

Audit Evidence and Risk Response (AE&RR) – Selecting Items for Testing

This Agenda Item sets out matters relevant to determining an appropriate means for selecting items for testing when designing and performing tests of details and tests of controls, including matters relevant to the nature and extent of substantive procedures.

Background

Relevant Requirements

1. When designing tests of controls and tests of details, extant ISA 500¹ requires the auditor to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. Application material in paragraph A63 of extant ISA 500 clarifies the means available to the auditor for selecting items for testing which are: selecting all items (100 % examination), selecting specific items, and audit sampling as discussed in ISA 530.²

Previous IAASB Decisions

2. In developing ED-500,³ the IAASB deliberated whether the requirement in paragraph 10 of extant ISA 500 may be better placed in ISA 330⁴ as it relates to the design of audit procedures in response to assessed risks. However, the IAASB noted that determining how items will be selected for testing is an integral part of designing audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures. Therefore, the IAASB decided to remove paragraph 10 of extant ISA 500 on the basis that it is subsumed into paragraph 8(b) of ED-500.

ISA 500 Series Project

3. The ISA 500 Series project is currently undertaking information gathering and research activities to inform the scoping of a project for revising targeted audit evidence standards in the ISA 500 Series that include audit sampling addressed by ISA 530.
4. In coordinating with Staff of the ISA 500 Series project, it was noted that stakeholders have raised the following matters which are linked to foundational concepts and principles addressed by ISA 330 and ISA 500, and which require clarification:
 - (a) There is a need to distinguish audit sampling as contemplated by ISA 530⁵ from the other means of selecting items for testing that are not audit sampling, such as testing entire populations or testing key items.

¹ International Standard on Auditing (ISA) 500, *Audit Evidence*, paragraph 10.

² ISA 530, *Audit Sampling*

³ See the [Exposure Draft for Proposed ISA 500 \(Revised\), Audit Evidence \(ED-500\)](#).

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 530 only applies when the auditor has decided to use audit sampling in performing audit procedures.

- (b) There is a need to clarify expectations around investigating outliers when using technological tools to analyze entire populations, including whether such outliers may be further investigated by using audit sampling.⁶

Other Standard-Setting Initiatives

5. The PCAOB's technology-related amendments⁷ included adding a new section to the analogous ISA 330 auditing standard titled 'Tests of Details.' This section sets out a description of tests of details⁸ and new requirements when performing and investigating the results of tests of details, as follows:
- (a) When performing tests of details the auditor:
- Is required to apply audit procedures that are appropriate to the particular audit objectives to each item selected for testing.
 - May identify items that require further investigation which form part of the auditor's response to the risks of material misstatement. The auditor's determination of the nature, timing and extent of such procedures is in accordance with PCAOB standards, and the investigation of the identified items includes determining whether those items individually or in the aggregate indicate misstatements or deficiencies in the entity's internal control.
- (b) When specific items are selected for testing within an account or disclosure, the auditor is required to determine whether there is a reasonable possibility that remaining items within the account or disclosure include a misstatement that, individually or when aggregated with others, would have a material effect on the financial statements. In addition, if the auditor determines that there is a reasonable possibility of such a risk of material misstatement in the items not selected for testing, the auditor is required to perform substantive procedures that address the assessed risk.

Staff Views and Recommendations

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| <i>Relevant Paragraphs in Agenda Item 5–M:</i> | Paras. 23A, A49–A49A; A60A |
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Means of Selecting Items for Testing

6. The requirement in paragraph 8(b) of Proposed ISA 500 (Revised) applies broadly as it extends to all audit procedures designed and performed for the purpose of obtaining sufficient appropriate audit evidence, including risk assessment procedures in accordance with ISA 315 (Revised 2019)⁹ and further audit procedures in accordance with ISA 330. While being broad, it is not specific that

⁶ Issue 6(e) of the IAASB's Technology Position Catalog of Issues and Possible Actions also highlight the need for guidance on considerations relating to testing outliers and exceptions identified by a technological tool (see [Agenda Item 7-B](#) discussed by the IAASB at the September 2025 meeting).

⁷ See the Public Company Accounting Oversight Board (PCAOB) [Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form](#).

⁸ The PCAOB description for a test of details is as follows: 'A test of details involves performing audit procedures with respect to items included in an account or disclosure (e.g., the date, amount, or contractual terms of a transaction).'

⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

determination is necessary for the means of selecting items for testing when designing and performing tests of control and tests of details that are effective to meet the purposes of those audit procedures.

7. Accordingly, Staff propose reinstating the requirement in paragraph 10 of extant ISA 500, into ISA 330, on the basis that it would support consistent practice when designing and performing tests of control and tests of details whose nature, timing and extent are responsive to the assessed risks of material misstatement (see paragraph 23A of **Agenda Item 5–M**). Specifically, this is an important decision point for the auditor in determining the appropriate extent of such further audit procedures. Also, in terms of placement, Staff considered that it is most logical for the proposed requirement to be placed in a separate subsection of ISA 330, following the requirements for tests of controls and substantive procedures.
8. Staff also propose new application material to the requirement that continues to cross reference to Appendix 2 of Proposed ISA 500 (Revised) (see paragraph A60A of **Agenda Item 5–M**). Retaining Appendix 2 into Proposed ISA 500 (Revised) was also considered appropriate given that the auditor may decide to select items for testing when designing other audit procedures whose purpose is different than a tests of controls and tests of details (e.g., audit procedures designed and performed to identify and assess the risks of material misstatement).

Nature and Extent of Substantive Procedures

9. In developing the Pre-finalization Holding Package for Proposed ISA 500 (Revised), the IAASB added application material¹⁰ to clarify the expectations around investigating the output generated by the use of technological tools that exhibit characteristics that are unusual for the population (referred to as exceptions, outliers, notable items, or items of audit interest). In doing so, educational materials developed by Jurisdictional Standard Setters (JSS) and the Technology Consultation Group (TCG)¹¹ were leveraged. Such guidance, among other, explains that for further audit procedures (tests of controls or substantive procedures) the outputs of technological tools are investigated by the auditor to determine whether a control deviation or misstatement exists. For example, depending on the facts and circumstances, such investigation may include:
 - (a) Performing further testing on a sample of items when there is a reasonable basis on which to draw conclusions about the entire population of exceptions in the output.
 - (b) When the population of exceptions is not homogeneous, the auditor may consider whether the population of exceptions can be stratified into homogeneous sub-populations for the purposes of testing the exceptions,¹² or if this is not possible perform further testing on all items of exceptions.
10. Staff propose to enhance application material in ISA 330 to emphasize that investigating the results of substantive procedures, as necessary, is an integral part of the nature and extent of such procedures to determine whether a misstatement or control deficiency exists. In addition, a cross

¹⁰ See Proposed ISA 500 (Revised), paragraphs A65H–A65J.

¹¹ See the [IAASB-Technology-FAQ-Investigating-Exceptions-Materiality.pdf](#)

¹² ISA 530, paragraph A8

reference is provided to other ISAs where requirements and guidance are available (see paragraphs A49–A49A of **Agenda Item 5–M**).

Matters for IAASB Consideration:

1. The Board is asked for their views on Staff’s views and recommendations discussed in paragraphs 6–10 above, including the proposed drafting presented in **Agenda Item 5–M**. In particular:
 - (a) Reinstating the requirement to determine means of selecting items for testing when designing tests of controls and tests of details into paragraph 23A of **Agenda Item 5–M**.
 - (b) The proposed application material in paragraphs A49–A49A and A60A of **Agenda Item 5–M**.
2. The Board is asked whether there are any other matters that should be considered for selecting items for testing when designing and performing tests of details and tests of controls.