

### Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* Extracts of Targeted Paragraphs

This Agenda Item shows changes to selected paragraphs of Proposed ISA 330 (Revised), in mark-up from [Agenda Item 7–B](#) discussed by the Board at the March 2026 meeting, as a result of comments received (in plenary or offline) and from outreach activities.

The project team is seeking the Board's directional input on the following matters to assist in finalizing the Board materials for the IAASB June 2026 meeting:

- Definitions (paragraphs 4 and A0–A0C).
- Baseline requirements and application material for responding to assessed risks of material misstatement at the assertion level, and for tests of controls and substantive procedures (paragraphs 6, 6A, 7, and A4, 19–A19AB).
- Responding to assessed risks of material misstatement at the assertion level through tests of controls alone (paragraphs 7A and A4A).
- Baseline requirements for performing tests of controls (paragraphs 8 and A19AC–A24AB).
- Nature and extent of tests of controls (paragraphs 10 and A25A–A32AB).

### Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Substantive procedures~~s~~ – ~~An audit procedures~~ designed for the purpose of to-detecting material misstatements at the assertion level. Substantive procedures include tests of details (of classes of transactions, account balances~~r~~, and disclosures) and substantive analytical procedures.<sup>1</sup> (Ref: Para. A0)
- (b) Tests of controls – ~~An audit procedures~~ designed for the purpose of to-obtaining audit evidence about the operating effectiveness of controls. (Ref: Para. A0A)
- (c) Tests of details (of classes of transactions, account balances and disclosures) – A substantive procedure that involves the application of audit procedures to obtain audit evidence about each ~~specific~~ item selected for testing. (Ref: Para. A0B–A0C)

...

### Requirements

...

<sup>1</sup> Proposed ISA 520 (Revised), *Analytical Procedures*, defines the term 'substantive analytical procedures.'

## **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. The auditor shall respond to ~~the~~ 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. A8B)
7. In designing the further audit procedures to be performed, the auditor shall, ~~for each relevant assertion of a significant class of transactions, account balance and disclosure~~: (Ref: Para. A9–A17)
  - (a) Take into account ~~Consider~~ the reasons for the assessment of inherent risk and control risk at the assertion level, for each significant class of transactions, account balance and disclosure~~the reasons for the assessment~~;
  - (b) Plan to perform substantive procedures, tests of controls, or a combination of both, Consider the assessment of control risk; and
  - (c) Plan to obtain more persuasive audit evidence, the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. (Ref: Para. A19–A19AB)
- 7A. If the auditor plans to respond to assessed risks of material misstatement at the assertion level through tests of controls alone, the auditor shall determine that: (Ref: Para. A4A)
  - (a) The assessed inherent risk related to such risks is not higher on the spectrum of inherent risk, and no such risks were determined to be significant risks;<sup>2</sup> 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.

### *Tests of Controls*

8. The auditor shall design and perform tests of controls if: (Ref: Para. A19AC–A22)
  - (a) The auditor's assessment of risks of material misstatement at the assertion level ~~includes~~ takes into account an expectation that ~~the~~ controls are operating effectively;<sup>3</sup> or
  - (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A240–A24B)

...

---

<sup>2</sup> ISA 315 (Revised 2019), paragraphs 31 and 32

<sup>3</sup> ISA 315 (Revised 2019), paragraph 34

## Nature and Extent of Tests of Controls

10. In designing and performing tests of controls, the auditor shall:-

- ~~(a) Perform other audit procedures in combination with beyond inquiry, to obtain audit evidence about the operating effectiveness of the controls, including with respect to: (Ref: Para. A25A-A29A)~~
- ~~(i) How the controls were applied at relevant times during the period under audit;~~
- ~~(ii) The consistency with which they were applied; and~~
- ~~(iii) By whom or by what means they were applied. (Ref: Para. A26–A30)~~
- ~~(b) To the extent not already addressed, determine whether the controls to be tested depend upon indirect controls, and, if so: (Ref: Para. A31A–A32AB)~~
- ~~(i) Obtain audit evidence about the effective operation of those indirect controls; or~~
- ~~(ii) Perform alternative procedures to enable the auditor to support the operating effectiveness of the controls to be tested.~~

...

## Application and Other Explanatory Material

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

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

A0. 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;<sup>4</sup> 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).<sup>5</sup>

### Example:

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

<sup>4</sup> ISA 315 (Revised 2019), paragraph 34.

<sup>5</sup> Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs 9–10 **BC**

- ~~• The further audit procedures performed to address a risk of material misstatement; or~~
- ~~Evaluating the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).~~

*Tests of Details* (Ref: Para 4(c))

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

Examples:

- ~~Matching inventory quantities from~~ Inspecting documents (e.g., a purchase order<sub>s</sub>, vendor shipping documents<sub>s</sub> and vendor invoices<sub>s</sub>) and matching information to the details recorded in the inventory sub-ledger.
- ~~Examining~~ Inspecting subsequent cash receipts, shipping documentation and sales near the period end.
- Recalculating the mathematical accuracy of the depreciation 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 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.<sup>6</sup>

...

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

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

A4. The auditor's assessment of 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 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 ~~to address the assessed risk(s) of material misstatement for a relevant at the~~ assertion level. This may be the case when the auditor has identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level;<sup>7</sup>

<sup>6</sup> See Proposed ISA 500 (Revised), Appendix 1.

<sup>7</sup> ISA 315 (Revised 2019), paragraph 33

- Performing substantive procedures alone may provide sufficient appropriate audit evidence at the assertion level. In these circumstances, the auditor's assessment of control risk is such that the risk of material misstatement is the same as the assessment of inherent risk,<sup>8</sup> 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, ~~on their own~~, provide sufficient appropriate audit evidence ~~to address the assessed risk(s) of material misstatement for a relevant at the assertion level. Paragraph 7A applies in such circumstances. Such a determination may arise in specific circumstances, further described in paragraph A4A.~~

The auditor need not design and perform further audit procedures when ~~the~~ the assessment of the inherent risk is acceptably low.

A4A. ~~In certain circumstances, it may be appropriate for the auditor to design and perform tests of controls alone to obtain sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure. This may be the case when the auditor's assessment of inherent risk for a relevant assertion level is addressed by identified controls to an extent that the risk of material misstatement is acceptably low (as reflected by the auditor's assessment of control risk in accordance with paragraph 34 of ISA 315 (Revised 2019)). Other matters that the auditor may consider in determining whether a tests of controls alone approach this is appropriate in the circumstances may include: is a matter of professional judgment, involving a consideration of the~~

- The expected persuasiveness of the audit evidence that may be obtained about the operating effectiveness of controls, ~~and other factors such as:~~
- Whether the risk of management override of controls affected the assessment of the risks of material misstatement at the related to the relevant assertion level, and if so, whether and how it has been addressed in accordance with ISA 240 (Revised).<sup>9</sup>
- The auditor's assessment of whether the controls are ~~Are~~ sufficiently precise to prevent, or detect and correct a material misstatement at the assertion level, by being responsive to the reasons for, or the events or conditions that gave rise to, the identification ~~and assessment~~ of the risks of material misstatement at the assertion level and the assessment of inherent risk;
- Whether the auditor's expectation about the operating effectiveness of controls is formed based on controls that the entity has designed, documented and implemented, in response to Are responsive to risks of material misstatement that were identified by the entity's risk assessment process;

<sup>8</sup> ISA 315 (Revised 2019), paragraph 34

<sup>9</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 40

- ~~and Whether were therefore documented, implemented, controls and 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- Operate in an information system that the auditor's evaluation has evaluated, in accordance with ISA 315 (Revised 2019), of whether the information system and communication as being~~ appropriately to supports the preparation of financial statements in accordance with the applicable financial reporting framework;<sup>10</sup> and the auditor's determination of whether deficiencies have been identified within the entity's system of internal control.<sup>11</sup>
  - ~~The characteristics of the controls that formed part of the auditor's assessment of control risk related to the relevant assertion, and that the auditor plans to test in the circumstances, including whether the controls:-~~
  - ~~Are automated or manual controls, because controls requiring little or no manual intervention may be more effective;-~~
- ~~To be tested include both the direct controls that address the assessed risks of material misstatement at the assertion level for the relevant assertion and the indirect controls that support the operation of the direct controls;-~~
- ~~Whether the assessment of inherent risk for the relevant assertion is at the lower end of the spectrum of inherent risk, and the reasons for that assessment.~~

[Note: reordered bullet point list]

#### 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 ~~testing the operating effectiveness of~~ controls around the data capture and the automated application of rates, in combination with and testing 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 prevent unauthorized editing of the rates, hours, or data, without the need for- ~~provides persuasive audit evidence regarding the occurrence and accuracy of payroll, and that~~ substantive procedures ~~may not be necessary to reduce the risk of material misstatement relating to those assertions to an acceptably low level.~~
- ~~In some entities (e.g., in the case of very small entities), there may not be many For controls that are not expected to be sufficiently precise, could be identified by the auditor,~~

<sup>10</sup> ISA 315 (Revised 2019), paragraph 25

<sup>11</sup> ISA 315 (Revised 2019), paragraph 27

or ~~the extent to which their existence or operation~~ have not been sufficiently documented by the entity ~~may be limited. In such cases, the auditor may not expect such controls to reduce an assessed risk of material misstatement to an acceptably low level. it may be appropriate for~~ Consequently, the auditor may determine that it is more appropriate to design and perform further audit procedures that are primarily substantive procedures.

...

#### Higher Assessments of Risk (Ref: Para 7(c))

- A19. For assessed risks of material misstatement at the assertion level, ~~the~~ 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 procedures performed to address the assessed risk of material misstatement

##### Examples:

The auditor may obtain more persuasive evidence ~~to address the risk of material misstatement~~ by:

- Obtaining ~~corroborating audit~~ evidence from ~~a greater number of 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)<sup>12</sup> as 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 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 under in accordance with ISA 315 (Revised 2019) to identify, evaluate the design and determine the implementation of controls that address such risks. As described in ISA 315 (Revised 2019),<sup>13</sup>

<sup>12</sup> ISA 315 (Revised 2019), paragraph 12(l)

<sup>13</sup> ISA 315 (Revised 2019), paragraph A158



irrespective of whether the auditor plans to test the operating effectiveness of such controls, the auditor's understanding about management's approach to addressing those risks. These procedures may assist the auditor in designing and performing further audit procedures that are appropriately responsive to the significant risks.

### Tests of Controls

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

A19AC. The tests of controls required by paragraph 8 are performed only on those controls that the auditor has evaluated as being determined are suitably designed effectively, and determined to be implemented, to prevent, or detect and correct, a material misstatement in a relevant assertion, and the auditor plans to test those controls. They may include a combination of controls including direct and indirect controls.<sup>14</sup> If substantially different controls were used by the entity at different times during the period under audit, each is considered separately.

[Moved from Para. A20]

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

#### Examples:

- Manual controls (including IT dependent controls) that involve human intervention and judgment, and may be more susceptible to override or error. Accordingly, as described in ISA 315 (Revised 2019),<sup>15</sup> 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. Such controls may need to be tested throughout the period for which the auditor plans to place reliance on the audit evidence about the operating effectiveness of controls.
- In contrast, Some automated controls may be less susceptible to processing errors, and may operate consistently, unless the related IT application has changed, because they are less prone to simple errors and mistakes. 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),<sup>16</sup> 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, some controls may have been designed and implemented to be performed using technology and to be adaptive, and operate in a probabilistic rather than deterministic manner. Such controls may not be expected to operate consistently, and

<sup>14</sup> ISA 315 (Revised 2019), paragraph A228

<sup>15</sup> ISA 315 (Revised 2019), paragraph A180

<sup>16</sup> ISA 315 (Revised 2019), paragraph A180



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.

- ~~Direct controls are precise enough to address risks of material misstatement at the assertion level. Indirect controls support direct controls. The more indirect the relationship between controls that support other controls and the control that is being considered, the less effective indirect controls may be in preventing, or detecting and correcting, related misstatements.~~

A20. [Moved to Para. A19AC]

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).<sup>17</sup> However, the same types of audit procedures are applied. As described in ISA 315 (Revised 2019),<sup>18</sup> 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.<sup>19</sup>

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

- Inquiring about management's use of budgets-
- Observing management's comparison of monthly budgeted and actual expenses, 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 material misstatements at the assertion level relating to the classification of expenses. However, as described in ISA 315 (Revised 2019),<sup>20</sup> 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.

<sup>17</sup> ISA 315 (Revised 2019), paragraph 26

<sup>18</sup> ISA 315 (Revised 2019), paragraph A19

<sup>19</sup> Proposed ISA 500 (Revised), paragraph 8A

<sup>20</sup> ISA 315 (Revised 2019), paragraph A180

When substantive procedures alone do not provide sufficient appropriate audit evidence (Ref: Para.8 (b))

A24. In some cases, the auditor may find it impossible or impracticable to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence regarding assessed risks of material misstatement at the assertion level.<sup>21</sup> 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.

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),<sup>22</sup> 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 ~~entirely electronically~~.
  - Dependent on the continued operating effectiveness of controls, including general IT controls, that support the integrity of information.
- The characteristics of the class of transaction, account balance or disclosure ~~(e.g., the volume of low value transactions may be such that the auditor determines that sufficient appropriate audit evidence cannot be obtained without obtaining audit evidence about the operating effectiveness of controls over those transactions).~~

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 substantive procedures alone cannot provide sufficient appropriate audit evidence:

- An entity conducts its business using IT and transactions are initiated, processed, recorded and reported ~~electronically~~ entirely within the entity's, ~~and the information system about those transactions is maintained only in digital form.~~
- 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

<sup>21</sup> ISA 315 (Revised 2019), paragraph 33

<sup>22</sup> ISA 315 (Revised 2019), paragraph 33

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)<sup>23</sup> and ISA 540 (Revised)<sup>24</sup> also include examples of situations in which substantive procedures alone are unlikely to provide sufficient appropriate audit evidence.

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

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

A25. ~~While paragraph 7(c) requires the auditor to obtain more persuasive audit evidence to address an assessed risk the higher it is assessed on the spectrum of inherent risk, paragraph 9 specifically requires that~~ The audit evidence to be obtained about the operating effectiveness of controls ~~to 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 ~~for example in circumstances when responses the further audit procedures designed and performed in accordance with paragraph 6 to risks of material misstatement for a relevant assertion~~ consist primarily, or only, of tests of controls; ~~and or~~ when it is not possible or practicable to obtain sufficient appropriate audit evidence at the assertion level from by performing substantive procedures alone.

Nature and Extent of Tests of Controls

Controls to be tested (Ref: Para. 10)

A25A. As described in ISA 315 (Revised 2019),<sup>26</sup> direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls support the

<sup>23</sup> ISA 315 (Revised 2019), paragraph A224

<sup>24</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A87–A89

<sup>25</sup> ISA 315 (Revised 2019), paragraph A226

<sup>26</sup> ISA 315 (Revised 2019), paragraph A5

operation of direct controls. ~~Accordingly, tests of controls that are designed and performed to address risks of material misstatements at the assertion level ordinarily involve the application of audit procedures to obtain audit evidence about the operating effectiveness of a combination of direct and indirect controls. The more indirect the relationship between controls that support other controls and the control that is being considered, the less effective indirect controls may be in preventing, or detecting and correcting, related misstatements. 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. A31A]

Indirect controls, including general IT controls

A25B. As described in ISA 315 (Revised 2019),<sup>27</sup> 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. In such circumstances, the auditor's procedures in accordance with paragraph 10 include audit procedures to evaluate the operating effectiveness of such indirect controls.

A25C. [Moved from Para. A32AA] In other circumstances, the auditor's assessment of control risk at the assertion level may have included an initial expectation that direct controls are operating effectively, and may also have taken into account the risk that indirect controls, including general IT controls, that support the operation of those direct controls, may not have operated effectively.<sup>28</sup> 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. 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 audit procedures that address ~~Because of the interaction between direct and indirect controls described in paragraph A42, detecting deviations from the expected operation of indirect controls does not necessarily result in an inability to obtain audit evidence about the operating effectiveness of direct controls at the assertion level. As required by paragraph 11(b)(ii), the auditor may design and perform alternative procedures to support the operating effectiveness of the controls to be tested to determine: Whether the specific circumstances have occurred (i.e., whether the risks factors that that an the indirect control was designed to could have addressed), have occurred, and if so, whether they their occurrence has have affected the operation of the direct controls that they supported; or~~

~~Whether alternate indirect controls may have addressed the deviation from the expected operation of the control, to prevent it having an effect on the operating effectiveness of the direct control.~~

<sup>27</sup> ISA 315 (Revised 2019), paragraphs 26, 34, and A228

<sup>28</sup> See, for example, ISA 315 (Revised 2019), paragraph A166.

**A25D.** [Moved from Para. A32AB] ~~Similarly, When the auditor has identified general IT controls as indirect controls that support the operation of a direct control to be tested, and the auditor determines that a such general IT controls are is deficientineffective, the auditor may may determine that in order to obtain persuasive audit evidence about the operating effectiveness of controls at the assertion level, it is also necessary to perform audit procedures that address consider the nature of the related risk(s) arising from the use of IT, that were identified in accordance with ISA 315 (Revised 2019).<sup>29</sup> to provide the basis for the design of the auditor's additional procedures to address the assessed risk of material misstatement.~~ Such procedures may address determining whether:

- The related risk(s) arising from the use of IT has occurred. Such audit procedures are not tests of controls and do not provide audit evidence 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 have occurred, and whether they have affected the operating effectiveness of the direct control that are responsive to the assessed risks of material misstatement.

Example:

If users have unauthorized access to an IT application (but cannot access or modify the system logs that track access), the auditor may inspect the system logs to obtain audit evidence that those users did not access the IT application during the period.

- There are any compensating, alternate, or redundant general IT controls, or ~~any~~ other controls, that address the related risk(s) arising from the use of IT. If so, the auditor may identify such controls (if not already identified), ~~and therefore~~ evaluate their design, determine that they have been implemented, and perform tests of their operating effectiveness. Such audit procedures are tests of controls.

Example:

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

**A25E.** [Moved from Para. A32] ~~Indirect controls, including general IT controls, may have been identified in accordance with ISA 315 (Revised 2019) because of their support of the operating effectiveness of automated controls that address risks of material misstatement at the assertion level, or because of their support in maintaining the integrity of information used in the entity's financial reporting.<sup>30</sup> Such The auditor may have obtained audit evidence about the operating effectiveness of general IT controls may have been tested in accordance with Proposed ISA 500~~

<sup>29</sup> ISA 315 (Revised 2019), paragraph 26(c)(i)

<sup>30</sup> Proposed ISA 500 (Revised), paragraph 10C

~~(Revised)~~ when performing procedures to evaluate the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).<sup>31</sup> The auditor may consider that the audit evidence obtained from those procedures may also be used for the purpose of the procedures required in accordance with paragraph 10. Accordingly, the requirement in paragraph 10(b) acknowledges that the auditor may have already tested certain indirect controls to address the matters in paragraph 10(a)

~~Other audit procedures~~ Audit procedures to obtain audit evidence about the operating effectiveness of controls in combination with inquiry (Ref: Para. 10(a))

A26. As described in ISA 315 (Revised 2019),<sup>32</sup> 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 combination with inquiry to obtain such evidence. In this regard, inquiry combined with inspection or reperformance may provide more persuasive audit evidence than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

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

#### Extent of tests of controls

A28. When more persuasive audit evidence is needed regarding the effectiveness of ~~a control~~s, it may be appropriate to increase the extent of testing of the controls. ~~As well as the degree of reliance on the audit evidence about the operating effectiveness of controls, matters the auditor may consider in~~ determining the extent of tests of controls, the auditor may consider matters such as include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the audit period 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 conditions that would indicate there are deficiencies in controls from its design.
- 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

<sup>31</sup> Proposed ISA 500 (Revised), paragraph 10B2

<sup>32</sup> ISA 315 (Revised 2019), paragraph A177

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 530<sup>33</sup> contains further guidance on the extent of testing.

A29. When the controls to be tested are automated controls that operate in a deterministic manner, Because of the inherent consistency of IT processing, it may not be necessary to increase the extent of testing ~~of an automated control~~ in order obtain more persuasive audit evidence about ~~its their~~ operating effectiveness. This is because Ansuch automated controls may ordinarily be expected to function consistently unless the IT application (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 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 effectively. Such ~~tests-audit procedures~~ may include ones designed to testing the operating effectiveness of general IT controls related to the IT application, or to obtaining audit evidence about whether risks arising from the use of IT have occurred, as described in paragraph A25AA45. However, the characteristics of the IT application 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 performed-operated by the entity using technology that is adaptive and operates in a probabilistic rather than deterministic manner. applying emerging technologies that incorporate machine learning and revise their operating functions periodically, are not ~~to be~~ expected to function consistently in any given period, and that it is necessary to increase the extent of testing to obtain more persuasive audit evidence about their operating effectiveness.

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

A31. [Not used]

~~Testing of indirect controls (Ref: Para. 10(b))~~ [Moved to Para. A25A-A25E]

A31A. [Moved to Para. A25A]

A32. [Moved to Para. A25E]

A32AA. [Moved to Para. A25C]

A32AB. [Moved to Para. A25D]

<sup>33</sup> ISA 530, *Audit Sampling*