

Agenda Item 7–G (Supplemental)

Addressing the Standard-Setting Actions Included in the AE&RR Project Proposal

This Agenda Item maps the revisions for Proposed ISA 330 (Revised),¹ Proposed ISA 500 (Revised)² and Proposed ISA 520 (Revised)³ ('in-scope standards') to the standard-setting actions set out in paragraph 28 of the Audit Evidence and Risk Response (AE&RR) [project proposal](#). Because the project objectives that support the public interest are directly related to standard-setting actions, the table also explains how the proposed revisions to the in-scope standards address those objectives. In addition, the table also highlights the qualitative standard-setting characteristics set out in the project proposal and those included in the Public Interest Framework (PIF)⁴ that are used to assess the responsiveness of the proposed revisions for the in-scope standards to the public interest.

Ref. Para 28 of the AE&RR Project Proposal	Description of Key Changes Proposed to Date
Objective A Support the application of professional judgment and professional skepticism exercised by auditors: <ul style="list-style-type: none"> (a) When making judgments about information intended to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and (b) When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement. 	
<i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective A are coherence, comprehensiveness, scalability, ability to be consistently applied and globally operable.</i>	
Issue #1: <i>The increase in volume and variety of sources of information available that could be used as audit evidence has contributed to an increased lack of consistency in how auditors make judgments about the sufficiency and appropriateness of audit evidence obtained from their audit procedures.</i>	

¹ International Standard on Auditing (ISA) 330 (Revised), *The Auditor's Responses to Assessed Risks*

² Proposed ISA 500 (Revised), *Audit Evidence*

³ Proposed ISA 520 (Revised), *Analytical Procedures*

⁴ See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>ISA 500, ISA 330 and ISA 520</p> <p>Enhance the consistency of terms that are relevant to obtaining and evaluating the sufficiency and appropriateness of audit evidence, including those related to technology, across ISA 500, ISA 330 and ISA 520.</p> <p>ISA 500</p> <p>*Clarify the definitions of “appropriateness (of audit evidence)” and of “sufficiency (of audit evidence),” and the relationship of these terms with the notion of persuasiveness.</p> <p>Determine whether additional guidance is necessary to explain how the use of ATT affects the auditor’s evaluation of the sufficiency and appropriateness of audit evidence obtained.</p> <p>*Clarify whether the sufficiency and appropriateness of audit evidence is to be evaluated differently depending on the purpose for which it has been obtained, including whether it was obtained:</p> <ul style="list-style-type: none"> • From the auditor’s risk assessment procedures or from further audit procedures. • To evaluate the operating effectiveness of a control, or to detect a material misstatement. 	<ul style="list-style-type: none"> • Alignment of terminology across the standards, including technology-related terms and concepts, including defining tests of details and substantive analytical procedures, to support consistent interpretations of the work effort requirements. In addition, enhancing the coherence of terms that are relevant to obtaining and evaluating the sufficiency and appropriateness of audit evidence and clarifying how the auditor’s responses to assessed risks link to the auditor’s risk identification and assessment under ISA 315 (Revised 2019).⁵ • Revised definition of audit evidence emphasizing that information can only become audit evidence after audit procedures are applied to the information, including audit procedures to evaluate its relevance and reliability. • New application material to clarify the ‘sufficiency’ and ‘appropriateness’ of audit evidence and the relationship of these terms with the notion of persuasiveness of audit evidence. The collective revisions provide a foundation for auditors to comprehensively consider all audit evidence obtained in an audit, irrespective whether it was obtained from risk assessment procedures, further audit procedures or other audit procedures required by the ISAs and embrace the notion that it is the cumulative body of evidence that contributes to its sufficiency and appropriateness. • New requirements and application material that focus the auditor on the purpose(s) of the audit procedures when obtaining sufficient appropriate audit evidence and the need to evaluate whether the audit evidence obtained meets each intended purpose of the audit procedure. <p><i>ISA Ref: ISQM 1, paragraph A99A; ISA 220 (Revised), paragraph A64; Proposed ISA 330 (Revised), paragraphs 4, A10A, A15–A16, A29; Proposed ISA 500 (Revised), paragraphs 7, 8A, 9-10C, A13, A14A–A14C, A26B; Proposed ISA 520 (Revised), paragraph 4</i></p>

⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>Issue #2: <i>The increase in volume and variety of sources of information available that could be used as audit evidence has highlighted a lack of consistency in the attributes or criteria that auditors apply to make judgments about the relevance and reliability of information intended to be used as audit evidence.</i></p>	
<p>ISA 500</p> <p>*Develop a principles-based approach to considering and making judgments about information intended to be used as audit evidence, including application material that describes attributes that apply in the evaluation of the relevance and reliability of information intended to be used as audit evidence.</p> <p>Explore whether consequential amendments are appropriate to the application material in ISA 200⁶ that indicates that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.</p> <p>*Clarify that the requirements to evaluate the relevance and reliability of information intended to be used as audit evidence apply regardless of the source of information.</p> <p>*Add application material to describe biases that may arise relating to different information sources (e.g., automation bias for information obtained through technological means).</p> <p>*Clarify the requirement relating to the evaluation of the 'appropriateness' of work prepared by a management's expert.</p>	<ul style="list-style-type: none"> • Strengthened evaluation (instead of consideration) of the relevance and reliability of information intended to be used as audit evidence, by considering the source and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. • New application material supporting auditor's judgements about the attributes of reliability which are important new features introduced in the audit evidence standard (i.e., accuracy, completeness, authenticity, credibility and bias). • New application material and examples to clarify the necessary work effort to evaluate information as reliable, which includes performing procedures to address the authenticity of information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures. • Removed the reference to 'accepting records and documents' from paragraph A24 of ISA 200 to promote clarity and align the terminology with Proposed ISA 500 (Revised) and ISA 240 (Revised).⁷ • New application material addressing potential auditor biases and emphasizing the role of awareness of such biases in supporting the application of professional skepticism. • New and strengthened requirements and application material related to evaluating information prepared by management experts.

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁷ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>*Clarify the application material relating to evaluating the relevance and reliability of information from external information sources.</p> <p>Consider the need for further application material to clarify how the purpose of an audit procedure influences the auditor's judgments about attributes of relevance and reliability of information.</p>	<p>ISA Ref: ISA 200, paragraph A24; Proposed ISA 500 (Revised), paragraphs 9-11, A19, A21 – A21A, A35, A37, A48–A52, A53–A56L, A66–A78A</p>
<p>Issue #3: <i>There have been concerns raised about the appropriateness of professional skepticism exercised by auditors: (i) when considering the relevance and reliability of information intended to be used as audit evidence; (ii) in designing and performing further audit procedures responsive to the assessed risks of material misstatement; and (iii) when evaluating and concluding on the sufficiency and appropriateness of audit evidence obtained.</i></p>	
<p>ISA 500</p> <p>*Clarify that a critical assessment of audit evidence includes designing and performing audit procedures in a manner that is unbiased and evaluating the relevance and reliability of information intended to be used as audit evidence.</p> <p>*Clarify requirements that apply when there is inconsistency in, or doubts over the reliability of, audit evidence.</p> <p>*Clarify the application material that applies if the auditor has doubts about the reliability of information intended to be used as audit evidence.</p> <p>*Develop application material to support auditors in evaluating the relevance and reliability of different sources of information intended to be used as audit evidence.</p>	<ul style="list-style-type: none"> • New requirements and application material to design and perform audit procedures, including those that respond to risks of material misstatement (ROMM), in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. • New and enhanced requirements and application material addressing doubts about the relevance or reliability of information (including when doubts cannot be resolved) and on responding to audit evidence that is inconsistent with other audit evidence. • Enhancements to application and introductory material, highlighting the links to ISA 200 and the importance of maintaining professional skepticism in critically assessing audit evidence, including: <ul style="list-style-type: none"> ○ Being alert to inconsistencies in audit evidence and for information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. ○ Not ignoring information that calls into question the reliability of other information intended to be used as audit evidence.

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>ISA 330 and ISA 520</p> <p>Building on the application material in ISA 200 and ISA 220 (Revised), enhance requirements or application material to support auditors' professional judgments about the appropriateness of procedures designed in response to assessed risks, and auditors' exercise of professional skepticism. This may include emphasizing the need to design and perform procedures in an unbiased manner, considering the relevance and reliability of information.</p>	<ul style="list-style-type: none"> • New application material to explain that the source of information intended to be used as audit evidence may affect (i) the auditor's professional judgment regarding the relevance and attributes of reliability that are of significance in the circumstances, and (ii) the nature and extent of the auditor's evaluation of the relevance and reliability. <p><i>ISA Ref: Proposed ISA 330 (Revised) paragraphs 6A, A8B; Proposed ISA 500 (Revised) paragraphs 8, 12–14, A19–A21A, A48–A52, A78B–A90; Proposed ISA 520 (Revised) paragraphs A3A, A5A</i></p>
<p>Issue #4: <i>The stand-back requirement in ISA 330, which applies to all audit evidence, goes beyond the objective of ISA 330 that is only focused on obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. There also is insufficient clarity about how the various stand-back requirements across the ISAs work together.</i></p>	
<p>General</p> <p>Determine how, and to what extent, to integrate and clarify the various subject matter-specific stand-back requirements across the ISAs to increase their effectiveness and be more distinctive. This is also an opportunity to highlight the role of stand-back requirements in the auditor appropriately exercising professional judgment and professional skepticism.</p> <p>ISA 500</p> <p>*Develop introductory or application material that explains the relationship of ISA 500 with other ISAs, including the distinction between ISA 500 and ISA 330.</p>	<ul style="list-style-type: none"> • Establishing a coherent approach for the architecture of the 'stand-back's' in the ISAs by: <ul style="list-style-type: none"> ○ Setting out criteria and scope for such requirements to ensure their consistent inclusion in the body of standards when appropriate to do so. ○ Repositioning the overall conclusion on whether sufficient appropriate audit evidence has been obtained into the final 'stand-back' stage in ISA 700 (Revised).⁸ ○ Introducing a new 'stand-back' evaluation specific to further audit procedures and removing the 'stand-back' evaluation focused on the purpose of the audit procedures in Proposed ISA 500 (Revised).

⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>Determine whether some requirements in ISA 500, relevant to the design and performance of audit procedures, are to be retained or relocated to another ISA.</p> <p>ISA 330</p> <p>Determine whether the stand-back requirement in paragraph 26 of ISA 330 needs to be clarified, retained, or relocated to another ISA (e.g., ISA 500 or ISA 700 (Revised)).</p>	<ul style="list-style-type: none"> • Clarified objective of Proposed ISA 500 (Revised) focused on designing and performing audit procedures to obtain sufficient appropriate audit evidence, including audit procedures to evaluate the relevance and reliability of information. • New and enhanced application material to: <ul style="list-style-type: none"> ○ Support auditors evaluating or concluding on the sufficiency and appropriateness of the audit evidence obtained and a new Appendix integrating paragraphs across the ISAs that contain requirements to evaluate the audit evidence obtained. ○ Clarify the relationship of Proposed ISA 500 (Revised) with other ISAs. <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs 25–27, A63A; Proposed ISA 500 (Revised), paragraphs 1–3, 6, Appendix 1; ISA 700 (Revised), paragraphs 11–11A, A0–A0C, Appendix 1</i></p>
<p>Objective B:</p> <p>Promote consistent practice and auditor behaviors by facilitating effective responses to risks of material misstatement, including by strengthening auditors' work on internal controls.</p>	
<p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective B are scalability, relevance, comprehensiveness, implementability and ability of being consistently applied and globally operable, clarity and conciseness, and consistency.</i></p>	
<p>Auditors' Work on Internal Controls</p>	
<p>Issue #5: <i>There have been challenges with the appropriateness of auditor decisions about whether to design and perform tests of controls as part of a response to assessed risks, including the inconsistent identification of circumstances where substantive procedures alone are unable to provide sufficient appropriate audit evidence.</i></p>	
<p>ISA 330</p> <p>Determine whether tests of controls as defined in ISA 330, can also separately fulfil other purposes, including evaluating the</p>	<ul style="list-style-type: none"> • Revised definition of 'tests of controls', with supporting application material, that broadens its scope to recognize controls that operate more widely than at the assertion level and facilitate effective testing of their operating effectiveness. In doing

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<p>relevance and reliability of information intended to be used as audit evidence, in accordance with ISA 500.</p> <p>Explore⁹ enhancements to the standards relating to the design of further audit procedures, to:</p> <ul style="list-style-type: none"> • Determine whether the use of tests of controls is appropriate or needed in response to assessed risks of material misstatement, including: <ul style="list-style-type: none"> ○ Clarifying when the auditor is required to perform tests of controls. ○ Modernizing application material to clarify the attributes of circumstances that indicate that substantive procedures alone may be unable to provide sufficient appropriate audit evidence. • Encourage the auditor to consider the use of tests of controls to respond to assessed risks of material misstatements. 	<p>so, the revisions explicitly recognize that tests of controls may be used for a purpose other than responding to an assertion level ROMM.</p> <ul style="list-style-type: none"> • New requirements that establish a clearer approach for evaluating the reliability of information by introducing requirements and application material for the auditor to evaluate the reliability of information intended to be used as audit evidence either by: (i) testing the operating effectiveness of controls that address its reliability, or (ii) performing other audit procedures; and setting out related actions when the auditor intends to test such controls. • Clarified requirements in Proposed ISA 500 (Revised) that apply to all information used in an audit (i.e. not limited to further audit procedures), and recognizing circumstances where the auditor may test controls over information, which may extend beyond traditional financial reporting controls (e.g., controls over operational and other non-financial data), while preserving scalability. • Enhanced application material for testing controls addressing significant risks and emphasis in the requirements that the auditor is not able to use audit evidence obtained in a prior period as audit evidence of the operating effectiveness of controls that address significant risks. • Explicit recognition, through application material, that, in certain circumstances, further audit procedures to obtain sufficient appropriate audit evidence for a relevant assertion may consist only of tests of controls, and described the specific attributes of the controls for which this could apply. • Clarified in the application material that the term ‘substantive procedures alone cannot provide sufficient appropriate audit evidence’ encompasses both circumstances when

⁹ The term “explore” is used in this project proposal in relation to certain proposed actions where the IAASB’s intention is to consider a range of possible solutions to the issue described, to achieve the most appropriate resolution consistent with the project objectives.

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	<p>the auditor had determined that it is not possible or practicable to obtain sufficient appropriate audit evidence at the assertion level from substantive procedures alone.</p> <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs 4, 11A–11B, A0A, A4–A4A, A24–A24A, A33A; Proposed ISA 500 (Revised), paragraphs 10B–10C, A65O–A65R</i></p>
Issue #6: <i>There are recurring challenges with the effective design and performance of tests of controls.</i>	
<p>ISA 500 or ISA 330</p> <p>Develop further application material, examples, or other guidance to support auditors' evaluation of the relevance and reliability of information intended to be used as audit evidence about the operating effectiveness of controls.</p> <p>ISA 330</p> <p>Strengthen or clarify, as appropriate, requirements and application material that apply when designing and performing tests of controls, including those related to:</p> <ul style="list-style-type: none"> • Types of audit procedures that can provide evidence about the operating effectiveness of a control. • The requirement to obtain more persuasive audit evidence about the operating effectiveness of a control, the greater the reliance that the auditor places on the effectiveness of that control. • The influence of different types of controls (direct or indirect controls; manual, automated, or those that depend on other information processing or general information technology 	<ul style="list-style-type: none"> • New requirements and application material establish a clearer approach for evaluating reliability of information either by (i) testing operating effectiveness of controls that address its reliability, or (ii) performing other audit procedures; and setting out related actions when the auditor intends to test such controls. • Clarified that the requirements would apply to all information used in an audit (i.e. not just limited to further audit procedures), and recognized circumstances where the auditor may test controls over information, which may extend beyond traditional financial reporting controls (e.g., controls over operational and other non-financial data), while preserving scalability. • Added new application material in Proposed ISA 330 (Revised) to emphasize the influence of different types of controls on the design of responses to risks of material misstatement. • Revised the requirement in paragraph 10(b) of Proposed ISA 330 (Revised) to allow the auditor to either obtain audit evidence about the operating effectiveness of the indirect controls identified or perform alternative procedures. • New application material to clarify: <ul style="list-style-type: none"> ○ That detecting deviations from the expected operation of indirect controls does not necessarily result in an inability to obtain audit evidence about the operating effectiveness of controls at the assertion level.

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>(IT) controls) on the design of responses to risks of material misstatement.</p> <ul style="list-style-type: none"> • The requirement to determine whether to test the operating effectiveness of indirect controls, including specific clarifications about general IT controls. • The use of audit evidence about the operating effectiveness of controls obtained during an interim period. • The need to exercise professional skepticism in designing and performing tests of controls. 	<ul style="list-style-type: none"> ○ What 'timing' means in the context of tests of controls and to provide additional context for requirements relating to audit evidence obtained in an interim period and the use of audit evidence obtained at times other than the current audit period. <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs 10(b), 12, A8B, A19A, A31A–A32Ab, A34 – A35; Proposed ISA 500 (Revised), paragraphs 10B–10C, A65O–A65R</i></p>
<p>Issue #7: <i>There are inconsistencies in the application of requirements relating to the auditor's use of audit evidence about the operating effectiveness of controls obtained in previous audits, which raise concerns about the sufficiency and appropriateness of the audit evidence for the current audit.</i></p>	
<p>ISA 330</p> <p>Determine whether the requirement that enables the auditor, in certain circumstances, to use audit evidence about the operating effectiveness of controls obtained in a previous audit as evidence for the current period engagement remains appropriate, considering the enhanced requirements in ISA 315 (Revised 2019).</p>	<ul style="list-style-type: none"> • Enhanced requirements for using audit evidence obtained in a previous audit by improving consistency with ISA 315 (Revised 2019) and clarifying the required three-year time period for retesting a control. • New and enhanced application material, with examples, to support consistent auditor's judgements when using audit evidence about the operating effectiveness of controls obtained in previous audits (e.g., highlighting considerations for manual controls, for automated controls dependent on general IT controls and for circumstances where changes would require modifications to control design or operation to address current-period risks) • New requirement for the auditor to test the controls in the current period, if the auditor plans to obtain sufficient appropriate audit evidence to address a risk of material misstatement at the assertion level through tests of controls alone. <p><i>ISA Ref: Proposed ISA 330 (Revised) paragraphs 11B, 13–14, A33A, A36–A40</i></p>

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Issue #8: <i>There have been recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.</i>	
<p>ISA 500</p> <p>Consider enhancing application material about the concepts of sufficiency and appropriateness of audit evidence, by relating them to the evidence obtained from the design and performance of tests of controls.</p> <p>ISA 330</p> <p>Clarify the impact on the auditor's work effort in responding to assessed risks of material misstatement, of:</p> <ul style="list-style-type: none"> • Indirect controls (including general IT controls), supporting the operation of direct controls, not being designed, implemented, or operating effectively. • Deficiencies in the entity's control environment. • The operation of a control being inconsistently evidenced by an entity, resulting in challenges with evaluating its operating effectiveness. <p>Clarify the requirements and application material relating to evaluating whether misstatements detected by substantive procedures indicate controls may not be operating effectively.</p> <p>Clarify application material relating to the impact of identified control deviations on further audit procedures</p> <p>Strengthen the linkages between the outcome of tests of</p>	<ul style="list-style-type: none"> • Clarified the requirements in Proposed ISA 330 (Revised) for evaluating the operating effectiveness of controls by: <ul style="list-style-type: none"> ○ Making it explicit that the auditor's evaluation of misstatements detected by substantive procedures includes considering any knowledge of misstatements identified from all substantive procedures performed, and not only those that address the same risk of material misstatement or the same relevant assertion as the tests of controls. ○ Emphasizing that the auditor determines whether it is necessary to revise the assessment of control risk, and modify the nature, timing and extent of substantive procedures to address the risks of material misstatement at the assertion level. • New application material: <ul style="list-style-type: none"> ○ Clarifies that the auditor is required to perform inquiries when deviations in controls are identified and to decide whether the evidence nevertheless supports concluding the control is operating effectively. If the deviations indicate the control is not operating effectively, the auditor must either perform alternative procedures to obtain evidence that alternative controls are operating effectively or revise the control risk and adjust the nature, timing, and extent of substantive procedures accordingly. ○ Introduces factors that may be relevant to the auditor's judgment when evaluating the possible effect of misstatements identified by substantive procedures, on the operating effectiveness of controls. <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs 10(b), 16–17, A31A–A32Ab, A41–A41A , A42–A42A</i></p>

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controls and the iterative nature of risk assessment procedures described in ISA 315 (Revised 2019).	
Overarching Matters to Promote Consistent Practice and Auditor Behaviors	
Issue #9: <i>There have been challenges arising from an apparent lack of alignment of concepts and requirements between ISA 315 (Revised 2019) and ISA 330.</i>	
<p>ISA 330</p> <p>Clarify how the requirements of ISA 330 reflect or are linked to the work effort performed as part of the auditor's risk identification and assessment under ISA 315 (Revised 2019), including the auditor's identification of risks arising from the entity's use of IT.</p> <p>Improve the alignment of terms and concepts between these standards to increase the coherence of the suite of ISAs.</p>	<ul style="list-style-type: none"> Enhancements to requirements and application material of Proposed ISA 330 to align with concepts addressed by ISA 315 (Revised 2019), including improved alignment between the separate assessments of inherent risk and control risk and the 'spectrum of inherent risk.' <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs 7, A19</i></p>
Issue #10: <i>There have been difficulties with understanding the rationale for, and operationalizing the requirement in ISA 330, paragraph 18.</i>	
<p>ISA 330</p> <p>Explore a way forward with respect to paragraph 18 of ISA 330, taking into account the decisions made with respect to this paragraph when developing ISA 315 (Revised 2019). This may include alternative proposals to achieve the public interest objective of this requirement.</p> <p>If determined that paragraph 18 of ISA 330 remains appropriate, clarify its intent and rationale.</p>	<ul style="list-style-type: none"> Paragraph 18 of extant ISA 330 has been replaced by strengthened requirements and application material in ISA 315 (Revised 2019) that clarify certain aspects of the risk assessment process, including: <ul style="list-style-type: none"> A new requirement to clarify the documentation expectation when performing the 'stand-back' evaluation in paragraph 36 of ISA 315 (Revised 2019). Enhanced application material that clarifies how the 'stand-back' evaluations in paragraphs 35–36 of ISA 315 (Revised 2019) interact.

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	<ul style="list-style-type: none"> ○ Explicitly linking to the concept of materiality determined under ISA 320¹⁰ and that the auditor may reconsider whether particular class of transactions, account balance and disclosure (COTABD) not deemed significant, should be treated as significant in light of the potential for misstatements below overall materiality to influence the economic decisions of users. • New requirements for the auditor to determine the effect of the results of risk assessment analytical procedures on the identification and assessment of ROMM when the results of such procedures identify fluctuations or relationships that are inconsistent with other relevant information, or that differ from expected results. <p><i>ISA Ref: ISA 315 (Revised 2019) paragraphs 38, A204A–A204B, A230-A236A, A238A; Proposed ISA 330 (Revised), paragraphs 18, A4, A43–A44; Proposed ISA 520 (Revised), paragraphs 4A, A3B–A3C</i></p>
Issue #11: <i>Designing and performing effective substantive analytical procedures (SAPs) to obtain audit evidence remains a challenging area in practice.</i>	
<p>ISA 520</p> <p>Clarify the principles behind the use of analytical procedures as substantive procedures, to support auditors with making judgments about the effectiveness of the design of SAPs, including:</p> <ul style="list-style-type: none"> • The level of precision of an expectation; and • The accepted amount of difference between expected and recorded amounts. <p>Develop a definition of SAP which clarifies how this differs</p>	<ul style="list-style-type: none"> • Strengthened requirements supporting the performance of robust substantive analytical procedures by enhancing the key elements that determine the necessary precision of such procedures, including the: <ul style="list-style-type: none"> ○ Level of precision of the auditor's expectation, premised on reliable information used in designing and performing the procedure and the plausibility and predictability of the relationship on which the procedure is based. ○ Threshold, not exceeding performance materiality, for which differences between the auditor's expectation and the recorded amounts are required to be investigated to establish whether a material misstatement exists. • Defined substantive analytical procedures separately from analytical procedures and in doing so linked them to the purpose of a substantive procedure which is to detect a

¹⁰ ISA 320, *Materiality in Planning and Performing an Audit*

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<p>from the defined term “analytical procedures.”</p> <p>Consider how to explicitly address biases that specifically arise in the design and performance of SAPs. This may include reordering requirements and enhancing relevant requirements and application material.</p> <p>Clarify the requirement and application material, as appropriate, relating to evaluating the reliability of data from which the auditor’s expectation of recorded amounts or ratios is developed.</p>	<p>material misstatement at the assertion level. In addition, providing clarification through application material that the auditor may use analytical procedures in combination with tests of controls or tests of details when designing and performing further audit procedures.</p> <ul style="list-style-type: none"> Aligned the requirements and application material relating to evaluating the reliability of the information from which the auditor’s expectation of recorded amounts is developed with concepts addressed by Proposed ISA 500 (Revised), including for the design and performance of substantive audit procedures in an unbiased manner. <p><i>ISA Ref: Proposed ISA 520 (Revised), Paragraphs 4–5, A4–A16</i></p>
<p>Issue #12: <i>There is insufficient clarity about the expected audit documentation when using ATT in designing and performing audit procedures, as well as when designing and performing audit procedures for more than one purpose (i.e., multi- purpose procedures or dual-purpose tests).</i></p>	
<p>ISA 330, ISA 500 or ISA 520</p> <p>Develop application material that establishes linkages to relevant requirements and guidance about the form, content and extent of audit documentation in ISA 230 and other ISAs.</p> <p>ISA 330, ISA 500 or ISA 520</p> <p>Develop requirements or application material about the expected audit documentation:</p> <ul style="list-style-type: none"> When using ATT in designing and performing audit procedures; and 	<ul style="list-style-type: none"> Consideration for updating non-authoritative guidance issued by the IAASB Technology Consultation Group at a future point in time addressing audit documentation when using technological tools.¹¹

¹¹ See [Non-Authoritative Support Material: Audit Documentation When Using Automated Tools And Techniques](#).

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<ul style="list-style-type: none"> When designing and performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests). 	
Objective C Facilitate, and where appropriate, encourage auditors' use of technology in obtaining audit evidence and evaluating its sufficiency and appropriateness.	
The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective C are coherence, scalability, timeliness, relevance, implementability and ability of being consistently applied and globally operable .	
<i>Issue #13: The increased use of technology by entities and by auditors has highlighted the need for authoritative material relating to the auditor's use of technology in obtaining sufficient appropriate audit evidence, including requirements that: (i) address instances where the auditor cannot obtain sufficient appropriate audit evidence without using technology; (ii) apply if the auditor uses technology in designing and performing audit procedures.</i>	
ISA 330, ISA 500 or ISA 520 Consider replacing the term “automated tools and techniques” with a new term, developing a definition or description of the term, and describing what types of technologies are within the scope of that term. Explore introducing principles-based requirements or relevant application material relating to the use of technology in obtaining sufficient appropriate audit evidence, such that the standards remain fit-for-purpose. This may include:	<ul style="list-style-type: none"> The term ‘automated tools and techniques’ is replaced with a new term ‘technological tools’ to address concerns around the meaning of ‘technique’ and the lack of clarity about the level of ‘automation’ implied by the extant term. This term enables integration with the concept of technological resources used in ISQM 1,¹² improving the coherence of technology-related terminology across the suite of IAASB Standards. It also achieves closer alignment with technology-related terminology used by the International Ethics Standards Board of Accountants (IESBA) technology-related revisions to the IESBA Code.¹³ A new description of the term ‘technological tools’, with supporting examples, has been developed and placed in both ISQM 1 and ISA 220 (Revised).¹⁴ The description

¹² ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹³ See the [Final Pronouncement: Technology-Related Revisions to the Code](#).

¹⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<ul style="list-style-type: none"> • Exploring the need for a requirement or application material to determine whether to use ATT in designing and performing further audit procedures (related to the notion that there could be circumstances where the auditor may not be able to obtain sufficient appropriate audit evidence without using ATT). • *Developing a conditional requirement or relevant application material, that applies if the auditor uses ATT to design and perform audit procedures. • Develop application material that: <ul style="list-style-type: none"> ○ Enables the auditor to apply the standard(s) in an evolving audit environment with the increasing use of technology. ○ Highlights instances where the use of ATT may be appropriate. 	<p>illustrates and clarifies how technological tools (a subset of a technological resource) may be used on audit engagements to facilitate the design or performance of engagement (or audit) procedures in obtaining sufficient appropriate evidence.</p> <ul style="list-style-type: none"> • The IAASB determined not to pursue technology-related requirements for the in-scope standards that would apply conditionally or otherwise. The rationale for this approach includes the need for the ISAs to remain principle-based, flexible and current in view of rapid technological evolution. • Specificity has been introduced to the requirement in paragraph 25 of ISA 220 (Revised), about the resources used in engagements which are non-negotiable (i.e., human, technological and intellectual resources). Doing so provides a prominent consideration of technological (and other) resources at the engagement level, which is the level where appropriate resource-related considerations are required to be made. • New and enhanced application material: <ul style="list-style-type: none"> ○ On how the use of technology by the entity affects the audit by clarifying: (i) the effect on the auditor's assigned resources, and (ii) that it may affect the nature of audit procedures, including how the level of information may impact the effectiveness of substantive procedures and how technological tools may enable more extensive testing. ○ In a format of appendix provides guidance on considerations when using technological tools, including factors for when their use may be appropriate and factors relevant to evaluating relevance and reliability of information intended to be used as audit evidence when using technological tools. <p><i>ISA Ref: ISQM 1, Paragraph A99A; ISA 220 (Revised), Paragraphs 25, A64, A64A – A64B; Proposed ISA 330 (Revised), Paragraphs A10A, A16; Proposed ISA 500 (Revised), Paragraphs 9, A4, Appendix 3; Conforming and Consequential Amendments to the Other ISAs</i></p>

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>Issue #14: Questions have been raised about where audit procedures performed using ATT fit within the nature of audit procedures as described in the ISAs, which refers to its purpose (i.e., risk assessment procedures, tests of controls or substantive procedures) and its type (i.e., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). The use of sophisticated ATT by auditors have also magnified challenges with appropriately designing and performing audit procedures that are used for more than one purpose.</p>	
<p>ISA 330, ISA 500 or ISA 520</p> <p>Strengthen and clarify, as appropriate:</p> <ul style="list-style-type: none"> • The use of ATT within the constructs of risk assessment procedures and further audit procedures, including exploring where audit procedures performed using ATT fit within the nature of audit procedures described in the ISAs. • Planning for and achieving each of the relevant purposes of the procedure, if the auditor uses audit evidence from an audit procedure performed for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests). • *Develop application material that more robustly addresses the nature of audit procedures, in particular, when using ATT. 	<ul style="list-style-type: none"> • The new description for the term ‘technological tools’ emphasizes that the auditor uses technology as a tool to perform an audit procedure rather than the use of technology being an audit procedure itself. • Extant terminology that refers to a ‘dual-purpose test’ and descriptions of ‘multiple-purpose procedures’ has been consolidated under a broader notion of ‘an audit procedure used for more than one purpose,’ with supporting examples of what such procedures could entail, including when using technological tools. Doing so enhances clarity and reduces complexity for the standards while continuing to recognize that the auditor may perform an audit procedure that achieves more than one purpose when designing and performing audit procedures to obtain sufficient appropriate audit evidence. • New requirement that specifies the auditor’s responsibility to evaluate whether the audit evidence obtained meets each intended purpose of the audit procedure when using an audit procedure to achieve more than one purpose. <p><i>ISA Ref: Proposed ISA 500 (Revised), Paragraphs 8A, A26A, Appendix 3</i></p>
<p>Issue #15: The increased use of technology in performing substantive procedures has highlighted a lack of clear distinction between a test of details and an SAP, and challenged whether such a distinction remains appropriate.</p>	
<p>ISA 330 and ISA 520</p> <p>Explore whether the distinction between a test of details and an SAP remains appropriate, including considering whether</p>	<ul style="list-style-type: none"> • Clarified the distinction between substantive analytical procedures and tests of details by separately defining these terms. The new definition of ‘tests of details’ emphasizes testing at the level of each specific item selected.

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>the use of technology to enhance the precision and scope of SAPs could provide sufficient appropriate audit evidence to respond to a significant risk.</p> <p>Consider developing a definition or description of the term “tests of details.”</p> <p>Develop application material that links to guidance in ISA 500 that addresses the level of detail of information relating to meeting the intended purpose(s) of the audit procedure.</p>	<ul style="list-style-type: none"> • New application material to the definition for tests of details refers to the non-exhaustive list of types of audit procedures in Proposed ISA 500 (Revised). It also draws attention that certain types of audit procedures, such as inquiry alone, ordinarily do not provide sufficient appropriate audit evidence of the absence of a material misstatement. • New examples enhance linkages in Proposed ISA 330 (Revised) with Proposed ISA 500 (Revised) by illustrating how the level of information may impact the effectiveness of substantive procedures. <p><i>ISA Ref: Proposed ISA 330 (Revised): Paragraphs 4b, A0B–A0C, A15–A16</i></p>
<p>Issue #16: <i>There is insufficient clarity regarding the design and performance of audit procedures using ATT, including when selecting items for testing, and addressing outliers and exceptions identified.</i></p>	
<p>ISA 330, ISA 500 or ISA 520</p> <p>*Develop application material on selecting items for testing.</p> <p>Develop requirements or application material that apply when the auditor designs and performs tests of details and SAPs in accordance with ISA 330 and ISA 520, respectively, and identifies matters for further investigation (e.g., outliers and exceptions or inconsistent fluctuations or relationships). Such requirements or application material may include investigating whether the identified items individually or in the aggregate indicate:</p> <ul style="list-style-type: none"> • Misstatements to be dealt with in accordance with ISA 	<ul style="list-style-type: none"> • The requirement on determining a means of selecting items for testing when designing tests of controls and tests of details has been retained and repositioned into Proposed ISA 330 (Revised) to support consistent design of tests of controls and tests of details responsive to assessed risks. • New and enhanced application material that addresses: <ul style="list-style-type: none"> ○ The various approaches to identify and select items for testing (e.g., selecting all items, selecting specific items and audit sampling). ○ The need for further investigation when, as part of risk assessment or further audit procedures, items are identified that may indicate possible misstatements or inconsistencies in audit evidence (e.g., outliers, exceptions, items inconsistent with expectations or unusual for the population). • For substantive analytical procedures:

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
<p>450.¹⁵</p> <ul style="list-style-type: none"> Deficiencies in the entity's internal control over financial reporting to be dealt with in accordance with ISA 265.¹⁶ *Develop application material clarifying the auditor's considerations in addressing outliers and exceptions identified, including whether the testing approach involves the use of manual or automated audit procedures that enables the auditor to interrogate all items in a population. 	<ul style="list-style-type: none"> Strengthened requirements to investigate the differences that exceed the threshold to evaluate differences from expected amounts in order to determine whether a misstatement exists. New application material that links to ISA 450 and clarifies that a difference exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement. <p><i>ISA Ref: Proposed ISA 330 (Revised), Paragraphs 23A, A49–A49A, A60A; Proposed ISA 500 (Revised), Paragraphs A90A–A90B; Proposed ISA 520 (Revised), Paragraphs 5, A16–A16F</i></p>
<p>Issue #17: <i>The use of new or emerging technologies by management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks, which stakeholders view as not sufficiently addressed in the ISAs.</i></p>	
<p>ISA 500</p> <p>Develop application material that:</p> <ul style="list-style-type: none"> Provides examples of risks that may affect the relevance and reliability of information intended to be used as audit evidence; and *Highlights the possible overreliance on information from certain sources. <p>ISA 330</p> <p>Develop application material (recognizing the need to apply a principles-based approach in the standard) that explains that</p>	<ul style="list-style-type: none"> New application material highlights: <ul style="list-style-type: none"> Examples of new or changing risks introduced by the use of new or emerging technologies by auditors and by entities. Guidance for automation bias when using technological tools and possible actions the auditor may consider to mitigate the risk of such bias. <p><i>ISA Ref: Proposed ISA 330 (Revised), paragraphs A10A, A62; Proposed ISA 500 (Revised), paragraphs A19, A45, A47, Appendix 3</i></p>

¹⁵ ISA 450, *Evaluation of Misstatements Identified during the Audit*

¹⁶ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Addressing the Standard-Setting Actions Included in the AE&RR Project Proposal
IAASB Main Agenda (March 2026)

Ref. Para 28 of the AE&RR <u>Project Proposal</u>	Description of Key Changes Proposed to Date
the use of new or emerging technologies by management in their financial reporting processes or by auditors in performing audit procedures introduces new or changing audit risks, and the nature of such risks.	