

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

This Agenda Item includes Proposed ISA 330 (Revised) marked up as follows:

- Revisions proposed to requirements and application material paragraphs discussed at the IAASB May 2026 meeting are shown in mark up from [Agenda Item 1-A](#).
- Revisions proposed to any other requirements or application material paragraphs are shown in mark up from [Agenda Item 7–B](#) discussed at the IAASB March 2026 IAASB meeting.

Introduction

Scope of this ISA

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

Effective Date

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

Objective

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

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Substantive procedures – Audit procedures designed for the purpose of detecting material misstatements at the assertion level. ~~Substantive procedures include tests of details (of classes of transactions, account balances and disclosures) and substantive analytical procedures.~~² (Ref: Para. A0) **[Moved to Para. A0]**
 - (b) Tests of controls – Audit procedures designed for the purpose of obtaining audit evidence about the operating effectiveness of controls. (Ref: Para. A0A)
 - (c) ~~Tests~~ of details (of classes of transactions, account balances ~~and-or~~ disclosures) – A substantive procedure that involves the application of audit procedures to obtain audit evidence about each item selected for testing. (Ref: Para. A0B–A0C)

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

² ~~Proposed ISA 520 (Revised), Analytical Procedures, defines the term 'substantive analytical procedures.'~~

Requirements

Overall Responses

5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A1–A3A)

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

6. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. (Ref: Para. A4–A8; A45–A49A)

6A. [Moved to Para. 7B]

7. In designing the further audit procedures to be performed, the auditor shall: (Ref: Para. A9–A17)
- (a) Take into account the reasons for the assessment of inherent risk and of control risk at the assertion level, for each significant class of transactions, account balance and disclosure;
 - (b) Plan to perform substantive procedures, tests of controls, or a combination of both; and (Ref: Para. A4)
 - (c) Plan to obtain more persuasive audit evidence³; the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. (Ref: Para. A19–A19AB~~d~~)

7A. [Moved to Para. 9A]

Responding to Assessed Risks of Material Misstatement in an Unbiased Manner

- 7B. The auditor shall respond to assessed risks of material misstatement in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A19AB~~a~~)

[Moved from Para. 6A]

Tests of Controls

Designing and Performing Tests of Controls

8. The auditor shall design and perform tests of controls in responding to assessed risks of material misstatement at the assertion level if: ~~(Ref: Para. A19ABb–A22) (a) The auditor's assessment of control risks of material misstatement at the assertion level takes into account an expectation that controls are operating effectively is based on:~~ (Ref: Para. A19ABb–A22)
- (a) The auditor's plan to obtain audit evidence about the operating effectiveness of the controls;³ or
 - (b) The auditor's determination that Ssubstantive procedures alone cannot provide sufficient appropriate audit evidence in responding to the risks~~at the assertion level~~.⁴ (Ref: Para. A24–A24B)

³ ISA 315 (Revised 2019), paragraph 34

⁴ ISA 315 (Revised 2019), paragraph 33

9. The auditor shall obtain more persuasive audit evidence about the operating effectiveness of controls, the greater the reliance the auditor places on such audit evidence in responding to ~~an~~ assessed risk~~s~~ of material misstatement at the assertion level. (Ref: Para. ~~A24D~~–A25)

9A. ~~If the auditor shall plans to~~ respond to assessed risks of material misstatement at the assertion level through tests of controls alone; ~~the auditor shall determine that only if:~~ (Ref: Para. ~~A4A~~)

- (a) The assessed inherent risk related to such risks is not ~~assessed on the~~ higher ~~end of~~ ~~on~~ the spectrum of inherent risk; ~~and no such risks were determined to be significant risks;~~⁵ and
- (b) The auditor's expectation about the operating effectiveness of the controls that address inherent risk is such that the risks of material misstatement at the assertion level are at an acceptably low level. (Ref: Para. ~~A25aa~~)

[Moved from Para. 7A]

Nature and Extent of Tests of Controls

10. In designing and performing tests of controls, the auditor shall ~~perform audit procedures beyond inquiry, to~~ obtain audit evidence about the operating effectiveness of the controls, including with respect to: (Ref: Para. ~~A25A~~–~~A29aA~~)

- (a) How the controls were applied at relevant times during the period under audit;
- (b) The consistency with which they were applied; and
- (c) By whom or by what means they were applied.

Inquiry alone cannot provide sufficient appropriate evidence about the operating effectiveness of controls.

Timing of Tests of Controls

11. Subject to paragraphs 11A–12, the auditor shall obtain audit evidence about the operating effectiveness of controls for the particular point in time, or throughout the period, for which the auditor plans to place reliance on such evidence. (Ref: Para. ~~A32A~~–~~A33~~)

Controls ~~aA~~Addressing ~~sS~~Significant ~~rR~~Risks

- 11A. If the auditor plans to test controls that address a risk the auditor has determined to be a significant risk, the auditor shall do so in the current period. (Ref: Para. ~~A33A~~)

Tests of ~~eC~~Controls ~~aA~~Alone

- 11B. If the auditor plans to respond to address an assessed risk of material misstatement at the assertion level through tests of controls alone, the auditor shall test those controls in the current period. (Ref: Para ~~A33A~~)

Using ~~aA~~Audit ~~eE~~Evidence ~~eO~~Obtained ~~dD~~During an ~~iI~~Interim ~~pP~~Period

12. If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period ~~and intends to extend the conclusions of those tests of controls for the remaining~~

⁵ ISA 315 (Revised 2019), paragraphs 31–~~and~~ 32

~~period~~, the auditor shall:

- (a) Obtain audit evidence about significant changes , if any, to those controls ~~subsequent to the-between the~~ interim date and the period end; and
- (b) Determine the additional audit evidence to be obtained about the operating effectiveness of the controls for the remaining period. (Ref: Para. A34–A35)

Using ~~a~~Audit ~~e~~Evidence ~~e~~Obtained in ~~p~~Previous ~~a~~Audits

- 13. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider: (Ref: Para. A33A, A36)

(a1) The assessed risks of material misstatement and the persuasiveness of audit evidence ~~to be obtained necessary~~ in the current period to ~~address-respond to~~ the assessed risks of material misstatement. [Moved from Para. 13(f)]

- (a) The risks arising from the characteristics of the control, including whether it is manual or automated; (Ref: Para. A36A)
- (b) The results of the auditor's evaluations ~~of relating to other components of the entity's system of internal control in accordance with ISA 315 (Revised 2019), being~~ the entity's control environment, risk assessment process, process to monitor the system of internal controls, and the information system and communication;
- (c) The audit evidence obtained in the current period related to risks arising from the use of IT, including, as applicable, about the operating effectiveness of general IT controls; (Ref: Para. A36B);
- (d) Whether the control operated effectively in the previous audit, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been changes to the design or implementation of the control that may significantly affect its the effective operation ~~of the control~~; and
- (e) Whether the lack of a change in a particular control poses a risk due to changing circumstances ~~; and~~ (Ref: Para. A36C)
- (f) [Moved to Para.13(a1)]

- 14. If the auditor plans to use audit evidence about the operating effectiveness of ~~specific~~ controls that was obtained in from an audit conducted within the previous three years, the auditor shall obtain audit evidence about whether significant changes have occurred since the previous audit that affect the continuing relevance or reliability of that audit evidence. ~~The auditor shall obtain this audit evidence,~~ through inquiry combined with observation or inspection, to confirm the understanding of those ~~specific~~ controls; and (Ref: Para. A36D)

- (a) If there have been significant changes that affect the continuing relevance or reliability of the audit evidence from the previous audit, the auditor shall test the controls in the current period-audit. (Ref: Para. A37)
- (b) If there have not been significant such changes that affect the continuing relevance or reliability of the audit evidence from the previous audit, the auditor shall: (Ref: Para. A38–A40)

- (i) ~~T~~est such controls at least once in every third year;~~;~~ and ~~shall~~
- (ii) ~~T~~est some of those controls in the current period ~~each audit~~, to avoid the possibility of obtaining audit evidence about the operating effectiveness of such controls in a single audit and obtaining no such audit evidence in the subsequent two years. ~~(Ref: Para. A38–A40)~~

15. [Not Used]

Evaluating the Operating Effectiveness of Controls

16. When evaluating the operating effectiveness of controls, the auditor shall evaluate whether misstatements, if any, that have been detected by any substantive procedures performed indicate that controls that have been tested may ~~are~~ not be operating effectively. (Ref: Para. A41–A41A)

Results of Tests of Controls

17. If the auditor identifies deviations from the expected operation of controls, the auditor shall:
- (a) ~~m~~Make specific inquiries to understand these matters and their potential consequences;~~;~~ and (Ref: Para. A42–A42A)
 - (b) ~~d~~Determine whether: (Ref: Para. ~~A42~~–A42B)
 - (~~ai~~) The audit evidence obtained from the tests of controls performed provides an appropriate basis for confirming the auditor's initial expectation about the operating effectiveness of controls ~~assessment of control risk~~,⁶ or
 - (~~bii~~) Additional tests of controls are necessary to obtain such evidence ~~a basis~~; ~~or~~
- 17A. If the auditor is unable to obtain an appropriate basis for confirming the auditor's assessment of control risk, (c) — It is necessary for the auditor ~~to~~ shall:
- (a) ~~r~~Revise the assessment of control risk;~~;~~ and
 - (b) ~~m~~Modify the nature, timing and extent of substantive procedures, to address ~~to respond to~~ the assessed risks of material misstatement at the assertion level.

Substantive Procedures

18. [Not Used]

Designing and Performing Substantive Procedures

- 18A. The auditor shall design and perform substantive procedures in responding to the assessed risks of material misstatement at the assertion level, unless the auditor responds to assessed risks of material misstatement at the assertion level through tests of controls alone, in accordance with paragraph 9A. (Ref: Para. A45–A49A)

Substantive Procedures Responsive to Significant Risks

- 18B. If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall design and perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of

⁶ ISA 315 (Revised 2019), paragraphs 34 and A226

substantive procedures, those procedures shall include tests of details (of classes of transactions, account balances or disclosures). (Ref: Para. ~~A55~~A49B)

[Moved from Para. 21]

External Confirmation Procedures

19. The auditor shall consider whether to perform external confirmation procedures ~~are to be performed as when designing~~ substantive ~~audit~~ procedures. (Ref: Para. A50–A53)

~~Substantive Procedures Related to the Financial Statement Closing Process~~

20. [Moved to Para. 23B]

~~Substantive Procedures Responsive to Significant Risks~~

21. [Moved to Para. 18B]

Timing of Substantive Procedures

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

Selecting Items for Testing

- 23A. When designing tests of controls ~~and or~~ tests of details (of classes of transactions, account balances or disclosures), the auditor shall determine means of selecting items for testing that are effective in meeting the intended purpose(s) of the audit procedure. (Ref: Para. A60A)

~~Substantive Audit~~ Procedures Related to the Financial Statement Closing Process

- 23B.** The auditor's ~~substantive procedures~~ shall ~~include the following audit procedures related to the financial statement closing process~~:
- (a) Agreeing or reconciling the information in the financial statements with the underlying accounting records, including agreeing or reconciling the information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and

- (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A60B54)

[Moved from Para. 20]

Adequacy of Presentation of the Financial Statements

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

Evaluating the Sufficiency and Appropriateness of Audit Evidence

25. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement remain appropriate. (Ref: Para. A62–A63)
- 25A. The auditor shall evaluate whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement. In doing so, the auditor shall consider all audit evidence obtained from further audit 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 in the financial statements. (Ref: Para. A63A)
26. [Not Used]
27. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to ~~de-se~~ obtain sufficient appropriate audit evidence related to a relevant assertion, the auditor shall evaluate the implications for the audit or for the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).⁷

Documentation

28. In applying ISA 230,⁸ ~~the~~ the auditor shall include in the audit documentation:
- (a) The overall responses to address the assessed risks of material misstatement at the financial statement level;
 - (b) and ~~the~~ the nature, timing and extent of the further audit procedures performed; and their (b) ~~The linkage of those procedures with the assessed risks of material misstatement at the assertion level; and~~
 - (c) The results of the further audit procedures performed, including the conclusions ~~where-if~~ these are not otherwise clear. (Ref: Para. A65)

⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁸ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6—~~A7~~ and Appendix.

29. If the auditor ~~plans to use~~ audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached in a previous audit about the operating effectiveness of those controls ~~that were tested in a previous audit~~.
30. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

Application and Other Explanatory Material

Definitions ~~(Ref: Para. 4)~~

Substantive Procedures (Ref: Para. 4(a))

- A0. Substantive procedures may include tests of details (of classes of transactions, account balances and or disclosures) or ~~and~~ substantive analytical procedures.⁹ [Moved from Para. 4(a)] ~~For the purpose of designing substantive procedures, the auditor may decide to use tests of details, substantive analytical procedures or other audit procedures for the intended purpose of detecting material misstatements at the assertion level.~~

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

A0A. Tests of controls may be performed to:

- Obtain audit evidence about the operating effectiveness of controls that address risks of material misstatement at the assertion level, thereby confirming the auditor's assessment of control risk;¹⁰ or
- ~~Provide a basis for the auditor's evaluation of~~ the reliability of information intended to be used as audit evidence, in accordance with Proposed ISA 500 (Revised).¹¹

Tests of Details (of classes of transactions, account balances or disclosures) (Ref: Para. 4(c))

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

Examples:

- Inspecting documents (e.g., purchase orders, vendor shipping documents and vendor invoices) and ~~matching agreeing the~~ information in those documents to the details recorded in the inventory sub-ledger.

⁹ See Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 4(b) that defines the term "substantive analytical procedures."

¹⁰ ISA 315 (Revised 2019), paragraph 34.

¹¹ Proposed ISA 500 (Revised), Audit Evidence, paragraphs 9–10B

- Inspecting a sample of subsequent cash receipts, shipping documentation and sales recorded near the period-end, to obtain audit evidence related to the completeness of sales.
- Recalculating ~~the mathematical accuracy of~~ the depreciation of selected items of property and equipment.
- Inspecting the physical presence, nature and condition of an item of property, plant and equipment recorded in the entity's fixed assets register.

A0C. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures that may be relevant when designing and performing a tests of details and explains that inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.¹²

Overall Responses (Ref: Para. 5)

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

- Emphasizing to the engagement team the need to maintain professional skepticism.
- Assigning more experienced staff or those with special~~ized~~ skills or using experts.
- Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
- Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
- Changes to the overall audit strategy as required by ISA 300,¹³ or planned audit procedures, and may include changes to:
 - The auditor's determination of performance materiality in accordance with ISA 320.¹⁴
 - The auditor's plans to test the operating effectiveness of controls, or the persuasiveness of audit evidence needed about the operating effectiveness of the controls, particularly when deficiencies in components of the entity's system of internal control have been identified.
 - The nature, timing and extent of substantive procedures. ~~For example, it may be appropriate to perform substantive procedures at or near the date of the financial statements when the risk of material misstatement is assessed as higher.~~

A2. The assessment of the risks of material misstatement at the financial statement level, and therefore the auditor's overall responses are, ~~is~~ affected by the auditor's understanding of the entity's system of internal control, in accordance with ISA 315 (Revised 2019).¹⁵ Deficiencies in the entity's control environment, ~~the entity's~~ risk assessment process or ~~and the entity's~~ sits

¹² See Proposed ISA 500 (Revised), paragraphs 11–14 of Appendix 1.

¹³ ISA 300, *Planning an Audit of Financial Statements*

¹⁴ ISA 320, *Materiality in Planning and Performing an Audit*

¹⁵ ISA 315 (Revised 2019), paragraph 30

process to monitor the system of internal control. ~~Because these components are foundational to the entity's system of internal control, any deficiencies in their operation~~ could have pervasive effects on the preparation of the financial statements. The auditor may have determined that deficiencies within these or other components of the entity's system of internal control affected the assessment of risks of material misstatement at the assertion level, ~~in applying ISA 315 (Revised 2019).~~¹⁶ Accordingly, the auditor's overall responses may also be reflected in ~~changes to~~ the auditor's planned approach at the assertion level, by, for example:

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

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

A3A. ~~In some rare cases In~~ the absence of controls, or ~~of components of when significant deficiencies in~~ the system of internal control are identified,¹⁷ ~~may make it impossible the auditor may be unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.~~ ISA 705 (Revised)¹⁸ establishes requirements and provides guidance that apply in such circumstances ~~explains circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or to disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).~~

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

~~The Nature, Timing and Extent of Further Audit Procedures~~ at the Assertion Level (Ref: Para. 6–7)

A4. The auditor's assessment of identified risks of material misstatement at the assertion level in accordance with ISA 315 (Revised 2019) provides a basis for designing and performing further audit procedures. For example, when designing further audit procedures, taking into account the reasons for the assessment of inherent risk and of control risk at the assertion level for each significant class of transactions, account balance and disclosure, the auditor may determine that:

- Performing tests of controls is necessary; in combination with substantive procedures, to obtain sufficient appropriate audit evidence at the assertion level. This ~~may is be~~ the case when the auditor has identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level (see paragraph 8(b)).¹⁹
- Performing substantive procedures alone may provide sufficient appropriate audit evidence at the assertion level. In these circumstances, the auditor's assessment of control

¹⁶ ~~ISA 315 (Revised 2019), paragraph 30~~

¹⁷ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

¹⁸ ISA 705 (Revised), paragraphs 6(b), 7(b), and 9.

¹⁹ ISA 315 (Revised 2019), paragraph 33

risk is such that the risk of material misstatement is the same as the assessment of inherent risk,²⁰ and therefore, the effect of controls is excluded from the assessment of the risk of material misstatement at the assertion level;

- Even though substantive procedures alone may provide sufficient appropriate evidence at the assertion level, a combined approach using both tests of controls and substantive procedures is an effective approach; or
- Performing tests of controls alone may provide sufficient appropriate audit evidence at the assertion level. Paragraph 79A applies in such circumstances.

The auditor need not design and perform further audit procedures when the assessment of ~~the~~ inherent risk is such that the risk of material misstatement is at an acceptably low level.

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

A4A. [Moved to Para. A19ABc/A25aa]

- A5. As explained in Proposed ISA 500 (Revised), the nature of an audit procedure is characterized by its purpose (that is, test of controls or substantive procedure) and its type (e.g., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure).²¹ The nature of the audit procedures (e.g., tests of controls or substantive procedures) is of most importance in responding to the assessed risks.
- A6. The timing of an audit procedure refers to when it is performed, or to the period or date to which the audit evidence applies.
- A7. The extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control.
- A8. Designing and performing further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level provides a clear linkage between the auditor's further audit procedures and the risk assessment.

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

A8B. [Moved to Para. A19ABa]

Designing Responses Responding to the Assessed Risks of Material Misstatement at the Assertion Level (Ref: Para. 7)

Nature

- A9. ISA 315 (Revised 2019) requires that the auditor's assessment of ~~the~~ risks of material misstatement at the assertion level is performed by separately assessing inherent risk and control risk.²² The auditor assesses inherent risk by assessing the likelihood and magnitude of a misstatement taking into account how, and the degree to which, the inherent risk factors affect the susceptibility to misstatement of relevant assertions.²³ The auditor's assessed risks of material misstatement at the assertion level, including the reasons for those

²⁰ ISA 315 (Revised 2019), paragraph 34

²¹ Proposed ISA 500 (Revised), paragraph A15Appendix 4

²² ISA 315 (Revised 2019), paragraphs 31 and 34

²³ ISA 315 (Revised 2019), paragraphs 31 and 34

~~assessments~~~~assessed risks~~, may affect ~~both~~ the types of audit procedures to be performed, and their combination.

Example:

When an ~~assessed~~ risk of material misstatement at the assertion level related to the occurrence of a related party transaction is assessed at the higher end of the spectrum of inherent risk, the auditor may determine that it is appropriate to design and perform external confirmation procedures ~~to obtain audit evidence of the completeness and accuracy of the terms of a related party transaction disclosed in accordance with the financial reporting framework~~, in addition to inspecting ~~the relevant~~ documents, thereby obtaining more persuasive evidence in response to the risk, as required by paragraph 7(c).

Further, certain audit procedures may be more appropriate for some assertions than for others.

Example:

~~In relation to revenue, t~~Tests of controls may be ~~most~~more responsive to ~~an~~-assessed risks of material misstatement related to the completeness assertion, whereas substantive procedures may be ~~mo~~re responsive to ~~an~~-assessed risks of material misstatement related to the occurrence assertion.

- A10. The reasons for the auditor's assessment ~~given to a of~~ risks of material misstatement at the assertion level are also relevant in determining the nature of the audit procedures that may be performed to obtain audit evidence about that assertion.

Examples:

- If ~~an~~-assessed risks of material misstatement at the assertion level ~~is lower~~ are higher on the spectrum of inherent risk because of the particular characteristics of a class of transactions without consideration of related controls (i.e., because of the inherent risk), ~~then~~ the auditor may determine that tests of details substantive analytical procedures alone provide are necessary to obtain sufficient appropriate audit evidence.
- If ~~an~~-assessed risks of material misstatement at the assertion level ~~is~~ are lower because the auditor has formed an initial expectation that controls that address the inherent risk are operating effectively, and the auditor plans to base the nature, timing and extent of substantive procedures on that lower assessment, then the auditor designs and performs tests of those controls, as required by paragraph 8(a). This may be the case, for example, for classes of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

- A10A. The entity's use of technologies may also be a relevant consideration in determining the nature of audit procedures. ~~f~~For example, ~~if an entity has in the case of implemented~~ complex or advanced technologies. ~~In such cases, ISA 220 (Revised)²⁴ requires the auditor to determine whether sufficient and appropriate technological resources, which may include technological tools, are assigned or made available to the engagement team. In other cases,~~ the auditor may

²⁴—ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 25

~~have determined that tests of controls are necessary; or may~~ determine that it is necessary or more effective or efficient to use technological tools to perform certain types of audit procedures that may not practicably be performed manually. ~~to perform further audit procedures given management's use of technologies.~~ In those circumstances, the engagement partner is required to have determined, in accordance with ISA 220 (Revised),²⁵ that sufficient and appropriate technological resources, which may include technological tools, are assigned or made available to the engagement team.

Timing

- A11. The auditor may perform tests of controls or substantive procedures at an interim date or at or after the period end.

Examples:

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

[Moved from Para. A12]

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

- A12. [Moved to Para. A11]

- A13. ~~In addition, c~~Certain audit procedures can be performed only at or after the period end.

Examples:

- Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.
- Inspecting adjustments made during the course of preparing the financial statements.
- Procedures to respond to assessed risks of material misstatement related to the occurrence and cutoff assertions; for example those that were identified because of the possibility that, at the period end, the entity may have entered into improper sales contracts, or transactions may not have been finalized.

- A14. ~~Further relevant factors that influence t~~The auditor's consideration of when to perform audit procedures may also be influenced by factors such as ~~include the following:~~

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

- The auditor's understanding of the entity's control environment, risk assessment process and its process for monitoring the system of internal control.
- When information is available (e.g., ~~electronic files~~information in digital form may subsequently be overwritten, or procedures to be observed may occur only at certain times).
- The reasons for the assessment of the risk of material misstatement at the assertion level (e.g., if the inherent risk related to ~~there is~~ a risk of material misstatement relating to the occurrence of revenue is assessed higher on the spectrum of inherent risk, because of an incentive to inflate revenues to meet earnings expectations by the subsequent creation of false sales agreements, the auditor may wish-plan to inspect contracts available on the date of the period end rather than at another date).
- The period or date to which the audit evidence relates.
- The timing of the preparation of the financial statements, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of ~~financial performance-comprehensive income~~, the statement of changes in equity or the statement of cash flows.

Extent

A15. The extent of an audit procedure judged necessary is determined after considering performance materiality, the assessed risk, and the persuasiveness of the audit evidence that the auditor plans to obtain. When a single purpose is met by a combination of audit procedures, the extent of each audit procedure is considered separately. In general, the extent of audit procedures increases as the higher the assessed risk of material misstatement increases. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is responsive to the reasons for the assessment of risk. ~~Factors that may affect the relevance of information intended to be used as audit evidence include, among other factors, the level of detail needed to meet the intended purpose(s) of the audit procedure, as explained in Proposed ISA 500 (Revised).~~²⁶

Example:-

~~The auditor may assess the risk of material misstatement as higher for completeness of related party transactions. The auditor may decide to use a technological tool to perform a detailed inspection of individual contracts or agreements of the entity and evaluate whether there are related party transactions that are not identified or disclosed.~~

A16. The use of technological tools may enable more effective testing of a more extensive volume testing of transactions, which may be useful when the auditor decides or is required to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud.

Examples:

The auditor may use technological tools to:

- Select a sample of transactions from the entity's records in accordance with ISA 530.²⁷

²⁶ ~~Proposed ISA 500 (Revised), Audit Evidence, paragraphs A55.~~

²⁷ ISA 530, Audit Sampling

- ~~to sort~~ Consider the characteristics of a population of transactions ~~to determine an appropriate method of selecting items for testing with specific characteristics or~~
- Apply an audit procedure to each item in a ~~to test an entire~~ population instead of ~~applying a procedure to each item in~~ a sample.
- ~~Match~~ Agree detailed information ~~recorded during the period for~~ of large populations of transactions, (such as dates, quantities and prices), ~~recorded during the period~~ to supporting documents, (such as customer orders, invoices, shipping documents and cash receipts).

Considerations specific to public sector entities

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

A18. [Not Used]

Higher Assessments of Inherent Risk (Ref: Para. 7(c))

A19. For assessed risks of material misstatement at the assertion level, the higher the assessment of inherent risk on the spectrum of inherent risk, the more persuasive the audit evidence is required to be. This may include increasing the quantity of the evidence obtained or obtaining evidence that is of higher quality, by altering the nature, timing and extent of further audit procedures performed. ~~to address the assessed risk of material misstatement.~~

Examples:

The auditor may obtain more persuasive evidence by:

- Obtaining audit evidence from multiple independent sources, including from third parties, and evaluating whether the information obtained from the sources is consistent or inconsistent, and whether it corroborates or contradicts the assertions in the financial statements.
- Performing more extensive testing for tests of controls and tests of details, such as a larger sample size for audit sampling purposes.
- Using specialized skills or knowledge to assist the auditor in designing and performing audit procedures, or to evaluate the audit evidence obtained for complex aspects of the audit.

A19AA. Significant risks are defined in ISA 315 (Revised 2019)²⁸ as identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of a potential misstatement should that misstatement occur, or that is to be treated as a significant risk in accordance with the requirements of other ISAs. Accordingly, paragraph 7(c) requires that the audit evidence planned to be obtained in response to such risks be more persuasive than the audit evidence that is

²⁸ ISA 315 (Revised 2019), paragraph 12(l)

planned to be obtained to address risks that are assessed at a lower level on the spectrum of inherent risk.

A19AB. Significant risks are less likely to be subject to routine controls when they relate to non-routine and judgmental matters. However, the auditor is nonetheless required to perform procedures in accordance with ISA 315 (Revised 2019) to identify, evaluate the design and determine the implementation of controls that address such risks.²⁹ As described in ISA 315 (Revised 2019),³⁰ irrespective of whether the auditor plans to test the operating effectiveness of such controls, the auditor's understanding about management's approach to addressing ~~these significant~~ risks may assist the auditor in designing and performing further audit procedures that are appropriately responsive to ~~the significant~~ those risks.

A19ABd. When a risk of material misstatement is treated as a significant risk in accordance with the requirements of other ISAs, the other ISAs may include audit procedures that are specifically required to be performed in order to appropriately respond to those risks. For example, in accordance with ISA 240 (Revised) the auditor is required to design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.³¹

Responding to Assessed Risks in an Unbiased Manner (Ref: Para. 7B)

A19ABa. Designing and performing further audit procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information. ~~which~~ This may assist the auditor in exercising professional skepticism when evaluating whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement at the financial statement and assertion level. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of using inappropriate assumptions in determining the nature, timing and extent of the further audit procedures and evaluating the results thereof.³²

[Moved from Para. A8B]

Tests of Controls

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

A19Abb. To design an effective response to the assessed risks of material misstatement at the assertion level, it may be necessary for the auditor to design and perform tests of controls. As described in ISA 315 (Revised 2019),³³ the auditor may have developed an initial expectation of the operating effectiveness of controls ~~is~~ based on the auditor's evaluation of the design, and the determination of implementation, of the identified controls in the control activities component, which forms the basis for the auditor's assessment of control risk. Once the auditor has obtained audit evidence about the operating effectiveness of the controls, by testing those controls, the auditor will be

²⁹ ISA 315 (Revised 2019), paragraph 26(a)(i)

³⁰ ISA 315 (Revised 2019), paragraph A158

³¹ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 40, 47–48

³² ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraphs A21–A25

³³ ISA 315 (Revised 2019), paragraph A226

able to confirm ~~this~~^{their} initial expectation about the operating effectiveness of controls, and the assessment of control risk. If, having performed tests of controls, the auditor determines that controls are not operating effectively, in accordance with the ~~eat~~ ^{eat} initial expectation of the operating effectiveness of controls, ~~then~~ the auditor is required, in accordance with paragraph 17A ~~of this ISA~~ to revise the control risk assessment and modify the nature, timing and extent of substantive procedures, to respond to the assessed risks of material misstatement at the assertion level.

[Moved from Para. A24D]

A19ABc. In other circumstances, the auditor may ~~For controls that are not expected to be controls to be sufficiently precise to prevent, or detect and correct a material misstatement at the assertion level, or controls may not have not been sufficiently documented by the entity for the auditor to form an expectation that they are operating effectively, the auditor may not expect such controls to reduce an assessed risk of material misstatement to an acceptably low level. Consequently, In these circumstances,~~ the auditor may ~~determine that it is more appropriate to~~ design and perform further audit procedures that are primarily, or only, substantive procedures.

[Moved from Para. A4A]

A19AC. [Moved to Para. A25A]

A19A. [Moved to Para. A27]

A20. [Not Used]

A21. Testing the operating effectiveness of controls is different from obtaining an understanding of and evaluating the design and implementation of controls in accordance with ISA 315 (Revised 2019).³⁴ However, the same types of audit procedures are applied, ~~so. As described in ISA 315 (Revised 2019),~~³⁵ the auditor may, ~~therefore~~ obtain audit evidence about the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented. As required by Proposed ISA 500 (Revised), when the auditor uses an audit procedure for more than one purpose, the auditor evaluates whether the audit evidence obtained meets each intended purpose.³⁶

A22. ~~Further, a~~ Although some risk assessment procedures may not have been specifically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls.³⁷ For example, the auditor's risk assessment procedures may have included:

- Inquiring about management's use of budgets;
- Observing management's comparison of monthly budgeted and actual expenses;³⁷ and
- Inspecting reports pertaining to the investigation of variances between budgeted and actual amounts.

These audit procedures may provide audit evidence about the effectiveness of the design of the entity's budgeting policies and about their implementation, and may also provide some audit evidence about the operating effectiveness of budgeting policies in preventing or detecting

³⁴ ISA 315 (Revised 2019), paragraph 26

³⁵ ~~ISA 315 (Revised 2019), paragraph A19~~

³⁶ Proposed ISA 500 (Revised), paragraph 8A

³⁷ ISA 315 (Revised 2019), paragraph A19

material misstatements at the assertion level³⁸ relating to the classification of expenses. However, as described in ISA 315 (Revised 2019),³⁸ the evidence obtained from evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to test their operating effectiveness.

A23. [Not Used]

When ~~S~~ubstantive ~~p~~rocedures ~~a~~lone ~~d~~o ~~n~~ot ~~p~~rovide ~~s~~ufficient ~~a~~ppropriate ~~a~~udit ~~e~~vidence (Ref: Para. 8(b))

A24. In some cases, the auditor may have determined, in applying ISA 315 (Revised 2019), that find it is impossible or impracticable to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.³⁹ In such cases, paragraph 8(b) requires the auditor to perform tests of controls that address the assessed risks of material misstatement at the assertion level for which substantive procedures alone cannot provide sufficient appropriate audit evidence. In making such a determination, the auditor may have considered matters such as:

~~A24A. In determining whether substantive procedures alone cannot provide sufficient appropriate audit evidence regarding assessed risks of material misstatement at the assertion level (i.e., that it may not be possible or practicable to do so) in applying ISA 315 (Revised 2019),⁴⁰ the auditor may have considered factors such as:~~

- The relevant assertion addressed by the further audit procedures.
- The extent to which information intended to be used as audit evidence about a class of transactions, account balance or disclosure is:
 - Available to the auditor from sources outside of the entity's information system.
 - Initiated, processed, recorded and reported entirely within the entity's information system.
 - Dependent on the continued operating effectiveness of controls, including general IT controls, that support the integrity of information.
- The characteristics of the class of transaction, account balance or disclosure.

These factors are non-exhaustive, and the existence of one or more factors does not always indicate that substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

Examples:

~~The following are examples of where the existence of one or a combination of factors may indicate that s~~ubstantive procedures alone ~~cannot may be unable to~~ provide sufficient appropriate audit evidence when:

- An entity conducts its business using IT and transactions are initiated, processed, recorded and reported entirely within the entity's information system.

³⁸ ISA 315 (Revised 2019), paragraph A180

³⁹ ISA 315 (Revised 2019), paragraph 33

⁴⁰ ~~ISA 315 (Revised 2019), paragraph 33~~

- An entity reports accounting estimates based on complex models that, for example, incorporate information from a wide range of sources both within and outside of the entity, such that the accuracy of the estimate depends on the operating effectiveness of controls over the models.
- An entity operates across multiple locations that process cash sales (e.g., food and beverage outlets or retail stores), where control activities at certain points in the information processing system are necessary for achieving the entity's financial reporting objectives.
- An entity performs cycle inventory counts across multiple locations throughout the period, such that the accuracy, completeness and valuation of inventory and amounts recorded as costs of goods sold are dependent on the operating effectiveness of those controls.

A24B. ISA 315 (Revised 2019)⁴¹ and ISA 540 (Revised)⁴² also include examples of situations in which substantive procedures alone are unlikely to provide sufficient appropriate audit evidence.

A24C. [Not Used]

The Persuasiveness of Audit Evidence About the Operating Effectiveness of Controls (Ref: Para. 9=9A)

A24D. [Moved to Para. A19ABb]

A25. The audit evidence to be obtained about the operating effectiveness of controls is required to be more persuasive in certain circumstances than in others. For example, more persuasive audit evidence may be sought about the operating effectiveness of controls when the further audit procedures designed and performed in accordance with paragraph 6 consist primarily, or only, of tests of controls; or when it is not possible or practicable to obtain sufficient appropriate audit evidence at the assertion level from substantive procedures alone. In considering the persuasiveness of the audit evidence that the auditor expects to obtain about the operating effectiveness of controls, the auditor may consider matters such as the source and nature of the information expected to be available about their effective operation.

A25aa. As described in ISA 200,⁴³ effective internal controls generally reduce but do not eliminate the risk of material misstatement. However, in some circumstances, based on an evaluation of the design, and determination of implementation, of controls in accordance with ISA 315 (Revised 2019),⁴⁴ the auditor may have formed an expectation that certain controls address assessed inherent risks at the assertion level to such an extent that the risks of material misstatement at the assertion level are reduced to an acceptably low level. Such an expectation is a matter of professional judgment that is affected by the extent to which the controls are sufficiently precise to address inherent risk, and Other matters that the auditor may consider matters such as (see also paragraph A19ABc): in determining whether a tests of controls alone approach is appropriate in the circumstances may include:

⁴¹ ISA 315 (Revised 2019), paragraph A224

⁴² ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A87–A89

⁴³ ISA 200, paragraph A43

⁴⁴ ISA 315 (Revised 2019), paragraph 26

- ~~• The expected persuasiveness of the audit evidence that may be obtained about the operating effectiveness of controls.~~
- ~~• Whether the risk of management override of controls affected the assessment of the risks of material misstatement at the assertion level, and if so, whether and how it has been addressed in accordance with ISA 240 (Revised).⁴⁵~~
- Characteristics of the controls, including whether they are automated or manual, and whether they include a combination of preventative and detective controls.
- The auditor's assessment of whether the controls are sufficiently precise to prevent, or detect and correct a material misstatement at the assertion level, by being The extent to which controls are specifically responsive to the reasons for, or the events or conditions that gave rise to, the identification of the risks of material misstatement at the assertion level and the assessment of inherent risk.⁴⁶
- Whether the auditor's expectation about the operating effectiveness of controls is ~~was~~ formed based on controls that the entity has designed, documented and implemented; in response to risks of material misstatement that were identified by the entity's risk assessment process.⁴⁷
- Whether controls are subject to the entity's process for monitoring their system of internal control. The auditor may have a higher expectation of effectiveness of controls when management has established monitoring processes to evaluate the operating effectiveness of controls that they have designed and implemented.
- ~~• The auditor's understanding of the entity's control environment, risk assessment process and its process for monitoring the system of internal control in accordance with ISA 315 (Revised 2019). This may include the auditor's evaluation of whether the information system and communication appropriately supports the preparation of financial statements in accordance with the applicable financial reporting framework;⁴⁶ and the auditor's determination of whether deficiencies have been identified within the entity's system of internal control.⁴⁷~~

Examples:

An entity may calculate payroll expenses by capturing data through biometric devices and the automated application of hourly rates and overtime rules, with specific approvals required for editing any of the data. The auditor may determine that ~~the operating effectiveness of~~ controls around the data capture and the automated application of rates, in combination with the general IT controls ~~supporting their operation,~~ may be able to reduce risks of material misstatement relating to the occurrence and accuracy of payroll, ~~for example,~~ arising from the possibility of unauthorized editing of the rates, hours, or data, to an acceptably low level. Further, the auditor may determine that the audit evidence expected to be obtained about their operating effectiveness is sufficiently persuasive to respond to such risks without the need for substantive procedures.

⁴⁵—ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 40

⁴⁶—ISA 315 (Revised 2019), paragraph 25

⁴⁷—ISA 315 (Revised 2019), paragraph 27

[Moved from Para. A4A]

Nature and Extent of Tests of Controls (Ref: Para. 10)

Controls to be Tested (Ref: Para. 10)

A25A. In designing and performing tests of controls, the controls to be tested ~~The tests of controls required by paragraph 8 are performed on those controls that the auditor has evaluated as being designed effectively, and determined to be implemented, to prevent, or detect and correct, a material misstatement in a relevant assertion. They~~ may include a combination of controls including direct and indirect controls.⁴⁸ If substantially different controls were used by the entity at different times during the period under audit, each is considered separately. As described in ISA 315 (Revised 2019),⁴⁹ direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls support the operation of direct controls. ~~The controls to be tested in accordance with paragraph 10 are those that the auditor determined to be necessary to test in order to confirm the auditor's initial expectation that controls are operating effectively.~~

[Moved from Para. A19AC]

Indirect ~~e~~Ccontrols, including ~~g~~General IT ~~e~~Ccontrols

A25B. As described in ISA 315 (Revised 2019),⁵⁰ the auditor may have determined that it is necessary to test a combination of controls that includes more than one direct control, or that includes a combination of direct and indirect controls. For example, the auditor's assessment of control risk at the assertion level may have included an initial expectation that direct controls and the indirect controls that support the operation of those direct controls, including general IT controls, are both operating effectively; and therefore, in such circumstances, the auditor's procedures in accordance with paragraph 10 include are performed to obtain audit ~~procedures evidence about to evaluate~~ the operating effectiveness of such both the direct and indirect controls.

A25C. In other circumstances, the auditor's assessment of control risk at the assertion level may have taken into account ~~included an both the auditor's~~ initial expectation that direct controls are operating effectively, and ~~may also have also taken into account the risk that the auditor's consideration that~~ indirect controls, ~~including general IT controls, that support the operation of those direct controls,~~ may not have operated effectively.⁵¹ ~~For example, this may have been because the auditor determined that the effective operation of those indirect controls was only necessary to support the effective operation of direct controls in certain circumstances. In such circumstances,~~ The auditor may determine that in order to obtain persuasive audit evidence about the operating effectiveness of controls ~~in the circumstances~~, it is necessary to perform:

- Tests of controls over the direct controls, and ~~also~~
- perform a Audit procedures that address to obtain audit evidence about whether ~~the specific circumstances have occurred (i.e., whether~~ the risks that such an indirect control could

⁴⁸ ISA 315 (Revised 2019), paragraph A228

⁴⁹ ISA 315 (Revised 2019), paragraph A5

⁵⁰ ISA 315 (Revised 2019), paragraphs ~~26, 34,~~ and A228

⁵¹ ~~See, for example,~~ ISA 315 (Revised 2019), paragraph A166.

have addressed~~),~~ have occurred, and if so, whether their occurrence has affected the operation of the direct controls that they supported.

A25D. Similarly, ~~when~~ the auditor ~~may have~~ ~~has~~ identified general IT controls as indirect controls that support the operation of a direct control to be tested, and may have determined that testing both the direct controls and the general IT controls is necessary to appropriately address the risk of material misstatement, ~~and if~~ the auditor determines that ~~such general IT~~ controls are ~~not designed, or not ineffective~~ operating effectively, the auditor may ~~may~~ determine ~~that in order to it is still possible to~~ obtain persuasive audit evidence about the operating effectiveness of direct controls at the assertion level, ~~by it is also necessary to performing~~ audit procedures that address the ~~related~~ risks arising from the use of IT, identified in accordance with ISA 315 (Revised 2019).⁵² Such procedures may address determining whether:

- The related risk(s) arising from the use of IT ~~has~~ yes occurred.

Such audit procedures are not tests of controls and do not provide audit evidence about the operating effectiveness of that general IT controls ~~have operated effectively~~. Rather, they provide audit evidence about whether, ~~despite deficiencies in the general IT controls, the risk(s) that general IT controls could have addressed~~ risks arising from the use of IT have occurred, and whether their occurrence has ~~they have~~ affected the operating effectiveness of the direct controls that are responsive to the assessed risks of material misstatement.

Example:

If access controls are not designed effectively, and users have unauthorized access to an IT application, ~~(but cannot access or modify the system logs that track access),~~ the auditor may inspect the system logs to obtain audit evidence ~~that those about whether unauthorized~~ users ~~did not~~ accessed the IT application during the period and threatened the effective operation of controls that operate within the IT operation.

- There are ~~compensating, alternate, or redundant general IT controls, or~~ other controls, that address the related risk(s) arising from the use of IT.

If so, the auditor may identify such controls (if not already identified), evaluate their design, determine that they have been implemented, and perform tests of their operating effectiveness. Such audit procedures are tests of controls.

Example:

If a general IT control related to user access is not designed, or not operating ineffective effectively, the entity may have ~~an alternative~~ controls in place. For example, ~~whereby~~ IT management may review end user access reports on a timely basis; ~~or -~~ Circumstances when an application control may address a risk arising from the use of IT may include when the entity may reconcile the information that may be affected by the general IT control deficiency ~~can be reconciled~~ to external sources (e.g., a bank statement) or to other internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

⁵² ISA 315 (Revised 2019), paragraph 26(c)(i)

A25E. The auditor may have obtained audit evidence about the operating effectiveness of general IT controls when ~~performing procedures to evaluate~~⁵³ the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).⁵³ The auditor may consider that the audit evidence obtained from those procedures may also be used as audit evidence that contributes to achieving ~~for~~ the purpose of the procedures required ~~by in accordance with~~ paragraph 810.

Audit ~~p~~Procedures to ~~e~~Obtain ~~a~~Audit ~~e~~Evidence ~~a~~About the ~~e~~Operating ~~e~~Effectiveness of ~~e~~Controls

A26. As described in ISA 315 (Revised 2019),⁵⁴ inquiry alone is not sufficient for obtaining audit evidence about the design and implementation of identified controls. Similarly, inquiry alone does not provide sufficient appropriate evidence about the operating effectiveness of controls. Accordingly, other audit procedures are performed in addition to combination with inquiry to obtain such evidence. In this regard, inquiry combined with inspection or the reperformance of a control may provide more persuasive audit evidence than inquiry and observation of a control activity, since an observation is pertinent only at the point in time at which it is made.

A27. Characteristics of a control, including its ~~The nature and precision of a particular control may~~ influences the type of audit procedures required to obtain audit evidence about whether the control was operating effectively.

[Moved from Para. A19A]

Examples of how the characteristics of a control may affect the type of audit procedures to be performed in obtaining audit evidence about its operating effectiveness:

- ~~For example, if the operating effectiveness of a control is evidenced by written documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness.~~
- ~~For some controls, documentation may not be available or relevant. For example, dDocumentation may not exist to evidence the of operation may not exist for of some types of controls factors in the control environment, such as assignment of authority and responsibility, or for some types of controls, such as automated controls. In such circumstances, audit evidence about operating effectiveness may be obtained through inquiry in combination with other audit procedures, such as observation or by using of technological tools.~~

[Moved from Para. A19A]

Examples of how the characteristics of a control may affect the extent or the timing of audit procedures in obtaining audit evidence about its operating effectiveness:

- Manual controls and (including IT-dependent controls) involve human intervention and judgment, and may be more susceptible to override or error. Accordingly, as described in ISA 315 (Revised 2019),⁵⁵ obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit.

⁵³ Proposed ISA 500 (Revised), paragraph 10B

⁵⁴ ISA 315 (Revised 2019), paragraph A177

⁵⁵ ISA 315 (Revised 2019), paragraph A180

- Some automated controls may be less susceptible to processing errors, and may operate consistently, unless the related IT application changes. In such cases, it may only be necessary to obtain audit evidence about the operating effectiveness of such controls at a point in time within the audit period, in order to have an appropriate basis on which to evaluate the operating effectiveness of such controls. ~~Additionally, as described in ISA 315 (Revised 2019),⁵⁶ the auditor may plan to test the operating effectiveness of some automated controls by identifying and testing general IT controls that provide for the consistent operation of an automated control, instead of performing tests of operating effectiveness on the automated controls directly.~~
- ~~In contrast, s~~Some controls may have been designed and implemented to be performed using technology that produces variable outputs, or technology that changes, evolves or updates over time, and to be adaptive, and operate in a probabilistic rather than deterministic manner. Such controls may not be expected to operate consistently, and therefore, ~~obtaining audit evidence about the operation of these controls at a point in time does not provide audit evidence about their operating effectiveness at other times during the period under audit.~~ Such characteristics may affect the auditor's decisions about the timing of the tests of controls (e.g., whether to obtain audit evidence at a point in time, or at different points in time throughout the period).

Extent of ~~t~~Tests of ~~e~~Controls

A28. When more persuasive audit evidence is needed regarding the effectiveness of controls, it may be appropriate to increase the extent of testing of the controls. In determining the extent of tests of controls, the auditor may consider matters such as:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the audit period for which the auditor places reliance on the audit evidence about the operating effectiveness of the control.
- The expected rate of deviations, if any, in the operation of a control and the specific conditions that ~~would may~~ indicate there are deficiencies in controls.
- The relevance and reliability of the information that may be obtained and used as audit evidence about the operating effectiveness of the control at the assertion level, and the resulting persuasiveness of the audit evidence obtained about the operating effectiveness of controls.
- The extent to which audit evidence is obtained from tests of other controls related to the same relevant assertion.

ISA 530⁵⁷ contains further guidance on the extent of testing.

A29. ~~When the controls to be tested are~~ For some automated controls ~~that (e.g., those that are designed and implemented using technology designed to produce consistent outputs) operate in a deterministic manner,~~ it may not be necessary to increase the extent of testing in order to obtain more persuasive audit evidence about their operating effectiveness. This is because such automated controls may ordinarily be expected to function-operate consistently unless the IT

⁵⁶ ~~ISA 315 (Revised 2019), paragraph A180~~

⁵⁷ ~~ISA 530, Audit Sampling, Appendix 2~~

application they operate in (including the tables, files, or other permanent data used by the IT application) is changed. Accordingly, once the auditor has determined that such an automated control is functioning-operating as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing other audit procedures to obtain audit evidence that the control continues to function-operate effectively. Such audit procedures may include ones designed to test the operating effectiveness of general IT controls related to the IT application, or to obtain audit evidence about whether risks arising from the use of IT have occurred, as described in paragraph A25D.

A29a. However, the characteristics of the IT application that the automated control operates in, and the characteristics of the automated control, may affect the auditor's judgment about the level of consistency with which an automated control activity is performed. For example, an auditor may assess that controls that are operated by the entity using technology that produces variable outputs, or technology that changes, evolves or updates over time-is adaptive and operates in a probabilistic rather than deterministic manner,- are not expected to function-operate consistently in any throughout the audit given period-and that it is necessary to increase the extent of testing to obtain more persuasive audit evidence about their operating effectiveness. In such circumstances, when considering whether there is a need to increase the extent of testing to obtain more persuasive audit evidence about the operating effectiveness of such controls, the auditor may consider matters such as how the entity expects the control to operate, monitors performance and identifies and responds to deviations and inconsistencies in its operation. It may be appropriate to consider whether audit evidence may be expected to be available about the operation of compensating controls or about related governance activities, monitoring controls or other supporting controls of the entity.

A30. [Not Used]

A31. [Not Used]

A32. [Not Used]

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

A32A. As explained in paragraph A6, the timing of tests of controls refers to when the audit evidence about the operating effectiveness of controls is obtained, and to the particular point in time or period of time to which the audit evidence relates.

A33. Audit evidence that a control operated effectively at only a point in time may be sufficient and appropriate in certain circumstances. For example, it may be appropriate to obtain audit evidence about the operating effectiveness of controls over the entity's physical inventory count at the period end. In other circumstances, tests that are capable of providing audit evidence about the operating effectiveness of ~~the control(s)~~ at relevant times during a period are appropriate. For example, when planning to obtain audit evidence about the operating effectiveness of controls of recorded transactions throughout the period, or when performing tests of controls in the entity's process to monitor the system of internal control.

Testing ~~e~~Ccontrols in the ~~e~~Ccurrent ~~p~~Pperiod (Ref: Para. 11A–11B)

A33A. In the circumstances described in paragraphs 11A and 11B, the auditor cannot use audit evidence about the operating effectiveness of controls that was obtained in a previous audit as audit

evidence for the current period, ~~as may otherwise be appropriate in accordance with paragraphs 13–14.~~

Using ~~a~~Audit ~~e~~Evidence ~~e~~Obtained ~~d~~During an ~~i~~Interim ~~p~~Period (Ref: Para. 12(b))

A34. ~~Relevant factors in~~ In determining ~~what the~~ additional audit evidence to obtain about the operating effectiveness of controls that were operating in an interim period, during the period remaining between the interim date and the end of the period, the auditor may consider factors such as ~~include:~~

- The ~~assessment of the~~ risk of material misstatement at the assertion level that the controls are responsive to.
- The nature or characteristics of the ~~specific~~ controls that were tested at or during the interim period, and the significance of changes to their design or implementation since they were tested, including changes in the entity's information system.
- The persuasiveness of the audit evidence needed about the operating effectiveness of those controls.
- The length of the ~~remaining~~ period between the interim date and the period end.
- The extent to which the auditor intends to ~~reduce~~ modify the nature, timing and extent of substantive procedures based on the operating effectiveness of controls.
- The results of the auditor's evaluations relating to ~~other components of the entity's system of internal control in accordance with ISA 315 (Revised 2019), being~~ the entity's control environment, risk assessment process, process to monitor the system of internal controls and the information system and communication.

A35. Additional audit evidence may be obtained, for example, by ~~extending~~ increasing the extent of tests of direct controls ~~over to address~~ the remaining period, or testing the indirect controls for that period, which may include monitoring controls, ~~in that period~~ as part of the entity's system of internal control.

Using ~~a~~Audit ~~e~~Evidence ~~e~~Obtained in ~~p~~Previous ~~a~~Audits (Ref: Para. 13)

A36. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence for use in the current period, where if the auditor performs audit procedures to establish its continuing relevance and reliability in the current period.⁵⁸

Example:

In performing a previous audit, the auditor may have determined that an automated control, supported by effective general IT controls, was operating as intended. In the current audit, the auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective operation through a combination of inquiries of management, the inspection of logs indicating what controls have been changed and the testing of general IT controls that support its application, for example those addressing unauthorized access or changes to the automated controls. Consideration of audit evidence

⁵⁸ Proposed ISA 500 (Revised), paragraph A12C

about these changes may support the auditor's decisions about the audit evidence to be obtained in the current period about the operating effectiveness of the controls.

A36A. Manual controls are more susceptible to changes in their operation, including changes in the personnel operating them, ~~that may affect the application of the control than automated controls, especially those that are supported by effective general IT controls~~. Therefore, it may be more difficult to determine ~~the that audit evidence obtained in previous audits about the operating effectiveness of manual controls, is of~~ continuing relevance and reliability ~~of as~~ audit evidence ~~obtained~~ about the operating effectiveness of such manual controls ~~in previous audits, for in~~ the current period.

A36B. When general IT controls ~~designed and implemented to address the risks arising from the use of IT~~ are not designed or operating effectively, the auditor may not be able to determine ~~that whether the related~~ risks arising from the use of IT have ~~not prevented affected~~ the ~~continued effective~~ operation of an automated control in the current audit, ~~even though the auditor had obtained sufficient appropriate audit evidence, in applying paragraph in the previous audit, to determine that the automated control operated effectively in the previous audit~~. Accordingly, when general IT controls are not designed or operating effectively, the auditor may be unable to determine that use the audit evidence ~~that was~~ obtained in a the previous period about the operating effectiveness of ~~these~~ automated controls continues to be relevant and reliable for use as audit evidence for the current audit.

A36C. The auditor may be unable to use audit evidence about the operating effectiveness of controls obtained in a previous audit when, in the auditor's professional judgment, changing es in the circumstances would necessitate a change in the design or operation of the controls in order to effectively address an assessed risk of material misstatement in the current period. Changing circumstances that may pose a risk if controls are not changed may include:

- Changes to risks arising from the use of IT.
- An increase in the level of assessed risk of material misstatement at the assertion level that the controls ~~is are~~ intended to address respond to, or changes in the reasons such risks were identified or assessed.
- Changes in the entity's information processing activities for significant classes of transactions, account balances and disclosures that may affect the effectiveness of the control.

Changes from ~~pP~~previous ~~aA~~udits that ~~aA~~ffect the ~~eO~~perating ~~eE~~ffectiveness of a ~~eC~~ontrol (Ref: Para. 14–14(a))

A36D. In accordance with ISA 315 (Revised 2019),⁵⁹ the auditor is required, in the current audit, to evaluate the design and determine the implementation of certain controls, including those that the auditor plans to test. Accordingly, the auditor may determine those procedures provide an appropriate basis for the auditor to confirm the understanding of the controls in the current audit, and to evaluate whether there have been significant changes in their design or operation implementation since the audit in which they were last tested that may affect the continuing relevance or reliability of the audit evidence previously obtained.

⁵⁹ ISA 315 (Revised 2019), paragraph 26

A37. Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued use of such audit evidence. Such changes may include changes in the design or implementation of the control itself, related process changes, or changes in the ~~level of~~ assessed risk of material misstatement that the control is intended to address. For example, changes in an IT application-system that enable an entity to receive a new report from the system may not affect the relevance of audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently may do so.

Controls ~~t~~That ~~h~~Have ~~n~~Not ~~e~~Changed from ~~p~~Previous ~~a~~Audits (Ref: Para. 14(b))

A38. The auditor's decision on whether to use audit evidence obtained in an audit conducted within the previous three years, for controls that:

- Have not changed since they were last tested (see paragraph 14(a));
- Are not controls that address a significant risk (see paragraph 11A); and
- Are not controls that address ~~a~~-risk~~s~~ of material misstatement at the assertion level that the auditor plans to address through tests of controls alone (see paragraph 11B).

is a matter of professional judgment. In addition, the length of time between retesting such controls is also a matter of professional judgment, but is required by paragraph 14(b)(i) to be at least once in every third year, ~~independently-irrespective~~ of how many audits are conducted during that period. In general, the higher the auditor's assessment of risk of material misstatement, or the greater the ~~necessary~~ persuasiveness of the audit evidence that is needed about the operating effectiveness of controls to address the risk of material misstatement, the shorter the time period elapsed, if any, is likely to be.

A39. [Not Used]

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

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16)

A41. The absence of misstatements detected by substantive procedures does not provide audit evidence that controls related to the assertion being tested are operating effectively. A material misstatement detected by the auditor's substantive procedures or other audit procedures is a strong indicator of the existence of a significant deficiency in internal control. ISA 265⁶⁰ deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements, and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attention.

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

⁶⁰ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 5

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

Results of Tests of Controls (Ref: Para. 17)

A42. The concept of effectiveness of ~~the~~ operation of controls recognizes that some deviations in the way controls are applied by the entity may occur. For example, deviations from prescribed controls may be caused by factors such as changes in key personnel, changes in the information used by the entity in applying the control, unexpected fluctuations in the volume of transactions, changes in the control environment that are not directly related to the control or human error. However, not all deviations necessarily affect the operating effectiveness of the controls. Accordingly, in applying paragraph 17, the auditor is required to perform inquiries to understand the reasons for ~~the~~ deviations identified and use such understanding when evaluating the results of the testing performed.

A42A. When the detected rate of deviation does not exceed ~~is the same as~~ the expected rate of deviation, and such a rate of deviation had been taken into account when the auditor formed their initial judgment about the expected operating effectiveness of the control, the auditor may determine, in applying paragraph 17(a), that despite ~~the~~ identified deviations, the audit evidence obtained provides an appropriate basis for concluding that ~~the a~~ control operates effectively to address an assessed risk.

A42B. Alternatively, the auditor may determine that the identified deviations appear to indicate that a control may not be operating effectively. In these circumstances, the auditor is required by paragraph 17(b) to determine whether additional procedures may be performed to obtain sufficient appropriate audit evidence about the operating effectiveness of the control. Such additional procedures may include:

- Testing more instances of the same control and evaluating the results of the procedures performed on a larger sample of the population.
- Testing the design and operating effectiveness of other controls that the entity had designed and implemented to address the same risk of material misstatement at the assertion level.

When the deviations identified relate to deviations in the operation of indirect controls, the additional procedures may include performing procedures to detect whether the risk matters that the controls were designed to address have occurred such as performing procedures to detect whether risks arising from the use of IT occurred in the absence of effective general IT controls (see also ~~see~~ paragraph A25DA–A25E).

Substantive Procedures

A43. [Not Used]

A44. [Not Used]

Nature and Extent of Substantive Procedures (Ref: Para. 6, [18A](#))

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

- [Performing](#) substantive analytical procedures as the only substantive procedure may provide sufficient appropriate audit evidence to reduce audit risk ~~for at a relevant~~[the](#) assertion [level](#) to an acceptably low level. For example, this may be the case when the auditor's further audit procedures also include tests of controls, ~~or when the assessed inherent risk is not determined to be a significant risk (see paragraph 18B).~~
- [Performing](#) ~~only~~ tests of details, ~~alone or in combination with tests of controls,~~ may provide sufficient appropriate audit evidence ~~to address a risk of material misstatement~~ at the assertion level.

A46. Substantive analytical procedures are ordinarily more likely to provide sufficient appropriate audit evidence in response to [assessed](#) risks of material misstatement [at the assertion level](#) related to significant classes of transactions that consist of large volumes of transactions that are predictable over time. Proposed ISA 520 (Revised)⁶¹ establishes requirements and provides guidance on performing substantive analytical procedures and on the application of analytical procedures during an audit.

A46A. When designing and performing further audit procedures, the auditor may design and perform analytical procedures [which](#), in combination with tests of controls or tests of details, [may provide to obtain](#) sufficient appropriate audit evidence [at the assertion level](#). Such analytical procedures are not substantive analytical procedures as contemplated in Proposed ISA 520 (Revised).⁶² ~~However, the combination of, such analytical procedures and tests of details, may, for example, increase the persuasiveness of the audit evidence obtained in the circumstances. Nevertheless, the requirements and application material for substantive analytical procedures in Proposed ISA 520 (Revised) may provide useful guidance when designing and performing these analytical procedures.~~⁶³

Examples:

- ~~The auditor may identify and assess a risk of material misstatement related to the valuation of allowance for doubtful accounts receivable. To respond to this risk, the auditor may obtain audit evidence by performing analytical procedures (e.g., comparing the current period's ratio of bad debt to accounts receivable with prior periods or industry data) in combination with tests of details (e.g., selecting items from the accounts receivable aging report and inspecting related sales invoices to determine whether amounts are recorded in the appropriate aging category).~~
- ~~The auditor may identify and assess a lower risk of material misstatement related to the accuracy of the entity's depreciation of property, plant and equipment. To respond to this risk, the auditor may obtain audit evidence by performing analytical procedures (e.g., comparing the current period's depreciation expenses with prior periods) in combination with tests of controls over fixed assets.~~

⁶¹ Proposed ISA 520 (Revised), *Analytical Procedures*

⁶² [Proposed ISA 520 \(Revised\), paragraphs 4\(b\) and 5](#)

⁶³ ~~Proposed ISA 520 (Revised), paragraph 5~~

- A47. The reasons for the assessment of the risk^s of material misstatement at the assertion level and the nature of the relevant assertion are relevant to the design of tests of details.

Example:

Tests of details related to the existence or occurrence assertion may involve selecting from items contained in a significant class of transactions, account balance or disclosure, and obtaining information about selected items. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the significant class of transactions, account balance or disclosure and performing procedures to determine whether they are included.

- A48. ~~When the assessment of the risk of material misstatement at the assertion level is reduced because of the auditor's initial expectation that certain controls are operating effectively (i.e., by the auditor's assessment of control risk), the nature, timing and extent of substantive procedures may need to be revised, in accordance with paragraph 17, if the results of tests of controls indicate that the controls do not operate effectively. Increasing the extent of audit procedures is appropriate only if it is responsive to the specific risk of material misstatement.~~ [Not Used]

- A49. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size.⁶⁴ However, other matters are also relevant, including whether other means of selecting items for testing, or a combination of means of selecting items for testing, is more effective in meeting the intended purpose of the audit procedure (see paragraph A60A).

- A49A. The results from substantive procedures may identify exceptions⁶⁵ or inconsistencies⁶⁶ that require further investigation to determine whether a control deviation or a misstatement exists. Other ISAs ~~provide~~ establishes requirements and provides guidance that are relevant to the nature and extent of such investigation procedures.

Substantive Procedures Responsive to Significant Risks (Ref: Para. ~~2418B~~)

- A49B. Paragraph ~~24-18B~~ of this ISA requires the auditor to perform substantive procedures that are specifically responsive to risks the auditor has determined to be significant risks, and which is reflected in the nature, timing and extent of the substantive procedures (see also paragraph A8).

Example:

Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining persuasive audit evidence ~~with the high level of reliability that the auditor requires~~ to respond to significant risks of material misstatement, whether due to fraud or error. If the auditor identifies that management is under pressure to meet earnings expectations, there may be a risk risk of material misstatement due to fraud, that that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may design external confirmation procedures not only to confirm outstanding amounts, but also to confirm the details of the sales

⁶⁴ ISA 530, *Audit Sampling*, paragraph 7.

⁶⁵ See, for example, ISA 505, *External Confirmations*, paragraphs 6(e) and 14.

⁶⁶ See, for example, Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 14 and Proposed ISA 520, paragraphs 5(e) and 7.

agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

[Moved from Para. A55]

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

A50. External confirmation procedures are more frequently ~~are relevant-performed~~ when addressing assessed risks of material misstatement at the assertions ~~level~~ associated with account balances ~~and their elements~~, but need not be restricted to these items.

Example:

The auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures may also provide information that can be used as audit evidence about the absence of certain conditions, such as a request that specifically seeks confirmation that no “side agreements” exists that may be relevant to an entity’s revenue cutoff assertion.

Other situations where external confirmation procedures may provide audit evidence in responding to assessed risks of material misstatement include:

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

A51. The information in external confirmations may provide persuasive audit evidence relating to certain assertions, and less persuasive evidence about others. For example, external confirmations may provide less persuasive audit evidence relating to the valuation of accounts receivable balances, than they do of their existence.

A52. The auditor may determine that the information obtained by performing external confirmation procedures to address ~~an~~ assessed risks of material misstatement related to ~~one~~ a relevant assertion ~~can~~ may also be used as audit evidence ~~about-related to~~ another relevant assertion. For example, confirmation requests for bank balances often include requests for information relevant to other significant disclosures or other relevant assertions. Such considerations may influence the auditor’s decision about whether to perform external confirmation procedures

A53. ~~Factors that may assist the auditor in~~ determining whether external confirmation procedures are to be performed when designing as substantive ~~audit~~ procedures, the auditor may consider factors such as include:

- The confirming party's knowledge of the subject matter. Responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- The ability or willingness of the intended confirming party to respond. For example, the confirming party:
 - May not accept responsibility for responding to a confirmation request;
 - May consider responding too costly or time consuming;
 - May have concerns about the potential legal liability resulting from responding;
 - May account for transactions in different currencies; or
 - May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.

- The objectivity of the intended confirming party. If the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.

A54. [Moved to Para. A60B]

A55. [Moved to Para. A49B]

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

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

Using ~~a~~Audit ~~e~~Evidence ~~e~~Obtained ~~d~~During an ~~i~~Interim ~~p~~Period (Ref: Para. 22)

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

- Identify amounts that appear unusual;
- Investigate any such amounts; and
- Perform substantive ~~analytical~~ procedures ~~or tests of details to detect material misstatements~~ for the intervening period.

A58. Performing substantive procedures at an interim date without obtaining further audit evidence from substantive procedures that address ~~undertaking additional procedures at a later date the intervening period~~ increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the

following may influence the auditor's decisions about whether to perform substantive procedures at an interim date:

- The auditor's understanding of the entity's control environment, risk assessment process and process for monitoring the system of internal control, and other controls.
- The availability at a later date of information necessary for the auditor's procedures.
- The purpose of the substantive procedure.
- The assessed risks of material misstatement at the assertion level.
- The nature of the class of transactions, account balance or disclosure, and the relevant assertions.
- The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

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

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

Misstatements ~~d~~Detected at an ~~i~~Interim ~~d~~Date (Ref: Para. 23)

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

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

A60A. The auditor may use various approaches (i.e., means) to identify and select items for testing; such as selecting all items in a population, selecting only specific items based on criteria that are appropriate, in the auditor's professional judgment, or ~~and~~ audit sampling, in accordance with ISA 530. The application of any one or combination of these means may be appropriate

depending on the particular circumstances. Proposed ISA 500 (Revised) describes various approaches to selecting items for testing and provides illustrative examples.⁶⁷

Substantive Audit Procedures Related to the Financial Statement Closing Process (Ref: Para. 23B)

A60B. The nature and extent of the ~~auditor's substantive audit~~ procedures related to the financial statement closing process is a matter of professional judgment, taking into account depends on the nature and complexity of the entity's financial reporting process and the ~~related assessed~~ risks of material misstatement related to this process.

[Moved from Para. A54]

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

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

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

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

- The extent and nature of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgment about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.
- Analytical procedures performed at the overall review stage in accordance with paragraph 6 of proposed ISA 520 (Revised) of the audit may indicate bring to light a previously unrecognized risk of material misstatement.
- The auditor may become aware of previously unrecognized risks of material misstatement, because of new information related to risks arising from the entity's use of IT, as a result of evaluating ineffective general IT controls over a complex or advanced technology as ineffective.

In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on ~~the a~~ revised consideration of the identified and assessed risks of material misstatement, whether due to fraud or error, and the effect on the significant classes of transactions, account balances or disclosures and their relevant assertions. ISA 315 (Revised 2019) established requirements and contains further provides guidance on revising the auditor's risk assessment.⁶⁸

⁶⁷ Proposed ISA 500 (Revised), Audit Evidence, Appendix 2.

⁶⁸ ISA 315 (Revised 2019), paragraph 37

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

A63A. In evaluating whether the audit evidence obtained from the further audit procedures is together with the audit evidence obtained from risk assessment procedures, sufficient and appropriate in responding to the assessed risks of material misstatement, the auditor may consider matters such as:

- The nature, timing and extent of the further audit procedures performed to-in responding to address the assessed risks of material misstatement at the assertion level for each significant class of transactions, account balance and disclosure.
- The persuasiveness of the audit evidence obtained. As explained in paragraph A19, the higher the assessment of inherent risk on the spectrum of inherent risk, the more persuasive the audit evidence is required to be.
- The interrelationship among relevant assertions of significant classes of transactions, account balances or disclosures, and the aggregate audit evidence obtained for each significant class of transactions, account balance or disclosure.
- The effect on the auditor's evaluation of the operating effectiveness of controls, of when identified deviations are identified in the operation of controls that address risks of material misstatement at the assertion level, especially ones for which the auditor had determined that substantive procedures alone are unable to provide sufficient appropriate audit evidence.
- The extent to which relevant assertions about significant classes of transactions, account balances and disclosures in the financial statements have been addressed through a combination of tests of controls and substantive procedures. For example, when a significant proportion of the risks of material misstatement at the assertion level across the financial statements have been addressed through tests of controls alone, the auditor may determine that additional substantive procedures are necessary in relation to certain relevant assertions in order to obtain sufficient appropriate audit evidence over the financial statements as a whole.

Documentation (Ref: Para. 28)

A65. The form and extent of audit documentation is a matter of professional judgment, and which may be is influenced by the nature, size and complexity of the entity and its system of internal control, the availability of information from the entity and any technological toolsy used in performing the audit.