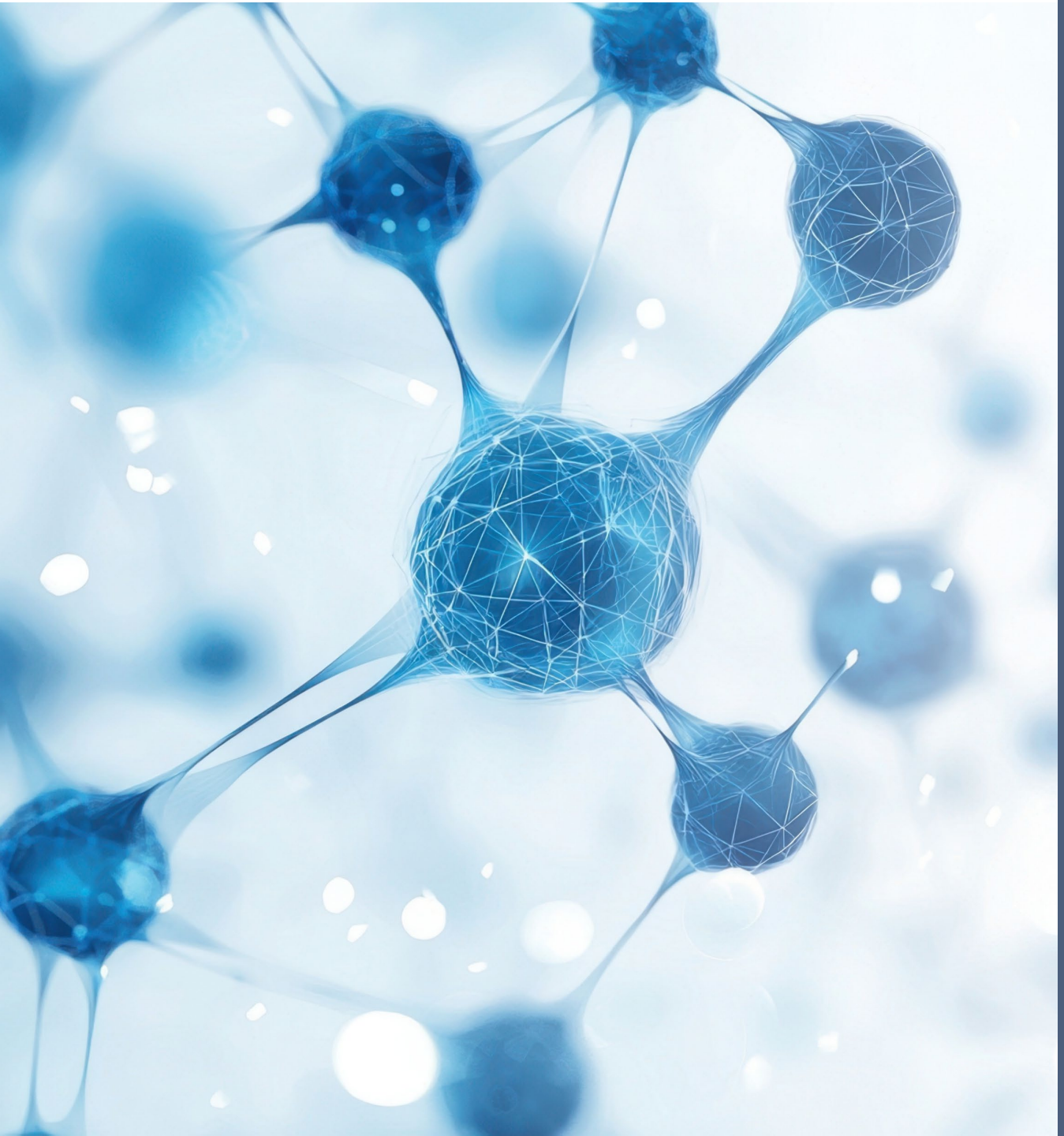

Exposure Drafts for the Audit Evidence & Risk Response Project

August 2026

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Introduction to the AE&RR Project

Drivers for the Project

A changed landscape for audits

Impact of technology and new sources of digital information

Responding to **stakeholder concerns** about the application of certain aspects of responses to risks

Alignment with the auditor's **risk identification and assessment effort**

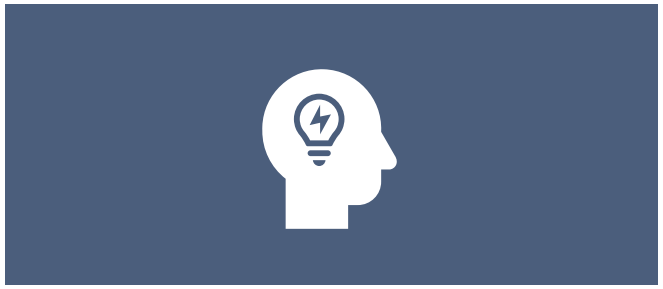
An integrated project, informed by the IAASB's Technology Position, addressing:

ISA 500, *Audit Evidence:*

A framework for audit evidence

ISA 330, *The Auditor Responses to Risks* & ISA 520, *Analytical Procedures:* Performance aspects of an audit addressing gathering and evaluating audit evidence

Project Objectives in the Public Interest



Objective A

Enhance the application of **professional judgment** and **professional skepticism** exercised by auditors

Objective B

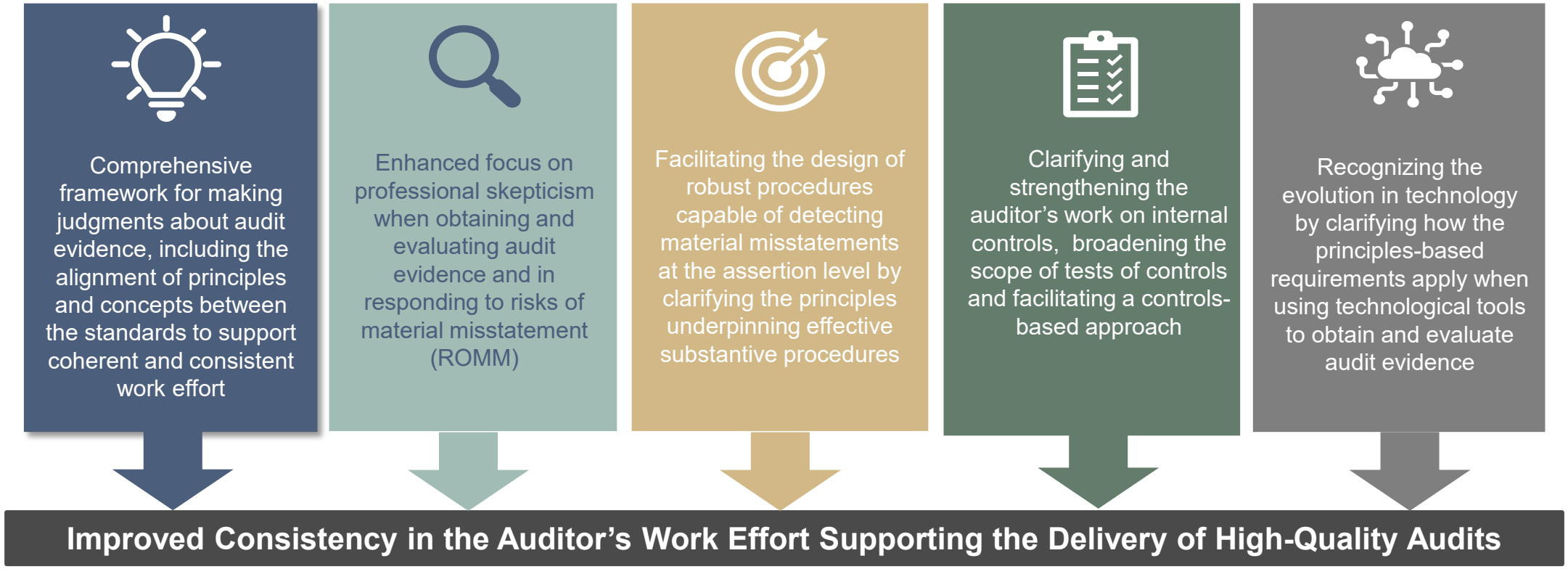
Promote consistent practice and auditor behaviors by **facilitating effective responses to risks of material misstatement**, including by strengthening auditors' work on **internal controls**

Objective C

Facilitate, and where appropriate, encourage auditors' **use of technology** in obtaining audit evidence and evaluating its sufficiency and appropriateness

Key Outcomes from an Integrated Approach

Integrated Approach to Audit Evidence and Risk Response



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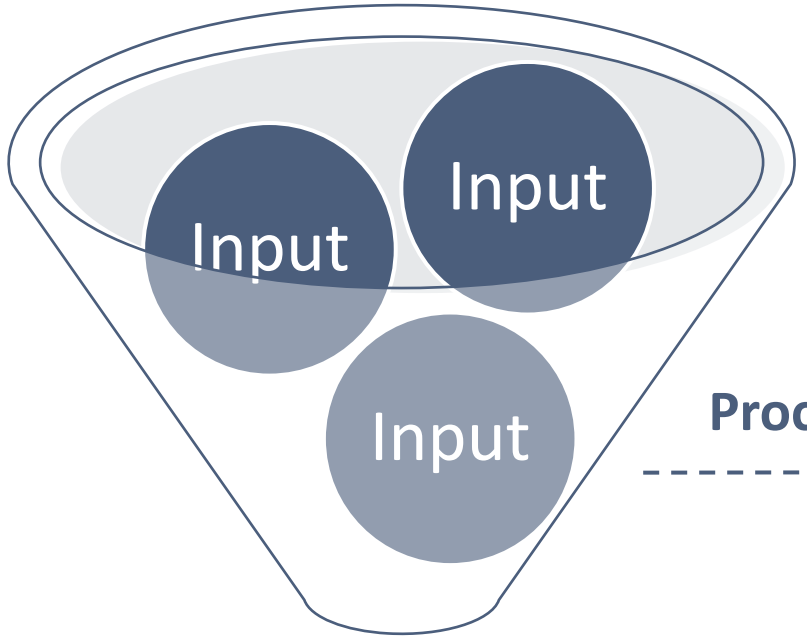
Clarity for Terminology

A Revised Definition of Audit Evidence

FROM "INFORMATION" TO "EVIDENCE"

Information only becomes evidence after the auditor applies audit procedures to the information



Information

Input: Information intended to be used as audit evidence

Procedures

Action, not a passive consideration; involves performing procedures

Output

Audit Evidence: Used to draw conclusions that form the basis for the auditor's opinion and report

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Substantive Procedures

BROADENING THE DEFINITION FOR SUBSTANTIVE PROCEDURES AND CLARIFYING THEIR PURPOSE

Substantive Procedures

Audit procedures designed for the **purpose** of detecting material misstatements at the assertion level. They include, but are not limited to:

Tests of Details (of COTABDs*)

Substantive Analytical Procedures

NEW Definition of Tests of Details specifying that they include the application of audit procedures to obtain evidence for each item selected for testing

NEW Definition of Substantive Analytical Procedures distinguishing them from analytical procedures used more broadly on other aspects of an audit

** Classes of transactions, account balances or disclosures*

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Tests of Controls

BROADENING THE USE OF TESTS OF CONTROLS

Tests of Controls

Audit procedures performed for the **purpose of obtaining audit evidence** about the **operating effectiveness of controls.** May be used:

As a **further audit procedure** in responding to assessed risks of material misstatement at the assertion level

As an **audit procedure** when evaluating the reliability of information intended to be used as audit evidence

The controls tested may be “Direct” controls or “Indirect” controls or a combination of both. The principles remain unchanged!

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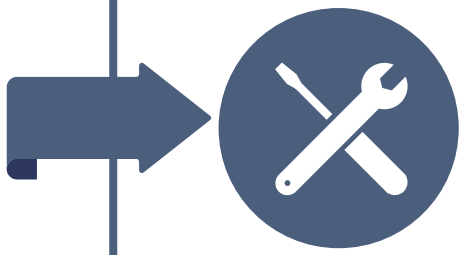
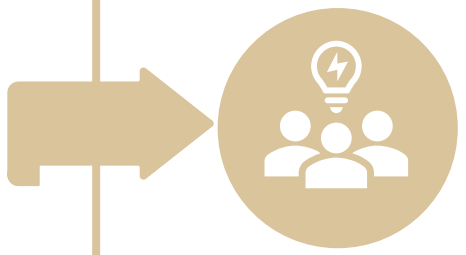
Other Clarified Terms and Concepts

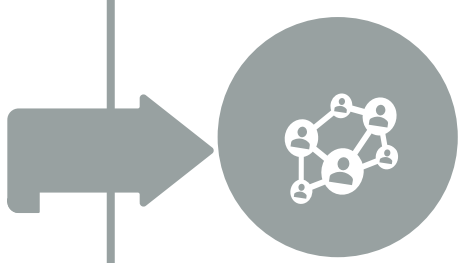


A new term "**Technological tools**" used as a replacement for "automated tools and techniques" with a supporting description that recognizes technology is a tool—and not a procedure



The interrelationship among the **sufficiency, appropriateness and the persuasiveness** of audit evidence explained

Clarified definition for **analytical procedures** specifying that they are a *type* of audit procedure that involves evaluation of financial information through analysis of plausible relationships among information



Extant terminology consolidated under a broad notion of **an audit procedure used for more than one purpose** and specified the auditor's responsibilities when using an audit procedure for more than one purpose

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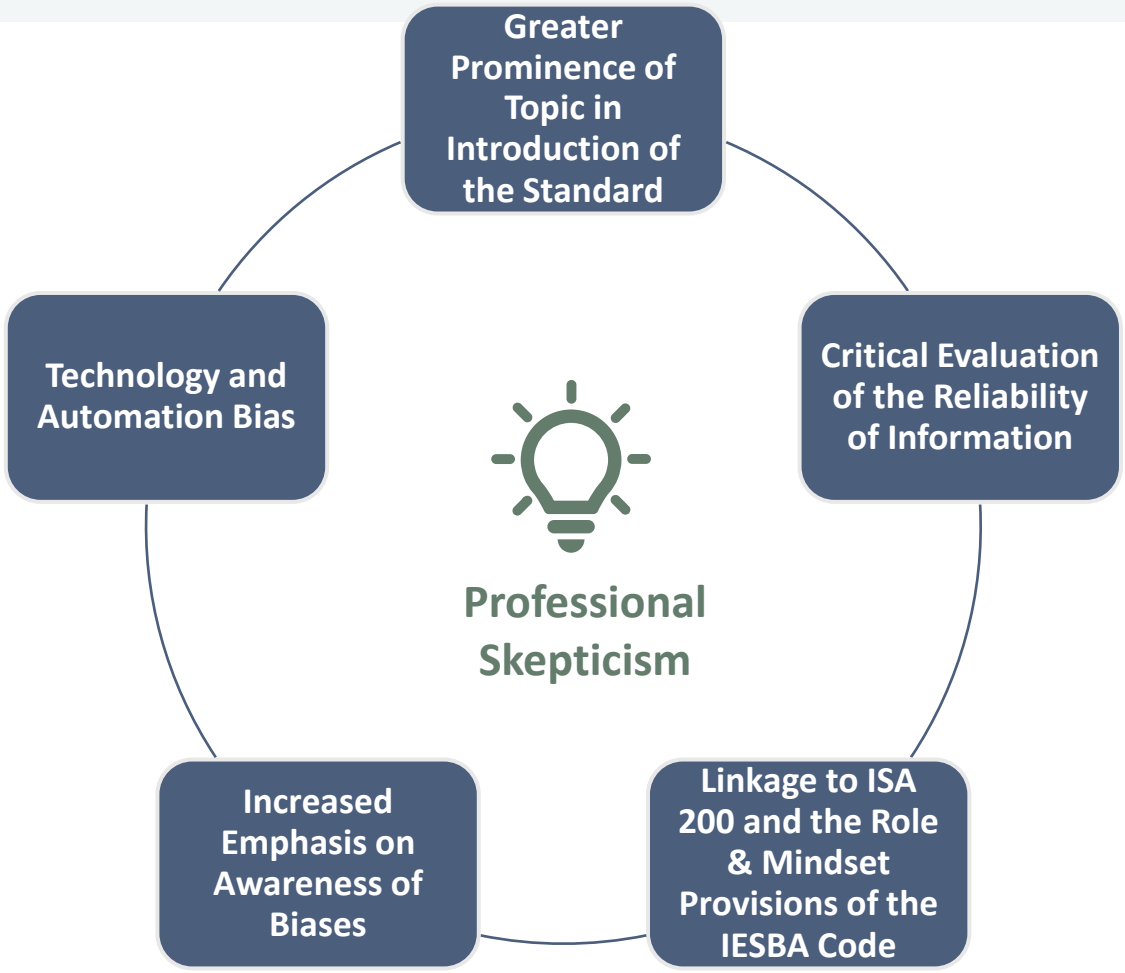
Professional Skepticism

Professional Skepticism

ENHANCEMENTS IN ED–500 (2026) HIGHLIGHTING THE CRITICAL ROLE OF PROFESSIONAL SKEPTICISM

OBJECTIVE:

Strengthen the professional skepticism framework throughout ED-500 (2026)



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Professional Skepticism

ENHANCEMENTS IN ED–330 AND ED-520 REINFORCING THE APPLICATION OF PROFESSIONAL SKEPTICISM

OBJECTIVE:
Strengthen the performance aspects of applying professional skepticism when responding to assessed ROMM

ED-330

Responses to Assessed Risks

- Requiring responses to the assessed ROMM in a manner that is not biased
- Introducing a new holistic evaluation of audit evidence obtained from further audit procedures

ED-520

Analytical Procedures

- Reinforcing the ISA 200 principles when designing and performing analytical procedures
- Linking to requirements in ED-330 to respond to ROMM in an unbiased manner

Evaluating the Relevance and Reliability of Information

A Modern Framework for Audit Evidence

PROPOSALS IN ED–500 (2026)

Revised definition of audit evidence

Information becomes audit evidence after procedures are applied on the information

A framework for **evaluating relevance and reliability** of information intended to be used as audit evidence

A focus on the **intended purpose(s) of audit procedures**

Any types of procedures can be used towards any purpose(s)

Supporting Consistent Judgments About Audit Evidence

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A Robust Work Effort

FROM "CONSIDERING" TO "EVALUATING“ RELEVANCE AND RELIABILITY OF INFORMATION

What is different?		
	Extant	**Proposed**
All information intended to be used as audit evidence	**Consider** the relevance and reliability	**Evaluate** the relevance and reliability
Information Produced by the Entity, intended to be used as audit evidence	**Evaluate** the accuracy & completeness	**Evaluate** the accuracy & completeness

Why Propose the Changes?

- The ease of access to information increases the risk of that auditors may inadvertently access **unreliable information** to use be used as audit evidence
- An **evaluation** is a **professional judgment** which requires the auditor to **come to a specific conclusion on a matter.** This is a **proactive approach** to forming such judgments, which intends to **increase the quality of audit evidence obtained**

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Attributes that are of *Significance in the Circumstances*

SOURCES OF INFORMATION, ATTRIBUTES OF RELIABLE INFORMATION, AND THE AUDITOR'S INTENDED PURPOSE

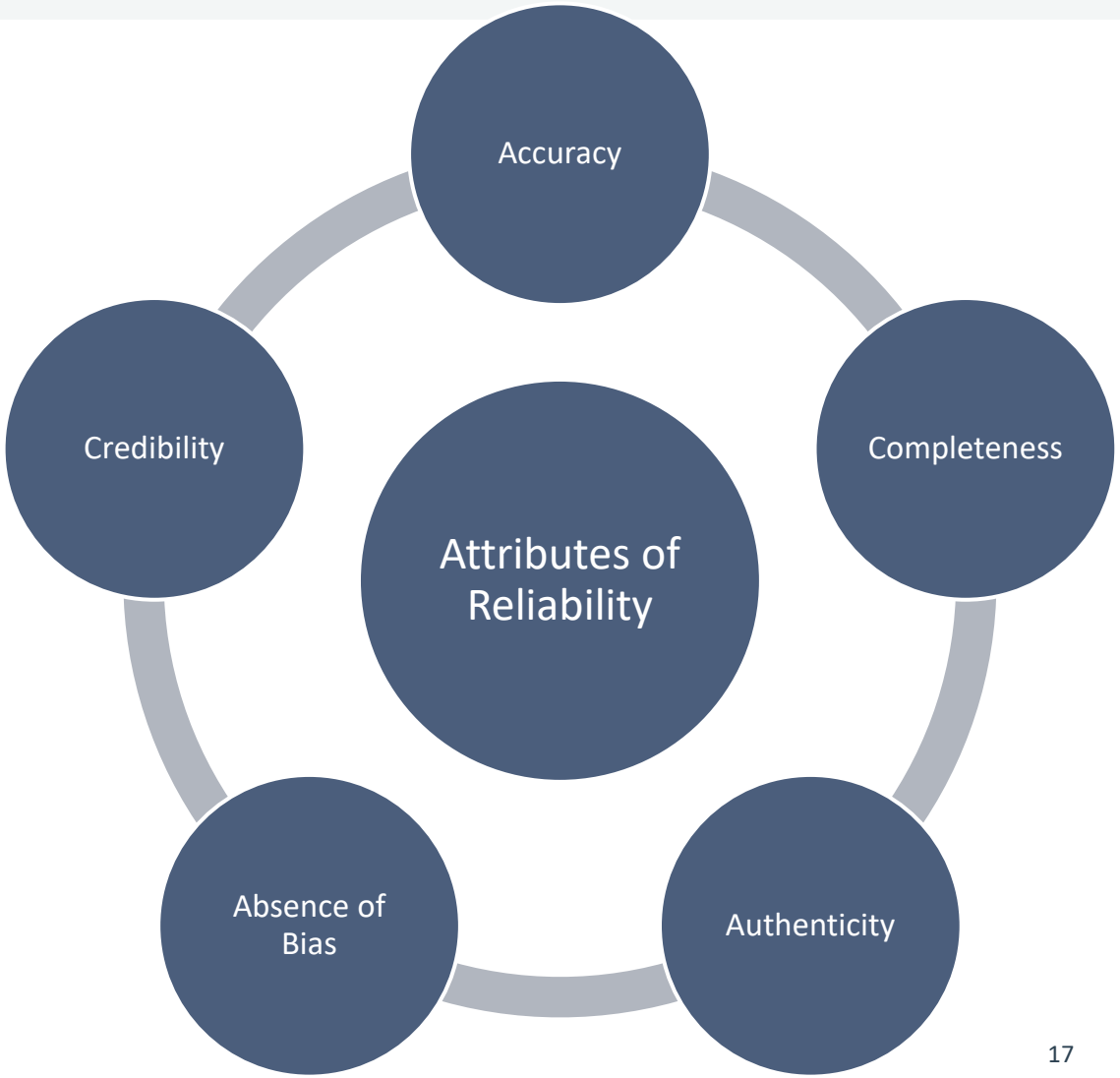
The Process: a Professional Judgment

Made in the context of also considering:

- The intended purpose of the audit procedure
- The source of the information
- The circumstances

The Benefits:

- It avoids a **checklist** that would treat all attributes equally in all situations
- It enables auditors to focus their effort on the **attributes that matter in the context** of the specific audit procedure



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Evaluating the Reliability of Information

A SCALABLE WORK EFFORT

Flexibility to support a scalable work effort

The requirements acknowledge that the evaluation of reliability may be an **integral part** of the audit procedures themselves

If a separate evaluation, **flexibility** in how this evaluation is performed, as auditors may:

- **Identify and test controls** over the preparation and maintenance of the information, related to those attributes
- Test the information itself in relation to the attributes
- Use a combination of both approaches

Presumed significance of certain attributes

When **information** intended to be used as audit evidence is **produced by the entity**, the auditor's evaluation of reliability is required to be performed by considering **Accuracy** and **Completeness** as attributes of significance

Professional judgment is exercised as auditors evaluate the information against those attributes "to the extent necessary in the circumstances" to recognize scalability in the work effort

A More Rigorous and Future-Proof Approach

FROM PASSIVE CONSIDERATION TO ACTIVE EVALUATING

The **new framework** fundamentally changes the auditor's responsibility regarding audit evidence

Key Outcomes

Higher Quality Audit Evidence

The focus on evaluation and the attributes of reliability will lead to more robust audit evidence

Enhanced Skepticism

The new requirements, especially around authenticity, demand a more skeptical mindset

Better Integration with the Audit

The framework better integrates the evaluation of information with the testing of internal controls

Future-Ready

The principles-based approach is designed to be scalable and applicable to all sources of information, from paper invoices to blockchain records

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Reinforcing the Risk-Based Model

Reinforcing the Risk-Based Model

A MORE ROBUST, LOGICAL AUDIT, FROM RISK ASSESSMENT TO RISK RESPONSE

Perform robust risk assessment procedures supported by a holistic evaluation of audit evidence obtained and of professional judgments made on the basis of that evidence

ISA 315 (Revised 2019)

Design and perform further audit procedures that, based on that audit evidence, **are responsive to the identified and assessed ROMMs at the assertion level**, for each significant COTABD

Proposed ISA 330 (Revised)

Reinforces a risk-based model | Enhances **coherence, implementability,** and **scalability** of the ISAs | Recognizes the importance of robust professional judgments | Acknowledges opportunities of a modern and evolving technological landscape | Aligns with concepts and principles of ISA 315 (Revised 2019)

Extant Requirements for Material COTABDs

A REQUIREMENT INTRODUCED ON FIRST ISSUE OF ISA 330 PRE-CLARITY IN 2003

"Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure."

What it means

- Requirement to design and perform substantive procedures, related to at least one assertion of:
  - Each **material** COTABD for which the auditor has determined that there are no ROMMs before consideration of controls; **and**
  - Each **significant** COTABD for which the planned response to all ROMMs at the assertion level included only tests of controls

The Rationale (its intended purpose)

- Establish a baseline requirement for **some substantive procedures** to be performed on all COTABDs that exceed the auditor's determined materiality threshold, irrespective of risk, recognizing that:
  - Auditors may not have identified all risks of material misstatement that may exist, and
  - There are inherent limitations in internal controls

Project to Revise ISA 315

PREVIOUS IAASB DELIBERATIONS ON PARAGRAPH 18 OF ISA 330

Required Stand-Back Evaluation

The auditor is required to **evaluate** whether the auditor's **determination** for COTABDs that are material but not significant remains appropriate

Completeness of Significant COTABDs

Previous IAASB Views: Mixed

- The requirement is **redundant** as the more robust risk identification and assessment requirements in ISA 315 (Revised 2019) would adequately cover all material COTABDs
- The requirement is **necessary** to prevent situations where auditors might only perform tests of controls for significant COTABDs

No changes at the time
BUT
Reconsider the matter in the future once more implementation experiences with ISA 315 (Revised 2019) are available

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Perspectives on the Need for the Extant Requirement

OPERATIONALIZATION CHALLENGES AND A VARIETY OF PERSPECTIVES

Varying perspectives: issues with either consistently applying, or enforcing, the requirement

Operational Questions

- How to consider materiality in the circumstances?
- Which assertions to address?
- What is the extent of the necessary substantive procedures?

"Compliance Mindset"

- Drives a "checklist mentality"
- Conflicts with a principle-based approach
- Drives a "default to substantive procedures"

Some Investors

- Provides comfort that important items are substantiated

Some Regulators

- Instances of noncompliance where insufficient or inappropriate work performed

Some Practitioners and JSS

- Inconsistency with the risk-based audit model
- Question the need for it given the risk assessment procedures performed
- Additional audit cost

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Strong support for a risk-based audit from all stakeholder groups

A Key Decision for Public Consultation

REINFORCING THE PRINCIPLES OF A RISK-BASED AUDIT MODEL

ALTERNATIVES CONSIDERED

Option 1: Remove the extant requirement and replace it with enhancements to ISA 315 (Revised 2019)

Option 2: Retain the extant requirement, with necessary refinement to application material

Option 3: Revise the extant requirement to be conditioned on the auditor's determination and provide guidance to support its implementation

IAASB's DECISION & PROPOSALS

Option 1:

- Remove paragraph 18 of ISA 330
- Strengthen and enhance ISA 315 (Revised 2019) by:
  - Introducing a new requirement to document the basis for determining that material COTABDs have no identified ROMMs
  - New application material to support consistent auditor judgements when performing the "stand-back" evaluations

PUBLIC INTEREST RATIONALE

The extant requirement undermines the risk assessment process and auditors' professional judgments

Avoiding a "checklist mentality" and focusing work effort on aspects where risk is identified and assessed

Substantive Procedures in Response to Assessed Risks

When Are Substantive Procedures Required?

CLARIFYING REQUIREMENTS TO DESIGN AND PERFORM SUBSTANTIVE PROCEDURES

IAASB's Decision

- It is important to reaffirm the fundamental contribution of substantive procedures in obtaining audit evidence when responding to ROMMs at the assertion level

IAASB's Proposals

- **New** explicit requirement to design and perform substantive procedures, tests of controls, or a combination of both
- **New** baseline requirement for designing and performing substantive procedures in responding to assessed ROMM
- **Retained** the requirement to perform substantive procedures in responding to significant risks; including to require tests of details when such responses only include substantive procedures

Strengthening Substantive Analytical Procedures

ENHANCING THE EFFECTIVENESS OF SUBSTANTIVE ANALYTICAL PROCEDURES TO DETECT MATERIAL MISSTATEMENTS

Level of Precision of the Auditor's Expectation

- Establish the auditor's expectation on **plausible and predictable relationships**
- Use information that is **relevant and reliable**
- The expectation is required to be **sufficiently precise** to detect a material misstatement

Threshold for Evaluating Differences from Expected Amounts

- The threshold for differences acceptable without investigation **cannot exceed performance materiality**

Investigating Results of Substantive Analytical Procedures

- Differences exceeding the threshold must be investigated as an integral part of the substantive analytical procedure
- Inquiry alone is not sufficient

Tests of Controls

Responding to Risks through Tests of Controls Alone

IMPORTANCE OF ROBUST CONTROLS IN DESIGNING EFFECTIVE RESPONSES TO ASSESSED ROMMS

With **increased use of technology,** increased potential for entities to have designed, implemented, and operated, **robust** automated **controls** to prevent, or detect and correct, material misstatements

ENTITIES' INCREASING USE OF TECHNOLOGY

Audit evidence that **confirms** that **robustly designed and implemented controls operated effectively may be more persuasive** than that which may be obtained substantively

MORE PERSUASIVE AUDIT EVIDENCE FROM TESTS OF CONTROLS?

IAASB DECISION
Make explicit an existing principle:

Tests of controls may provide **sufficient appropriate audit evidence related** to **assessed ROMMs at the assertion level**

? Sufficient appropriate audit evidence ⟷ Audit risk is at an acceptably low level

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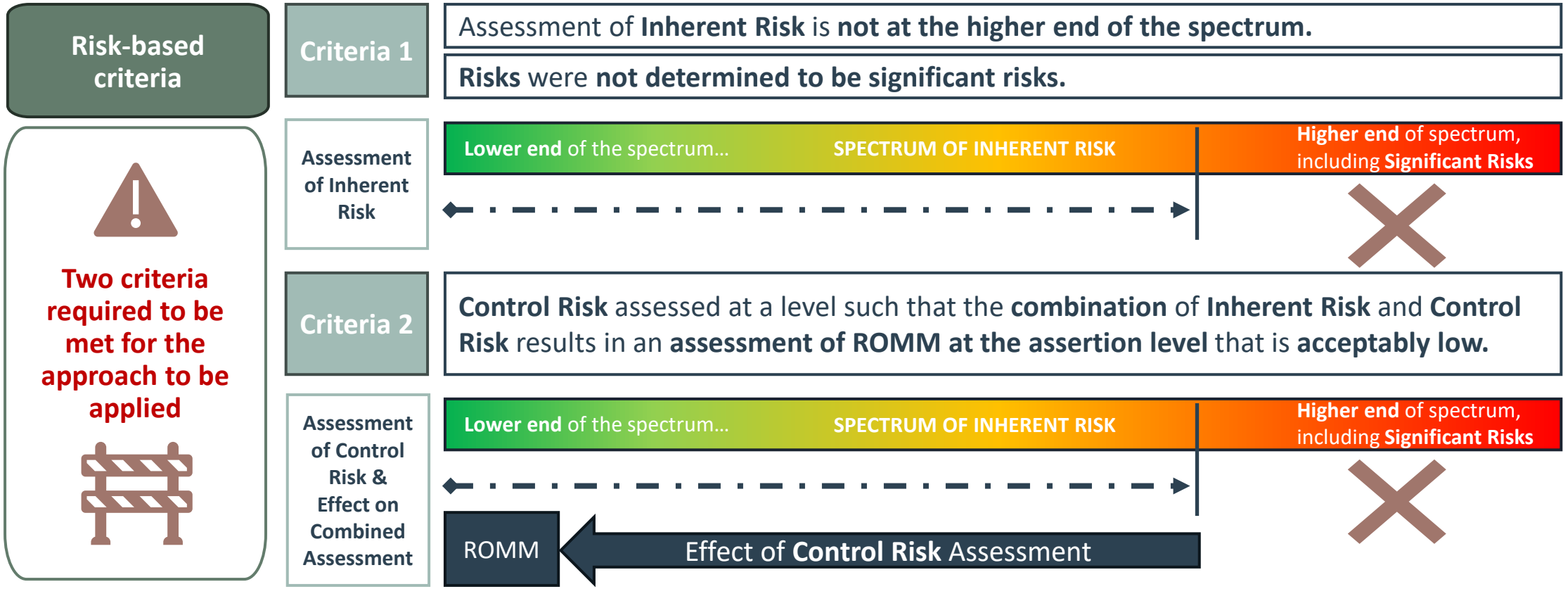
Criteria for a Test of Controls Alone Approach

CHARACTERISTICS OF IDENTIFIED ROMM FOR WHICH THE APPROACH MAY BE APPROPRIATE



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Conditions for a Test of Controls Alone Approach

MEETING THE CRITERIA RELATED TO CONTROL RISK

Control Risk assessment remains a **professional judgment** made in accordance with **ISA 315 (Revised 2019)**

In forming a professional judgment about whether the **criteria 2** is met, auditors may ask themselves:

Are controls manual or automated?

Are there only preventative controls, or only detective & corrective controls, that address the risks, or are there both?

Are the controls designed to **specifically** respond to reasons for the identification and assessment of inherent risk?

Were they designed, implemented and operated to respond to risks identified by the entity's risk assessment process?

Has the entity documented the process by which the control operates?

Is the effectiveness of the control monitored by the entity's monitoring process?

What evidence is expected to be available of the control's effective operation?

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The Baseline Requirement on Tests of Controls

INCREASING ALIGNMENT OF THE BASELINE REQUIREMENT WITH ISA 315 (REVISED 2019)

What does ISA 315 (Revised 2019) require?

- **Identify risks of material misstatement at the assertion level** (before controls) (i.e., identify inherent risks)

- For identified risks of material misstatement at the assertion level (i.e., identified inherent risks)….
- **Assess Inherent Risk at the Assertion Level**

- Is it possible and practicable to respond to the assessed risks (before controls) **through substantive procedures alone?**
  - If not: **Tests of controls are required** to be planned so as to obtain sufficient appropriate audit evidence
  - If so: **Tests of controls may be planned** (by choice)

IDENTIFY | ASSESS | An Auditor Judgment and Decision Point

THE BASELINE REQUIREMENT IN ED-330

Tests of controls are **required** to be designed and performed when tests of controls have been planned for one of these two reasons (necessity or choice)

Clarifications for Tests of Controls

Substantive Procedures Alone Unable to Provide Sufficient Appropriate Audit Evidence

- Extant principles retained
- Clarifying the meaning of "**cannot:**" encompassing **impossibility** and **impracticability**
- New application material including examples and factors to consider, illustrating broader range of considerations

Indirect Controls, Including GITCs

- Extant principle retained: test **all controls, including indirect controls** that are planned to be tested
- Clarified the relationship between direct and indirect controls
- Provided guidance on evaluating the operating effectiveness of indirect controls, including when indirect controls are ineffective or missing, but direct controls may still operate effectively

Clarifications for Tests of Controls (cont.)

Using Audit Evidence from a Previous Audit

- Extant principles retained, and aligned with terms and concepts in ISA 315 (Revised 2019)
- Clarified the baseline for which auditors may reasonably conclude that prior period evidence remains appropriate: **three years**, with **some controls tested each year**
- Emphasized that the auditor's decision about which controls to test each year is based on professional judgment

Evaluating the Operating Effectiveness of Controls and Results of Tests of Controls

- Extant principles retained but clarified to **explicitly require** work when the auditor does not obtain sufficient appropriate evidence about the operating effectiveness of controls tested
- Clarified how the identification of deviations in the operation of controls affects auditors' judgments and the linkage between tests of controls and the auditor's assessment of control risk

Technology Related Enhancements

Increased Use of Technology

A FUNDAMENTAL DRIVER OF THE PROPOSED REVISIONS

The landscape has changed…

Increasingly sophisticated technological systems are being used by…

Audited entities, in their financial reporting processes

Auditors, in performing audit engagements

The proposed revisions seek to **modernize the standards** to **reflect this reality**, in a way that does **not require the use of technology and is able to stand the test of time**

… the overall objective of an audit remains the same!

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A Modern & Flexible Framework for All Audits

A PRINCIPLE-BASED APPROACH AIMING TO FUTURE PROOF THE STANDARDS

Built with Scalability and Proportionality in Mind

No prescriptive requirement for auditors to must use technological tools

No requirement for auditors mandating to perform tests of controls in all audits

Robust Principles |Coherent Terminology | Clear Guidance

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Overall Approach to Technology in the ISAs

A MORE INTELLIGENT, RISK-BASED AUDIT

The proposed revisions recognize that the continued evolution of technology changes **how auditors work** and how audited **entities operate**, including their **control environment**

Proposed revisions **leverage technology** to be **future-ready** and **scalable**

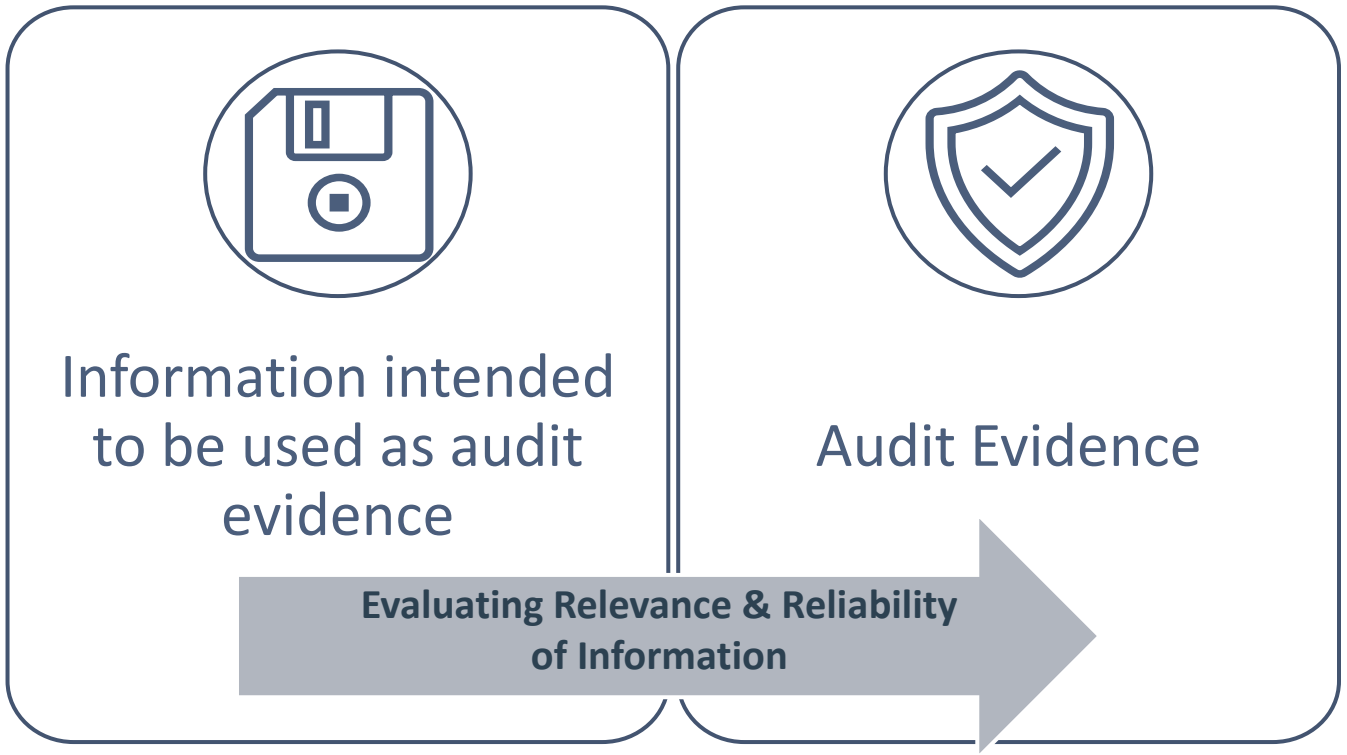
Renewed focus on the **reliability of information** intended to be used as audit evidence, acknowledging the increase in digital sources of information

Strengthened work on internal controls, with **clear frameworks** for those who choose to leverage them

Auditing in a Digital World

FROM INFORMATION TO AUDIT EVIDENCE

Proposed ISA 500 (Revised) recognizes the disruptive impact of technology



Framework to support judgements about all audit evidence, from paper invoices to blockchain records

Consideration about the **authenticity of information** and whether it is of significance in the circumstances

Highlighting **the benefits of appropriate use of technological tools**, including awareness for **automation bias** as a potential impediment to the exercise of professional skepticism

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Evolving Systems of Internal Control

ENTITIES' INCREASED USE OF TECHNOLOGY IN SYSTEMS OF INTERNAL CONTROL

Increased automation in an entity's information system and system of internal control may affect:

- Automated Controls & Real-Time Monitoring
- Intelligent Automation & Advanced Data Processing
- Cybersecurity & Access Governance
- Data Governance & Analytics Controls

Recognition that this may influence auditors' decisions about whether to perform tests of controls

Three ways that the proposed revisions seek to support such decisions:

01.

Making explicit that tests of controls may in certain circumstances be used to address an assertion level ROMM

02.

Revised requirements and application material related to general IT controls

03.

Examples of controls operating in technologies that produce variable outputs

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Facilitating Auditors' Use of Technology

3 WAYS THE PROPOSED REVISIONS ADDRESS AUDITORS' APPROPRIATE USE OF TECHNOLOGY

01

Improved **coherence** for technology-related terminology, including using a new and modern term **"technological tools"**

02

Focusing on the **purpose** of audit procedures when determining the nature of procedures performed using technological tools

03

Guidance to support auditors in making **professional judgments** about appropriate use of technology

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Spotlight: New & Enhanced Guidance

CONSIDERATIONS WHEN USING TECHNOLOGICAL TOOLS

A practical bridge connecting the principles-based requirements to the realities of a modern, technology-driven audit

Factors for auditors to consider when determining whether to use technological tools for specific audit procedures

How to assess the relevance and reliability of information processed or analyzed by technology

Highlights the benefits of appropriate use of technological tools, the need to be aware of automation bias and risks of over-relying on a tool's output without corroboration

Considerations when using a single technological tool to perform multiple procedures simultaneously

Modernizes the Standard | Promotes Consistent Practice | Reinforced Professional Skepticism in Digital Context | Sets the Foundation for Future Guidance

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Other Matters

Holistic Evaluation of Audit Evidence

WHERE SHOULD HOLISTIC EVALUATION REQUIREMENTS BE IN THE ISAS?

Criteria for Holistic Evaluation Requirements

Criteria 1:

Sets an explicit expectation for the auditor to **reevaluate a judgment previously made** (or matter previously determined) during the audit

Criteria 2:

"Checkpoint" for the auditor to conclude or evaluate whether they have sufficient and appropriate audit evidence *to move forward in the audit*

- New holistic evaluation requirement for the audit evidence obtained from further audit procedures (Para. 31 of ED-330)
- Reposition the overall conclusion on sufficiency and appropriateness of audit evidence obtained in ISA 700 (Revised)

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Other Proposals

ED–330 & ED–500 (2026):
Retained the requirement for **selecting items for testing** when designing tests of controls or tests of details and provided guidance with **various approaches to select items** for testing

ED–520:
Clarified the scope of and objectives to address the auditor's use of analytical procedures across **all stages** and included a new requirement to address the **results of analytical procedures performed as risk assessment procedures**

ED–500 (2026):
Guidance to clarify the interaction of the definition of audit evidence with **inconsistencies in audit evidence** and for testing outliers and exceptions identified by performing an audit procedure

ED–330, ED–500 (2026) & ED–520 :
Clarified that **analytical procedures alone** do not provide sufficient appropriate audit evidence of the absence of a material misstatement, however in combination with tests of details or tests of controls may increase the persuasiveness of evidence

Public Consultation Now Open

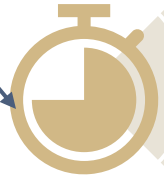
Public Consultation Now Open!

Consultation Open till December 15, 2026

Exposure Draft (ED) for the AE&RR Project Overall (ED–AE&RR)

ED for Proposed ISA 330 (Revised) (ED–330)

ED for Proposed ISA 500 (Revised) (ED–500 (2026))



ED for Proposed ISA 520 (Revised) (ED–520)

Field testing is encouraged. Please share your results with the IAASB

Visit the IAASB website to read the proposals and summit feedback:

iaasb.org/consultations-projects

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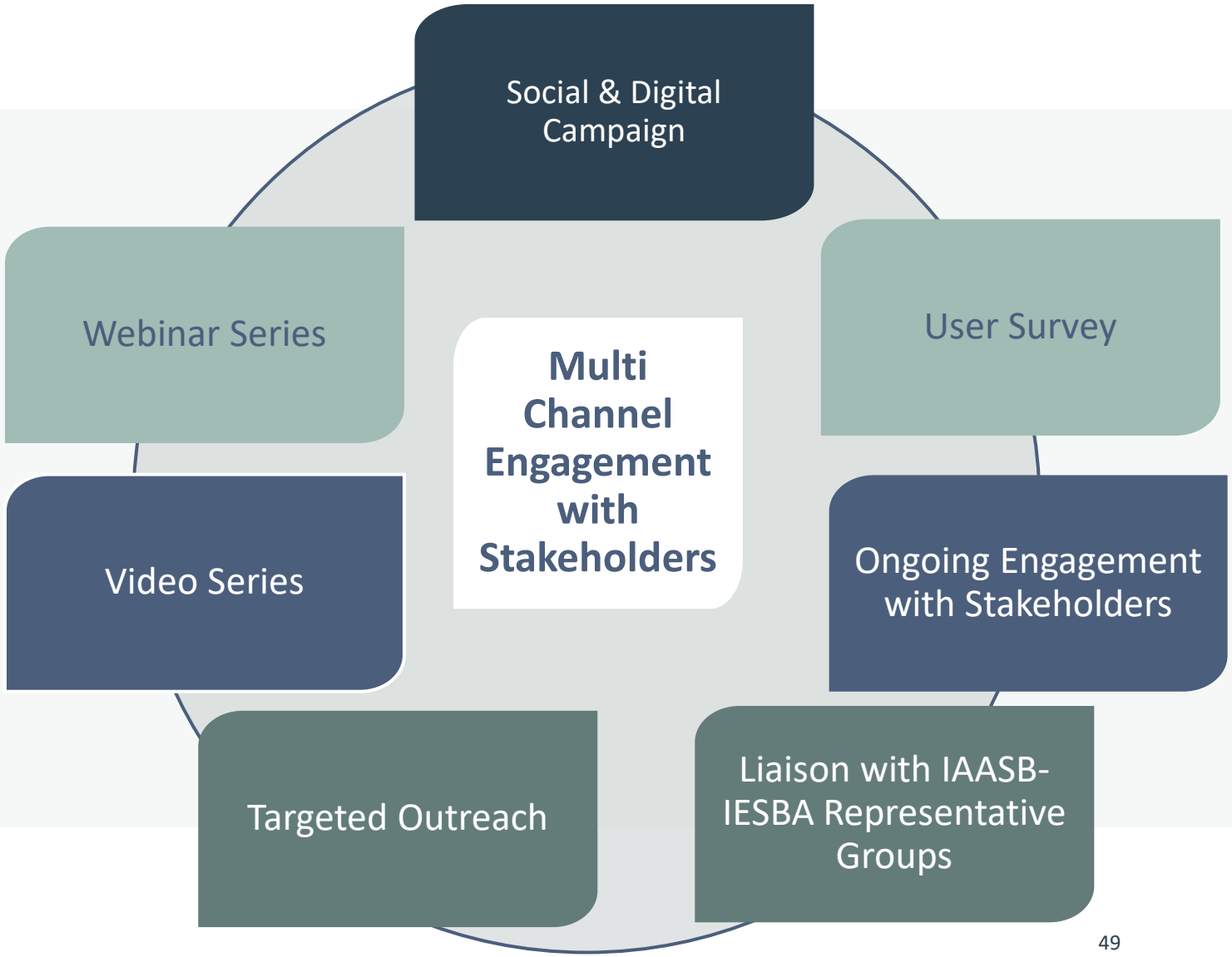
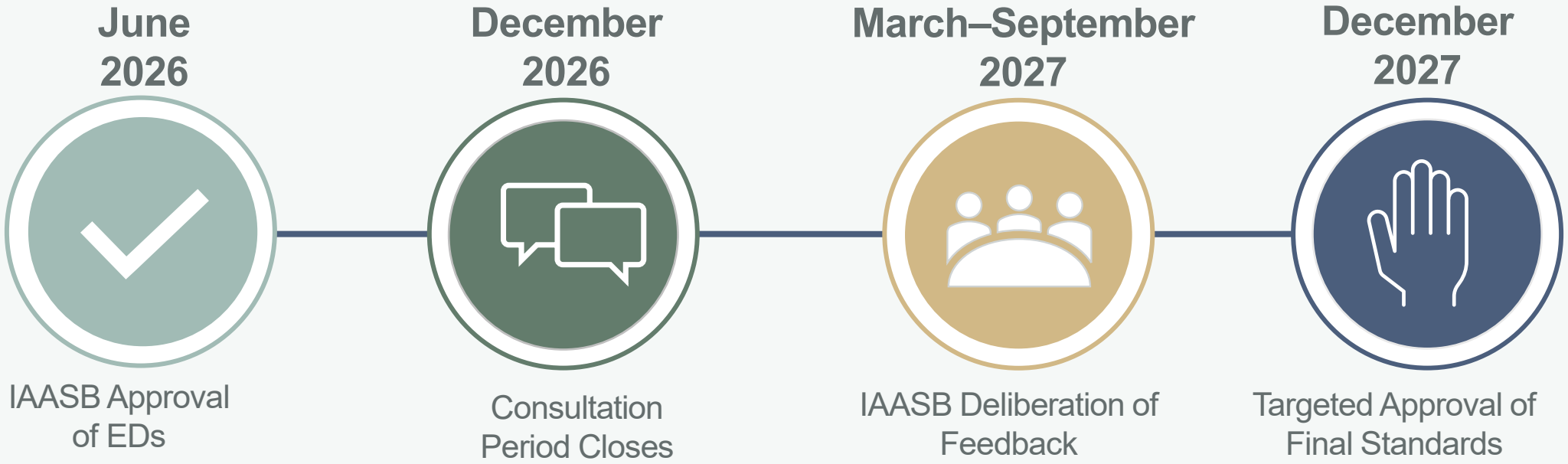
Consultation Approach & Stakeholder Engagement

Proactive Communication and Robust Engagement Throughout Consultation Period



Way Forward

Anticipated Timeline to Final Approval



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