

Audit Evidence and Risk Response (AE&RR) – Categorization of Audit Procedures

This Agenda Item considers further matters relevant to certain actions of the AE&RR project proposal that address substantive procedures, including pursuing a definition for tests of details and defining substantive analytical procedures separately from analytical procedures.

Previous IAASB Deliberations

March 2025¹

1. In March 2025, the Board supported the continued appropriateness of the distinction between a test of details and substantive analytical procedures. In addition, the Board agreed to consolidate extant terminology on 'dual-purpose test' and descriptions of 'multi-purpose procedures' under a broad notion of an audit procedure used for more than one purpose and to introduce a requirement that specifies the auditor's responsibilities when using an audit procedure for more than one purpose.

June 2025²

2. In June 2025, the Board supported placing the proposed definition of substantive analytical procedures in ISA 520.³ For tests of details, certain Board members expressed their view that it may not be necessary to pursue a definition, given they are a well understood audit procedure in practice, so it is unclear what problem is being solved by doing so. Also, general sentiment was supportive to consider describing tests of details, rather than defining them, along with examples of types of audit procedures that apply, in view of concerns that pursuing a definition may be too restrictive approach.
3. In addition, the Board provided directional feedback to be considered further in refining the definitions of the categories of substantive procedures, which is considered further in this paper (see paragraphs 13–14, 20–21 and 24).

Overview of the Feedback from Outreach Activities

Stakeholder Engagement

4. Since March 2025, Staff have engaged with Monitoring Group (MG) members,⁴ regulators, individual firms, Forum of Firms (FoF) representatives and Professional Accountancy Bodies (PAOs) on the topic of categorization of audit procedures by their purpose and type, including providing clarity for terminology by defining (or describing) tests of details and substantive analytical procedures.
5. In addition, the topic of categorization of audit procedures and whether substantive analytical procedures alone may provide sufficient appropriate audit evidence to respond to a significant risk were discussed among participants at a roundtable in July 2025 with a diverse stakeholder

¹ See the approved IAASB [meeting minutes](#) from March 2025.

² See the approved IAASB [meeting minutes](#) from June 2025.

³ International Standard on Auditing (ISA) 520, *Analytical Procedures*

⁴ Input was sought from the Standards Coordination Working Group (SCWG) of the International Forum of Independent Audit Regulators (IFIAR) and the International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1).

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 Feedback⁵

Purpose and Type of Audit Procedures

- Broad recognition among all stakeholder groups that:
 - The growing use of technological tools in audits will make it more difficult to categorize audit procedures by their purpose and type.
 - It important for the ISAs to remain principle-based, fit for purpose and future proof.
- Views that:
 - The purpose of an audit procedure is more important than its type given its direct impact on how audit evidence is obtained.
 - The same technology may be used for different audit procedures (risk assessment or further audit procedures). Irrespectively, audit procedures must always be designed to meet their distinct purposes, regardless of the tool used.
- Calls to recognize more types of audit procedures in the ISAs (e.g., a recalculation and audit data analytics).

Clarity for Terminology

- Range of views on whether tests of details and substantive analytical procedures should be described or defined:
 - Some support defining (or describing) these terms as it brings clarity around key terminology used in the ISAs.
 - Some support descriptions for these terms, but not rigid definitions, given that auditors should be allowed to apply their professional judgment as to the types of procedures performed to come up with the right combination of audit work to respond to an assessed risk of material misstatement (ROMM).
 - Majority of firms are concerned by narrowly defining categories of substantive procedures:
 - Too restrictive and may detract auditors to innovate and use other types of audit procedures that are capable of detecting material misstatements unless they fall within the defined buckets.
 - Rigid categories of procedures may date quickly with advancement in technology and impair the scalability of the standards.
 - Not necessary because the types of audit procedures are already explained in

⁵ Refer to [Agenda Item 9](#) from the September 2025 IAASB meeting for a comprehensive overview of the feedback received from the project outreach undertaken to date with a broad range of stakeholders.

Proposed ISA 500 (Revised)⁶ and auditors are familiar with these procedures.

- Risks complexity to the standards without substantial benefits and may have unintended consequences such as inhibiting innovation.

Proposed Definitions for Tests of Details and Substantive Analytical Procedures

- Need for a clearer distinction between a ‘tests of detail’ and ‘substantive analytical procedures’ in the proposed definitions. For example, the proposed definition for tests of details also captures ‘analytical procedures’ as a type of audit procedure and a substantive analytical procedure may also be performed at the item level.
- The phrase ‘determine whether there is a misstatement’ causes ambiguity for the definition of substantive analytical procedures, does not align with the purpose of a substantive procedure and may have unintended consequences, such as differing interpretation by regulators.

Substantive Analytical Procedures Alone as a Response to a Significant Risk⁷

- Broad recognition among all stakeholder groups that the use of technological tools may enable auditors to design and perform substantive analytical procedures that are highly precise.
- Range of views on the appropriateness of using a substantive analytical procedure as the sole response to a significant risk:
 - MG members and regulators disagree that such an approach should be permitted. Concerns on the impact to audit quality by failing to adequately address significant risks in view of reoccurring challenges from inspection findings around appropriate execution of substantive analytical procedures.
 - Support from PAOs, firms and FoF representatives for the IAASB to revisit this matter, given that the use of technological tools has the potential to enable highly precise expectations by using external data sources that provide more persuasive audit evidence than sample testing certain individual transactions.
- Views that:
 - If a substantive analytical procedure alone could predict a class of transactions, account balance or disclosure (COTABD) accurately to address a significant risk, it could be questionable whether this is a significant risk in the first instance.
 - A substantive analytical procedure can be used to address a significant risk however this would be in combination with other procedures, given that the factors that have made the risk significant would need to be addressed directly (e.g., management override of controls).
 - There remains a distinction between test of details and substantive analytical procedures because substantive analytical procedures are based on the auditor’s expectation while

⁶ See Appendix 1 of Proposed ISA 500 (Revised), *Audit Evidence*, in **Agenda Item 5–N**.

⁷ When an assessed ROMM is a significant risk, paragraph 21 of ISA 330, *The Auditor’s Responses to Assessed Risks*, requires the auditor to perform tests of details when the response to the significant risk consists only of substantive procedures.

tests of details focus on individual items as their reference point.

- Tests of details are more suitable for addressing a significant risk because they can be designed and performed in a more targeted way to address the specific risk factors that give rise to the significant risk.

Input from Individual Firms

6. Diverging approaches have been observed in how the categories of substantive procedures are defined or described in firm methodologies:
 - (a) Some methodologies very narrowly define a test of details as a specific type of audit procedure (e.g., an inspection or examination). Some methodologies describe tests of details rather than defining them by providing examples or guidance of what these procedures may entail (e.g., direct confirmation, tests over aspects of individual transactions or balances). Some methodologies do not pursue definitions or descriptions for tests of details, mirroring the approach of the ISAs.
 - (b) Definitions or descriptions in some methodologies explain substantive analytical procedures generically (e.g., as substantive analytical procedures performed either alone or in combination with tests of details). Some firm guidance refers to the extant definition of analytical procedures as being equal to a substantive analytical procedure.
 - (c) Some methodologies are permissive for a substantive analytical procedure that is highly precise and supported by reliable external information to be considered a test of details on the basis that it encompasses elements of an inspection or reperformance.⁸

Staff Views and Recommendations

Rationale for Pursuing Definitions

7. From the feedback, certain stakeholders question why there is a need to pursue definitions for the categories of substantive procedures on the basis that it is unclear what problem this would solve. There is also strong caution from certain stakeholders about defining narrowly categories of substantive procedures which may become outdated or restrictive in view of technological innovation.
8. While noting this caution, Staff continue to believe that there are clear public interest benefits for the IAASB to do so, as discussed below, that would result in providing clarity around key terminology used in the ISAs that enable enhancing consistency in practice to deliver high-quality audits.

Need for Consistency and Common Understanding

9. Input from individual firms indicates that consistency is lacking in how the categories of substantive procedures are defined or described in audit methodologies, driving a need for standard-setting action to enhance common understanding for these terms.

⁸ For example, using a rental contract to develop an expectation for revenue which is compared to a recorded amount.

10. In addition, the diverging approaches observed across firm methodologies in how tests of details and substantive analytical procedures are described or defined in practice may create ambiguity or risk inconsistent application of the requirements in the standards, for example by:
 - (a) Blurring the line between the purpose of an analytical procedure used as a substantive procedure and an analytical procedure used on other aspects of the audit (e.g., for risk assessment or when performing concluding activities on an audit).
 - (b) Inadvertently permitting that, a substantive analytical procedure labeled as a test of details, could alone be responsive to significant risk.

Audit Quality Implications

11. The manner in which the categories of audit procedures are interpreted or understood in practice has an impact over the extent of the substantive procedures performed and the sufficiency of the audit evidence obtained. This relationship pertains, irrespective of whether technological tools are (or are not) used in obtaining audit evidence.
12. Input from individual firms indicates that firm methodologies commonly rely on the 'categorization of audit procedures' to determine the appropriate reductions in sample sizes or other selective means of testing. If there is uncertainty about whether certain audit procedures qualify as substantive procedures, or if there is lack of a common understanding what the categories of substantive procedures entail, then this may risk auditors overestimating the audit evidence obtained when determining reductions for sample sizes (or for other selective means of testing), leading to sample sizes that are insufficient.

Definition of Substantive Procedures

Comments Received

13. Staff considered suggestions by certain Board members in offline comments to pursue changes to broaden the definition of substantive procedures by introducing a third category of substantive procedures, that would include '*other types of audit procedures* designed to detect material misstatement at the assertion level.'
14. The rationale for the suggestion was to accommodate firms to innovate and implement 'hybrid' audit procedures even if they don't fit neatly into the categories of substantive procedures and to allow the standards to stand the test of time. In addition, an example for the need of this approach was also provided as follows: the audit procedures required by ISA 540 (Revised)⁹ for the auditor developing a point estimate do not neatly fit into neither the category of tests of details or substantive analytical procedures as they are 'hybrid.'

Categorization Based on the Type of an Audit Procedure

15. Substantive procedures are *designed* to detect material misstatement at the assertion level (as defined), which is their purpose. However, the *performance* of a substantive procedure, which is the

⁹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

means by which its purpose is achieved, can only be through performing certain types of audit procedures.

16. It could be argued that all substantive procedures are ‘hybrid’ substantive procedures based on their type. Therefore, bucketing the different types of procedures into the two distinct categories of substantive procedures (i.e., tests of details or substantive analytical procedures) is challenging. For example, irrespective of whether the auditor uses a technological tool or not:
 - (a) Analytical procedures may be used as substantive procedures in accordance with ISA 520. Investigating the difference of recorded amounts from expected values when necessary is an integral part of the performance of a substantive analytical procedure. Such investigation will entail inquiry and necessary corroboration, or other types of procedures, such as an inspection, to meet the purpose of detecting a material misstatement at the assertion level.
 - (b) Developing an auditor’s point estimate to evaluate management’s point estimate includes elements of an analytical procedure (by developing an expectation such as a range) and of reperformance (by independent execution of a procedure).
 - (c) A substantive analytical procedure involves developing a sufficiently precise expectation of recorded amounts or amounts derived from recorded amounts. In establishing the reliability of the information on which an expectation is developed, which is an integral part of the procedure, the auditor may, for example, inspect a document (e.g., a rental contract).
17. On this basis, Staff are of the view that introducing a category ‘other *types of audit procedures* designed to detect material misstatement at the assertion level’ into the definition of substantive procedures is not a viable option to pursue.

Futureproofing the Definition of Substantive Procedures

<i>Relevant Paragraphs in Agenda Item 5–M:</i>	Para. 4(a)
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18. Staff propose to replace the word ‘comprise’ with the less definitive word ‘include’ in the definition for substantive procedures (see paragraph 4(a) of **Agenda Item 5–M**). This change aims to respond to calls for future proofing the standards and not inadvertently inhibiting innovation in view of technological change.

Definition for Tests of Details

Proposed Definition in June 2025

19. In June 2025, Staff proposed defining tests of details, as indicated in the box below, by leveraging the description of ‘test’ in the IAASB Glossary of Terms.¹⁰

Tests of details – A substantive procedure that involves the application of one or more types of audit procedures to some or all items in a population relevant to a class of transactions, account balance or disclosure.

¹⁰ The IAASB’s Glossary of Terms sets out a description of the term ‘test’, as follows: ‘*the application of procedures to some or all items in a population.*’

Comments Received

20. A prominent point raised by the Board in June 2025 (as well as the outreach with certain stakeholder groups), was that the proposed definition for tests of details does not sufficiently differentiate from substantive analytical procedures because:
- (a) The sentence ‘application to some or all items in a population’ could also apply to substantive analytical procedures.
 - (b) Implying that a test of details entails ‘one or more types of audit procedures’ introduces confusion whether they can encompass analytical procedures or other types of procedures such as inquiry that are not traditionally considered tests of details. Also, an analytical procedure or inquiry can also be performed for an ‘item.’
 - (c) There is lack of differentiation that a test of details conveys the notion that the test is performed on an ‘item-by-item’ basis.
21. Some Board members also shared a view that if substantive analytical procedures are defined, then by default the only other kind of substantive procedures are tests of details (i.e., a catch all bucket of everything else that remains designed for the purpose of detecting material misstatement). On this basis, it may not be necessary to define them.

Refinements to the Definition for Tests of Details

<i>Relevant Paragraphs in Agenda Item 5–M:</i>	Paras. 4(c); A0B–A0C
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22. In response to comments received, Staff propose further refinements to the definition for tests of details (see paragraphs 4(c) and A0B–A0C of **Agenda Item 5–M**). The key features of the refinements include:
- (a) Specifying that it is *certain types* of audit procedures that are applied in a test of details, rather than referring to *one or more types* of audit procedures. Doing so remains sufficiently specific that the *performance* of the test, which is the means by which the purpose of a substantive procedure is achieved, can only be through performing a specific type(s) of audit procedures, without explicitly naming or stating which type of procedure apply. Staff are of the view that this supports a future proof approach to the standards in a rapidly evolving technology-driven environment where innovation may lead to evolution in the type(s) of audit procedures that could be available to the auditor to achieve the purpose of detecting a material misstatement. Application material to the definition refers to the non-exhaustive list of types of audit procedures in Proposed ISA 500 (Revised). It also draws attention that certain types of audit procedures, such as inquiry alone, ordinarily do not provide sufficient appropriate audit evidence of the absence of a material misstatement.
 - (b) Referring to *each specific item selected for testing* rather than *items in a population relevant to a COTABD*. Doing so clarifies the level of detail at which the test is expected to be performed without being repetitive of the description of ‘test’ in the IAASB Glossary of Terms. Staff also considered whether the term ‘individual items’ could be considered instead, and formed the view that using this term could create a need for conforming and consequential amendments

to ISA 530.¹¹ This is because the term ‘individual items’ is used in the definition of sampling unit and application material in paragraph A2 of ISA 530 explains that sampling units can be either physical items or monetary units, which would be too limiting in the context of a tests of details. Application material, with supporting examples, was added to further explain the level at which a test of detail is expected to be performed.

Refinements to the Definition for Substantive Analytical Procedures

Proposed Definition in June 2025

23. In June 2025, Staff proposed defining substantive analytical procedures, as indicated in the box below:

Substantive analytical procedures – A substantive procedure that involves a comparison of a sufficiently precise expectation developed by the auditor, based on one or more plausible and predictable relationships among financial or non-financial information, to recorded amounts or amounts derived from recorded amounts to determine whether there is a misstatement.

Comments Received

24. A prominent point raised by the Board in June 2025 (as well as the outreach with certain stakeholder groups), was that the word ‘material’ should be inserted into the proposed definition of substantive analytical procedures to align with the definition of substantive procedures in ISA 330, or to remove altogether the reference ‘to determine whether there is a material misstatement’ from the proposed definition.

Refinements to the Definition for Substantive Analytical Procedures

<i>Relevant Paragraphs in Agenda Item 5–O:</i>	<i>Para. 4(b)</i>
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25. In response to comments received, Staff reinserted the word ‘material’ to the definition for substantive analytical procedures (see paragraph 4(b) of **Agenda Item 5–O**).

26. Staff also considered whether it is repetitive and/or redundant to retain both in the requirements of the standard, and in the definition for substantive analytical procedures, the phrases ‘based upon one or more plausible and predictable relationships’ and ‘sufficiently precise expectation.’ However, Staff believes these are essential elements that should be retained in both places because they are important distinguishing features among an analytical procedure used as a substantive procedure from an analytical procedure used on other aspects of the audit. For example:

- (a) While it holds true that analytical procedures used for other purposes in an audit may also include developing expectations, the precision level of such expectations provides the auditor only with a broad initial indication about the likelihood of a material misstatement (e.g., for risk identification and assessment) or is sufficient to corroborate conclusions previously formed during the audit (e.g., for analytical procedures performed near the end of the audit). In contrast for a substantive analytical procedure, developing a *sufficiently precise* auditor’s expectation

¹¹ ISA 530, *Audit Sampling*, paragraph A2

of a recorded amount is fundamental to be able to detect a material misstatement so as to qualify as a substantive procedure.

- (b) While it holds true that the application of analytical procedures broadly is always based on an expectation that plausible relationships among relevant data exist and continue to exist in the absence of known conditions to the contrary, for substantive analytical procedures the relationship on which the auditor's expectation is based needs to be based *on both plausible and predictable* relationship(s) among *reliable information*.

Further Work for Substantive Procedures Responsive to Significant Risks

- 27. Post December 2025, Staff will continue to progress the actions of the AE&RR project proposal relevant to the requirement in paragraph 21 of ISA 330 that requires the auditor to perform tests of detail when the response to a significant risk consists only of substantive procedures. Such work, which will be presented to the Board in due course, includes, for example, exploring whether the use of technology to enhance the precision and scope of a substantive analytical procedure could provide sufficient appropriate audit evidence to respond to a significant risk.

Matters for IAASB Consideration:

- 1. The Board is asked for their views on Staff's views and recommendations discussed in paragraphs 7–26 above. In particular:
 - (a) The proposed changes to definition for substantive procedures in paragraph 4(a) of **Agenda Item 5–M**.
 - (b) The proposed refinements to the definition of tests of details and the application material to the definition in paragraphs 4(c), A0B–A0C of **Agenda Item 5–M**.
 - (c) The proposed refinements to the definition of substantive analytical procedures in paragraph 4(b) of **Agenda Item 5–O**.
- 2. The Board is asked whether there are any other matters that should be considered in relation to the categories of substantive procedures.