

Audit Evidence & Risk Response (AE&RR) – Evaluating the Outcome of Tests of Controls

This Agenda Item sets out Staff's views and recommendations for enhancing requirements and application material relating to the auditor's evaluation of the operating effectiveness of controls.

Background

AE&RR Project Proposal – Proposed Action(s)

1. In response to recurring challenges with the application of requirements relating to evaluation of the operating effectiveness of controls when performing tests of controls, the AE&RR project proposal includes various actions to consider enhancements in this area.¹

*Relevant Paragraphs in ISA 330*²

2. Paragraph 16 of extant ISA 330 requires the auditor to evaluate whether misstatements detected by substantive procedures indicate that controls may not be operating effectively. Paragraph 17 of ISA extant 330 requires the auditor to determine the consequences of identifying deviations in the operation of controls when performing tests of controls.

Staff Views and Recommendations

Evaluating the Operating Effectiveness of Controls

<i>Relevant Paragraphs in Agenda Item 5–M:</i>	Paras. 16; A41–A41A
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3. Staff propose to clarify the requirement in paragraph 16 of **Agenda Item 5–M** by:
 - (a) Making it explicit that the auditor's evaluation of misstatements detected by substantive procedures includes considering any knowledge of misstatements identified from all substantive procedures performed *throughout the audit* engagement, and not only those that address the same risk of material misstatement or the same relevant assertion as the tests of controls.
 - (b) Repositioning the essential material from the requirement to the application material in paragraph A41 of **Agenda Item 5–M**. In proposing this change, Staff considered the CUSP Drafting Principles and Guidelines,³ which explain that essential material to the requirements should be avoided unless critical to the understanding of the requirement.
4. In addition, Staff propose the following enhancements to the application material:
 - (a) Introducing factors that may be relevant to the auditor's judgment when evaluating the possible effect of misstatements identified by substantive procedures, on the operating effectiveness of

¹ See Actions B.11–B.15 of **Agenda Item 5–P**.

² International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*

³ See Section 9: 'Requirements of an ISA' of the [CUSP Drafting Principles and Guidelines](#).

controls (see in paragraph A41A of **Agenda Item 5–M**).

- (b) Cross-referencing to ISA 265⁴ addressing the responsibility to communicate with those charged with governance and management, as appropriate, the existence of a significant deficiency in internal control (see paragraph A41 of **Agenda Item 5–M**).

Further Work for Results of Tests of Controls

Relevant Paragraphs in Agenda Item 5–M :	Para. 17
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5. The requirement in paragraph 17 of extant ISA 330 has been repositioned under a new heading ‘Results of Tests of Controls.’ Post December 2025, Staff intend to present to the Board enhancements to clarify the requirement (and related application material) in paragraph 17 of extant ISA 330 and in doing so consider the following matters:
 - (a) The equivalent Public Company Accounting Oversight Board’s (PCAOB) requirements explicitly link the evaluation the operating effectiveness of controls with the auditor concluding on their assessment of control risk.⁵ The PCAOB requirement is also more directly connected to a relevant assertion as follows: if the auditor evaluates that controls are not operating effectively because of identified deficiencies in the controls, the auditor is required to either ‘perform tests of other controls related to the same assertion as the ineffective controls, or revise the control risk assessment and modify the planned substantive procedures as necessary in light of the increased assessment of risk.’⁶
 - (b) The proposed revisions discussed by the Board in September 2025⁷ to broaden the definition of tests of controls in the context of the ISAs explicitly permit tests of controls to be performed for the purpose of evaluating the reliability of information intended to be used as audit evidence. Therefore, some tests of controls may no longer be performed to obtain audit evidence that is specifically responsive to an assessed risk of material misstatement at the assertion level. As a result, the specific implications for the audit of identifying deviations in the operation of controls in each case may differ.

Matter for the IAASB’s Consideration:

1. The Board is asked for their views on Staff’s views and recommendations discussed in paragraphs 3–5 above, including the related drafting in paragraphs 16 and A41–A41A of **Agenda Item 5–M**.

⁴ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

⁵ AS 2301, *The Auditor’s Responses to the Risks of Material Misstatement*, paragraphs, paragraphs .32–.34.

⁶ AS 2301, paragraphs .34.

⁷ 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.