

Preliminary Drafting for Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

This Agenda Item includes preliminary drafting for Proposed ISA 330 (Revised). Changes from extant¹ are shown in mark-up in **red font**. The text and paragraphs highlighted in **grey** are carried over from extant ISA 330 with no modification and will be considered further post December 2025. The text in black font, underline and strikethrough, reflects conforming and consequential amendments proposed by the Pre-finalization Holding Package of Proposed ISA 500 (Revised).²

For ease of navigation:

- The changes shown in mark-up in **red font** have been referenced (in **green**) to the separate **Agenda Items 5–A to 5–K** (as applicable) where the related matters are discussed.
- Mark-ups shown in **red font** without such a reference, are those matters (as applicable) discussed in **Agenda Item 5–L**, 'Explanation of Other Changes.'

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 (Revised 2019)³ in an audit of financial statements.

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Substantive procedure – An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures ~~include~~**comprise**: (i) ~~T~~tests of details (of classes of transactions, account balances, and disclosures); and (ii) ~~S~~**substantive** analytical procedures.⁴ **[Agenda Item 5–D]**

¹ See ISA 330 as published in the IAASB 2025 Handbook (Volume I), including (when applicable) conforming and consequential amendments as a result of revision of other approved ISAs which are not yet effective.

² See the Proposed ISA 500 (Revised), *Audit Evidence*, 'Pre-finalization Holding Package' in [Agenda Item 5](#) discussed by the IAASB at the March 2024 quarterly meeting.

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴ ISA 520 (Revised), *Analytical Procedures*, defines the term 'substantive analytical procedures.'

- (b) Tests of controls – An audit procedure designed to ~~evaluate~~ obtain audit evidence about the operating effectiveness of controls ~~in preventing, or detecting and correcting, material misstatements at the assertion level.~~ (Ref: Para. A0A)
- (c) Tests of details – A substantive procedure that involves the application of certain types of audit procedures to each specific item selected for testing. (Ref: Para. A0B–A0C) [Agenda Item 5–D]

Requirements

Overall Responses

- 5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A1–A3)

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

- 6. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. (Ref: Para. A4–A8; A43–A54)
- 6A. The auditor shall respond to the risks of material misstatement in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (Ref: Para. A8B).
- 7. In designing the further audit procedures to be performed, the auditor shall, for each relevant assertion of a significant class of transactions, account balance and disclosure: (Ref: Para. A9–A18)
 - (a) Consider the assessment of inherent risk and the reasons for the assessment ~~given to the risk of material misstatement at the assertion level for each significant class of transactions, account balance, and disclosure, including:~~
 - (i) ~~The likelihood and magnitude of misstatement due to the particular characteristics of the significant class of transactions, account balance, or disclosure (that is, the inherent risk); and~~
 - (ii) ~~Whether the risk assessment takes account of controls that address the risk of material misstatement (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and (Ref: Para. A9–A18)~~
 - (b) Consider the assessment of control risk; and
 - (c) Plan to Obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. (Ref: Para. A19)

Tests of Controls

- 8. The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if: (Ref: Para. A19A)

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
 - (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A20–A24B)
9. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence about the operating effectiveness of controls, the greater the reliance the auditor places on the operating effectiveness of a control in responding to an assessed risk of material misstatement at the assertion level. (Ref: Para. A24C–A25)

Nature and Extent of Tests of Controls

10. In designing and performing tests of controls, the auditor shall:
- (a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
 - (i) How the controls were applied at relevant times during the period under audit;
 - (ii) The consistency with which they were applied; and
 - (iii) By whom or by what means they were applied. (Ref: Para. A26–A30)
 - (b) To the extent not already addressed, determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, ~~whether it is necessary to~~ obtain audit evidence supporting the effective operation of those indirect controls. (Ref: Para. A32) [Agenda Item 5–B]

Timing of Tests of Controls

11. Subject to paragraphs 11A–12 below, the auditor shall ~~test~~ obtain audit evidence about the operating effectiveness of controls for the particular time, or throughout the period, for which the auditor intends to place reliance ~~rely on the operating effectiveness of~~ those controls, ~~subject to paragraphs 12 and 15 below, in order to provide an appropriate basis for the auditor's intended reliance~~. (Ref: Para. A32A–A33)

Controls ~~over-addressing~~ significant risks

- 11A. If the auditor ~~plans~~ intends to ~~rely on controls over~~ obtain audit evidence about the operating effectiveness of controls that address a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period. [Agenda Item 5–F]

[Moved from Para. 15]

Tests of controls alone

- 11B. If the auditor plans to obtain sufficient appropriate audit evidence to address a risk of material misstatement at the assertion level by testing the operating effectiveness of controls alone, the auditor shall test those controls in the current period. [Agenda Item 5–G]

Using audit evidence obtained during an interim period

12. If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall:
- (a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and
 - (b) Determine the additional audit evidence to be obtained for the remaining period. (Ref: Para. A34–A35)

Using audit evidence obtained in previous audits [Agenda Item 5–G]

13. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider ~~the following~~: (Ref: Para. A36)
- (a) The risks arising from the characteristics of the control, including whether it is manual or automated; (Ref: Para. A36A)
 - ~~(b) The effectiveness of other components of the entity's system of internal control, including evaluation of the control environment, the entity's process to monitor the system of internal controls, and the entity's risk assessment process in accordance with ISA 315 (Revised 2019);~~
 - ~~(b) The risks arising from the characteristics of the control, including whether it is manual or automated;~~
 - (c) The effectiveness of general IT controls (Ref: Para. A36B);
 - (d) ~~The effectiveness of~~ Whether the control ~~and its application by the entity operated effectively~~, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been ~~personnel~~ changes that significantly affect the application of the control;
 - (e) Whether the lack of a change in a particular control poses a risk due to changing circumstances, including whether there have been changes to risks arising from the use of IT; and
 - (f) The assessed risks of material misstatement and the persuasiveness of audit evidence to be obtained in the current period to address the risks of material misstatement ~~extent of reliance on the control~~. (Ref: Para. A36)
14. If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall ~~establish the continuing relevance and reliability of that evidence by obtaining~~ obtain audit evidence about whether significant changes in those controls have occurred ~~subsequent to~~ since the previous audit. The auditor shall obtain this audit evidence ~~by performing through~~ inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:
- (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. (Ref: Para. A37)
 - (b) If there have not been such changes, the auditor shall test ~~such the~~ controls at least once in every third audit year, and shall test some of those controls in each audit to avoid the

possibility of obtaining audit evidence about the operating effectiveness of such testing all the controls on which the auditor intends to rely in a single audit period and with obtaining no such audit evidence no testing of controls in the subsequent two audit periods years.
(Ref: Para. A38–A40)

Controls over significant risks

15. [Agenda Item 5–F] [Moved to Para. 11A]

Evaluating the Operating Effectiveness of Controls [Agenda Item 5–H]

16. When evaluating the operating effectiveness of controls upon which the auditor intends to rely, the auditor shall evaluate whether misstate ents that have been detected by substantive procedures performed throughout the audit indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. (Ref: Para. A41–A41A)

[Moved to Para. A41]

Results of Tests of Controls [Agenda Item 5–H]

17. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A42)
- (a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;
 - (b) Additional tests of controls are necessary; or
 - (c) The risks of material misstatement need to be addressed using substantive procedures.

Substantive Procedures

18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A43–A49A) [The options for the Board's consideration, along with proposed drafting are presented in Agenda Item 5–A]
19. The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. (Ref: Para. A50–A53)

Substantive Procedures Related to the Financial Statement Closing Process

20. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:
- (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
 - (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A54)

Substantive Procedures Responsive to Significant Risks

21. If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. (Ref: Para. A55)

Timing of Substantive Procedures

22. If substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:
- (a) substantive procedures, combined with tests of controls for the intervening period; or
 - (b) if the auditor determines that it is sufficient, further substantive procedures only,
- that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. (Ref: Para. A56–A59)
23. If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing or extent of substantive procedures covering the remaining period need to be modified. (Ref: Para. A60)

Selecting Items for Testing [Agenda Item 5–I]

- 23A. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. (Ref: Para. A60A)

Adequacy of Presentation of the Financial Statements

24. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:
- Classification and description of financial information and the underlying transactions, events and conditions; and
 - Presentation, structure and content of the financial statements. (Ref: Para. A61)

Evaluating the Sufficiency and Appropriateness of Audit Evidence [Agenda Item 5–J]

25. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement ~~at the assertion level~~ remain appropriate. (Ref: Para. A62–A63)

- 25A. The auditor shall evaluate whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement. In doing so, 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 in the financial statements. (Ref: Para. A63A)

26. [Moved to paragraph 11 of ISA 700 (Revised)]

27. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to ~~do so—obtain sufficient appropriate audit evidence~~, the auditor shall consider the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 700 (Revised).⁵ ~~express a qualified opinion or disclaim an opinion on the financial statements.~~

Documentation

28. The auditor shall include in the audit documentation:⁶
- (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed;
 - (b) The linkage of those procedures with the assessed risks at the assertion level; and
 - (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A65)
29. If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached about the operating effectiveness relying on such of those controls that were tested in a previous audit.
30. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

Application and Other Explanatory Material

Definitions (Ref: Para. 4)

Tests of Controls (Ref: Para 4(b))

A0A. Tests of controls may be performed to:

- Obtain audit evidence about the operating effectiveness of controls that address risks of material misstatement at the assertion level thereby confirming the auditor's assessment of control risk;⁷ or
- Provide a basis for the auditor's evaluation of the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).⁸

⁵ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 11 and 17

⁶ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

⁷ ISA 315 (Revised 2019), paragraph 34.

⁸ Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs 9–10B

Example:

An entity may have designed and implemented controls to prevent unauthorized access to an IT application used in financial reporting, and validation controls within the application to prevent inaccurate or incomplete information being recorded, supported by general IT controls. The auditor may test the operating effectiveness of these controls as part of:

- The further audit procedures performed to address a risk of material misstatement; or
- Evaluating the reliability of information in the entity's information system in accordance with Proposed ISA 500 (Revised).

Tests of Details (Ref: Para 4(c)) [Agenda Item 5–D]

A0B. Tests of details may include testing aspects (e.g., date, amount or contractual terms of a transaction) of the specific items selected (e.g., an invoice) relevant to a class of transactions, account balance or disclosure.

Examples:

- Matching inventory quantities from a purchase order, vendor shipping document, and vendor invoice to the inventory sub-ledger.
- Examining subsequent cash receipts, shipping documentation, and sales near the period end.
- Recalculating the mathematical accuracy of the depreciation of property and equipment.

A0C. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures that may be relevant when designing and performing tests of details and explains that inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.⁹

Overall Responses (Ref: Para. 5)

A1. Overall responses to address the assessed risks of material misstatement at the financial statement level may include:

- Emphasizing to the engagement team the need to maintain professional skepticism.
- Assigning more experienced staff or those with special skills or using experts.
- Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Changes to the overall audit strategy as required by ISA 300,¹⁰ or planned audit procedures, and may include changes to:
 - The auditor's determination of performance materiality in accordance with ISA

⁹ See Proposed ISA 500 (Revised), Appendix 2.

¹⁰ ISA 300, *Planning an Audit of Financial Statements*

320.¹¹

- The auditor's plans to tests the operating effectiveness of controls, and the persuasiveness of audit evidence needed to support the planned reliance on the operating effectiveness of the controls, particularly when deficiencies in the control environment or the entity's monitoring activities are identified.
- The nature, timing and extent of substantive procedures. For example, it may be appropriate to perform substantive procedures at or near the date of the financial statements when the risk of material misstatement is assessed as higher.

A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of information intended to be used as audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:

- Conducting more audit procedures as of the period end rather than at an interim date.
- Obtaining more extensive audit evidence from substantive procedures.
- Increasing the number of locations to be included in the audit scope.

A3. Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).

A3A. In some rare cases, however, the absence of controls or of components of the system of internal control may make it impossible to obtain sufficient appropriate audit evidence. ISA 705 (Revised)¹² explains circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

[Moved from Para. A18]

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)

A4. The auditor's assessment of ~~the~~ identified risks of material misstatement at the assertion level in accordance with ISA 315 (Revised 2019) provides a basis ~~for considering the appropriate audit approach~~ for designing and performing further audit procedures. For example, the auditor may determine that:

- ~~(a) Only by p~~Performing tests of controls is necessary, in combination with substantive procedures, to may the auditor obtain sufficient appropriate audit evidence to address achieve an effective response to the assessed risk of material misstatement for a particular

¹¹ ISA 320, Materiality in Planning and Performing an Audit

¹² ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

relevant assertion. This may be the case when the auditor has identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level;¹³

- (b) Performing ~~only~~ substantive procedures ~~alone can provide sufficient~~ is appropriate audit evidence at the ~~for particular assertions~~ level. In these circumstances ~~and, therefore~~, the auditor's assessment of control risk is such that the risk of material misstatement is the same as the assessment of inherent risk,¹⁴ and therefore, the ~~excludes the effect of controls~~ is excluded from the assessment of the risk of material misstatement at the assertion level. This may be because the auditor has not identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence and therefore is not required to test the operating effectiveness of controls. Therefore the auditor may not plan to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures; or
- (c) Even though substantive procedures alone could provide sufficient appropriate evidence at the assertion level, a combined approach using both tests of controls and substantive procedures is an effective approach; or
- Performing tests of controls may, on their own, provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for a relevant assertion. Such a determination may arise in specific circumstances, further described in paragraph A4A.

The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level. However, as required by paragraph 18, irrespective of the approach selected and the assessed risk of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure. [The options for the Board's consideration relating to paragraph 18, along with proposed drafting are presented in Agenda Item 5–A]

A4A. In certain specific circumstances it may be appropriate for the auditor to design further audit procedures to obtain sufficient appropriate audit evidence related to a relevant assertion by performing tests of controls alone. That is, the auditor may assess that a risk of material misstatement at the assertion level is at an acceptably low level because of the auditor's expectation that the controls that the auditor considered when assessing the control risk related to the relevant assertion are operating effectively. In determining whether it may be appropriate to design and perform test of controls alone for a relevant assertion, the auditor may focus on the persuasiveness of the audit evidence expected to be obtained about the operating effectiveness of controls and may consider factors such as:

- The risk of management override of controls related to the relevant assertion has been addressed in accordance with ISA 240 (Revised).¹⁵
- The auditor's understanding of the entity's control environment in accordance ISA 315 (Revised 2019).
- The assessment of inherent risk for the relevant assertion is at the lower end of the

¹³ ISA 315 (Revised 2019), paragraph 33

¹⁴ ISA 315 (Revised 2019), paragraph 34

¹⁵ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 40

spectrum of inherent risk.

- The controls that formed part of the auditor's assessment of control risk and are planned to be tested in the circumstance:
 - Are sufficiently precise to respond to the events or conditions that gave rise to the identification and assessment of the inherent risk;
 - Are automated controls requiring little or no manual intervention;
 - Include the indirect controls that support the operation of the direct controls that address the relevant assertion; and
 - Operate in the entity's information system that the auditor has evaluated as appropriately supporting the preparation of financial statements in accordance with the applicable financial reporting framework.¹⁶

Example:

An entity may calculate payroll expenses by capturing data through biometric devices and automated application of hourly rates and overtime rules, with specific approvals required for edits. The auditor may determine that testing the controls around these activities, and testing the general IT controls supporting their operation, provides persuasive audit evidence regarding occurrence and accuracy of this aspect of payroll, and that substantive procedures are not necessary to reduce the risk to an acceptably low level.

- A5. The nature of an audit procedure refers to its purpose (that is, test of controls or substantive procedure) and its type (~~that is e.g.~~, inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). The nature of the audit procedures is of most importance in responding to the assessed risks.
- A6. Timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies.
- A7. Extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control.
- A8. Designing and performing further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level provides a clear linkage between the auditor's further audit procedures and the risk assessment.

Obtaining Audit Evidence in an Unbiased Manner (Ref: Para. 6A)

A8B. Designing and performing further audit procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information, which may assist the auditor in exercising professional skepticism in response to the assessed risks of material misstatement at the financial statement and assertion level. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of using inappropriate assumptions in determining the nature, timing and extent of the further audit procedures and evaluating the

¹⁶ ISA 315 (Revised 2019), paragraph 25

results thereof.¹⁷

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

Nature

A9. ISA 315 (Revised 2019) requires that the auditor's assessment of the risks of material misstatement at the assertion level is performed by assessing inherent risk and control risk. The auditor assesses inherent risk by assessing the likelihood and magnitude of a misstatement taking into account how, and the degree to which the inherent risk factors affect the susceptibility to misstatement of relevant assertions.¹⁸ The auditor's assessed risks, including the reasons for those assessed risks, may affect both the types of audit procedures to be performed and their combination. For example, when an assessed risk is high, the auditor may confirm the completeness of the terms of a contract with the counterparty, in addition to inspecting the document. Further, certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of material misstatement of the completeness assertion, whereas substantive procedures may be most responsive to the assessed risk of material misstatement of the occurrence assertion.

A10. The reasons for the assessment given to a risk are relevant in determining the nature of audit procedures. For example, if an assessed risk is lower because of the particular characteristics of a class of transactions without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone provide sufficient appropriate audit evidence. On the other hand, if the assessed risk is lower because the auditor plans to test the operating effectiveness of controls, and the auditor intends to base the substantive procedures on that low assessment, then the auditor performs tests of those controls, as required by paragraph 8(a). This may be the case, for example, for a class of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

A10A. The entity's use of technologies may also be relevant in determining the nature of audit procedures, for example, in the case of implementing complex or advanced technologies. In such cases, ISA 220 (Revised)¹⁹ requires the auditor to determine whether sufficient and appropriate technological resources, which may include technological tools, are assigned or made available to the engagement team. In other cases, the auditor may determine that it is more effective or efficient to use technological tools to perform further audit procedures given management's use of technologies.

A10B. As described in ISA 315 (Revised 2019),²⁰ the auditor's assessment of control risk is based on an initial expectation that controls are operating effectively, based on the auditor's evaluation of the design, and the determination of implementation, of the identified controls in the control activities component. The auditor is required to test the operating effectiveness of controls in accordance with ISA 330, to be able to confirm the initial expectation about the operating

¹⁷ ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A22

¹⁸ ISA 315 (Revised 2019), paragraphs 31 and 34

¹⁹ ISA 220 (Revised), Quality Management for an Audit of Financial Statements, paragraph 25

²⁰ ISA 315 (Revised 2019), paragraph A226

effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment in accordance with paragraph 37 of ISA 315 (Revised 2019).

Timing

A11. The auditor may perform tests of controls or substantive procedures at an interim date or at the period end. The higher the risk of material misstatement, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). This is particularly relevant when considering the response to the risks of material misstatement due to fraud. For example, the auditor may conclude that, when the risks of intentional misstatement or manipulation have been identified, audit procedures to extend audit conclusions from interim date to the period end would not be effective.

A12. On the other hand, performing audit procedures before the period end may assist the auditor in identifying significant matters at an early stage of the audit, and consequently resolving them with the assistance of management or developing an effective audit approach to address such matters.

A13. In addition, certain audit procedures can be performed only at or after the period end, for example:

- Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers;
- Examining adjustments made during the course of preparing the financial statements; and
- Procedures to respond to a risk that, at the period end, the entity may have entered into improper sales contracts, or transactions may not have been finalized.

A14. Further relevant factors that influence the auditor's consideration of when to perform audit procedures include the following:

- The control environment.
- When relevant information is available (for example, electronic files may subsequently be overwritten, or procedures to be observed may occur only at certain times).
- The nature of the risk (for example, if there is a risk of inflated revenues to meet earnings expectations by subsequent creation of false sales agreements, the auditor may wish to examine contracts available on the date of the period end).
- The period or date to which the audit evidence relates.
- The timing of the preparation of the financial statements, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.

Extent

A15. The extent of an audit procedure judged necessary is determined after considering the performance materiality, the assessed risk, and the degree of assurance the auditor plans to

obtain. When a single purpose is met by a combination of procedures, the extent of each procedure is considered separately. In general, the extent of audit procedures increases as the risk of material misstatement increases. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk. Factors that may affect the relevance of information intended to be used as audit evidence include, among other factors, the level of detail needed to meet the intended purpose(s) of the audit procedure, as explained in Proposed ISA 500 (Revised).²¹

For eEExamples:-

- iIn response to the assessed risk of material misstatement due to fraud, increasing sample sizes or performing substantive analytical procedures at a more detailed level may be appropriate.
- The auditor may assess the risk of material misstatement as higher for completeness of related party transactions. The auditor may decide to use a technological tool to perform a detailed inspection of individual contracts or agreements of the entity and evaluate whether there are related party transactions that are not identified or disclosed.

~~However, increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk.~~

- A16. The use of ~~computer-assisted audit techniques (CAATs)~~technological tools may enable more extensive testing of ~~electronic transactions and account files~~, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud.

Examples:

The auditor may use technological tools to:

- ~~Such techniques can be used to s~~Select sample transactions from the entity's records key electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.
- Match detailed information of large populations of transactions, such as dates, quantities and prices, recorded during the period to supporting documents, such as customer orders, invoices, shipping documents, and cash receipts.

Considerations specific to public sector entities

- A17. For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.

Considerations specific to smaller entities

- A18. In the case of very small entities, there may not be many controls that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity

²¹ ISA 500 (Revised), Audit Evidence, paragraphs A55.

may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. ~~In some rare cases, however, the absence of controls or of components of the system of internal control may make it impossible to obtain sufficient appropriate audit evidence.~~

[Moved to Para. A3A]

Higher Assessments of Risk (Ref: Para 7(~~cb~~))

A19. ~~The higher on the spectrum of inherent risk a risk is assessed, the~~ When obtaining more persuasive the audit evidence is required to be. This may include because of a higher assessment of risk, the auditor may increase increasing the quantity of the evidence obtained or obtaining evidence that is of higher quality.

Examples:

- ~~more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a~~ greater number of independent sources, including from third parties.
- More extensive testing for tests of controls and tests of details such as larger sample size for audit sampling purposes.
- Using specialized skills or knowledge to assist the auditor in designing and performing audit procedures, or to evaluate the audit evidence obtained for complex aspects of the audit.
- Decreasing the amount of difference that is considered acceptable without further investigation for substantive analytical procedures below performance materiality.

Tests of Controls

Designing and Performing Tests of Controls (Ref: Para. 8)

A19A. In designing tests of controls, the auditor may consider the nature and precision of a control.

Examples:

- Manual controls (including IT dependent controls) that involve human intervention and judgment may be more susceptible to override or error. Such controls may need to be tested throughout the period of reliance. In contrast, automated controls may operate consistently, unless the related IT application has changed, because they are less prone to simple errors and mistakes.
- Direct controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls. The more indirect the relationship between controls that support other controls and the control that is being considered, the less effective that control may be in preventing, or detecting and correcting, related misstatements.

A20. Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in a relevant assertion, and the auditor plans to test those controls. If substantially different controls were used

at different times during the period under audit, each is considered separately.

A21. Testing the operating effectiveness of controls is different from obtaining an understanding of and evaluating the design and implementation of controls. However, the same types of audit procedures are used. The auditor may, therefore, decide it is efficient to test the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented.

A22. Further, although some risk assessment procedures may not have been specifically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls. For example, the auditor's risk assessment procedures may have included:

- Inquiring about management's use of budgets.
- Observing management's comparison of monthly budgeted and actual expenses.
- Inspecting reports pertaining to the investigation of variances between budgeted and actual amounts.

These audit procedures provide knowledge about the design of the entity's budgeting policies and whether they have been implemented, but may also provide audit evidence about the effectiveness of the operation of budgeting policies in preventing or detecting material misstatements in the classification of expenses.

A23. ~~In addition, the auditor may design a test of controls to be performed concurrently with a test of details on the same transaction. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing a test of controls and a test of details on the same transaction, also known as a dual-purpose test. For example, the auditor may design, and evaluate the results of, a test to examine an invoice to determine whether it has been approved and to provide substantive audit evidence of a transaction. A dual-purpose test is designed and evaluated by considering each purpose of the test separately.~~

[Moved to Proposed ISA 500 (Revised)]

A24. In some cases, the auditor may find it impossible or impracticable to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence at the assertion level.²² ~~This may occur when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system.~~ In such cases, paragraph 8(b) requires the auditor to perform tests of controls that address the risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

[Moved to Para. A24A]

A24A. In determining whether substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level (i.e., that it may not be possible or practicable to do so), the auditor may consider factors such as:

- The relevant assertion addressed by the further audit procedures.

²² ISA 315 (Revised 2019), paragraph 33

- The extent to which information intended to be used as audit evidence about a class of transactions, account balance or disclosure is:
 - Available to the auditor from sources outside of the entity's information system.
 - Initiated, processed, recorded and reported, within the entity's information system, entirely electronically.
 - Dependent on the continued operating effectiveness of controls, including general IT controls, that support the integrity of information.
- The characteristics of the class of transaction, account balance or disclosure (e.g., the volume of low value transactions is such that the auditor determines that sufficient appropriate audit evidence cannot be obtained without obtaining audit evidence about the operating effectiveness of controls).
- The inherent risk factors that affect the susceptibility of the relevant assertion to misstatements.
- The nature and complexity of the entity's operations.

These factors are not non-exhaustive, nor does the existence of one or more factors always indicate that substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

Examples:

The following are ~~is may occur when an entity~~ examples of where the existence of one or a combination of factors may indicate that substantive procedures alone cannot provide sufficient appropriate audit evidence:

- An entity conducts its business using IT and ~~no documentation of transactions are initiated, processed, recorded and reported electronically, and the information about those transactions is produced or maintained only in digital form, other than through the IT system.~~ [Moved from Para. A24]
- An entity reports accounting estimates based on models that incorporate information from a wide range of sources both within and outside of the entity, such that the accuracy of the estimate depends on the operating effectiveness of controls over the models.
- An entity operates across multiple locations that process cash sales (e.g., food and beverage outlets or retail stores), where control activities at certain points in the information processing system are necessary for achieving the entity's financial reporting objectives.
- An entity performs cycle inventory counts across multiple locations throughout the period, such that the accuracy, completeness, and valuation of inventory and amounts recorded as costs of goods sold are dependent on the operating effectiveness of those controls.

A24B. ISA 315 (Revised 2019)²³ and ISA 540 (Revised)²⁴ also include examples of situations in which substantive procedures alone are unlikely to provide sufficient appropriate audit evidence.

Placing Reliance on the Operating Effectiveness of Controls (Ref: Para. 9)

A24C. The phrase “place reliance on the operating effectiveness of controls” refers to when the auditor has, based on an expectation that controls are operating effectively, planned to test the operating effectiveness of controls in addressing a risk of material misstatement at the assertion level, and has designed substantive procedures on that basis.

The Persuasiveness of Audit Evidence and Intended Reliance About the Operating Effectiveness of Controls (Ref: Para. 9)

A24D. As described in ISA 315 (Revised 2019)²⁵ the initial expectation of the operating effectiveness of controls is based on the auditor's evaluation of the design, and the determination of implementation, of the identified controls in the control activities component. Once the auditor has obtained audit evidence about the operating effectiveness of the controls by testing those controls, the auditor will be able to confirm their initial expectation about the operating effectiveness of controls. If the controls are not operating effectively, then the auditor is required, in accordance with paragraph 17, revise the control risk assessment.

A25. More persuasive audit evidence~~A higher level of assurance~~ may be sought about the operating effectiveness of controls when the approach adopted consists primarily, or only, of tests of controls, in particular where it is not possible or practicable to obtain sufficient appropriate audit evidence ~~only~~ from substantive procedures alone.

Nature and Extent of Tests of Controls

Other audit procedures in combination with inquiry (Ref: Para. 10(a))

A26. Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry. In this regard, inquiry combined with inspection or reperformance may provide more assurance than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

A27. The nature of the particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively. For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness. For other controls, however, documentation may not be available or relevant. For example, documentation of operation may not exist for some factors in the control environment, such as assignment of authority and responsibility, or for some types of controls, such as automated controls. In such circumstances, audit evidence about operating effectiveness may be obtained through inquiry in combination with other audit procedures such as observation or the use of CAATs.

Extent of tests of controls

A28. When more persuasive audit evidence is needed regarding the effectiveness of a control, it may

²³ ISA 315 (Revised 2019), A224

²⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, A87

²⁵ ISA 315 (Revised 2019), paragraph A226

be appropriate to increase the extent of testing of the control. As well as the degree of reliance on controls, matters the auditor may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
- The extent to which audit evidence is obtained from tests of other controls related to the assertion.

ISA 530²⁶ contains further guidance on the extent of testing.

A29. Because of the inherent consistency of IT processing, it may not be necessary to increase the extent of testing of an automated control. An automated control can be expected to function consistently unless the IT application (including the tables, files, or other permanent data used by the IT application) is changed. Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing tests to determine that the control continues to function effectively. Such tests may include: testing the general IT controls related to the IT application.

A30. Similarly, the auditor may perform tests of controls that address risks of material misstatement related to the integrity of the entity's data, or the completeness and accuracy of the entity's system-generated reports, or to address risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. These tests of controls may include tests of general IT controls that address the matters in paragraph 10(a). When this is the case, the auditor may not need to perform any further testing to obtain audit evidence about the matters in paragraph 10(a).

A31. When the auditor determines that a general IT control is deficient, the auditor may consider the nature of the related risk(s) arising from the use of IT that were identified in accordance with ISA 315 (Revised 2019)²⁷ to provide the basis for the design of the auditor's additional procedures to address the assessed risk of material misstatement. Such procedures may address determining whether:

- The related risk(s) arising from IT has occurred. For example, if users have unauthorized access to an IT application (but cannot access or modify the system logs that track access), the auditor may inspect the system logs to obtain audit evidence that those users did not access the IT application during the period.
- There are any alternate or redundant general IT controls, or any other controls, that address the related risk(s) arising from the use of IT. If so, the auditor may identify such controls (if not already identified) and therefore evaluate their design, determine that they have been implemented and perform tests of their operating effectiveness. For example, if

²⁶ ISA 530, *Audit Sampling*

²⁷ ISA 315 (Revised 2019), paragraph 26(c)(i)

a general IT control related to user access is deficient, the entity may have an alternate control whereby IT management reviews end user access reports on a timely basis. Circumstances when an application control may address a risk arising from the use of IT may include when the information that may be affected by the general IT control deficiency can be reconciled to external sources (e.g., a bank statement) or internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

Testing of indirect controls (Ref: Para. 10(b)) [Agenda Item 5–B]

A32. ~~In some circumstances, it may be necessary to obtain audit evidence supporting the effective operation of indirect controls (e.g., general IT controls). Proposed ISA 500 (Revised) requires the auditor to test the operating effectiveness of controls that support the integrity of information, including general IT controls, when the auditor determines that the reliability of such information depends on the continued operating effectiveness of those controls or to perform other audit procedures to evaluate the reliability of such information.~~²⁸ As explained in paragraphs A29 to A31, general IT controls may have been identified in accordance with ISA 315 (Revised 2019) because of their support of the operating effectiveness of automated controls or due to their support in maintaining the integrity of information used in the entity's financial reporting, including system-generated reports. The requirement in paragraph 10(b) acknowledges that the auditor may have already tested certain indirect controls to address the matters in paragraph 10(a).

Timing of Tests of Controls (Ref: Para. 11)

~~A32A. The timing of tests of controls relates to when the audit evidence about the operating effectiveness of controls is obtained and to the particular time or period of time to which the audit evidence relates.~~

~~Intended period of reliance (Ref: Para. 11)~~

A33. Audit evidence ~~that a control operated effectively at pertaining only to a point in time may be sufficient appropriate in certain circumstances. for the auditor's purpose, f~~For example, ~~when testing audit evidence obtained about the operating effectiveness of controls over the entity's physical inventory counting at the period end. In other circumstances If, on the other hand, the auditor intends to rely on a control over a period,~~ tests that are capable of providing audit evidence ~~about that the control operated effectively of the control(s)~~ at relevant times during ~~that a~~ period are appropriate. ~~For example, when planning to obtain audit evidence about the operating effectiveness of controls of recorded transactions throughout the period Such tests may include when performing~~ tests of controls in the entity's process to monitor the system of internal controls.

Using audit evidence obtained during an interim period (Ref: Para. 12(b))

A34. Relevant factors in determining what additional audit evidence to obtain about controls that were operating during the period remaining after an interim period, include:

- The significance of the assessed risks of material misstatement at the assertion level.
- The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel.

²⁸ Proposed ISA 500 (Revised), paragraph 10B

- The degree to which audit evidence about the operating effectiveness of those controls was obtained.
- The length of the remaining period.
- The extent to which the auditor intends to reduce further substantive procedures based on the reliance of controls.
- The control environment.

A35. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the entity's monitoring of controls.

Using audit evidence obtained in previous audits (Ref: Para. 13) [Agenda Item 5–G]

A36. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance and reliability.

Example:

~~For example, if~~ In performing a previous audit, the auditor may have determined that an automated control, supported by effective general IT controls, was functioning as intended. The auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to be obtained in the current period about the operating effectiveness of the controls.

A36A. Manual controls, as compared with automated controls that are supported by effective general IT controls, are more susceptible to changes, including changes in the personnel operating them, that may affect the application of the control. Therefore, it is more difficult to determine the continuing relevance and reliability of audit evidence from previous audits that manual controls are operating effectively in the current period. To obtain evidence about the continued relevance and reliability of audit evidence from previous audits that those controls are effective, the auditor may consider the evaluation of the components of the entity's system of internal control, including the control environment, the entity's process to monitor the system of internal controls, and the entity's risk assessment process in accordance with ISA 315 (Revised 2019).²⁹

A36B. When general IT controls designed and implemented to address the risks arising from the use of IT are not operating effectively (e.g., ineffective general IT controls related to access or changes to information or controls), the auditor may not be able to determine that the related risks arising from the use of IT have not prevented the continued effective operation of an automated control in the current audit (e.g., instances of unauthorized access or changes to an IT application).

Controls that have changed from previous audits (Ref: Para. 14(a)) [Agenda Item 5–G]

A37. Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued use of such audit evidence~~reliance~~. For

²⁹ ISA 315 (Revised 2019), paragraphs 21(b), 22(b), 24(c) and 25(c)

example, changes in a system that enable an entity to receive a new report from the system probably do not affect the relevance of audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently does affect it.

Controls that have not changed from previous audits (Ref: Para. 14(b)) [Agenda Item 5–G]

A38. The auditor's decision on whether to ~~rely on~~use audit evidence obtained in previous audits for controls that:

- ~~(a) Have not changed since they were last tested; and~~
- ~~(b) Are not controls that address~~mitigate a significant risk; ~~and~~
- Are not controls for which the auditor plans to obtain sufficient appropriate audit evidence to address a risk of material misstatement at the assertion level by testing the operating effectiveness of controls alone.

is a matter of professional judgment. In addition, the length of time between retesting such controls is also a matter of professional judgment, but is required by paragraph 14–(b) to be at least once in every third year. In general, the higher the risk of material misstatement, or the greater the persuasiveness of audit evidence to be obtained in the current period about the operating effectiveness of controls to address the risk of material misstatement~~reliance on controls~~, the shorter the time period elapsed, if any, is likely to be. ~~Factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:~~

- ~~A deficient control environment.~~
- ~~A deficiency in the entity's process to monitor the system of internal controls.~~
- ~~A significant manual element to the controls.~~
- ~~Personnel changes that significantly affect the application of the control.~~
- ~~Changing circumstances that indicate the need for changes in the control.~~
- ~~Deficient general IT controls.~~

[Moved from Para. A39]

A39. [Moved to Para. A38]

A40. When there are a number of controls for which the auditor intends to ~~rely on~~use audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence corroborating information~~about the continuing effectiveness of the control environment~~. This contributes to the auditor's decision about whether it is appropriate to ~~rely on~~use audit evidence obtained in previous audits. The auditor's decision about which of the controls should be tested each year in order to corroborate information about the ongoing effectiveness of the control environment is a matter of professional judgment.

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16–~~17~~) [Agenda Item 5–H]

A41. The absence of misstatements detected by substantive procedures, ~~however~~, does not provide audit evidence that controls related to the assertion being tested are effective. A material misstatement detected by the auditor's substantive procedures is a strong indicator of the

existence of a significant deficiency in internal control. ISA 265³⁰ deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

[Moved from Para. 16]

A41A. Factors that may be relevant in making the evaluation required by paragraph 16, include:

- The nature of identified misstatements and the specific circumstances in which they occurred.
- The materiality of the misstatements, considering qualitative and quantitative characteristics.
- Whether, and the degree to which, misstatements have been identified across more than one assertion or more than one class of transactions, account balance or disclosure.

Results of Tests of Controls (Ref: Para. 17) [Agenda Item 5–G]

A42. The concept of effectiveness of the operation of controls recognizes that some deviations in the way controls are applied by the entity may occur. Deviations from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human error. The detected rate of deviation, in particular in comparison with the expected rate, may indicate that the control cannot be relied on to reduce risk at the assertion level to that assessed by the auditor.

Substantive Procedures (Ref: Para. 6,18) [The options for the Board's consideration, along with proposed drafting are presented in Agenda Item 5–A]

A43. Paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 6 requires the auditor to design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level. Accordingly, substantive procedures are required to be designed and performed in accordance with paragraph 18:

- When the further audit procedures for significant classes of transactions, account balances or disclosures, designed and performed in accordance with paragraph 6, did not include substantive procedures; or
- For each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as material in accordance with ISA 315 (Revised 2019).³¹

This requirement reflects the facts that: (a) the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and (b) there are inherent limitations to controls, including management override.

A44. Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, in designing the substantive procedures to be performed, the

³⁰ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

³¹ ISA 315 (Revised 2019), paragraph 36

auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

Nature and Extent of Substantive Procedures

A45. Depending on the circumstances, the auditor may determine that:

- Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level. For example, where the auditor's assessment of risk is supported by audit evidence from tests of controls.
- Only tests of details are appropriate.
- A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.

A46. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. ISA 520³² establishes requirements and provides guidance on the application of analytical procedures during an audit.

A47. The assessment of the risk or the nature of the assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~the relevant~~ audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

A48. Because the assessment of the risk of material misstatement takes account of controls that the auditor plans to test, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.

A49. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size. However, other matters are also relevant, including whether other means of selecting items for testing, or a combination of means of selecting items for testing, it is more effective in meeting the purpose of the audit procedure to use other selective means of testing (see paragraph A60A). [Agenda Item 5–]

A49A. The results from substantive procedures may identify exceptions or inconsistencies that require further investigation to determine whether a control deviation or a misstatement exists. Other ISAs provide requirements and guidance that are relevant to the nature and extent of such investigation procedures. See ISA 500.³³ [Agenda Item 5–]

Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 19)

A50. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or

³² ~~ISA 520, Analytical Procedures~~

³³ See, for example, Proposed ISA 500 (Revised), Audit Evidence, paragraph 149, ISA 505, paragraph 14 and Proposed ISA 520, paragraphs 5(e) and 7.

transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no “side agreement” exists that may be relevant to an entity’s revenue cutoff assertion. Other situations where external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement include:

- Bank balances and other information relevant to banking relationships.
- Accounts receivable balances and terms.
- Inventories held by third parties at bonded warehouses for processing or on consignment.
- Property title deeds held by lawyers or financiers for safe custody or as security.
- Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the balance sheet date.
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants.
- Accounts payable balances and terms.

A51. Although external confirmations may provide relevant audit evidence relating to certain assertions, there are some assertions for which external confirmations provide less relevant audit evidence. For example, external confirmations provide less relevant audit evidence relating to the recoverability of accounts receivable balances, than they do of their existence.

A52. The auditor may determine that external confirmation procedures performed for one purpose provide an opportunity to obtain audit evidence about other matters. For example, confirmation requests for bank balances often include requests for information relevant to other financial statement assertions. Such considerations may influence the auditor’s decision about whether to perform external confirmation procedures.

A53. Factors that may assist the auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures include:

- The confirming party’s knowledge of the subject matter – responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- The ability or willingness of the intended confirming party to respond – for example, the confirming party:
 - May not accept responsibility for responding to a confirmation request;
 - May consider responding too costly or time consuming;
 - May have concerns about the potential legal liability resulting from responding;
 - May account for transactions in different currencies; or
 - May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.
 - In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.
- The objectivity of the intended confirming party – if the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.

Substantive Procedures Related to the Financial Statement Closing Process (Ref: Para. 20)

A54. The nature, and also the extent, of the auditor's substantive procedures related to the financial statement closing process depends on the nature and complexity of the entity's financial reporting process and the related risks of material misstatement.

Substantive Procedures Responsive to Significant Risks (Ref: Para. 21)

A55. Paragraph 21 of this ISA requires the auditor to perform substantive procedures that are specifically responsive to risks the auditor has determined to be significant risks. Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a risk that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may, for example, design external confirmation procedures not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

Timing of Substantive Procedures (Ref: Para. 22–23)

A56. In most cases, audit evidence from a previous audit's substantive procedures provides little or no audit evidence for the current period. There are, however, exceptions, for example, a legal opinion obtained in a previous audit related to the structure of a securitization to which no changes have occurred, may be relevant in the current period. In such cases, it may be appropriate to use audit evidence from a previous audit's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and audit procedures have been performed during the current period to establish its continuing relevance.

Using audit evidence obtained during an interim period (Ref: Para. 22)

A57. In some circumstances, the auditor may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information concerning the balance at the period end with the comparable information at the interim date to:

- (a) Identify amounts that appear unusual;
- (b) Investigate any such amounts; and
- (c) Perform substantive analytical procedures or tests of details to test the intervening period.

A58. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the following may influence whether to perform substantive procedures at an interim date:

- The control environment and other controls.
- The availability at a later date of information necessary for the auditor's procedures.

- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the class of transactions or account balance and related assertions.
- The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

A59. Factors such as the following may influence whether to perform substantive analytical procedures with respect to the period between the interim date and the period end:

- Whether the period-end balances of the particular classes of transactions or account balances are reasonably predictable with respect to amount, relative significance, and composition.
- Whether the entity's procedures for analyzing and adjusting such classes of transactions or account balances at interim dates and for establishing proper accounting cutoffs are appropriate.
- Whether the information system will provide information concerning the balances at the period end and the transactions in the remaining period that is sufficient to permit investigation of:
 - (a) Significant unusual transactions or entries (including those at or near the period end);
 - (b) Other causes of significant fluctuations, or expected fluctuations that did not occur; and
 - (c) Changes in the composition of the classes of transactions or account balances.

Misstatements detected at an interim date (Ref: Para. 23)

A60. When the auditor concludes that the planned nature, timing or extent of substantive procedures covering the remaining period need to be modified as a result of unexpected misstatements detected at an interim date, such modification may include extending or repeating the procedures performed at the interim date at the period end.

Selecting Items for Testing (Ref: Para. 23A)

A60A. The auditor may use various approaches to identify and select items for testing, such as selecting all items, selecting specific items and audit sampling. The application of any one or combination of these means may be appropriate depending on the particular circumstances. Proposed ISA 500 (Revised) describes the various approaches to selecting items for testing and provides illustrative examples.³⁴ [Agenda Item 5-I]

Adequacy of Presentation of the Financial Statements (Ref: Para. 24)

A61. Evaluating the appropriate presentation, arrangement and content of the financial statements includes, for example, consideration of the terminology used as required by the applicable financial reporting framework, the level of detail provided, the aggregation and disaggregation of

³⁴ Proposed ISA 500 (Revised), *Audit Evidence*, Appendix 2.

amounts and the bases of amounts set forth.

Evaluating the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 25–27)

A62. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgment about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.
- Analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognized risk of material misstatement.
- The auditor may become aware of previously unrecognized risk of material misstatement arising from the entity's use of IT as a result of ineffective general IT controls over a complex or advanced technology.

In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement, whether due to fraud or error, and the effect on the significant classes of transactions, account balances, or disclosures and their relevant assertions. ISA 315 (Revised 2019) contains further guidance on revising the auditor's risk assessment.³⁵

A63. The auditor cannot assume that an instance of fraud or error is an isolated occurrence. Therefore, the consideration of how the detection of a misstatement affects the assessed risks of material misstatement is important in determining whether the assessment remains appropriate.

A63A. In evaluating whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement, the auditor may consider matters such as: [Agenda Item 5–J]

- The nature, timing and extent of the further audit procedures that have been performed in relation to significant classes of transactions, account balances and disclosures.
- The persuasiveness of the audit evidence obtained. As explained in paragraph A19, the higher on the spectrum of inherent risk a risk is assessed, the more persuasive the audit evidence needs to be.
- The interrelationship among relevant assertions of significant classes of transactions, account balances or disclosures and the aggregate audit evidence obtained for each significant class of transactions, account balance or disclosure.
- The extent to which relevant assertions of significant classes of transactions, account balances and disclosures in the financial statements have been addressed through a combination of tests of controls and substantive procedures. For example, when a

³⁵ ISA 315 (Revised 2019), paragraph 37

significant proportion of the relevant assertions across the financial statements are addressed through tests of controls alone, the auditor may determine that some substantive procedures are necessary in relation to certain of these assertions in order to obtain sufficient appropriate audit evidence.

- Deviations in the operation of controls that address risks of material misstatement at the assertion level for which substantive procedures alone are unable to provide sufficient appropriate audit evidence.

A64. [Moved to Para. A0A of ISA 700 (Revised)]

Documentation (Ref: Para. 28)

A65. The form and extent of audit documentation is a matter of professional judgment, and is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the audit.