sup>6</sup> as it provided coverage for such consideration, and on this basis supported streamlining of ISA 540 (Revised).
4. Directional feedback from the Board in June 2025 and input from members of the PSCG, indicated that the removal of the phrase from paragraph 34 of ISA 540 (Revised) may not be appropriate, given

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<sup>1</sup> International Standard on Auditing (ISA) 330, *The Auditor’s Responses to Assessed Risks*

<sup>2</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>3</sup> Paragraph 5 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, states that reasonable assurance ‘is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.’

<sup>4</sup> See Proposed ISA 500 (Revised), *Audit Evidence*, in **Agenda Item 5–N**.

<sup>5</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>6</sup> See Proposed ISA 330 (Revised) in **Agenda Item 5–M**, paragraph 25A.

the significance of accounting estimates as a topical area in an audit that deserves special attention. Views included that retaining the proactive consideration into paragraph 34 of ISA 540 (Revised) is necessary to help perform the required audit procedures related to accounting estimates. This is because when the auditor identifies contradictory audit evidence in auditing accounting estimates, such matters should be considered immediately, rather than when forming an overall conclusion that is proposed to be repositioned into ISA 700 (Revised).

5. In response, Staff propose to reinstate the phrase into paragraph 34 of ISA 540 (Revised), with necessary alignment changes for consistency with wording used in paragraph A25A of **Agenda Item 5–M** (see **Appendix 1** to this Agenda Item).

### Refinements to the Proposed Revisions to Proposed ISA 330 (Revised)

<i>Relevant Paragraphs in <b>Agenda Item 5–M</b>:</i>	<b>Paras. 25–27; A63A</b>
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#### *Reassessment of the Risks of Material Misstatement (ROMM)*

6. In June 2025, Staff proposed to strike out the words ‘before the conclusion of the audit’ from paragraph 25 of ISA 330 as this allowed for better alignment with the principle in ISA 315 (Revised 2019)<sup>7</sup> emphasizing the ongoing and responsive nature of risk assessment. In addition, the words ‘further’ were inserted into this paragraph to be specific as to what is the basis on which the auditor reassesses ROMM (see paragraph 25 of ISA 330 presented in [Agenda Item 4–A](#) discussed by the Board in June 2025).
7. In response to input from members of the PSCG that these changes may have changed the objective of this paragraph, Staff propose to reinstate the words ‘before the conclusion of the audit’ and remove the insertion of the word ‘further.’ In addition, Staff propose to remove the phrase ‘at the assertion level’ so as not to imply that the reassessment of ROMM does not also apply to financial statement risks (see paragraph 25 of **Agenda Item 5–M**).

#### *New ‘Stand-Back’ Evaluation in ISA 330*

8. Suggestions were provided by PSCG members to combine paragraphs 25A and 25B of ISA 330 presented in [Agenda Item 4–A](#) discussed by the Board in June 2025, given that both requirements form one evaluative action (i.e., paragraph 25B effectively operationalizes the evaluation described in paragraph 25A). Staff have taken this suggestion on board and in doing so considered that other similar ‘stand-back’ evaluations (i.e., paragraph 35 of ISA 315 (Revised 2019)) also take a combined approach. In addition, to support the new ‘stand-back’ evaluation in paragraph 25A of ISA 330, Staff propose new application material (see paragraph A63A of **Agenda Item 5–M**).

#### *Paragraph 27 of ISA 330*

9. In June 2025, Staff proposed to revise the reference to a ‘qualified opinion or a disclaimer of opinion’ in paragraph 27 of ISA 330 to the auditor ‘considering the implications for the audit or the auditor’s opinion on the financial statements in accordance with ISA 705 (Revised)’<sup>8</sup> (see paragraph 27 of ISA

<sup>7</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>8</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

330 presented in [Agenda Item 4–A](#) discussed by the Board in June 2025). This was because it is too early for the auditor to qualify or disclaim an opinion at this point in an audit, without having first concluded on the sufficiency and appropriateness of the audit evidence obtained that has been repositioned into ISA 700 (Revised). Staff also noted that the proposed approach is consistent with how this matter is addressed by paragraph 34 of ISA 540 (Revised).

10. Certain Board members and members of the PSCG suggested to either:
  - (a) Revert to the extant text given that, if the auditor is unable to obtain sufficient and appropriate audit evidence in responding to an assessed ROMM, then the auditor should be directed to ISA 705 (Revised) to qualify or disclaim an opinion, rather than asked to consider the implications for the audit, or the auditor’s opinion.
  - (b) Relocate the last sentence of the requirement in paragraph 27 of ISA 330 as a new requirement into ISA 700 (Revised) following the conclusion on the sufficiency and appropriateness of the audit evidence obtained.
11. Staff believe that relocating the second sentence of paragraph 27 of ISA 330 into a new requirement in ISA 700 (Revised) as suggested may be confusing and duplicative. This is because paragraph 17 of ISA 700 (Revised) already requires the auditor to modify the opinion in the auditor’s report in accordance with ISA 705 (Revised) should the auditor not be able to conclude that the financial statements as a whole are free from material misstatement. However, to enhance the connectivity among the standards, Staff propose linking the last sentence of paragraph 27 in **Agenda Item 5–M** to paragraphs 11 and 17 of ISA 700 (Revised), instead of referring directly to ISA 705 (Revised).
12. In addition, certain members of the PCSG noted inconsistencies across various ISAs that should be considered. For example, paragraph 34 of ISA 540 (Revised) and paragraph 30 of ISA 570 (Revised 2024)<sup>9</sup> use the phrase ‘evaluate the implications for the audit or the auditor’s opinion.’ On the other hand, paragraph 58 of ISA 240 (Revised)<sup>10</sup> uses the phrase ‘*determining* the implications for the audit *and* the auditor’s opinion.’
13. With respect to the quoted inconsistencies, Staff believes that paragraph 58 of ISA 240 (Revised) is of a different nature. This paragraph is drafted in a more definitive manner because it supports the auditor’s determination that the financial statements are materially misstated due to fraud, or the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated due to fraud.

**Matters for IAASB Consideration:**

1. The Board is asked for their views on Staff’s views and recommendations discussed in paragraphs 1–13 above. In particular:
  - (a) The refinements to the proposed revisions for ISA 700 (Revised) in **Appendix 1** of this Agenda Item.
  - (b) Reinstating the proactive consideration into paragraph 34 of ISA 540 (Revised) in **Appendix 1** to this Agenda Item.

<sup>9</sup> ISA 570 (Revised 2024), *Going Concern*

<sup>10</sup> ISA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

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| <p>(c) The proposed refinements to the requirements in paragraphs 25–27 and the new application material in paragraph A63A of <b>Agenda Item 5–M</b>.</p> <p>2. The Board is asked whether there are any other matters that should be considered in relation to the ‘stand-back’ requirements.</p> |
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## Appendix 1

This **Appendix** sets out further refinements to the proposals presented to the Board in June 2025 for streamlining the proactive consideration in paragraph 34 of ISA 540 (Revised) and positioning the conclusion on whether sufficient appropriate audit evidence has been obtained from paragraph 26 of ISA 330 into ISA 700 (Revised). Changes from [Agenda Item 4–A](#) discussed by the Board in June 2025 are shown in mark-up.

### 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,<sup>11</sup> 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 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 made by management in the financial statements.<sup>12</sup> ~~if~~ 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).<sup>13</sup>

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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

<sup>11</sup> [Proposed ISA 330 \(Revised\)](#), paragraphs 25–256AB

<sup>12</sup> [Proposed ISA 330 \(Revised\)](#), paragraph 25A

<sup>13</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

- (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.<sup>14,15</sup>
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level so that reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall ~~take into account~~ consider: (Ref: Para. A0–A0A)
- (a) 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~~The auditor's conclusion, in accordance with paragraph 11A, whether sufficient appropriate audit evidence has been obtained;~~
  - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;<sup>16</sup> 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 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–A0C)~~

[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.

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<sup>14</sup> ISA 200, paragraph 11

<sup>15</sup> 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.

<sup>16</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

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 misstatement, whether due to fraud or error.<sup>17</sup> 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.<sup>18</sup>~~
- 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.<sup>19</sup> 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.

[Moved from Para. A0C]

- 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.<sup>20</sup> ~~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~~Relevance and reliability of the ~~available~~ information, including whether any doubts

<sup>17</sup> ~~ISA 200, paragraph 5~~

<sup>18</sup> ~~ISA 200, paragraph 17~~

<sup>19</sup> ISA 200, paragraphs 21(b) and 24

<sup>20</sup> ISA 200, paragraph A34

about relevance and reliability of information have been resolved and how inconsistencies with other audit evidence have been addressed.

- 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.~~ [Moved to Para. A0]

### **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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### **Auditor's Report** (Ref: Para. 20)

- A18. A written report encompasses reports issued in hard copy and those using an electronic medium.
- A19. 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 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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