

Audit Evidence & Risk Response (AE&RR) – Significant Consequential Amendments Proposed to Other ISAs

This Agenda Item includes the significant consequential amendments proposed to ISA 315 (Revised 2019)¹ and ISA 700 (Revised)² based on previous IAASB's decisions in the course of the AE&RR project. The paragraphs for the Board's consideration at the March 2026 meeting are shown in mark-up from the following Agenda Items discussed at the IAASB's December 2025 meeting:

- For ISA 315 (Revised 2019), in mark-up from [Agenda Item 5-A](#) (Option 1).
- For ISA 700 (Revised), in mark-up from [Agenda Item 5-J](#).

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

Requirements

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Identifying and Assessing the Risks of Material Misstatement (Ref: Para. A184–A185)

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Identifying Risks of Material Misstatement

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29. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A202–A204B)

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall consider all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions made by management. (Ref: Para. A230–A231A)

¹ International Standard on Auditing (ISA) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but ~~Which~~ that Are Material

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's determination remains appropriate. (Ref: Para. A230C4, ~~–A232A1A~~, ~~A2335BA~~)

Revision of Risk Assessment

37. If the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of the risks of material misstatement, the auditor shall revise the identification or assessment. (Ref: Para. A236~~–A236A~~)

Documentation

38. The auditor shall include in the audit documentation:³ (Ref: Para. A237–A241)
- (a) The discussion among the engagement team and the significant decisions reached;
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 19, 21, 22, 24 and 25; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 26;
 - (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made; and
 - (e) The basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. (Ref: Para. A238A)

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Application and Other Explanatory Material

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Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures (Ref: Para. 29)

Why Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures Are Determined

A202. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides the basis for the scope of the auditor's understanding of the entity's information

³ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6–A7

system required to be obtained in accordance with paragraph 25(a). This understanding may further assist the auditor in identifying and assessing risks of material misstatement (see paragraph A86).

Technological Tools

A203. The auditor may use technological tools to assist in the identification of significant classes of transactions, account balances and disclosures.

Examples:

- An entire population of transactions may be analyzed using technological tools to understand their nature, source, size and volume. By applying technological tools, the auditor may, for example, identify that an account with a zero balance at period end was comprised of numerous offsetting transactions and journal entries occurring during the period, indicating that the account balance or class of transactions may be significant (e.g., a payroll clearing account). This same payroll clearing account may also identify expense reimbursements to management (and other employees), which could be a significant disclosure due to these payments being made to related parties.
- By analyzing the flows of an entire population of revenue transactions, the auditor may more easily identify a significant class of transactions that had not previously been identified.

Disclosures that May Be Significant

A204. Significant disclosures include both quantitative and qualitative disclosures for which there is one or more relevant assertions. Examples of disclosures that have qualitative aspects and that may have relevant assertions and may therefore be considered significant by the auditor include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.
- Key sources of estimation uncertainty, including assumptions about the future.
- The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.
- Related parties, and related party transactions.
- Sensitivity analysis, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount.
- ~~Presentation and disclosure of s~~Segment information in accordance with the applicable financial reporting framework.

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but ~~Which~~that Are Material

A204A. There may be classes of transactions, account balances or disclosures that are material but have not been determined to be significant classes of transactions, account balances or disclosures (i.e., there are no relevant assertions identified).

Example:

A company has a single loan from a bank that is material to its financial statements. The loan is a simple term loan with a fixed interest rate, a standard repayment schedule and no complex features or covenants. The auditor has determined that the loan is not subject to inherent risk factors such as complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors. Therefore, the auditor has not identified a risk of material misstatement and the account balance and disclosure are not determined to be a significant class of transactions, account balance or disclosure.~~If the physical fixed assets of an entity consist of land accounted for at cost with no change in ownership, the auditor may not identify a risk of material misstatement. Even if the land is material to the current period's financial statements, the auditor has not determined a relevant assertion and, therefore, the balance is not a significant class of transactions, account balance or disclosure.~~

[Moved from Para. A234]

A204B. Paragraphs A230C1A, ~~and~~ A2335BA and A236A provide further guidance that is relevant to classes of transactions, account balances and disclosures that are not significant, but ~~which~~that are material.

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures (Ref: Para 35)

Why the Auditor Evaluates the Audit Evidence from the Risk Assessment Procedures

A230. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risks of material misstatement. This provides the basis for the auditor's design of the nature, timing and extent of further audit procedures responsive to the assessed risks of material misstatement, at the assertion level, in accordance with Proposed ISA 330 (Revised). Accordingly, the audit evidence obtained from the risk assessment procedures provides a basis for the identification and assessment of risks of material misstatement whether due to fraud or error, at the financial statement and assertion levels.

Professional Skepticism

A230A. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether there is any evidence that is contradictory that may indicate a risk of material misstatement.

[Moved from Para. A232]

The Evaluation of the Audit Evidence

A230B. The auditor's evaluation required by paragraph 35 may include:

- Information obtained during the auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement; and, when applicable, other engagements performed by the engagement partner for the entity in accordance with paragraphs 15–16.
- The results of the engagement team discussion in accordance with paragraphs 17–18.
- The auditor's understanding in accordance with paragraphs 19–20 of:
 - The entity's organizational structure, ownership and governance, and its business model;
 - Industry, regulatory and other external factors;
 - The measures used, internally and externally, to assess the entity's financial performance;
 - The applicable financial reporting framework, and the entity's accounting policies and the reasons for any changes thereto, including whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework; and
 - How inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so.

~~A2301CA. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, paragraph 36 requires the auditor to evaluate whether the auditor's determination remains appropriate. In making the evaluation—evaluating whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement as required by paragraph 35, the auditor's consideration of all the evidence obtained from the risk assessment procedures performed may cause the auditor may also evaluate whether the determination that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures remains appropriate to determine that further audit evidence is necessary from risk assessment procedures to provide an appropriate basis for the auditor's evaluation as required by paragraph 36 relating to material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures.~~

A231. Audit evidence from risk assessment procedures comprises both evidence that may corroborate the assertions made by management, or evidence that may contradict such assertions.⁴

A232. [Moved to Para. A230A]

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but Which Are Material
(Ref: Para. 36)

A232A. For the purpose of this ISA, classes of transactions, account balances or disclosures are material if

⁴ Proposed ISA 500 (Revised), paragraph A12C

they exceed materiality as determined in accordance with ISA 320,⁵ or misstatements in them, including omissions, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.⁶

A232B. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor may evaluate that the auditor's determination remains appropriate, given the lack of risk factors such as complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

A233. [Deleted]

A234. [Moved to Para. A204A]

A235. [Deleted]

~~A235A. The auditor's evaluation required by paragraph 36 in relation to material classes of transactions, account balances or disclosures that are not significant classes of transactions, account balances or disclosures, may be influenced by factors such as:~~

- ~~• The degree of changes affecting the entity's business that involve changes in accounting for the material classes of transactions, account balances or disclosures.~~
- ~~• Whether, based on the audit evidence obtained, for material classes of transactions, account balances or disclosures:~~
 - ~~○ There are new or emerging risks which indicate potential for misstatements to occur.~~
 - ~~○ Contradictory information exists that raises questions whether the rationale for the auditor's determination remains appropriate.~~
- ~~• Whether a particular class of transactions, account balance or disclosure may be of particular importance to users of the financial statements (e.g. due to regulatory, strategic, or market-specific considerations). In determining the information needs of users, the auditor may consider matters such as management's materiality judgments in preparing the financial statements, as well as particular areas of interest related to the industry in which the users of the financial statements operate.~~

Example:

~~An entity may have a disclosure about segment information for which the auditor has not identified a risk of material misstatement. However, the auditor's understanding of the financial information needs of users of the financial statements indicates that users rely on segment information to understand the performance and risks across different parts of the entity's business.~~

A233B. Conversely, in applying the requirement in paragraph 36, the auditor may evaluate that the auditor's determination does not remain appropriate and that one or more classes of transactions, account

⁵ [ISA 320, paragraph 10](#)

⁶ [ISA 320, paragraph 2](#)

balances or disclosures, not previously determined as such, are significant classes of transactions, account balances or disclosures. This may be the case when the auditor considers that there is one or more particular classes of transactions, account balances or disclosures, not previously determined to be significant classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.⁷ This may result in the auditor reducing materiality for that class of transactions, account balance or disclosure,⁸ which lowers the threshold above which a misstatement would be considered to be material, which increases the magnitude of a risk(s) of material misstatement.

Example:

An entity may have a disclosure related to directors' remuneration for which the auditor has initially not identified a risk of material misstatement based on the auditor's judgment of performance materiality. However, on reflection, the auditor considered that a misstatement of directors' remuneration disclosure of less than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users, the auditor determines a materiality level for directors' remuneration disclosure that is lower than materiality for the financial statements as a whole. The threshold for what constitutes a material misstatement for this disclosure is now lower, which increases the magnitude of a risk of material misstatement. Therefore the auditor determines that the directors' remuneration disclosure is a significant class of transactions, account balance or disclosure.

Revision of Risk Assessment (Ref: Para. 37)

A236. During the audit, new or other information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. In this case, the auditor is required to revise the identification or assessment of the risks of material misstatement in accordance with paragraph 37.

Example:

The entity's risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor's risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. Paragraphs 16 and 17 of Proposed ISA 330 (Revised) provide further guidance about evaluating the operating effectiveness of controls and the results of tests of controls.

A236A. The revision of the identification or assessment of risks of material misstatement in accordance with paragraph 37 may result in the auditor reconsidering whether a class of transactions, account balance

⁷ ISA 320, paragraphs 10–11

⁸ ISA 320, paragraph 12

or disclosure, not previously determined to be significant is a significant class of transactions, account balance or disclosure in accordance with paragraph 36.

Documentation (Ref: Para. 38)

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A238A. The auditor uses professional judgment in documenting the basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. However, the auditor is not required to prepare audit documentation at the assertion level for such classes of transactions, account balances or disclosures. ISA 230 requires audit documentation to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the basis for the auditor's significant judgments.⁹

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ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Objective

6. The objectives of the auditor are:
- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) To express clearly that opinion through a written report.

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Requirements

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Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{10,11}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained ~~sufficient appropriate audit evidence to reduce audit risk to an acceptably low level so that~~ reasonable assurance ~~has been obtained~~ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall consider: ~~(Ref: Para. A0–A0A)~~
- (a) ~~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~~

⁹ ISA 230, paragraph 8

¹⁰ ISA 200, paragraph 11

¹¹ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

~~assertions in the financial statements~~ The auditor's conclusion, in accordance with paragraph 11A, whether sufficient appropriate audit evidence has been obtained;

- (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹² and
- (c) The evaluations required by paragraphs 12–15.

11A. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. 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 to contradict the assertions in the financial statements. (Ref: Para. A0–A0B)

[Moved from Para. 26 of ISA 330]

- 12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)

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Form of Opinion

- 16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 17. If the auditor:
 - (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

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Application and Other Explanatory Material

Concluding on the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 11A)

- A0. As explained in ISA 200, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.¹³ Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.¹⁴

¹² ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

¹³ ISA 200, paragraph 5

¹⁴ ISA 200, paragraph 17

~~The auditor is required to use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to evaluate whether sufficient appropriate audit evidence has been obtained.¹⁵ Other relevant ISAs also establish separate evaluations of the audit evidence obtained throughout the audit to support the auditor in concluding whether sufficient appropriate audit evidence has been obtained. Appendix 1 lists the other ISAs that contain separate evaluations of the audit evidence obtained.~~

[Moved to Para. A0B]

A0A. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.¹⁶ The auditor's professional judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Relevance and reliability of the information, including whether any doubts about relevance and reliability of information have been resolved and how inconsistencies with other audit evidence have been addressed.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

[Moved from Para. A64 of ISA 330]

~~A0B. The auditor is required to use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to evaluate whether sufficient appropriate audit evidence has been obtained.¹⁷ Other relevant ISAs also establish separate evaluations of the audit evidence obtained throughout the audit to support the auditor in concluding whether sufficient appropriate audit evidence has been obtained. Appendix 1 lists the other ISAs that contain separate evaluations of the audit evidence obtained.~~

[Moved from Para. A0]

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial

¹⁵ ~~ISA 200, paragraphs 21(b) and 24~~

¹⁶ ISA 200, paragraph A34

¹⁷ ~~ISA 200, paragraphs 21(b) and 24~~

statements.

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Auditor's Report (Ref: Para. 20)

- A18. A written report encompasses reports issued in hard copy and those using ~~an electronic~~ digital medium.
- A19. Appendix 2 to this ISA contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 21–49. With the exception of the Opinion and Basis for Opinion sections, this ISA does not establish requirements for ordering the elements of the auditor's report. However, this ISA requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in Appendix 2 to this ISA.

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Appendix 1 (Ref: Para. A0B)

Separate Evaluations of the Audit Evidence Obtained in Other ISAs

This appendix identifies paragraphs in other ISAs that contain requirements to evaluate the audit evidence obtained. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 54
- ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 35
- ISA 330, *The Auditor's Responses to Assessed Risks* – paragraph 25A
- ISA 505, *External Confirmations* – paragraph 16
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 33(c)
- ISA 570 (Revised 2024), *Going Concern* – paragraph 30
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 51

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Appendix 2 (Ref: Para. A19)

Illustrations of Independent Auditor's Reports on Financial Statements

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