

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

This Agenda Item considers further matters relevant to certain actions of the AE&RR project proposal that address revisions to ISA 520.¹

Previous IAASB Deliberations

*June 2025*²

1. In June 2025, 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 and to clarify the definition of the term 'analytical procedures' in ISA 520.
2. When performing substantive analytical procedures, there were mixed views by the Board on whether auditors should be required to determine the amount of difference between the auditor's expectation and recorded amounts that is acceptable without further investigation at or below performance materiality:
 - (a) Certain Board members noted that this approach would be too restrictive because the auditor could determine the acceptable amount of difference to be higher than performance materiality, based on professional judgment (e.g., considering the relative size of the account or when substantive analytical procedures are used in combination with tests of details).
 - (b) Certain Board members supported the notion that for a substantive analytical procedure to meet the purpose of a substantive procedure it is necessary to specify a sufficiently precise threshold for further investigation at or below performance materiality.

*September 2025*³

3. In September 2025, the Board agreed to a new requirement to evaluate differences exceeding the amount of difference that is acceptable without further investigation that would be specific to substantive analytical procedures.
4. In addition, the Board's directional feedback included to more clearly articulate the different nature of the work effort for 'investigating' the results for analytical procedures performed as risk assessment procedures, given that the objective of analytical procedures as risk assessment procedures is distinct from analytical procedures performed at other stages of the audit.⁴

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

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

³ See the draft IAASB meeting minutes from September 2025 available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting – December 8–11, 2025* webpage.

⁴ Analytical procedures are required to be performed as risks assessment procedures in accordance with paragraph 14(b) of ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, and as analytical procedures that are performed near the end of the audit to assist the auditor when forming an overall conclusion in accordance with paragraph 6 of extant ISA 520.

Overview of the Feedback from Outreach Activities

Stakeholder Engagement

5. Since March 2025, Staff have engaged with Monitoring Group Members,⁵ regulators, Professional Accountancy Bodies (PAOs), individual firms and Forum of Firms (FoF) representatives on the topic of analytical procedures, including substantive analytical procedures.

Highlights from the Feedback⁶

Analytical Procedures versus Substantive Analytical Procedures

- Views that:
 - There is lack of understanding for the difference between risk assessment analytics and substantive analytical procedures and that a clearer distinction is necessary.
 - There is uncertainty around where audit data analytics 'fits' in the current ISAs and calls for greater integration of audit data analytics into the auditing standards.
- While some support addressing in the scope of ISA 520 analytical procedures performed across all stages of an audit, other suggest a dedicated scope in ISA 520 addressing substantive analytical procedures alone.

Challenges and Inspection Findings with Substantive Analytical Procedures

- A procedure is labelled as a substantive analytical procedure; however, it fails to meet the ISA 520 requirements (e.g., the procedures are too high-level, generic, lacks disaggregation or precision).
- Concerns around the validity of the procedure because of:
 - Use of unreliable data (e.g., without evidence of data accuracy and completeness).
 - Not developing an independent expectation (e.g., using entity's data for deriving an expectation which may sometimes result in circular auditing).
- Failures to corroborate explanations obtained through inquiry when investigating the results of substantive analytical procedures (e.g., documenting management's explanation without performing further testing or the exercise of professional scepticism).
- Experienced auditors need to be involved in designing and performing robust substantive analytical procedures.

Acceptable Amount of Difference without Investigation

- Concerns from firms about setting a threshold for evaluating the differences between expected and recorded amounts at or below performance materiality.

⁵ 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).

⁶ 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.

- Views from firms that substantive analytical procedures performed at a lower level of precision should be permitted when used in combination with other procedures to address an assessed risk.

Input from Individual Firms

Threshold to Evaluate Differences from Expected Amounts

6. Input from individual firms indicates that firm methodologies require auditors to determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation at performance materiality when such substantive analytical procedures are the sole response to an assessed risk of material misstatement (ROMM) that is not a significant risk. This approach reflects the rationale that the audit evidence from the substantive analytical procedure contributes in a 'significant way' to the substantive amount of audit evidence that the auditor obtains when responding to an assessed ROMM.
7. However, some firm methodologies allow, under certain circumstances, for a substantive analytical procedure to be designed with a threshold that is acceptable without further investigation at levels that could exceed performance materiality,⁷ when the auditor plans to perform a substantive analytical procedure in combination with tests of details. Such a substantive analytical procedure is colloquially referred to as a 'less precise' substantive analytical procedure which is deemed to achieve a 'lower level of assurance.'
8. A prudent approach is followed in certain firm methodologies, whereby the 'less precise' substantive analytical procedures provide only limited credit in terms of the effect of these procedures on sample size reductions for tests of details. Some firms also limit the performance of 'less precise' substantive analytical procedures to only certain accounts and may encourage auditors to consult when the amount of difference between expected values and recorded amounts that is acceptable without investigation exceeds materiality for the financial statements as a whole.

Reliability of Information on which an Expectation is Developed

9. Input from individual firms indicates that firm methodologies require auditors to evaluate the reliability of information used to develop the auditor's expectation, regardless of whether the information is generated internally or externally of the entity. Broadly, methodologies require auditors to consider:
 - Source of data and degree of its independence. Auditors are encouraged to use data from more objective or from independent sources, including data generated by third parties.
 - Information that has been subject to audit procedures, including to establish its relevance and reliability.
 - Strength of the entity's internal control over information produced by the entity, including reports and information generated by the entity's information systems.

⁷ For example, for quantitatively material balances, such as revenue or cost of goods sold, firm methodologies may permit setting the threshold to evaluate differences as a monetary expectation of a class of transactions, account balances or disclosure (COTABD), capped by a certain percentage (e.g., up to 5% of revenue). Also, methodologies may permit setting expectations that are ratio or trend-based, such as a range of possible ratios in which a gross margin is expected to fall.

Performing Analytical Procedures as Risk Assessment Procedures

10. Input from individual firms indicates that auditors are commonly designing and performing analytical procedures by using technological tools to analyze an entire population of transactions at a detailed, disaggregated level. When performed effectively, such analytical procedures may aid more precise risk identification and assessment. For example, when the results of the analytical procedures by using technological tools identify specific areas where risks of material misstatement (ROMM) exist (e.g., by identifying fluctuations, unusual items, inconsistencies or outliers), auditors may conduct inquiries of management to further understand the reasons behind such items and determine how the items affect the risk assessment of the population. In addition, based on the results of the analytical procedure, the auditor may determine that residual ROMM for the remaining population is at an acceptably low level.
11. However, firms indicate certain challenges that pertain to the categorization of such analytical audit procedures as required by the ISAs being either a risk assessment or a substantive procedure. For example, if such analytical procedures are classified as risk assessment procedures, then auditors are still required to perform further audit procedures on the remaining population in which they believe that the ROMM is at an acceptable low level, or they may be challenged by regulators as to whether their analytical procedures used as risk assessment procedures have, in effect, become substantive procedures.

Staff Views and Recommendations

Lead-in Sentence of Paragraph 5 of ISA 520

Relevant Paragraphs in Agenda Item 5–O:	Paras. 5; A16
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12. The lead-in sentence of paragraph 5 of extant ISA 520 emphasizes that the requirements of the standard apply when designing and performing substantive analytical procedures *either alone or in combination with tests of detail*. Staff reads this sentence to mean that the design and performance of a substantive analytical procedure is done *consistently* when the auditor chooses to apply such a procedure, *irrespective* of whether it is designed and performed alone or in combination with tests of details.
13. However, from the outreach with firms, there appears to be some inconsistency in how this lead-in sentence is interpreted when considered together with the application material in paragraph A16 of ISA 520 referencing the ‘desired level of assurance’ sought from a substantive analytical procedure.
14. To avoid confusion, Staff propose to strike out the words *either alone or in combination with tests of details* from the lead-in sentence in paragraph 5 of **Agenda Item 5–O**. Staff is of the view that these words are unnecessary to retain in the requirements, given that ISA 520 applies only when the auditor has chosen to design and perform substantive analytical procedures when determining the nature, timing and extent of the further audit procedures in accordance with ISA 330.⁸
15. In addition, Staff propose to remove the first sentence in paragraph A16 of **Agenda Item 5–O** and refocus the paragraph on the concept of persuasiveness of the audit evidence sought to be obtained by the performance of the substantive analytical procedure.

⁸ ISA 330, *The Auditor's Responses to Assessed Risks*

Level of Precision for the Threshold to Evaluate Differences from Expected Amounts

Relevant Paragraphs in Agenda Item 5–O:	Para. 5(d)
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16. The precision of a substantive analytical procedure, among other matters, depends on the level at which the amount of difference between the expectation developed by the auditor and the recorded amounts that is acceptable without further investigation is set (i.e., the threshold to evaluate differences). If this threshold is set at a too high level, then by design, the substantive analytical procedure may not be effective to meet the purpose of a substantive procedure, which is to detect a material misstatement.
17. The standards do require the auditor to determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Also, the standards explain that performance materiality is set at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level.⁹
18. On this basis, for a substantive analytical procedure, Staff retain their view from June 2025 that it is necessary to explicitly recognize in the requirements of ISA 520 that the threshold to evaluate differences from expected amounts that is acceptable without investigation does not *exceed planning materiality* (see paragraph 5(d) of **Agenda Item 5–O**).

Reliability of Information on which an Expectation is Developed

Relevant Paragraphs in Agenda Item 5–O:	Para. 5(c)(i); A12–A14
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Other Standard-Setting Initiatives

19. The PCAOB’s proposed amendments to their analogous ISA 520 auditing standard include a requirement that, when developing an expectation, the auditor may not use a recorded amount or an amount derived from recorded amounts (as applicable, company’s amount) or information that is based on the company’s amount.¹⁰
20. The aim of the proposal was to explicitly address the risk of ‘circular auditing’ when performing substantive analytical procedures. It also clarifies that the auditor should develop its expectation by identifying and using plausible relationships that are reasonably expected to exist and to obtain assurance from substantive analytical procedures based on the consistency of the recorded amounts with expectations developed from data derived from other sources.

The Meaning of Circular Auditing

21. Circular auditing is not a term defined or described for the purposes of the ISAs or in auditing standards of other jurisdictions. In practice, the term is used colloquially to describe circumstances when the auditor develops an expectation of the entity’s recorded amount by using information that is directly derived from or dependent upon the same sources of information as the recorded amount.
22. The risk of circular auditing increases proportionally to the complexity of the entity’s information

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

¹⁰ See the Public Company Accounting Oversight Board (PCAOB): [Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards](#).

processing systems given the interdependence of the flow of information. Circular auditing is also particularly problematic when the underlying source of information is not subject to audit procedures to evaluate its reliability.

Alignment with Proposed ISA 500 (Revised) ¹¹

23. Extant ISA 520 requires the auditor to evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation.¹² For purpose of alignment with Proposed ISA 500 (Revised), Staff propose to revise the requirement to refer to evaluating the *reliability of the information* on which the expectation is developed, with supporting application material providing additional considerations and linkages to foundational requirements of Proposed ISA 500 (Revised) (see paragraphs 5(c)(i) and A12–A14 of **Agenda Item 5–O**).
24. Staff are also of the view that the principles established by the standard to evaluate the reliability of the information on which the expectation is developed remain sound and sufficient to address the necessary elements when developing an expectation of recorded amounts or amounts derived from recorded amounts. On this basis, Staff do not believe it is necessary to prescribe requirements to guard against performance challenges which may arise (e.g., instances of 'circular auditing' or use of unreliable information to develop expectations of recorded amounts). In addition, Staff is of the view that pursuing a prescriptive approach could undermine the principle-based nature of the standard.

Results of Analytical Procedures Performed as Risk Assessment Procedures

Relevant Paragraphs in Agenda Item 5–O:	Paras. 4A; A3B–A3C
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Redraft of ISA 520 Under IAASB's Clarity Project

25. The ISA 520 version before the redrafting in the course of the IAASB Clarity Project included an explicit requirement to investigate results of analytical procedures performed at all stages of an audit,¹³ if such procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts.¹⁴
26. In 2007, when ISA 520 was redrafted the IAASB decided to exclude analytical procedures performed as risk assessment procedures from the scope of the standard, on the basis that ISA 315 (Redrafted)¹⁵ already contained a requirement for the auditor to design and perform risk assessment procedures that include analytical procedures.¹⁶
27. However, because ISA 315 (Redrafted) did not include an equivalent requirement to investigate

¹¹ See Proposed ISA 500 (Revised), *Audit Evidence* in **Agenda Item 5–N**.

¹² See paragraph 5(b) of extant ISA 520.

¹³ Analytical procedures are performed at the following stages of an audit: as risk assessment procedures, as substantive procedures or those performed near the end of the audit to assist the auditor when forming an overall conclusion.

¹⁴ See [Mapping Document](#) in IAASB Main Agenda (December 2007).

¹⁵ ISA 315 (Redrafted), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁶ See the [minutes](#) from the IAASB December 2007 meeting when ISA 520 was redrafted as part of IAASB's Clarity Project.

results of analytical procedures performed as risk assessment procedures, an ‘investigation’ for analytical procedures was no longer explicitly required in the body of ISAs. Instead, an investigation element was retained in the definition of analytical procedures.

Relevant Paragraphs of ISA 315 (Revised 2019)

28. Paragraph 37 of ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of ROMM if new information becomes available which is inconsistent with the audit evidence on which the auditor originally based such identification or assessment.
29. Application material in ISA 315 (Revised 2019) explains that:
 - (a) A revision of risk assessment is appropriate if new or other information comes to the auditor’s attention that differs significantly from the information on which the risk assessment was based (e.g., further procedures provide evidence that controls are not operating effectively or detecting misstatements from substantive procedures in amounts or frequency greater than is consistent with the auditor’s risk assessments).
 - (b) Analytical procedures, among other, help identify inconsistencies, unusual or unexpected relationships that when identified may assist the auditor in identifying ROMM, especially risks of material misstatement due to fraud. Analytical procedures performed as risk assessment procedures may therefore assist in identifying and assessing the ROMM by identifying aspects of the entity of which the auditor was unaware or understanding how inherent risk factors affect susceptibility of assertions to misstatement.

IAASB Guidance

30. Stakeholders have sought clarity for the auditor’s appropriate response to investigate outputs of technological tools that identify items that are inconsistent with the auditor’s expectations or that exhibit characteristics that are unusual for the population. In response, the IAASB issued non-authoritative guidance¹⁷ which, among other, addresses questions pertaining to whether, when performing risk assessment procedures, the auditor is required to further investigate *all unusual items identified*. For a risk assessment procedure, such guidance explains that if an unusual result is identified, further investigation would generally be appropriate.
31. However, the guidance notes that, because a risk assessment analytical procedure is not intended to detect individual misstatements or deviations, the auditor may not need to investigate *every unusual item* in order to meet the purpose of the audit procedure. In such case, the auditor could perform further investigation, for example through inquiry and corroboration, to determine how the item might affect the risk assessment of the population (e.g., through the identification of a new ROMM or the revision of an assessed ROMM). The auditor may also consider how the results of the procedure may affect the design of other risk assessment procedures and further audit procedures.

Results of Analytical Procedures Performed as Risk Assessment Procedures

32. Given the different nature (and purpose) of risk assessment procedures Staff propose separately addressing the results of analytical procedures performed as risk assessment procedures in a new

¹⁷ See the [IAASB-Technology-FAQ-Investigating-Exceptions-Materiality.pdf](#)

paragraph with supporting application material (see paragraphs 4A and A3B–A3C of **Agneda Item 5–O**). In doing so, Staff is of the view that this would:

- (a) Ensure better consistency with the purpose of risk assessment procedures in ISA 315 (Revised 2019), which is to identify and assess ROMM. In addition, because the term ‘investigation’ has a described meaning for the IAASB Glossary of Terms,¹⁸ Staff believe it is appropriate to focus the requirement by referring to ‘results.’
- (b) Support performance of robust risk assessment analytical procedures, as only by focusing on the results of analytical procedures, the auditor may appropriately identify, assess or revise an assessed ROMM, including determining that there is no ROMM or that the assessed ROMM is at acceptably low level.

Investigating the Results of Substantive Analytical Procedures

<i>Relevant Paragraphs in Agneda Item 5–O:</i>	<i>Para. 5(e); A16B–A16F</i>
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33. In response to comments from the Board (in plenary and offline), Staff propose certain refinements to the requirement and related application material to investigate the differences that exceed the threshold to evaluate differences from expected amounts, as follows:

- (a) The requirement in paragraph 5(e) of **Agneda Item 5–O** was streamlined and simplified (e.g., the redundant phrase ‘in addition to inquiries’ was removed from the lead-in sentence as it is captured by subparagraph (i)). In addition, given that the description for inquiry in Proposed ISA 500 (Revised) and the IAASB Glossary of Terms indicates that they consist of seeking information of knowledgeable persons within the entity or outside the entity, the requirement in paragraph 5(e)(i) was aligned accordingly to state that inquiries may extend to others within *or outside* the entity.
- (b) In application material paragraph A16D of **Agneda Item 5–O** the word ‘initial’ was removed from the text because it could be misunderstood that it implied that an expectation could be made preliminary, which is not ‘*as precise*.’ In addition, the wording of the paragraph was clarified, to avoid the unintended consequence of misunderstanding that the guidance implies that the auditor does not need to investigate whether there is a misstatement in circumstances when new information becomes available.

34. Staff also considered suggestions for:

- (a) Reflecting in the standard the iterative process involved when performing a substantive analytical procedure (e.g., refining the auditor’s expectation when it is initially not sufficiently precise). Staff remains of the view that, when performing a substantive analytical procedure, an important proposed enhancement for Proposed ISA 520 (Revised) is the emphasis on the need for the auditor’s expectation to be sufficiently precise to meet the purpose of a substantive procedure. While the auditor in practice may refine the expectation to be more precise through iterations when performing a substantive analytical procedure, such audit procedure qualifies as a substantive analytical procedure only when it is designed with sufficient precision to detect

¹⁸ The description for the term ‘investigate’ in the IAASB Glossary of Terms is: ‘Inquire into matters arising from other procedures to resolve them.’

a material misstatement.

- (b) Reconsideration of the reference to ‘differences exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement’ in paragraph A16B of **Agneda Item 5–O** on the basis that after the investigation, it is possible that the auditor determines that the difference exceeding the amount is not a misstatement. Staff remains of the view that the words ‘ordinarily indicate’ appropriately convey this notion, without undermining that, if the substantive analytical procedure is not sufficiently precise to detect a material misstatement, then such a procedure cannot constitute a substantive analytical procedure.

Implications of Revising the Scope of ISA 520

Objectives

<i>Relevant Paragraphs in Agenda Item 5–O:</i>	<i>Para. 3</i>
35. The objectives of extant ISA 520 are two-fold and address (i) designing and performing analytical procedures near the end of the audit and (ii) obtaining relevant and reliable audit evidence when using substantive analytical procedures. Given the Board’s decision from June 2025 to embed a complete framework to support auditors’ judgments when using analytical procedures across all stages in an audit, including when used as risk assessment procedures, Staff propose revising the objectives of ISA 520 (see paragraph 3 of Agneda Item 5–O).	
36. In proposing the changes to the objectives, Staff focused the outcome, i.e., on obtaining audit evidence when using analytical procedures. This is because the CUSP Drafting Principles and Guidelines ¹⁹ explain that the objectives of an ISA focus on the end result of what the auditor aims to achieve by applying a standard.	

Implications for ISA 315 (Revised 2019)

37. The requirement to perform analytical procedures as risk assessment procedures sits in paragraph 14(b) of ISA 315 (Revised 2019). Staff believe this remains appropriate and consistent with previous IAASB decisions that aimed to avoid duplication between requirements in ISA 520 and ISA 315 (Revised 2019).²⁰
38. **Appendix 1** to this Agenda Item identifies the application material paragraphs for analytical procedures of ISA 315 (Revised 2019) and shows (in mark-up from extant) where necessary conforming and consequential amendments had been identified as a result of the change to the scope of Proposed ISA 520 (Revised).

Implications for Proposed ISA 500 (Revised)

<i>Relevant Paragraphs in Agenda Item 5–N:</i>	<i>Appendix 1</i>
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39. Application guidance on the types of audit procedures, including analytical procedures, sits in

¹⁹ See Section 7: ‘Objectives of the Auditor in the ISAs’ of the [CUSP Drafting Principles and Guidelines](#).

²⁰ See the [minutes](#) from the IAASB December 2007 meeting when ISA 520 was redrafted as part of IAASB’s Clarity Project.

Appendix 1 of Proposed ISA 500 (Revised). Staff believe this remains appropriate as it addresses comprehensively the various types of audit procedures, linking back to the ISAs addressing the audit evidence to be obtained for specific matters. In addition, certain alignment changes, as necessary, have been proposed to paragraphs 1 (third bullet) and 9–10A in Appendix 1 of **Agenda Item 5–N**.

Implications for Other ISAs

40. Various other ISAs refer to the auditor's use of analytical procedures.²¹ Review of those paragraphs indicate a need for conforming and consequential amendments as a result of the change in the scope of ISA 520, which is however of a limited and alignment nature.
41. Analytical procedures are also relevant to the requirements of other IAASB Standards, such as the International Standards on Review Engagements (ISREs). Because the definition of analytical procedures was clarified to remove the investigation element, Staff believe it is appropriate to retain in the IAASB Glossary of Terms a distinction that this only applies in the context of the ISAs.

Matters for IAASB Consideration:

1. The Board is asked for their views on Staff's views and recommendations discussed in paragraphs 12–41 above, including the related drafting presented in **Agenda Item 5–O**, **Agenda Item 5–N** and in the **Appendix 1** to this Agenda Item. In particular:
 - (a) The proposed revisions to the lead-in sentence in paragraph 5 and the application material in paragraph A16 of **Agenda Item 5–O**.
 - (b) The explicit recognition in the requirement in paragraph 5(d) of **Agenda Item 5–O** that the threshold to evaluate differences from expected amounts acceptable without further investigation does not exceed planning materiality.
 - (c) The proposed alignment changes with Proposed ISA 500 (Revised) to paragraphs 5(c)(i) and A12–A14 of **Agenda Item 5–O**.
 - (d) The proposed requirement and related application material addressing the results of analytical procedures performed as risk assessment procedures in paragraphs 4A and A3B–A3C of **Agenda Item 5–O**.
 - (e) The refinements to the requirements and related application material for investigating the results of substantive analytical procedures in paragraphs 5(e) and A16B–A16F of **Agenda Item 5–O**.
 - (f) The implications of revising the scope of ISA 520, including the proposed changes to the objectives in paragraph 3 of **Agenda Item 5–O**, the alignment changes to ISA 315 (Revised 2019) in **Appendix 1** to this Agenda Item and Proposed ISA 500 (Revised) of **Agenda Item 5–N**.

²¹ For example, ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 30, 52, A60, A154–A155; ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraph A26; ISA 501, *Audit Evidence—Specific Considerations for Selected Items*, paragraph 13; ISA 530, Appendix 3; ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A58; ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs A51 and A129 and ISA 620, *Using the Work of an Auditor's Expert*, paragraph A32.

Appendix 1

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

Application Material and Other Explanatory Material

Risk Assessment Procedures and Related Activities (Ref: Para. 13–18)

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Analytical Procedures (Ref: Para. 14(b))

Why Analytical Procedures Are Performed as a Risk Assessment Procedure

- A27. Analytical procedures help identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
- A28. Analytical procedures performed as risk assessment procedures may therefore assist in identifying and assessing the risks of material misstatement by identifying aspects of the entity of which the auditor was unaware or understanding how inherent risk factors, such as change, affect susceptibility of assertions to misstatement.

Types of Analytical Procedures

A29. Analytical procedures performed as risk assessment procedures may:

- Include both financial and non-financial information, for example, the relationship between sales and square footage of selling space or volume of goods sold (non-financial).
- Use data aggregated at a high level. Accordingly, the results of those analytical procedures may provide a broad initial indication about the likelihood of a material misstatement.

Example:

In the audit of many entities, including those with less complex business models and processes, and a less complex information system, the auditor may perform a simple comparison of information, such as the change in interim or monthly account balances from balances in prior periods, to obtain an indication of potentially higher risk areas.

- A30. This ISA deals with the auditor's use of analytical procedures as risk assessment procedures. Proposed ISA 520 (Revised)²² deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with and the auditor's responsibility relating to the results of analytical procedures used as risk assessment procedures and to perform analytical procedures near the end of the. ~~Accordingly, analytical procedures performed as risk assessment procedures are not required to be performed in accordance with the requirements of ISA 520. However, the requirements and application material in ISA 520 may provide useful guidance to the auditor when performing analytical procedures as part of the risk assessment procedures.~~

²² ISA 520, *Analytical Procedures*