

Drafting for Proposed ISA 520 (Revised), *Analytical Procedures*

This Agenda Item includes a first full draft of Proposed ISA 520 (Revised). The paragraphs for the Board's consideration at the March 2026 meeting have been marked from [Agenda Item 5–O](#) discussed at the December 2025 IAASB meeting.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility relating to the results of analytical procedures used as risk assessment procedures and to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.
- 1A. ISA 315 (Revised 2019) includes requirements and guidance regarding designing and performing risk assessment procedures; these audit procedures include analytical procedures.¹ Analytical procedures as risk assessment procedures are designed and performed to identify and assess risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level.
- 1B. [Proposed](#) ISA 330 [\(Revised\)](#) includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.² Substantive analytical procedures are designed and performed to detect material misstatements at the assertion level. [\(Ref: Para. A0\)](#)

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20~~XX~~⁰⁹.

Objectives

3. The objectives of the auditor are to obtain audit evidence when using analytical procedures:
 - (a) As risk assessment procedures;
 - (b) As substantive procedures; and
 - (c) Near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Definitions

4. For the purposes of the ISAs, the following terms have the meaning attributed below:
 - (a) Analytical procedures – A type of audit procedure that involves an evaluation of financial information through analysis of plausible relationships among both financial or non-

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 14(b)

² [Proposed](#) ISA 330 [\(Revised\)](#), *The Auditor's Responses to Assessed Risks*, paragraphs 6 and 18

financial information. (Ref: Para. A1–A3A)

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

Requirements

Results of Analytical Procedures Performed as Risk Assessment Procedures

- 4A. When the results of analytical procedures performed as risk assessment procedures³ identify fluctuations or relationships that are inconsistent with other relevant information, or that differ from expected results, the auditor shall determine the effects those results have on the identification and assessment of the risks of material misstatement. (Ref: Para. A3B–A3C)

Substantive Analytical Procedures

- 5. When designing and performing substantive analytical procedures ~~as substantive procedures~~ in accordance with Proposed ISA 330 (Revised),⁴ the auditor shall: (Ref: Para. A4–A5A)
 - (a) Determine the suitability of particular substantive analytical procedures for given assertions, ~~taking account of~~ considering the assessed risks of material misstatement at the assertion level and tests of details, if any, for these assertions; (Ref: Para. A6–A11)
 - (c) Develop an expectation of recorded amounts or amounts derived from recorded amounts based on one or more plausible and predictable relationships among financial ~~and~~ non-financial information. In developing such an expectation, the auditor shall (Ref: Para. A11A):
 - (i) Evaluate the reliability of information from which the auditor's expectation is developed; (Ref: Para. A12–A13)
 - (ii) Determine whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15–A15B)
 - (d) Determine an amount, not exceeding performance materiality,⁵ as a basis ~~to~~ for ~~evaluating~~ any difference between the expectation developed by the auditor and the recorded amounts or amounts derived from recorded amounts that is acceptable without further investigation of whether a misstatement exists as required by paragraph 5(e); and ~~(Ref: Para. A16)~~
 - (e) If the auditor identifies a difference that exceeds the amount determined in accordance with paragraph 5(d), investigate the difference to determine whether a material misstatement exists. In doing so, the auditor shall: (Ref: Para. A16B–A16D)
 - (i) Make inquiries of management, and as appropriate, others within or outside the entity and obtain audit evidence relevant to such responses; and (Ref: Para. A16E)

³ ISA 315 (Revised 2019), paragraph 14(b)

⁴ Proposed ISA 330 (Revised), paragraph ~~6~~ 48

⁵ ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 11 and A13

- (ii) Perform other audit procedures as necessary in the circumstances. (Ref: Para. A16F)

Analytical Procedures that Assist When Forming an Overall Conclusion

6. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: Para. A17–A19)
7. If, in performing analytical procedures that assist when forming an overall conclusion, the auditor identifies fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected results, the auditor shall investigate such differences by making inquiries of management. The auditor shall also obtain audit evidence relevant to management's responses and perform other audit procedures ~~in addition to inquiries~~ as necessary in the circumstances. (Ref: Para. A21A)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1B)

A0. As explained by Proposed ISA 330 (Revised), when designing and performing further audit procedures, the auditor may design and perform analytical procedures, that are not substantive analytical procedures as contemplated by this ISA, in combination with tests of controls or tests of details to obtain sufficient appropriate audit evidence.⁶ Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion. For example, when obtaining audit evidence regarding the valuation assertion for accounts receivable balances, the auditor may apply analytical procedures to an aging of customers' accounts in addition to performing tests of details on subsequent cash receipts to determine the collectability of the receivables.

[Moved from Para. A10]

Such analytical procedures are not substantive analytical procedures as contemplated by this ISA. Nevertheless, the requirements and application material for substantive analytical procedures in this ISA may provide useful guidance when designing and performing these analytical procedures.

Definition of Analytical Procedures (Ref: Para. 4)

- A1. Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:
- Comparable information for prior periods.
 - Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
 - Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

⁶ ISA 330, paragraph A46A

- A2. Analytical procedures also include consideration of relationships, for example:
- Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
 - Between financial information and relevant non-financial information, such as payroll costs to number of employees.
- A3. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.
- A3A. As explained in ISA 200,⁷ the application of professional skepticism by the auditor includes being alert, for example, to audit evidence that contradicts other audit evidence obtained and to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Designing and performing analytical procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information, which may assist the auditor in exercising professional skepticism.

Results of Analytical Procedures Performed as Risk Assessment Procedures (Ref: Para. 4A)

- A3B. The results of analytical procedures may assist the auditor in identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019). For example, the auditor may:
- Identify inconsistencies, unusual transactions or events and amounts, ratios and trends.⁸
 - Become aware of information relating to other areas of the audit where risks of material misstatement had not been previously identified, or of new information that may cause the auditor to revise the identification or assessment of risks of material misstatement.⁹
 - Consider how the results of analytical procedures may affect the design of other risk assessment procedures or further audit procedures or refining the design of the analytical procedures.
- A3C. In determining the effects of the results of analytical procedures performed as risk assessment procedures, the auditor may perform additional risk assessment procedures, for example, making inquiries of management, corroborated through inspection or observation. These additional risk assessment procedures may assist the auditor in refining initial expectations of risk.¹⁰

Example:

An auditor may perform analytical procedures by comparing current year revenue to prior periods and industry trends. If revenue has increased significantly while cost of sales or receivables remain unchanged, this may indicate that a risk of material misstatement in

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A21

⁸ ISA 315 (Revised 2019), paragraph A27

⁹ ISA 315 (Revised 2019), paragraph 37

¹⁰ ISA 315 (Revised 2019), paragraph 7

revenue recognition exists. To refine the auditor's initial expectations of the risks of material misstatement the auditor may conduct inquiries of management to understand the reasons behind the significant or unusual fluctuations, inconsistencies or differences, such as changes in pricing strategy, customer mix, or billing practices.

Substantive Analytical Procedures (Ref: Para. 5)

- A4. The auditor's substantive procedures at the assertion level may ~~include~~^{be} tests of details and, substantive analytical procedures, ~~or a combination of both~~. The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's professional judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.
- A5. The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any ~~such~~ analytical or similar procedures performed by the entity. It may be effective to use analytical data prepared by management, provided the auditor is satisfied that such data is properly prepared.

~~Obtaining Audit Evidence in an Unbiased Manner~~ (Ref: Para. 5)

- A5A. ISA 330 (Revised)¹¹ requires the auditor to respond to the risks of material misstatement in a unbiased manner ~~that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory~~. Designing and performing substantive analytical procedures to obtain audit evidence in an unbiased manner may involve, for example, avoiding using more readily available information, such as information derived from recorded amounts when developing an expectation of recorded amounts.

Suitability of Particular Substantive Analytical Procedures for Given Assertions (Ref: Para. 5(a))

- A6. The determination of the suitability of particular substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the risk(s) of material misstatement. ~~For example, if controls over sales order processing are deficient, the auditor may place more reliance on tests of details rather than on substantive analytical procedures for assertions related to receivables.~~ Substantive analytical procedures are generally more likely to provide sufficient appropriate audit evidence in response to risks of material misstatement related to significant classes of transactions that consist of large volumes of transactions that are applicable to large volumes of transactions that tend to be predictable over time. The application of planned substantive analytical procedures is based on the expectation that one or more plausible and predictable relationships among data information exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

[Moved from Para. A9]

¹¹ Proposed ISA 330 (Revised), paragraph 6A

Examples:

- In some cases, even an unsophisticated predictive model may be effective as an substantive analytical procedure. ~~For example, This may be the case~~ where an entity has a known number of employees at fixed rates of pay throughout the period. In such circumstances it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the financial statements. ~~and reducing the need to perform tests of details on the payroll. The use of widely recognized trade ratios (such as profit margins for different types of retail entities) can often be used effectively in substantive analytical procedures to provide evidence to support the reasonableness of recorded amounts.~~

[Moved from Para. A7]

- ~~Different types of analytical procedures provide different levels of assurance. A substantive analytical procedures involving, for example,~~ the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive audit evidence ~~and may eliminate the need for further verification by means of tests of details,~~ provided the elements used to develop an expectation are appropriately verified. ~~In contrast, calculation and comparison of gross margin percentages as a means of confirming a revenue figure may provide less persuasive evidence, but may provide useful corroboration if used in combination with other audit procedures.~~

[Moved from Para. A8]

A7. [Moved to Para. A6]

A8. [Moved to Para. A6]

A9. [Moved to Para. A6]

A10. [Moved to Para. A0]

Considerations Specific to Public Sector Entities

- A11. The relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities. ~~For example,~~ in many public sector entities there may be little direct relationship between revenue and expenditure. In addition, because expenditure on the acquisition of assets may not be capitalized, there may be no relationship between expenditures on, for example, inventories and fixed assets and the amount of those assets reported in the financial statements. Also, industry data or statistics for comparative purposes may not be available in the public sector. However, other relationships may be relevant, for example, variations in the cost per kilometer of road construction or the number of vehicles acquired compared with vehicles retired.

Identifying a Plausible and Predictable Relationship (Ref: Para. 5(c))

A11A. When determining whether a relationship is sufficiently plausible and predictable, the auditor may consider information obtained from the auditor's understanding of the entity and its environment,

and other procedures performed to comply with the ISAs, which may provide information related to matters such as business changes, unusual transactions, general economic conditions and industry factors.

Example:

As a result of business disruptions to an entity's operations (e.g., suspended production and product deliveries that are significantly delayed) during the current period, the relationship between actual sales revenue and budgeted sales revenue may no longer be plausible.

The Reliability of the Information (Ref: Para. 5(c)(i))

A12. Proposed ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is reliable.¹² which includes considering the source of the information (e.g., information may be more reliable when it is obtained from independent sources outside the entity). In evaluating the reliability of information from which the auditor's expectation is developed, the auditor may also consider matters such as:

- ~~• Source of the information. For example, information may be more reliable when it is obtained from independent sources outside the entity.~~
- Comparability of the information. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products.
- Nature and availability of the information. For example, whether budgets have been established as results to be expected rather than as goals to be achieved.

[Moved to Para. A13].

Such matters may be relevant irrespective of whether the auditor performs substantive analytical procedures on the entity's period-end financial statements, or at an interim date and plans to perform substantive analytical procedures for the remaining period. Proposed ISA 330 (Revised) establishes requirements and provides guidance on substantive procedures performed at an interim date.¹³

A13. In designing and performing audit procedures to evaluate the reliability of the information, Proposed ISA 500 (Revised) requires the auditor to either test the operating effectiveness of controls that address the reliability 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.¹⁴ Accordingly, When such controls are effective, the auditor may test controls to establish the ~~generally has greater confidence in the reliability of the information– the reliability of the information from which the auditor's expectation is developed and, therefore, in the results of substantive analytical procedures.~~

¹² Proposed ISA 500 (Revised), paragraphs 9–10 CB

¹³ Proposed ISA 330 (Revised), paragraphs 22–23

¹⁴ Proposed ISA 500 (Revised), paragraph 10B

Examples:

The auditor may:

- Test ~~T~~ the operating effectiveness of controls over non-financial information ~~may often be tested~~ in conjunction with other tests of controls. In establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to other audit procedures to evaluate the reliability of such information. -
- Test ~~C~~ controls over the preparation of the information that are designed to ensure its completeness and, accuracy ~~and validity~~. For example, controls over the preparation, review and maintenance of budgets ~~(also see paragraph A13)~~.

[Moved from Para. A12]

Determining Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c)(ii))

A15. Proposed ISA 500 (Revised) establishes requirements and guidance for evaluating whether the information intended to be used as audit evidence is relevant and sets out factors that may affect the relevance of such information.¹⁵ For a substantive analytical procedure, the level of detail of the information needed to meet the intended purpose of the audit procedure is a necessary consideration when developing a sufficiently precise expectation of recorded amounts or amounts derived from recorded amounts. As required by paragraph 5(c), a sufficiently precise expectation is based on identifying one or more plausible and predictable relationships among financial or non-financial information with this relationship expected to continue in the absence of known conditions to the contrary.

A15A. Matters that may be relevant to the auditor's determination in accordance with paragraph 5(c)(ii) ~~may auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated,~~ include:

- The accuracy with which the expected results of substantive analytical procedures can be predicted.

Example:

The auditor may be able to develop an sufficiently precise expectation of the amount of the entity's interest expense for the period, based on the relationship between the principal amount of the entity's borrowing facility and applicable interest rates during the period, ~~that is sufficiently precise~~.

- The degree to which information can be disaggregated.

¹⁵ Proposed ISA 500 (Revised), paragraph 9 and A54–A55

Example:

Substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation or to financial statements of components of a diversified entity, than when applied to ~~the~~ financial statements at an aggregated level ~~for~~ the entity as a whole.

- The availability of information, both financial and non-financial, including how external factors may affect such information. If the information is available, the auditor is required to evaluate the reliability of the information as discussed in paragraphs A12–A13 above.

Examples:

The auditor may consider:

- Whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures.
- Whether external factors, such as general economic conditions, changes in interest rates or industry trends affect financial or non-financial information.

A15B. The auditor may use technological tools when designing and performing substantive analytical procedures to assist in developing an expectation that is more precise.

Examples:

The auditor may use technological tools ~~such as to~~ analyze:

- ~~Artificial intelligence, to extract and analyze u~~Unstructured data from industry reports obtained directly by the auditor from external sources. By transforming the data into structured information and analyzing factors such as market growth rates, competitor performance, and pricing trends, the auditor may develop a more precise expectation about the entity's performance or financial results relative to industry wide trends or conditions.
- ~~A machine learning program, to analyze t~~The entity's historical monthly revenue and cost of sales information and identify a predictable relationship between revenue and cost of sales. By incorporating variables, such as seasonal trends, changes in pricing and volumes of goods sold, the technological tools ~~s~~ may enable the auditor to develop a more precise expectation of the current period's cost of sales relative to revenue.

~~Amount of Difference Between the Auditor's Expectation and Recorded Amounts or Amounts Derived from Recorded Amounts that Is Acceptable (Ref: Para. 5(d))~~

~~A16. ISA 330 requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk.¹⁶ Accordingly, as the assessed risk increases, the amount of difference between the auditor's expectation and recorded amounts or amounts derived from recorded amounts considered acceptable without~~

¹⁶—ISA 330, paragraph 7(e)

~~further investigation of whether a misstatement exists may be decreased in order to achieve the desired level of persuasive audit evidence.~~⁴⁷

Investigating Results of Substantive Analytical Procedures (Ref: Para. 5(e))

A16B. A difference exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement. ISA 450 requires the auditor to consider both the size and the nature of a misstatement, and the particular circumstances of its occurrence, when evaluating whether the misstatement is material.¹⁸ ISA 450 also provides guidance on the circumstances that may affect the evaluation of a misstatement.¹⁹

A16C. The following ~~are is an~~ examples of ~~an~~ audit procedures that the auditor may perform to investigate a difference between the auditor's expectation and the recorded amounts or amounts derived from recorded amounts:

Examples:

- ~~• In testing an entity's interest expense, the auditor may develop an expectation based on the principal amounts and applicable interest rates of the entity's bank loans. If a decrease in interest expense is attributed to the redemption of a bank loan during the period, the auditor may inspect supporting documents, such as the proof of loan payment, or independently confirm the payoff with the bank.~~

In testing an entity's product sales, the auditor may develop an expectation based on quantity of products sold and the unit price and identify a difference exceeding performance materiality. To investigate the difference, the auditor may inspect supporting documents, such as delivery reports provided by a third-party and credit notes issued to customers during and after period-end. ~~If a monthly sales increase has resulted from an unusually large, one-time sales contract modification, the auditor may inspect supporting documents, such as amendments to the sales contract and related shipping reports, or independently confirm the sales contract amendment with the customer.~~

A16D. When investigating the differences, the auditor may obtain new information of which the auditor was not aware when developing the auditor's expectation of the recorded amounts or amounts derived from recorded amounts. In such circumstances, the auditor may revise the identification or assessment of the risks of material misstatement,²⁰ modify the design of the substantive analytical procedures or perform other substantive procedures to determine whether there is a misstatement.

A16E. Audit evidence relevant to management's responses, or the responses of others, comprises both information that supports and corroborates such responses, and any information that contradicts such responses. Proposed ISA 500 (Revised) requires the auditor to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be

⁴⁷ ~~ISA 330, paragraph A19~~

¹⁸ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11(a). ~~Paragraph A21 of ISA 450 provides guidance on the circumstances that may affect the evaluation of a misstatement.~~

¹⁹ ISA 450, paragraph A21

²⁰ ISA 315 (Revised 2019), paragraph 37

corroborative, or towards excluding audit evidence that may be contradictory.²¹

A16F. The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 6)

A17. The conclusions drawn from the results of analytical procedures designed and performed in accordance with paragraph 6 are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.

A19. The analytical procedures performed in accordance with paragraph 6 may be similar to those that would be used as risk assessment procedures.

Investigating Results of Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 7)

A21A. In the case of analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion, the need to perform other audit procedures may arise when, for example, management responses are inconsistent with the auditor's knowledge obtained in the audit or ~~is~~are not considered adequate. The results of such analytical procedures together with management's responses to the auditor's inquiries may also identify a previously unrecognized risk of material misstatement. In such circumstances, ISA 315 (Revised 2019) requires the auditor to revise the auditor's assessment of the risks of material misstatement and modify the planned further ~~planned~~ audit procedures accordingly.²²

²¹ Proposed ISA 500 (Revised), paragraph 8(a)

²² ISA 315 (Revised 2019), paragraph 37