Exposure Draft

Audit Evidence and Risk Response Project

Exposure Draft for the Audit Evidence and Risk Response Project Overall

This Exposure Draft, ED-AE&RR, is published as part of a package for the Audit Evidence and Risk Response Project, that also includes ED-330, ED-500 (2026) and ED-520

AUGUST 2026

***COMMENTS DUE:** DECEMBER 15, 2026*

IAASB™

International Auditing and Assurance Standards Board

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About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing (ISAs) or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB and IESBA Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies the Exposure Draft (ED) for the Audit Evidence and Risk Response project overall (ED–AE&RR). It should be read along with the EMs accompanying the EDs of Proposed International Standard on Auditing (ISA) 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330), Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)) and Proposed ISA 520 (Revised), *Analytical Procedures* (ED–520), which were developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: www.iaasb.org.

The approved text is published in the English language. The proposals set out in this ED may be modified, based on comments received, before being issued as a final pronouncement.

Comments are requested by December 15, 2026.

Use of Response Form

The questions included in this EM address issues that are relevant to Proposed ISA 330 (Revised), Proposed ISA 500 (Revised) and Proposed ISA 520 (Revised) overall. The EMs accompanying ED–330, ED–500 (2026) and ED–520 include questions about the key issues that are specific to each proposed standard that the IAASB considered in developing the exposure drafts. These individual EMs are available at the following link.

We welcome comments on all matters addressed in this and the other three EMs, and we encourage all respondents to submit their comments electronically using the *Response Form*, which may be downloaded from the IAASB website: www.iaasb.org (this is a single *Response Form* that facilitates a respondent to respond to all questions across the four EMs (i.e., all the questions that appear in **Section 2** of each EM)). Using the response form facilitates consistency in the structure of responses received from all our stakeholders, which assists us greatly in the timely and effective analysis of the responses.

You may respond to all questions or only those questions for which you have specific comments. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

You can further assist our review and analysis by ensuring that your submission responds directly to the questions in the form, and includes the rationale for your answers:

- If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements or application material.
- If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

Throughout, please be specific about the sections, headings or paragraphs in the ED that your responses relate to. Please refrain from inserting tables or text boxes in your responses.

When submitting a completed response form, it is not necessary to include a covering letter containing a summary of your key issues. The form provides an opportunity to include any other views you wish to place on the public record, should you choose to do so.

The completed response form can be uploaded using the "Submit Comment" link.

EXPLANATORY MEMORANDUM

CONTENTS

Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Drafts for:

   - Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*;
   - Proposed ISA 500 (Revised), *Audit Evidence*; and
   - Proposed ISA 520 (Revised), *Analytical Procedures*.

   The three proposed standards were approved for exposure by the IAASB in June 2026. The IAASB is of the view that the three standards will, individually and collectively, improve the quality of audit engagements through addressing key public interest issues related to foundational aspects of obtaining and evaluating audit evidence by designing and performing audit procedures to obtain sufficient appropriate audit evidence.

2. This memorandum should be read in conjunction with the explanatory memorandums (EMs) for each of the three proposed standards (i.e., ED–330, ED–500 (2026) and ED–520), which describe the key issues considered by the IAASB in developing those exposure drafts. The explanatory memorandums for each of the standards are available at the following link.

3. This EM focuses on issues that are relevant to the three exposure drafts overall. These include the interrelationship of the three proposed standards, the collective outcomes of the proposed revisions aimed at promoting consistent practice and changing auditor behavior in accordance with the project objectives, enhancing professional skepticism, and the related conforming and consequential amendments to the ISQMs[1] and other ISAs arising from the proposed revisions. It also sets out the IAASB's proposals regarding the possible effective date and related implementation period of the three revised standards following final approval by the IAASB and certification by the Public Interest Oversight Board (PIOB).

Background

Drivers for the Project

4. Extant ISA 330, ISA 500 and ISA 520 were last revised during 2006–2008 as part of the Clarity of IAASB Standards project, when the three standards were redrafted to reflect the clarity conventions to be used by the IAASB.[2]

5. In 2019, the IAASB completed a comprehensive revision of ISA 315 (Revised 2019)[3] to strengthen the auditor's identification and assessment of the risks of material misstatement (ROMMs) at both the financial statement and assertion levels. The revised standard introduced new concepts and terminology, together with enhanced requirements and application material. Although conforming and consequential amendments were made to other ISAs, including ISA 330, stakeholders have subsequently called for greater clarity about how the requirements in ISA 330 are intended to respond to, and build on, the auditor's risk identification and assessment work under ISA 315 (Revised 2019). They have also highlighted the need for closer alignment of terminology and concepts between the two standards to improve the coherence of the ISAs and support their consistent application.

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1 International Standards on Quality Management

2 See the Clarity of IAASB Standards Project.

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

6. Since ISA 330, ISA 500 and ISA 520 were last substantially revised, the business and audit environment and the IAASB's standards have significantly evolved. In the past decade, the IAASB has significantly revised other ISAs to modernize them for an evolving environment, to strengthen audit quality and to support a risk-based audit framework. Among other, such revisions include the project to revise the quality management standards[4] and the revisions to ISA 240 (Revised),[5] ISA 540 (Revised)[6] and ISA 570 (Revised 2024).[7]

7. Rapid advances in technology have transformed the nature, volume and sources of information generated by entities and available to auditors as audit evidence. At the same time, both entities and auditors are increasingly using sophisticated technologies in preparing financial information and performing audit engagements. These developments are reshaping how auditors design and perform audit procedures, and how they obtain and evaluate the sufficiency and appropriateness of audit evidence.

8. These changes have also prompted broader questions about the auditor's application of professional skepticism when evaluating information intended to be used as audit evidence and about the sufficiency and appropriateness of the audit evidence obtained. In addition, regulators and audit oversight authorities have raised concerns about the auditor's work effort relating to internal controls, including whether existing requirements provide sufficient clarity regarding when controls should be tested and the extent of work necessary to support reliance on the audit evidence about the operating effectiveness of those controls.

9. In response, the IAASB is undertaking the Audit Evidence and Risk Response (AE&RR) project to modernize extant ISA 330, ISA 500 and ISA 520 so that they better reflect today's technology-enabled audit environment. The project aims to clarify how auditors design and perform audit procedures in obtaining and evaluating audit evidence, strengthen the requirements relating to internal controls, including clarifying when tests of controls are necessary and the rigor expected when performing those tests, and improve the alignment between ISA 330 and ISA 315 (Revised 2019). More broadly, the project responds to stakeholder calls to address, in an integrated manner, both the audit evidence "reference framework" and the "performance" aspects of obtaining and evaluating audit evidence.

Previous Audit Evidence Project

10. In March 2019, the IAASB commenced its information gathering activities for a project to revise its extant audit evidence standard (i.e., ISA 500), including targeted outreach with stakeholders.

11. These activities resulted in the approval, in December 2020, of a project proposal to revise extant ISA 500. Section II of that project proposal provided further background on the issues that were identified and an explanation of the information gathering activities performed. That project proposal included three key public interest issues:

    - Responding to changes in the information that is being used by auditors, including the nature and source of the information.

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4 The quality management standards include: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2, *Engagement Quality Reviews* and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

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

6 ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

7 ISA 570 (Revised 2024), *Going Concern*

- Modernizing and supporting a principles-based standard that recognizes the evolution in technology.
- Fostering the maintenance of professional skepticism when making judgments about information intended to be used as audit evidence and obtaining sufficient appropriate audit evidence.

12. In determining the scope of that project, the IAASB decided not to include proposed actions to enhance ISAs other than extant ISA 500 and actions that addressed the use of automated tools and techniques (ATT) in the design and performance of audit procedures.

13. In September 2022, the IAASB approved the Exposure Draft of Proposed ISA 500 (Revised) (ED–500 (2022))[8] and published it in October 2022 with a 180-day comment period. In total, 70 respondents commented on ED–500 (2022).

14. Respondents to ED–500 (2022) called for the proposed revisions to be more ambitious with respect to audit evidence aspects and technology-related matters. Also, respondents expressed views that the proposed revisions to extant ISA 500 alone were not sufficient to address all audit evidence-related matters across the ISAs. They also noted that technology-related matters should be more broadly addressed and urged the IAASB to consider revisions to other ISAs, such as extant ISA 330 and other targeted standards in the ISA 500-series.[9]

Strategy and Work Plan for 2024–2027

15. In 2022, the IAASB also started information gathering activities for its Strategy and Work Plan for 2024–2027 (the "Strategy and Work Plan"). The related Consultation Paper that was published in January 2023 included the revision of extant ISA 330 as a possible new standard-setting project, intended to better align the requirements of this standard with the changes made to ISA 315 (Revised 2019) and ED–500 (2022). The project would also include modernizing extant ISA 330 as necessary, especially in relation to technology.

16. Respondents to the Consultation Paper,[10] particularly regulators and audit oversight authorities, emphasized the need for concurrent revisions to extant ISA 330 and ISA 500 as both standards address aspects of the auditor obtaining sufficient appropriate audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.

17. In addition, these responses highlighted the following two reasons to revise extant ISA 330 and ISA 520:

- The continued, rapid evolution of technology and use by entities and auditors, combined with the continued increase in information available to auditors. Investor confidence in capital markets may be threatened if the auditing standards do not adequately address considerations relating to the use of technology in designing and performing audit procedures; and

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8 See the *Exposure Draft of Proposed ISA 500 (Revised), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs*.

9 For example, topical audit evidence standards such as: ISA 501, *Audit Evidence—Specific Considerations for Selected Items*; ISA 505, *External Confirmations*; ISA 520, *Analytical Procedures*; and ISA 530, *Audit Sampling*.

10 The consultation period closed in April 2023 and the IAASB received submissions from 61 respondents.

- Ongoing deficiencies in the quality of audit engagements in the performance of tests of controls and of substantive analytical procedures.

18. The IAASB approved its Strategy and Work Plan in December 2023. The Strategy and Work Plan included pursuing an integrated approach to AE&RR, including a focus on technology and internal control. Such an integrated project represented a reconsideration of the Audit Evidence project in response to comments received on ED–500 (2022) and the Consultation Paper, feedback from ongoing outreach and the Board's related deliberations.[11]

Project on AE&RR

19. In December 2024, the IAASB approved a project proposal to undertake integrated work related to and concurrent revisions of extant ISA 330, ISA 500 and ISA 520. The project objectives that support the public interest, which are described in Section III of the project proposal, include revising the three standards to:

    - Enhance the application of professional judgment and professional skepticism exercised by auditors:
        - When making judgments about information intended to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and
        - When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement.
    - Promote consistent practice and auditor behavior by facilitating effective responses to risks of material misstatement, including by strengthening auditors' work on internal controls.
    - Facilitate, and where appropriate, encourage auditors' use of technology in obtaining audit evidence and evaluating its sufficiency and appropriateness.

20. The project proposal provides further background about the scope of the project, including the audit evidence and risk response-related issues that were identified and an explanation of the information-gathering, targeted outreach and other activities that formed the basis for the project proposal.

Pre-Finalization Holding Package of Proposed ISA 500 (Revised)

21. In March 2024, the IAASB supported the cumulative work reflected in the discussions at the September 2023 to March 2024 IAASB meetings in responding to the comments received on ED–500 (2022). Such cumulative work represents the "Proposed ISA 500 (Revised) Pre-finalization Holding Package",[12] which encapsulates the Board deliberations, directions and decisions on key aspects addressed in ED–500 (2022).

22. The IAASB's work under the AE&RR project is based on the Pre-finalization Holding Package of Proposed ISA 500 (Revised), rather than on extant ISA 500 or ED–500 (2022). In order to provide a comprehensive perspective about the actions to be taken across the three in-scope standards for the AE&RR project, the IAASB highlighted in the project proposal certain actions that address matters already included in the Pre-finalization Holding Package of Proposed ISA 500 (Revised).

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[11] See the *Basis for Conclusions, IAASB Strategy and Work Plan for 2024–2027*, paragraphs 47–49

[12] See Agenda Item 5 discussed at the March 2024 IAASB meeting.

23. In the course of the AE&RR project, the IAASB has deliberated further on certain of those actions, when appropriate to do so, as a necessary response to new information which indicated that certain decisions made in the course of the previous Audit Evidence project may no longer be appropriate because they have:

    - Implications for the achievement of a qualitative standard-setting characteristic; or
    - Unintended consequences for the revisions proposed in ED–330 and ED–520, or for other standards.

    The EM accompanying ED–500 (2026) provides a further discussion, as applicable, of the key changes considered by the IAASB since ED–500 (2022).

IAASB's Technology Position

24. In parallel with the development of the AE&RR project proposal, the IAASB also undertook work to establish a Technology Position to address the impact of technology on the IAASB's standards. As part of such work, the IAASB undertook a gap analysis (further referred to as "the Technology Catalog") to identify potential standard-setting actions and other related activities, which included matters related to extant ISA 330, ISA 500 and ISA 520.

25. Those matters are consistent with the outcome of information gathering activities forming the basis for the AE&RR project proposal and have informed the development of certain actions considered by the project.

Coordination with Other IAASB Projects, Consultation Groups and the IESBA[13]

Other IAASB Projects and Consultation Groups

26. Since the approval of the AE&RR project proposal, coordination activities with other IAASB projects and consultation groups included:

    - Technology Consultation Group: Informing a consistent approach for addressing the clarity of technology-related terminology used in the standards, including a replacement term to use for ATT, a new description for "technological tools," and enhancements to the application material to incorporate considerations for using technological tools when designing and performing audit procedures to obtain audit evidence.
    - Professional Skepticism Consultation Group: Discussions focused on repositioning the overall conclusion on whether sufficient appropriate audit evidence has been obtained into ISA 700 (Revised)[14] and proposals to streamline the "stand-back" requirements in the ISAs, including aligning terminology used in the various paragraphs requiring the auditor to proactively consider all audit evidence obtained (whether consistent or inconsistent, and regardless of whether corroborative or contradictory).
    - Technology Quality Management Workstream: Exchanging key technology-related insights from the ongoing outreach activities that are of mutual relevance (e.g., use cases of Artificial Intelligence (AI)-enabled tools in performing audit procedures, demonstrating a rapidly growing trend in this space) and updates on how the technology-related actions of the AE&RR project

[13] The International Ethics Standards Board for Accountants

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

proposal have been considered in updating of the IAASB Technology Catalog.

- ISA 500 Series project: [15] Ongoing coordination when undertaking outreach activities (e.g., joint meetings and discussions with stakeholders to gather insights) and discussions to inform matters of mutual relevance, such as the linkages to foundational concepts and principles addressed by ED–330 and ED–500 (2026) that are of relevance to the audit evidence standards for inventory and external confirmations.

IESBA

27. The AE&RR project worked with IESBA Staff to ensure continued alignment of the proposed revisions with the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). These included discussions focused on new or enhanced requirements in ED–500 (2026) to reinforce the auditor's exercise of professional skepticism, reflecting in ED–500 (2026) some of the changes made to the IESBA Code that promote the role and mindset expected of professional accountants[16] and aligning, to the extent possible, technology related terminology addressed by the technology-related revisions to the IESBA Code.[17]

Key Stakeholder Engagement

28. The AE&RR project has undertaken significant outreach activities with a broad range of stakeholders to gather feedback and insights to inform the IAASB's deliberations of issues in the development of ED–330, ED–500 (2026) and ED–520. Broadly, the project outreach program encompassed:

- Meetings with Monitoring Group (MG) members and deep-dive sessions with regulators and audit oversight bodies and with individual firms addressing a broad range of topics relevant to the three standards.
- Discussion with Jurisdictional Standard Setters (JSS) to receive input and views on certain topics deliberated by the IAASB in the course of developing proposals and meetings with Professional Accountancy Organizations (PAOs).
- Focused discussions with users of financial statements, including consultations with members of the Stakeholder Advisory Council (SAC), to explore their viewpoints on the auditor's work for material classes of transactions, account balances and disclosures (COTABDs).
- Engagement with the Forum of Firms (FoF) and discussions with the Standards Setting Working Group (SSWG) of the Global Public Policy Committee (GPPC).
- Engagement with the International Federation of Accountants (IFAC) Small and Medium Practices Advisory Group (SMPAG).
- Roundtable discussion with representatives from the regulators and audit oversight authorities community and the auditing profession to deliberate varying stakeholder perspectives for selected topics being considered under the project and to inform future actions by the IAASB.
- Regular engagement with a wide range of stakeholders on a bilateral basis through the

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[15] See the ISA 500 Series project page.

[16] See the *Final Pronouncement: Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*.

[17] See the *Final Pronouncement: Technology-Related Revisions to the Code*.

IAASB's general outreach program.

29. The project team envisions ongoing targeted outreach with a broad range of stakeholder groups during and after the exposure period.

Section 1 – Significant Matters

Section 1–A. Key Outcomes of the AE&RR Project

Interrelationship Between the Standards

30. The AE&RR project considers, in an integrated manner, foundational principles of obtaining and evaluating audit evidence by designing and performing audit procedures to obtain sufficient appropriate audit evidence. In doing so, the concurrent revisions address:

- The "reference framework" aspects relating to judgments about the sufficiency and appropriateness of audit evidence reflected in ED–500 (2026); and
- The "performance" aspects relating to the design and performance of audit procedures reflected in ED–330 and ED–520.

Promoting Consistent Practice and Changing Auditor Behavior

31. The diagram and the related sections below summarize the key outcomes of the concurrent revisions addressed in ED–330, ED–500 (2026) and ED–520 that would most significantly contribute to promoting consistency and changing auditor behavior. The IAASB has remained mindful of these key outcomes when formulating its views and proposals discussed in this EM and the EMs accompanying ED–330, ED–500 (2026) and ED–520.

32. At an overarching level, the concurrent revisions collectively aim to:

- Set out a comprehensive consideration of all audit evidence obtained in an audit, irrespective of whether it was obtained from risk assessment procedures, further audit procedures or other audit procedures required by the ISAs, and embrace the notion that it is the cumulative body of evidence that contributes to its sufficiency and appropriateness.

- Aim to support consistent interpretation of work effort requirements, by enhancing the coherence of terms and principles that are relevant to obtaining and evaluating the sufficiency and appropriateness of audit evidence and clarifying how the auditor's responses to assessed risks under Proposed ISA 330 (Revised) link to the auditor's risk identification and assessment under ISA 315 (Revised 2019).
- Establish a coherent approach for the architecture of the "stand-back's" in the ISAs by setting out criteria and the scope for such requirements to ensure their consistent inclusion in the body of standards when appropriate to do so.
- Recognize the impacts of the entity's use of technology and the use of technological tools in obtaining audit evidence.

Comprehensive Framework Underpinning Auditor's Judgments About Audit Evidence

33. Broadly, the following key features underpin the enhanced principle-based reference-framework for making judgments about audit evidence throughout the audit reflected in ED–500 (2026):

- **Definition of audit evidence.** A revised definition of audit evidence, based on the "input-output model,"[18] which provides auditors with an appropriate foundation to actively consider *all information* intended to be used as audit evidence*, irrespective of its source* (i.e., whether internal or external). The definition acknowledges that information can only become audit evidence after audit procedures are applied to the information, including audit procedures for evaluating its relevance and reliability. In addition, the definitions of "appropriateness (of audit evidence)" and of "sufficiency (of audit evidence)" have been clarified and their relationship with the notion of persuasiveness of audit evidence.
- **Audit procedures and their intended purpose(s).** Emphasis on the intended purpose(s) of the audit procedures to obtain sufficient appropriate audit evidence, which includes the entirety of audit procedures designed and performed when planning and performing an audit engagement in accordance with the ISAs.
- **Relevance and reliability of information.** Strengthened evaluation of the relevance and reliability of information intended to be used as audit evidence, by considering the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures which are important new features introduced in the audit evidence standard.

Reinforcing the Application of Professional Skepticism

34. The revisions in ED–330, ED–500 (2026) and ED–520 emphasize the critical role of professional skepticism when obtaining and evaluating audit evidence and responding to ROMM by embedding the concept in requirements and in introductory and application material, for example, by (see **Section 1–C**):

- Highlighting the link to ISA 200[19] and the importance of **maintaining professional skepticism**

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[18] The "input-output model" refers to the *information* intended to be used as audit evidence (i.e., the "input") which needs to be subject to *audit procedures* to become *audit evidence* (i.e., the "output").

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

in critically assessing audit evidence, including being alert to inconsistencies in audit evidence, for information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence and not ignoring information that calls into question the reliability of other information intended to be used as audit evidence (see paragraphs 4–5 of ED–500 (2026).

- Requiring the auditor to design and perform audit procedures, including those that respond to assessed ROMM, **in a manner that is not biased** towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. In addition, emphasizing the biases that may affect the auditor's professional judgments in designing and performing audit procedures, including but not limited to automation bias (see paragraph 8 of ED–330 and paragraphs 9, A19–A22 of ED–500 (2026)).
- Clarifying the necessary **work effort to evaluate information as reliable**, which includes performing procedures to address the authenticity of information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures (see paragraphs 11, 13 and A46–A50 of ED–500 (2026)).

Facilitating Robust Substantive Procedures in Response to ROMM

Emphasizing the Intended Purpose(s) of the Audit Procedures

35. Regardless of whether technological tools are used to perform audit procedures, stakeholders broadly recognize that **the purpose of an audit procedure is a key consideration**. The revisions to ED–500 (2026) reinforce this principle by focusing the auditor on the purpose(s) of audit procedures when designing and performing those procedures to obtain sufficient appropriate audit evidence and, where applicable, by requiring the auditor to evaluate whether the audit evidence obtained meets each intended purpose of the procedure. However, the IAASB acknowledges that the use of technological tools may blur the practical distinction between categories of audit procedures, even though the purpose of those procedures remains unchanged. This reinforces the need for the ISAs to be adaptable to evolving technologies, remaining fit for purpose and future proof.

36. In responding to calls for future proofing the standards and to avoid inadvertently inhibiting innovation, including innovation enabled by technological change:

    - The **definition of substantive procedures** in ED–330 has been broadened to *include* (rather than *comprise*) test of details and substantive analytical procedures. This change acknowledges the possibility that audit procedures that have attributes other than the defined characteristics of tests of details or substantive analytical procedures may be designed and performed that could be capable of detecting material misstatements at the assertion level.
    - Extant terminology that refers to a "dual-purpose test" and descriptions of "multiple-purpose procedures" has been consolidated in ED–500 (2026) under a broader notion of **"an audit procedure used for more than one purpose,"** with supporting examples of what such procedures could entail. Doing so aims to enhance clarity and reduce complexity for the standards while continuing to recognize that the auditor may perform an audit procedure that achieves more than one purpose when designing and performing audit procedures to obtain sufficient appropriate audit evidence. This may be specifically relevant when using technological tools.

Clarifying How the Auditor Achieves the Purpose of Substantive Procedures

37. The revisions to ED–330 and ED–520 include proposals for new definitions of tests of details and substantive analytical procedures in order to provide clarity around key terminology used in the ISAs, which aims to address:

- **Calls for improved consistency.** This is in view of identified and perceived divergence in practice on how test of details and substantive analytical procedures are interpreted when categorizing procedures designed and performed for the purpose of detecting material misstatements. Such diverging approaches may create ambiguity or risk inconsistent application of the requirements in the standards, for example by blurring the line between the use of an analytical procedure as a substantive procedure and an analytical procedure used on other aspects of the audit (e.g., for risk assessment or when performing concluding activities on an audit).
- **Audit quality implications.** The manner in which the categories of audit procedures are interpreted or understood in practice has an impact on the extent of the substantive procedures performed and the sufficiency of the audit evidence obtained. This relationship persists, irrespective of whether technological tools are used in obtaining audit evidence. Input from individual firms indicates that firm methodologies commonly factor in the "categorization of audit procedures" in determining appropriate means of selecting items for testing and the extent of testing, which may, for example, have an impact on the determination of sample sizes. If there is uncertainty about whether certain audit procedures qualify as substantive procedures, or if there is lack of a common understanding what the categories of substantive procedures entail, this may risk, for example, an auditor using sample sizes that are insufficient and therefore not obtaining sufficient appropriate audit evidence.

Clarifying Aspects of the Risk Assessment Process to Support Robust Risk Identification and Assessment

38. As discussed in the EM that accompanies ED–330, insights gained from the application of ISA 315 (Revised 2019) in practice since its effective date for audits of financial statements for periods beginning on or after December 2021, have provided an opportunity to reconsider the relevance of paragraph 18 of extant ISA 330, which requires the auditor to perform substantive procedures for each material COTABD, irrespective of the assessed ROMM. In parallel, the IAASB is proposing targeted enhancements to ISA 315 (Revised 2019), including clarifying certain aspects of the risk assessment process, such as the auditor's documentation of the "stand-back" evaluation in paragraph 36 (see paragraph 66).[20]

Supporting the Auditor's Use of Audit Evidence from Analytical Procedures

39. The proposals reflected in ED–520 encompass refinements to the definition of analytical procedures and embed a comprehensive framework in the standard to support the auditor's professional judgments when using audit evidence from analytical procedures. The new features of the framework include:

- A requirement for the auditor to consider the effect of the **results of risk assessment analytical procedures** on the identification and assessment of ROMM when the results of

[20] For material COTABDs that have not been determined to be significant COTABDs, the "stand-back" evaluation in paragraph 36 of ISA 315 (Revised 2019) requires the auditor to evaluate whether such determination remains appropriate.

such procedures identify fluctuations or relationships that are inconsistent with other relevant information, or that differ from expected results. Doing so, aims to acknowledge the increasing use of analytical procedures as risk assessment procedures, such as when using technological tools to perform analytical procedures to analyze an entire population of transactions at a detailed, disaggregated level which, when performed effectively, may aid more precise risk identification and assessment. Such results may also assist the auditor in considering the effects on the design of other risk assessment procedures or further audit procedures.

- Explicit recognition that **when designing and performing further audit procedures**, the auditor may use analytical procedures that are not substantive analytical procedures, in combination with tests of controls or tests of details (see paragraph A29 of ED–330). This change aims to reinforce the notion that all evidence obtained in an audit contributes to the auditor obtaining sufficient appropriate audit evidence. For example, even when the evidence is obtained from an audit procedure that, on its own, is not precise enough to detect a material misstatement, it may still, together with other types of procedures, contribute to the audit evidence obtained from substantive procedures. It also acknowledges that analytical procedures that are not substantive analytical procedures, performed alone, do not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level. This further accommodates flexibility so as not to inadvertently inhibit innovation in view of technological change.

Clarified and Strengthened Principles Supporting Robust Substantive Analytical Procedures

40. The new **definition for substantive analytical procedures** in ED-520 aims to distinguish substantive analytical procedures from the various uses of analytical procedures across all stages of an audit given the distinct purpose of substantive analytical procedures to detect a material misstatement at the assertion level. Also, the key elements that determine **the necessary precision of the substantive analytical procedures** as a whole have been enhanced through revised requirements addressing the:

    - Level of precision of the auditor's expectation, premised on reliable information used in designing and performing the procedure and the plausibility and predictability of the relationship on which the procedure is based.
    - Threshold, not exceeding performance materiality, for which differences between the auditor's expectation and the recorded amounts are required to be investigated to establish whether a misstatement exists.

Clarifying and Strengthening the Auditor's Work on Internal Controls

Broadening the Use of Tests of Controls

41. The scope of the **definition for tests of controls** in ED–330 has been broadened to facilitate testing the operating effectiveness of controls beyond solely responding to an assertion level ROMM. This change recognizes that audit evidence about the operating effectiveness of controls may:

    - Pertain to **all information used throughout an audit**, for example, when evaluating the relevance and reliability of information intended to be used as audit evidence or when testing controls that do not fit neatly into the extant definition because the controls are not precise enough to prevent or detect and correct material misstatements at the assertion level.

- Address both **direct and indirect controls**, including general IT controls (GITCs). While auditors may already test such controls, recognizing that both are encapsulated within the definition of tests of controls clarifies that the requirements are intended to apply to a broad range of controls relevant to obtaining audit evidence. This supports the continued relevance of the standard as technology continues to influence how controls operate and how information is generated and processed.
- Apply to controls in **areas other than financial reporting controls** addressed by ISA 315 (Revised 2019). This clarifies that auditors may use operational or other non-financial information in performing audit procedures, and, where relevant, test the operating effectiveness of controls over that information to evaluate its reliability.

Facilitating Auditor Judgments About a Controls-Based Approach to Respond to ROMMs

42. While not mandating a controls-based approach, the IAASB recognizes that technological advancements and other innovations may result in tests of controls becoming more prominent within audit practice. In this evolving environment, it is important that the requirements support auditors in exercising appropriate judgment about whether and when testing controls is an appropriate response to assessed ROMMs. The proposed enhancements in ED–330 are intended to provide such support by clarifying:

    - **The circumstances in which tests of controls alone may be an appropriate response to assertion-level ROMM.** While extant ISA 330 implicitly permits such an approach, the proposed requirements and application material make this option explicit by introducing a risk-based threshold and related considerations to provide greater clarity and support the auditor's judgment about when responding to assessed ROMMs at the assertion level through tests of controls alone is appropriate and permissible.
    - **That testing of controls involves obtaining audit evidence about whether those controls operated effectively.** This clarification reinforces that tests of controls are evidence gathering procedures and that the auditor's evaluation of the evidence obtained is central to determining whether controls testing provided an appropriate response to assessed ROMM. This principle applies regardless of whether the evidence is from controls testing alone, or used to determine the nature, timing and extent of substantive procedures. This clarification is consistent with more recent revisions to other IAASB standards.
    - That when the auditor has determined that it is impossible or impracticable to design **substantive procedures that by themselves provide sufficient appropriate audit evidence** regarding the assessed risks at the assertion level, the auditor is required to perform tests of controls that address such risks. In addition, modernizing the application material with examples and attributes of such circumstances to illustrate a broader range of considerations to aid auditors with consistently identifying such circumstances, thereby enhancing the clarity, consistency of implementation, and the enforceability of the related requirements.
    - The circumstances and conditions for **using audit evidence from a previous period** about the operating effectiveness of controls and the three-year baseline for retesting a control.
    - Circumstances where **direct controls to be tested depend on the operating effectiveness of indirect controls**. Specifically, the auditor can either obtain audit evidence about the effective operation of indirect controls (including GITCs) or perform other procedures related

to the indirect controls. This recognizes the dependency of direct controls on indirect controls, while acknowledging that, deficiencies in indirect controls may not have affected the effective operation of direct controls when the circumstance that an indirect control was intended to address did not arise.

Facilitating and Encouraging the Appropriate Use of Technology

43. The proposed clarifications and enhancements discussed in paragraphs 35–36, 39, 41 and 42 above, which address project outcomes relating to substantive procedures and the auditor's work on internal controls, encapsulate **the project's focus on the impact of technology** used by entities and auditors. This reflects that the IAASB considered the broad impact of technology when formulating its proposals addressed in ED–330, ED–500 (2026) and ED–520, including the need for the standards to remain principle-based, flexible and fit-for-purpose in a technologically evolving environment.

44. As a consequence, the IAASB determined that **it would not be appropriate to pursue specific technology-related requirements** in ED–330, ED–500 (2026) and ED–520 that would apply conditionally or otherwise.

45. Instead, the proposals in ED–500 (2026) include **application material in the format of an Appendix** to provide guidance on how the principle-based requirements of the standards apply when the auditor uses technological tools in designing and performing audit procedures to obtain audit evidence. This approach better aligns with the IAASB's ongoing strategic initiatives, including that of the Technology Quality Management Workstream which is presently subject to Board deliberation. This also sets a foundation for future technology-related workstreams that would be well positioned to explore, for example, the development of relevant and timely non-authoritative material which addresses in more detail the impact of emerging technologies.

46. In addition, new application material in ED–330 also raises awareness about **the implications of emerging technologies on the consistency of the operation of controls**. Finally, a number of technology-related enhancements are proposed to requirements and application material of **ISQM 1 and ISA 220 (Revised),** including enhancements for improved coherence for technology-related terminology (see paragraphs 60–65).

Section 1–B. Public Interest Issues Addressed

47. In developing ED–330, ED–500 (2026) and ED–520, and the related conforming and consequential amendments to the ISQMs and other ISAs, the IAASB considered the qualitative characteristics of the Public Interest Framework (PIF)[21] that are used as criteria to assess the proposed standards' responsiveness to the public interest.

48. The **Supplement** to this EM sets out a table that maps the proposed revisions in ED–330, ED–500 (2026) and ED–520 to the standard-setting actions included in the project proposal. Because the project objectives that support the public interest are directly related to the standard-setting actions, the table also explains how the proposed revisions address those objectives. The **Supplement** also

[21] See the Monitoring Group report *Strengthening the International Audit and Ethics Standard-Setting System* (pages 22–23 of the PIF's section on "What qualitative characteristics should the standards exhibit?").

highlights what PIF qualitative characteristics were at the forefront, or of most relevance, when determining how to address the proposed actions.

Section 1–C. Professional Skepticism

49. Based on the IAASB's information-gathering activities, stakeholders raised concerns about the appropriateness of professional skepticism exercised by auditors when considering the relevance and reliability of information intended to be used as audit evidence, in designing and performing further audit procedures responsive to the assessed ROMM and when making judgments about the sufficiency and appropriateness of audit evidence obtained.

Enhancements for Professional Skepticism in ED–500 (2026)

50. The IAASB incorporated the concept of professional skepticism in several parts of ED–500 (2026), including explicitly addressing professional skepticism in the introductory material, requirements and the application material of the standard.

51. Introductory material in paragraphs 4–5 of ED–500 (2026) highlights the link to ISA 200 and the emphasis on maintaining professional skepticism in planning and performing the audit, including in critically assessing audit evidence. This contextual material aims to set the tone when reading the standard and provide prominence for the importance that the auditor remains alert to inconsistencies in audit evidence, information that brings into question the reliability of documents and responses to inquiries and not ignoring information that calls into question the reliability of other information intended to be used as audit evidence. Also, application material in paragraph A5 of ED–500 (2026) refers to the IESBA's Code provisions that promote the role and mindset expected of professional accountants, noting that in an audit of financial statements, professional skepticism and the fundamental principles of ethics are interrelated concepts.

52. The enhancements to paragraph 9(a) of ED–500 (2026) reinforce the exercise of professional skepticism by requiring auditors to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory. The related application material links to ISA 220 (Revised) regarding auditor biases and the guidance in Appendix 3 of ED–500 (2026) provides a further discussion on automation bias.

Enhancements for Professional Skepticism in ED–330

53. Paragraph 8 of ED–330 requires the auditor to respond to the assessed ROMM in a manner that is not biased toward obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. This requirement mirrors the approach in paragraph 13 of ISA 315 (Revised 2019) and applies to both overall responses and audit procedures responsive to the assessed ROMM at the assertion level.

54. Paragraph 31 of ED–330 introduces a new holistic evaluation relevant to the context of the standard. Given the reallocation of paragraph 26 of extant ISA 330 into ISA 700 (Revised) as discussed in paragraphs 71–73 below, the IAASB formed the view that it is necessary to build in a specific holistic evaluation for the audit evidence obtained from further audit procedures. This mirrors the holistic evaluation in paragraph 35 of ISA 315 (Revised 2019) regarding audit evidence obtained from risk assessment procedures. New application material in paragraph A87 of ED–330 aims to support the

auditor in performing such holistic evaluation by providing a list of matters that the auditor may consider.

Enhancements for Professional Skepticism in ED–520

55. Paragraph A5 of ED–520 highlights the link to ISA 200 and provides an emphasis on maintaining professional skepticism in designing and performing analytical procedures. Also, paragraph A9 of ED–520 refers to the requirement in ED–330 to respond to ROMM in an unbiased manner, indicating an example when this may be particularly relevant to the design and performance of substantive analytical procedures.

Alignment of Terminology

56. Conforming and consequential amendments have been made to streamline the wording of paragraphs in other ISAs that include proactive considerations for the auditor to consider all audit evidence obtained (including consistent or inconsistent, and regardless of whether corroborative or contradictory).[22] In doing so, the IAASB believes this is of benefit to render a more effective critical assessment of the audit evidence obtained.

Section 1–D. Conforming and Consequential Amendments

57. The IAASB is proposing a number of conforming and consequential amendments arising from the concurrent revisions in ED–330, ED–500 (2026) and ED–520 which are presented in this ED. The proposed conforming and consequential amendments are presented in marked text to the relevant paragraphs of the standards affected. Only the paragraphs that are being proposed to be amended or that are needed to provide context for the proposed amendments are provided.

58. In many cases, the changes relate to aligning terminology and wording of ED–330, ED–500 (2026) and ED–520 or to appropriately cross reference to the revised standards. In addition, as anticipated in the AE&RR project proposal, based on the insights obtained in the course of the project deliberations, the IAASB decided that certain standard-setting actions are more appropriately addressed in standards other than ED–330, ED–500 (2026) and ED–520. Such revisions relate to the significant consequential amendments to ISQMs and other ISAs discussed in paragraphs 60–78 below.

59. The conforming and consequential amendments address affected standards in the entire body of ISQMs and ISAs, except for the audit evidence standards for inventory in ISA 501 and external confirmations in ISA 505, given that the IAASB is progressing a separate standard setting project to revise those standards (i.e., the ISA 500 Series project). The IAASB considered that the ISA 500 Series project is better placed to address any feedback received from respondents on exposure of the proposals for inventory and external confirmations in a holistic manner. The IAASB also considered the anticipated project timelines of both the AE&RR and the ISA 500 Series projects that allow for sufficient coordination to occur on any matters that may arise as a result of respondents' feedback on exposure that are of a cross-cutting nature.

[22] See the proposed conforming and consequential amendments to paragraph 35 of ISA 315 (Revised 2019) and paragraph 34 of ISA 540 (Revised).

Technology-Related Amendments to ISQM 1 and ISA 220 (Revised)

Improved Coherence for Technology-Related Terminology

60. Stakeholder feedback on ED–500 (2022) and the IAASB's subsequent work to establish a Technology Position, indicated that more clarity was needed for technology-related terminology used in the IAASB Standards, including a consideration about the adequacy of the term "automated tools and techniques" (ATT). Questions were also raised on whether the term ATT alone is sufficiently clear to articulate what it applies to, and a related consideration whether there is a need to describe or define the term, and if so, where should such definition or description be placed in the suite of the IAASB Standards.

61. The IAASB is proposing to replace the term ATT with a new term "technological tools" to clarify that technology is a resource used by auditors to design and perform audit procedures, rather than an audit procedure itself. The term also aligns with "technological resources" in ISQM 1, achieves closer alignment with technology-related terminology used by the technology-related revisions to the IESBA Code[23] and is a familiar term used in extant paragraphs A64–A65 of ISA 220 (Revised).

62. The IAASB has included a description for the term "technological tools" in both ISQM 1 (paragraph A99A) and ISA 220 (Revised) (paragraph A64A). The description illustrates and clarifies how technological tools (a subset of technological resources) may be used on engagements to facilitate the design or performance of engagement (or audit) procedures in obtaining evidence.

63. In considering whether to describe, rather than to define, the term technological tools, the IAASB noted that the term is used only in the application and other explanatory material of the ISQMs and ISAs. On this basis, a description, rather than a definition, is a consistent approach with the drafting conventions for definitions.

Technology-Related Enhancements to Requirements and Application Material

64. The IAASB provided specificity to the requirement in paragraph 25 of ISA 220 (Revised), about the resources used in engagements (i.e., human, technological and intellectual resources). Doing so provides prominent consideration of technological resources at the engagement level, which is the level where appropriate resource-related considerations are required to be made. Related amendments have been proposed to paragraphs in other ISAs where the related requirement is referenced (i.e., to paragraph 8 of ISA 300[24] and paragraph 6 of ISA 600 (Revised)[25]).

65. New application material in paragraph A64B of ISA 220 (Revised) supports the auditor's determination of whether to use technological resources, that include technological tools in an audit engagement, along with examples of circumstances where the use of technological tools may be necessary to address ROMM and obtain sufficient appropriate audit evidence.

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[23] See the *Basis for Conclusions: Technology-related Revisions to the Code*, paragraphs 116–118, which explain that the IESBA Code authoritatively uses a broad, all-inclusive term "technology," either as standalone term, or used within another term, such as using the output of technology. The IESBA has explained that that this term (i.e., technology) is meant to encompass all technologies, including ATT as used in the auditing standards, artificial intelligence and machine learning, blockchain, and other future technologies not yet known.

[24] ISA 300, *Planning an Audit of Financial Statements*.

[25] ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Enhancing Aspects of the Risk Assessment Process to Support Robust Risk Identification and Assessment

66. As explained in the EM that accompanies ED–330, the IAASB agreed to propose replacing paragraph 18 of extant ISA 330 with strengthened requirements and application material in ISA 315 (Revised 2019) to clarify certain aspects of the risk assessment process. The background to and the rationale for the IAASB's position in this regard are addressed in **Section 1–C of the EM to ED–330** and include an explanation of the resulting enhancements to ISA 315 (Revised 2019). That EM also includes a specific question for respondents on these proposals.

Repositioning the Overall Conclusion on Sufficiency and Appropriateness of the Audit Evidence Obtained

Criteria and Scope for the "Stand-Back" Requirements in the ISAs

67. In the course of the AE&RR project, the IAASB deliberated around the intended purpose and value of certain paragraphs in the ISAs, colloquially referred to as "stand-back" requirements, including stakeholder concerns raised in recent public consultations about the perceived proliferation of such paragraphs in the ISAs.[26]

68. Thematically, such requirements address the following two broad reasons in an audit: making a holistic assessment when identifying and assessing ROMMs and making a holistic assessment about the sufficiency and appropriateness of audit evidence. [27]

69. In its deliberations, the IAASB reaffirmed the value of the "stand-back" requirements in the ISAs on the basis that they:

- Address necessary criteria for the auditor to reevaluate a judgment previously made (or a matter previously determined) in the course of the audit, or to serve as "checkpoints" for the auditor to conclude or evaluate whether the audit should proceed to the next phase, require adjustments, or even be paused if necessary.
- Increase auditor scrutiny in specific circumstances, which are not mutually exclusive, such as:
    - More complex areas of the audit (e.g., for accounting estimates and related disclosures where inherent risk is not low and the reasons for the assessed ROMM include complexity, use of judgment by management or estimation uncertainty).
    - When addressing special considerations (e.g., for group audit engagements, given the need to ensure that the auditor's evaluations or conclusions made extend to work performed by component auditors).
    - When addressing matters that are pervasive to the financial statements as a whole (e.g., management's use of the going concern basis of accounting or related to fraud).

70. While the above approach sets out criteria and the scope for "stand-back" requirements to ensure their consistent inclusion for current and future standard-setting projects, the IAASB also believes that not every topical ISA justifies a subject matter-specific evaluation nor is it appropriate to proliferate such paragraphs in too many foundational ISAs. Doing so questions whether the "stand-

[26] See responses to ED-500 (2022) and the *Exposure Draft (ED-240), Proposed ISA 240 (Revised): The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

[27] See Agenda Item 7 discussed at the March 2025 IAASB meeting.

back" requirements remain sufficiently distinct from each other at the performance level to drive appropriate auditor behavior that enhances the quality of an audit.

Alternative Placement for the Overall Conclusion on the Sufficiency and Appropriateness of the Audit Evidence Obtained

71. Paragraph 26 of extant ISA 330 requires the auditor to conclude (overall) whether sufficient appropriate audit evidence has been obtained. However, this conclusion extends beyond the scope of extant ISA 330. Other audit procedures are performed throughout the audit, including risk assessment procedures and procedures to evaluate the relevance and reliability of information intended to be used as audit evidence, and therefore such procedures also contribute to the auditor's overall conclusion on whether sufficient appropriate audit evidence has been obtained.

72. To address the matter the IAASB also agreed the need to establish a coherent approach for the architecture of the "stand-back's" in the body of ISAs. The IAASB proposals include a new holistic evaluation relevant to the context of ED–330 (see paragraph 54) and relocating the overall conclusion on whether sufficient appropriate audit evidence has been obtained to ISA 700 (Revised), as part of the auditor's final "stand-back" evaluation before concluding whether reasonable assurance has been obtained and forming an opinion on the financial statements (see paragraphs 11 and 11A of ISA 700 (Revised)).

73. The IAASB also proposes new application material in paragraphs A0–A0C and Appendix 1 of ISA 700 (Revised), including relevant linkages to ISA 200 and other ISAs that require specific evaluations of the audit evidence obtained. This would better reflect that the conclusion on sufficient appropriate audit evidence is an integrated evaluation that considers the auditor's work and knowledge obtained throughout the audit, rather than a conclusion arising solely from the auditor's responses to assessed risks under ED–330.

Accepting Records and Documents as Genuine

74. Paragraph A24 of ISA 200, which is application material to the base requirement in paragraph 15 for the auditor to plan and perform an audit with professional skepticism, among other matters states that: "*The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary…".*

75. In the course of the Fraud project, the IAASB removed the essential explanatory material from the lead-in sentence of paragraph 14 of extant ISA 240.[28] The final requirement in paragraph 22 of ISA 240 (Revised) states: *"If conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further."* Application material in paragraphs A33–A36 of ISA 240 (Revised) clarifies that conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, may come to the auditor's attention from performing audit procedures in accordance with ISA 240 (Revised) or other ISAs, including those in Proposed ISA 500 (Revised), as well as from information from other sources.

76. The proposals in ED–500 (2026) also introduce a set of attributes of reliability of information to be considered by the auditor when evaluating the relevance and reliability of information intended to be

[28] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

used as audit evidence, including, among others, the attribute of *authenticity* of information. The work effort required from the auditor under ED–500 (2026) requires the performance of procedures to address the authenticity of information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures.

77. To align with the collective revisions for authenticity of information addressed by both ISA 240 (Revised) and ED–500 (2026), the IAASB is proposing a consequential amendment to the application material in extant paragraph A24 of ISA 200.

78. In doing so, the IAASB believes that this consequential amendment would:

- Resolve the inconsistency cited from the feedback on several recent public consultations about the work effort that is required for authenticity when complying with the standards.[29]
- Drive the expected work effort and behavior from the auditor when evaluating the relevance and reliability of information intended to be used as audit evidence and, as appropriate, responding to conditions when identified during the audit that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor.
- Reinforce the linkages with the requirements addressing professional skepticism in ISA 240 (Revised), including the obligation for the auditor to remain alert throughout the audit for information that indicates that one or more fraud risk factors are present and circumstances that may be indicative of fraud or suspected fraud.

Section 1–E. Effective Date

79. The IAASB anticipates that the final pronouncements for ISA 330 (Revised), ISA 500 (Revised) and ISA 520 (Revised) could be approved in December 2027 based on current expectations relating to the work required during and post the exposure period. The Board is of the view that it is appropriate for the standards to be effective for audits of financial statements for periods beginning at least 18 months after the approval of the final pronouncements. This timeframe is deemed adequate to allow jurisdictions sufficient time for translation of the final text of the revised standards, for national adoption processes to occur, and for practitioners to update methodologies.

80. The IAASB also believes that if early adoption is contemplated, all three standards would need to be early adopted as a package, rather than on a piecemeal basis, due to the linkages between them and the incompatibility with extant standards that would result from selective early adoption of only one or two of the new standards.

[29] See responses to ED-500 (2022) and the *Exposure Draft (ED-240), Proposed ISA 240 (Revised): The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

Section 2 – Questions for Respondents

81. Respondents are asked to respond to the questions in the table in paragraph 83 using the ***Response Form*** as explained in the **Request for Comments** section of this EM. The questions require a direct response on whether you agree with the proposals in this ED. In **each** instance where you do not agree, **indicate your reasons, what you propose and why** (e.g., an alternative or how proposals could be improved or made clearer).

82. **Invitation for field testing.** The IAASB recognizes the foundational nature of the standards addressed by the AE&RR project which are core to an audit of financial statements for entities of all sizes and complexities. Therefore, ED–330, ED–500 (2026) and ED–520 will likely be of particular interest for all audit practitioners and firms, regardless of size. Accordingly, the IAASB recognizes some stakeholders may choose to undertake field testing[30] of the proposals and welcomes the sharing of the results of any field testing performed as part of the responses to these EDs. Please note that although encouraged, field testing is not required in order to respond to the questions in the EMs to ED–330, ED–(2026) or ED–520. The ***Response Form*** guides respondents to indicate whether field testing was undertaken and, if so, the nature and extent of field testing.

83. Questions for respondents:

Questions for Respondents	Related Section or Paragraphs in this EM
Overall Questions	
1. Do you agree that the proposals reflected in ED–330, ED–500 (2026) and ED–520 appropriately address the standard-setting actions as set out in the **Supplement** to this EM (those standard-setting actions are linked to relevant qualitative characteristics of the PIF and the project objectives in the project proposal)? You are invited to include as part of your response insights on the **possible or expected impacts** (positive or negative) of implementing the proposed standards. Alternatively, you may choose to highlight such impacts as part of your responses to individual questions in the EMs to ED–330, ED–500 (2026) and ED–520.	**Sections 1–A, 1–B** and the **Supplement**
2. Do the requirements and application material in ED–330, ED 500 (2026) and ED-520 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence and responding to ROMMs?	**Section 1–C**

[30] The IAASB did not believe that a consultation paper, field testing or a roundtable was needed before approval of ED–330, ED–500 (2026) and ED–520. However, the IAASB recognizes that some stakeholders may choose to undertake field testing and that field testing may take different forms, may focus on all or specific requirements of ED–330, ED–500 (2026) and ED–520, and may be executed at different levels.

Questions for Respondents	Related Section or Paragraphs in this EM
Specific Questions – Conforming and Consequential Amendments	
3. Do you support the technology-related amendments to ISQM 1 and ISA 220 (Revised)? In particular, please share your views on whether you support the term "technological tools" as a replacement for the term "automated tools and techniques" and the description for technological tools.	**Section 1–D:** Paragraphs 60–65
4. Do you agree with the repositioning of the overall conclusion on the sufficiency and appropriateness of audit evidence obtained from paragraph 26 of extant ISA 330, into paragraph 11A of ISA 700 (Revised)?	**Section 1–D:** Paragraphs 67–73
5. Do you support the conforming and consequential amendment to paragraph A24 of ISA 200?	**Section 1–D:** Paragraphs 74–78
6. Are there any other matters you would like to raise in relation to the conforming and consequential amendments to the ISQMs and other ISAs? If so, please clearly indicate the ISQM/ISA requirement(s) or application material, or the theme or topic, to which your comment(s) relate.	Any Section in this EM or matters not specifically discussed
General Matters	
7. Translations—Recognizing that many respondents may intend to translate the final standards for adoption in their own environments, have you identified any potential translation challenges or issues? If so, please describe the issue identified and clearly indicate the specific standards, paragraph numbers of any requirements, application material or appendices to which your comments relate.	
8. Effective Date—Given the need for national due process and translation, the IAASB believes that an appropriate effective date for the standards would be at least 18 months after the expected date of approval of the proposed revised standards. Do you agree that this will provide a sufficient period to support effective implementation of the proposed standards? If not, what do you propose and why?	**Section 1–E:** Paragraphs 79–80

PROPOSED CONFORMING AND CONSEQUENTIAL AMENDMENTS TO ISQMS AND OTHER ISAS

ISQM 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

Introduction

…

Application and Other Explanatory Material

…

A99. A technological resource may serve multiple purposes within the firm and some of the purposes may be unrelated to the system of quality management. Technological resources that are relevant for the purposes of this ISQM are:

- Technological resources that are directly used in designing, implementing or operating the firm's system of quality management;
- Technological resources that are used directly by engagement teams in the performance of engagements; and
- Technological resources that are essential to enabling the effective operation of the above, such as, in relation to an IT application, the IT infrastructure and IT processes supporting the IT application.

Scalability examples to demonstrate how the technological resources that are relevant for the purposes of this ISQM may differ

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).
- In a more complex firm, the technological resources may be more complex and may comprise:
    - Multiple IT applications, including custom-developed applications or applications developed by the firm's network, such as:
        - IT applications used by engagement teams (e.g., engagement software used to prepare and compile engagement documentation and ~~automated~~ technological ~~audit~~ tools).
        - IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements).

- The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

A99A. Technological resources that are used directly by engagement teams may serve multiple purposes in planning and performing the engagement. Technological resources include technological tools that facilitate the design or performance of engagement procedures in obtaining evidence.

Examples of technological tools:

- IT applications that facilitate analysis of data using modeling and visualization or analysis of image processing technology.
- Engagement software built to manage workflows and assist in planning and performing engagement procedures, analyzing evidence and reaching conclusions.
- Technologies that facilitate automating aspects of engagement procedures (e.g., robotic process automation technologies) or that facilitate gathering and analysis of large amounts of information from various sources (e.g., artificial intelligence technologies).
- A spreadsheet programmed to perform functions related to designing or performing engagement procedures (e.g., data analysis or generation of information to aid decision making).

…

ISQM 2, ENGAGEMENT QUALITY REVIEWS

Introduction

…

Application and Other Explanatory Material

…

A53. The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation ~~electronically~~ in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented in other ways, for example, in the minutes of the engagement team's discussions where the engagement quality reviewer was present.

…

ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

Introduction

…

Definitions

…

~~13(b) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:~~

~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~

~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

…

Application and Other Explanatory Material

…

Professional Skepticism (Ref: Para. 15)

A21. Professional skepticism includes being alert to, for example:

- Audit evidence that <u>is inconsistent with</u> ~~contradicts~~ other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

…

A23. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning <u>inconsistent</u> ~~contradictory~~ audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

A24. ~~The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required~~ <u>Proposed ISA 500 (Revised) requires the auditor</u>

to ~~consider~~ evaluate the reliability of information intended to be used as audit evidence,~~.~~[1] which includes procedures to address the authenticity of such information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures. Other than performing audit procedures in relation to authenticity when it is of significance in the circumstances[2] and remaining alert throughout the audit for conditions or indications to the contrary,[3] the auditor may consider information, including records or documents, to be authentic. However, ~~I~~in cases of doubt about the reliability of the information or ~~indications of possible fraud (for example,~~ if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document may have been ~~falsified),~~ modified but not disclosed to the auditor,[4] the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.[5]

…

A31. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the current audit. It may, however, also include information obtained from other sources such as previous audits (provided that the auditor has evaluated that such information remains ~~determined whether changes have occurred since the previous audit that may affect its relevance~~ relevant and reliable to the current audit) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises ~~both information~~ evidence that ~~supports and~~ corroborates management's assertions, and ~~any information~~ evidence that contradicts such assertions. In addition, in some cases, the auditor may perform audit procedures to corroborate the absence of certain conditions (e.g., reviewing whether sale returns occurred after the year end for a product or service when corroborating management's assertions related to a recorded warranty provision).[6] ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

…

A33. The ~~A~~appropriateness of audit evidence refers to ~~is the measure of~~ the quality of audit evidence. The quality of audit evidence depends on the~~; that is, its~~ relevance and ~~its~~ reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.[7] ~~in providing support for the~~

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1 Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs 11(b), A4, A27–A28 and A46–A50 ~~7–9~~

2 Proposed ISA 500 (Revised), paragraph 13

3 ISA 240 (Revised), paragraph 20

4 ISA 240 (Revised), paragraph A35

5 ISA 240 (Revised), paragraph 22~~14~~; Proposed ISA 500 (Revised), paragraphs 15–16~~11~~; ISA 505, *External Confirmations*, paragraphs 10–11, and 16

6 Proposed ISA 500 (Revised), paragraph A6–A7

7 Proposed ISA 500 (Revised), paragraphs 8(a) and A8

~~conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.~~

A34. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment. Proposed ISA 500 (Revised) and other relevant ISAs establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.

…

A43. Control risk is a function of the effectiveness of the design, implementation and maintenance of controls by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of controls. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ISAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls ~~in determining the nature, timing and extent of substantive procedures to be performed~~.[8]

A44. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The ISAs typically refer to the "risks of material misstatement," rather than to inherent risk and control risk separately. However, ISA 315 (Revised 2019) requires inherent risk to be assessed separately from control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement at the assertion level, in accordance with Proposed ISA 330 (Revised).

A45. Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.[9]

…

A49. ISA 300 and Proposed ISA 330 (Revised) establish requirements and provide guidance on planning an audit of financial statements and the auditor's responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

....

Considerations Specific to ~~Automated~~ Technological Tools ~~and Techniques~~

A73. The considerations specific to "~~automated~~ technological tools ~~and techniques~~" included in some ISAs (for example, ISA 315 (Revised 2019)~~)~~ and Proposed ISA 500 (Revised)) have been developed to

---

[8] See Proposed ISA 330 (Revised), *The Auditor's Reponses to Assessed Risks*, paragraphs 6–7, 14–26 and Proposed ISA 500 (Revised), paragraph 13

[9] Proposed ISA 330 (Revised), paragraphs 6–7

explain how the auditor may apply certain requirements when using ~~automated~~ technological tools ~~and techniques in performing audit procedures~~ that facilitate the design or performance of audit procedures in obtaining audit evidence.

…

A76. In using the objectives, the auditor is required to have regard to the interrelationships among the ISAs. This is because, as indicated in paragraph A58, the ISAs deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this ISA requires the auditor to adopt an attitude of professional skepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ISA. At a more detailed level, ISA 315 (Revised 2019) and Proposed ISA 330 (Revised) contain, among other things, objectives and requirements that deal with the auditor's responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ISA dealing with specific aspects of the audit (for example, ISA 540 (Revised)) may expand on how the objectives and requirements of such ISAs as ISA 315 (Revised 2019) and Proposed ISA 330 (Revised) are to be applied in relation to the subject of the ISA but does not repeat them. Thus, in achieving the objective stated in ISA 540 (Revised), the auditor has regard to the objectives and requirements of other relevant ISAs.

…

ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Introduction

…

Requirements

…

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate human, technological and intellectual resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A60–A71, A74–A75, A79)

…

Application and Other Explanatory Material

…

A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the current audit.[10] Audit

[10] ISA 200, paragraph A31

procedures ~~comprise~~ include risk assessment procedures,[11] ~~and~~ further audit procedures,~~.~~[12] and other audit procedures that are required to be carried out to comply with the ISAs.[13] ~~As explained in~~ Proposed ISA 500 (Revised) describes different types of~~,~~ audit procedures, which include, for example, inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.[14] ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.~~ [15]

…

A19. Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analyzing complex information produced by ~~automated~~ technological tools ~~and techniques~~ for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.

…

Professional Skepticism (Ref: Para. 7)

A35. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

- …
- …
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of information intended to be used as audit evidence and seek ~~audit evidence~~ information from sources that are more easily accessible.
- Overreliance on ~~automated~~ technological tools ~~and techniques~~, which may result in the engagement team not critically assessing audit evidence.

…

A37. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

- …
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom information intended to be used as audit evidence may be sought.

---

11 ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

12 Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

13 Proposed ISA 500 (Revised), paragraph A13

14 Proposed ISA 500 (Revised), Appendix 1~~paragraphs A14–A25~~

~~15 ISA 520, *Analytical Procedures*~~

…

Engagement Resources (Ref: Para. 25–28)

…

Technological Resources

...

A64A. Technological resources that are used directly by engagement teams may serve multiple purposes in planning and performing the engagement. Technological resources include technological tools that facilitate the design or performance of audit procedures in obtaining audit evidence.[16]

Examples of technological tools:

- IT applications that facilitate analysis of data using modeling and visualization or analysis of image processing technology.
- Engagement software built to manage workflows and assist in planning and performing audit procedures, analyzing evidence and reaching conclusions.
- Technologies that facilitate automating aspects of audit procedures (e.g., robotic process automation technologies) or that facilitate gathering and analysis of large amounts of information from various sources (e.g., artificial intelligence technologies).
- A spreadsheet programmed to perform functions related to designing or performing audit procedures (e.g., data analysis or generation of information to aid decision making).

A64B. In some circumstances, the entity may use complex or advanced technology to produce information relevant to the preparation of the financial statements. In such circumstances, the engagement partner may consider the entity's use of technology in determining whether sufficient and appropriate technological resources are assigned or made available to the engagement team. How the entity's use of technology affects the assigned resources of the auditor is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement.

Examples:

- An entity may use complex or advanced technology-enabled models to develop key assumptions used in estimating expected credit losses of loans. The engagement partner may determine that it is necessary for the engagement team to use a technological tool to evaluate the assumptions generated by the models.
- An entity may use a distributed ledger technology to conduct and record transactions of digital assets. The engagement partner may determine that it is necessary for the engagement team to use a technological tool to facilitate the retrieval of the entity's transaction data from the distributed ledger, as it may not be possible or practicable to perform the audit procedure without using such a tool.

[16] ISQM 1, paragraph A99A

A65. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools ~~to perform audit procedures~~ and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

A66. When the engagement partner requires individuals from another firm to use specific ~~automated~~ technological tools ~~and techniques when performing audit procedures~~, communications with those individuals may indicate that the use of such ~~automated~~ technological tools ~~and techniques~~ needs to comply with the engagement team's instructions.

A67. The firm's policies or procedures may specifically prohibit the use of certain ~~IT applications~~ technological tools or features of ~~IT applications~~ technological tools (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using ~~an IT application~~ a technological tool that is not firm-approved to determine it is appropriate for use, for example by requiring:

- The engagement team to have appropriate competence and capabilities to use the ~~IT application~~ technological tool.
- Testing the operation and security of the ~~IT application~~ technological tool.
- Specific documentation to be included in the audit file.

A68. The engagement partner may exercise professional judgment in considering whether the use of ~~an IT application~~ a technological tool on the audit engagement is appropriate in the context of the engagement, and if so, how the technological tool ~~IT application~~ is to be used. Factors that may be considered in determining whether a particular technological tool ~~IT application~~, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:

- Use and security of the technological tool ~~IT application~~ complies with the firm's policies or procedures.
- The technological tool ~~IT application~~ operates as intended.
- Personnel have the competence and capabilities required to use the technological tool ~~IT application~~.

…

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A72. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialized areas of accounting or auditing.
- Expertise in IT used by the entity or ~~automated~~ technological tools ~~or techniques~~ that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.

- Ability to exercise professional skepticism and professional judgment.
- Understanding of the firm's policies or procedures.

…

ISA 230, AUDIT DOCUMENTATION

Introduction

…

Definitions

…

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

   (a) Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).

   (b) Audit file – One or more folders or other storage media, in physical or ~~electronic~~ digital form, containing the records that comprise the audit documentation for a specific engagement.

   (c) …

…

Application and Other Explanatory Material

…

A3. Audit documentation may be recorded on paper or on ~~electronic~~ digital or other media. Examples of audit documentation include:

- Audit programs.
- Analyses.

…

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs

This appendix identifies paragraphs in other ISAs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

…

- Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* – paragraphs 33–35~~28–30~~

…

ISA 240 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200,[17] ISA 220 (Revised),[18] ISA 315 (Revised 2019),[19] Proposed ISA 330 (Revised),[20] and ISA 701.[21] Accordingly, this ISA is intended to be applied in conjunction with other relevant ISAs.

…

Requirements

…

Responses to the Assessed Risks of Material Misstatement Due to Fraud

…

44. In accordance with Proposed ISA 330 (Revised),[22] the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A128)

…

46. In accordance with Proposed ISA 330 (Revised),~~[23]~~ 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 due to fraud at the assertion level. (Ref: Para. A129–A135)

…

53. In applying Proposed ISA 520 (Revised),[24] the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A154–A155)

---

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

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

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

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

21 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

22 Proposed ISA 330 (Revised), paragraph 5

23 ~~ISA 330, paragraph 6~~

24 Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 9

54. In applying Proposed ISA 330 (Revised),[25] the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:

    (a) The assessments of the risks of material misstatement due to fraud remain appropriate; and

    (b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

…

56. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 55, the engagement partner shall: (Ref: Para. A163–A165)

    (a) Determine whether:

        (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019);

        (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with Proposed ISA 330 (Revised); and

        (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised).

…

Application and Other Explanatory Material

…

A9. The auditor may use ~~automated~~ technological tools ~~and techniques~~ to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud or when responding to assessed risks of material misstatement due to fraud. This may allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights or identify unusual trends, which enhances the ability of the auditor to exercise professional skepticism and more effectively challenge management's assertions. The auditor may also use ~~automated~~ technological tools ~~and techniques~~ to perform audit procedures related to journal entry testing in a more efficient and effective manner. However, the use of ~~automated~~ technological tools ~~and techniques~~ does not replace the need to maintain professional skepticism and to exercise professional judgment throughout the audit.

…

Professional Skepticism (Ref: Para. 7, 19–22 and 55–58)

…

A28. The manner in which circumstances that may be indicative of fraud or suspected fraud that affects the entity come to the auditor's attention throughout the audit may vary.

---

[25] Proposed ISA 330 (Revised), paragraphs ~~25–26~~30–32, ~~A62–A64~~A85–A87

Examples:

Possible sources that may provide information about circumstances that may be indicative of fraud or suspected fraud that affects the entity include:

- ...
- A former employee (e.g., by sending a complaint via ~~electronic~~ email to the internal audit function).

…

Conditions That Cause the Auditor to Believe That a Record or Document May Not Be Authentic or That the Terms in a Document Have Been Modified

A34. Proposed ISA 500 (Revised)[26] requires the auditor to ~~consider~~ evaluate the relevance and reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute of the reliability of information that the auditor may consider is of significance in the circumstances to meet the intended purpose(s) of the audit procedures.[27] In doing so, the auditor ~~may~~ considers whether the information has been generated by or provided by a source authorized to do so, and the information has not been altered in a manner that makes it inadequate for the audit.[28] ~~the source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.~~

A35. Audit procedures performed in accordance with Proposed ISA 500 (Revised), this or other ISAs, or information from other sources, may bring to the auditor's attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor.[29] The auditor is not, however, required to perform procedures that are specifically designed to identify conditions that indicate that a record or document may not be authentic or that terms in a document have been modified. Paragraph 22 applies if the auditor identifies such conditions during the course of the audit.

Examples:

Conditions that, if identified, may cause the auditor to believe that a record or document is not authentic or that terms in a document have been modified but not disclosed to the auditor include:

- ...
- ~~Electronic documents~~ Documents in digital form with a last edited date that is after the date they were represented as finalized.

[26] Proposed ISA 500 (Revised), *Audit Evidence*, paragraph ~~7~~11

[27] Proposed ISA 500 (Revised), paragraphs 11 and 13

[28] Proposed ISA 500 (Revised), paragraph A4

[29] ISA 200 (Revised), paragraph A24

A36. When conditions are identified that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible additional audit procedures to investigate further may include:

- Inquiries of management or others within the entity.
- Confirming directly with the third party.
- Using the work of an expert to evaluate the document's authenticity.
- Using ~~automated~~ technological tools ~~and techniques~~, such as document authenticity or integrity technology, to evaluate the authenticity of the record or document.

A37. When the results of the additional audit procedures indicate that a record or document is not authentic or that the terms in a document have been modified but not disclosed to the auditor, the auditor may determine that the circumstances are indicative of fraud or suspected fraud and, accordingly, performs audit procedures in accordance with paragraphs 55–58.

…

A40. Forensic skills, in the context of an audit of financial statements, may combine accounting, auditing and investigative skills. Such skills may be applied in an investigation and evaluation of an entity's accounting records to obtain possible evidence of fraudulent financial reporting or misappropriation of assets, or in performing audit procedures. The use of forensic skills may also assist the auditor in evaluating whether there is management override of controls or intentional management bias in financial reporting.

Examples:

Forensic skills may include specialized skills or knowledge in:

- Identifying ...
- …
- Gathering, analyzing, and evaluating information or data using ~~automated~~ technological tools ~~and techniques~~ to identify links, patterns, or trends that may be indicative of fraud or suspected fraud.
- Applying knowledge in fraud schemes, and techniques for interviews, information gathering and data analytics, in the detection of fraud.
- …
- Analyzing financial and non-financial information by using ~~automated~~ technological tools ~~and techniques~~ to look for inconsistencies, unusual patterns, or anomalies that may indicate intentional management bias or that may be the result of management override of controls.

A41. In determining whether the engagement team has the appropriate competence and capabilities, the engagement partner may consider matters such as expertise in IT systems or IT applications used by the entity or ~~automated~~ technological tools ~~or techniques~~ that are to be used by the engagement team in planning and performing the audit (e.g., when testing a high volume of journal entries and other adjustments when responding to the risks related to management override of controls).

…

A56. The following approaches may be useful to facilitate the exchange of ideas:

- 'What-if' scenarios – these may be helpful when discussing whether certain events or conditions create an environment at the entity where one or more individuals among management, those charged with governance, or employees have the incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act, and if so, how the fraud may occur.
- ~~Automated~~ Technological tools ~~and techniques~~ – these may be used to support the discussion about the susceptibility of the entity's financial statements to material misstatement due to fraud. For example, ~~automated~~ technological tools ~~and techniques~~ may be used to support the identification of fraud risk factors, including ~~techniques that~~ to further ~~the~~ understand~~ing of~~ the incentives and pressures, such as industry or sector financial ratio benchmarking. Unusual relationships within the entity's current period data (e.g., financial and operating data) may indicate adverse ratios or trends compared to competitors or the entity's past performance.

…

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

…

A66. Performance measures, whether internal or external, may create pressures on the entity. These pressures, in turn, may motivate management or employees to take action to inappropriately improve the business performance or to misstate the financial statements. Internal performance measures may include employee performance measures and incentive compensation policies. External performance measures may include expectations from shareholders, analysts, or other users.

> Example:
>
> ~~Automated~~ Technological tools ~~and techniques~~, such as analysis of disaggregated data, for example by business segment or product line, may be used by the auditor to identify inconsistencies or anomalies in the data used in performance measures.

…

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 37)

A108. In performing the evaluations of each of the components of the entity's system of internal control, the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator, which assists the auditor in identifying deficiencies in internal control that are relevant to the prevention and detection of fraud. If the auditor has identified one or more control deficiencies relevant to the prevention or detection of fraud, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with Proposed ISA 330 (Revised).

…

A126. Incorporating an element…

> Example:
>
> …
>
> • Performing ~~substantive~~ analytical procedures at a more ~~detailed~~ disaggregated level ~~or lowering thresholds when performing substantive analytical procedures for further investigation of unusual or unexpected relationships~~.
>
> • Using ~~automated~~ technological tools ~~and techniques~~, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.

…

A128. In accordance with paragraph 39(b),…

> Examples:
>
> • Increased…
>
> • …
>
> • Using direct extraction methods or technologies when obtaining data from the entity's information system for use in ~~automated~~ technological tools ~~and techniques~~ to address the risk of data manipulation.
>
> • …

A129. In accordance with paragraph 39(b), assessed risks of material misstatement due to fraud are treated as significant risks. Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk is on the spectrum of inherent risk. When obtaining more persuasive audit evidence to respond to assessed risks of material misstatement due to fraud, the auditor may increase the quantity of the evidence obtained, or obtain evidence that is of higher quality, by altering the nature, timing and extent of procedures performed to address the assessed risks of material misstatement due to fraud. ~~more relevant and reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining audit evidence from a number of independent sources.~~

> Examples:
>
> Nature
>
> • …
>
> Timing
>
> • ...
>
> Extent
>
> • The auditor may use ~~automated~~ technological tools ~~and techniques~~ to perform more extensive testing of digital information. Such ~~automated techniques~~ technological tools may be used to test all items in a population, select specific items for testing that are responsive

to risks of material misstatement due to fraud, or select items for testing when performing audit sampling. For example, the auditor may stratify the population based on specific characteristics to obtain more relevant audit evidence that is responsive to the risks of material misstatement due to fraud.

External Confirmation Procedures

A130. In applying Proposed ISA 330 (Revised),[30] external confirmation procedures may be considered useful when seeking audit evidence that is not biased towards corroborating or contradicting a relevant assertion in the financial statements, especially in instances where risks of material misstatement due to fraud have been identified related to the class of transactions, account balance or disclosure.

…

A133. ISA 505 includes factors that may indicate doubts about the reliability of a response to an external confirmation request, since all responses carry some risk of interception, alteration, or fraud. This may be the case when the response to a confirmation request:

- Is sent from an e-mail address that is not recognized.
- Does not include the original ~~electronic~~ email chain or any other information indicating that the confirming party is responding to the auditor's confirmation request.
- Contains unusual restrictions or disclaimers.

…

A145. Paragraph 49(d) requires the auditor to determine whether there is also a need to test journal entries and other adjustments throughout the period because material misstatements due to fraud can occur throughout the period and may involve extensive efforts to conceal how the fraud is accomplished.

Examples:

- Risks of material misstatement that may be strongly linked to fraud schemes that can occur over a long period of time (e.g., complex related party transaction structures that may obscure their economic substance).
- Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of ~~automated~~ technological tools ~~and techniques~~.

Considering the use of ~~automated~~ technological tools ~~and techniques~~ when testing journal entries and other adjustments (Ref: Para. 49(b) and 49(c))

A147. The auditor may consider the use of ~~automated~~ technological tools ~~and techniques~~ when testing journal entries and other adjustments (e.g., determining the completeness of the population or selecting items to test). Such consideration may be impacted by the entity's use of technology in processing journal entries and other adjustments.

…

[30] Proposed ISA 330 (Revised), paragraph 11~~19~~

A151. The auditor may use ~~automated~~ technological tools ~~and techniques~~ to review accounting estimates for management bias….

…

Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion (Ref: Para. 53)

A154. Proposed ISA 520 (Revised) explains that the analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.[31] However, the auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances, and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional judgment. Unusual relationships involving year-end revenue and income are particularly relevant.

> Examples:
>
> - Uncharacteristically large amounts of income being reported in the last few weeks of the reporting period.
> - Unusual transactions.
> - Income or expenses that are inconsistent with trends in cash flow from operations:
>   - Uncharacteristically low amounts of revenue or expenses at the start of the subsequent period; or
>   - Uncharacteristically high levels of refunds or credit notes at the start of the subsequent period.

A155. The auditor may use ~~automated~~ technological tools ~~and techniques~~ to identify unusual or inconsistent transaction posting patterns in order to determine if there is a previously unrecognized risk of material misstatement due to fraud.

…

Written Representations (Ref: Para. 63)

A193. ISA 580 establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. Although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. In addition, since management are in a unique position to perpetrate fraud, it is important for the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or to contradict the assertions in the financial statements, in drawing the conclusion required in accordance with ISA ~~330~~700 (Revised).[32]

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[31] Proposed ISA 520 (Revised), paragraphs A25–A26

[32] ISA ~~330~~700 (Revised), paragraph ~~26~~11A

…

Appendix 2

(Ref: Para. A59, A127 and A135)

Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

The following…

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- …
- Using ~~automated~~ technological tools ~~and techniques~~, such as data mining to test for anomalies in a population. For example, using ~~automated~~ technological tools ~~and techniques~~ to identify numbers that have been used frequently as there may be an unconscious bias by management or employees when posting fraudulent journal entries and other adjustments to use the same number repetitively.
- …

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. ~~Automated~~ Technological tools ~~and techniques~~ may be useful in identifying unusual or unexpected revenue relationships or transactions.
- …
- For those situations for which revenue transactions are ~~electronically~~ initiated, processed, and recorded in digital form, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.
- …

Inventory Quantities

- …
- Using ~~automated~~ technological tools ~~and techniques~~ to further test the compilation of the physical inventory counts – for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.

…

Appendix 3

(Ref: Para. A29)

Examples of Circumstances that May Be Indicative of Fraud or Suspected Fraud

The following are examples of circumstances that may indicate that the financial statements may contain a material misstatement due to fraud.

…

Conflicting or missing evidence, including:

- …
- Unavailability of other than photocopies~~d~~ or digitally transmitted copies of hard copy documents ~~or electronically transmitted documents~~ when the original documents ~~in original form~~ are expected to exist.
- …
- Unavailable or missing ~~electronic~~ evidence in digital form, inconsistent with the entity's record retention practices or policies.
- …

…

Problematic or unusual relationships between the auditor and management, including:

- …
- An unwillingness to facilitate auditor access to key ~~electronic~~ files in digital form for testing through the use of ~~automated~~ technological tools ~~and techniques~~.
- …

…

Appendix 4

(Ref: Para. A100, A104 and A143)

Additional Considerations that May Inform the Auditor When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

…

- …
- Understanding of the entity's controls designed to prevent or detect fraud over journal entries[33] (see also paragraph 36 ~~of this ISA~~) – for many entities, routine processing of transactions involves a combination of manual and automated controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated controls across one or multiple IT

[33] ISA 315 (Revised 2019), paragraph 26

systems. Where IT is used in the financial reporting process, journal entries and other adjustments may exist only in ~~electronic~~ digital form.

- The types of controls designed to prevent or detect fraud over journal entries may include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls.

…

ISA 250 (REVISED), CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

…

Application and Other Explanatory Material

…

The Auditor's Consideration of Compliance with Laws and Regulations

…

Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures (Ref: Para. 16)

A15. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;
- Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing ~~substantive~~ tests of details of classes of transactions, account balances or disclosures.

…

ISA 265, COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) 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. This ISA does not impose additional responsibilities on the auditor regarding obtaining an understanding of the entity's system of internal control and designing and performing tests of controls over and above the requirements of ISA 315

(Revised 2019)[34] and Proposed ISA 330 (Revised).[35] ISA 260 (Revised)[36] establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.

…

ISA 300, PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Introduction

…

Requirements

…

8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA 220 (Revised) and:

   (a) Identify the characteristics of the engagement that define its scope;

   (b) …

   …

   (e) Ascertain the nature, timing and extent of human, technological and intellectual resources necessary to perform the engagement.[37] (Ref: Para. A9–A13)

9. The auditor shall develop an audit plan that shall include a description of:

   (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A14)

   (b) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised 2019).[38]

   (c) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under Proposed ISA 330 (Revised).[39]

   (d) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A15-A17)

…

---

[34] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 12(c) and (m), and paragraphs 21 to 27.

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

[36] ISA 260 (Revised), *Communication with Those Charged with Governance*

[37] ISA 220 (Revised), paragraph 25

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

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

Appendix

(Ref: Para. 7–8, A9–A14)

Considerations in Establishing the Overall Audit Strategy

…

Characteristics of the Engagement

- …
- The effect of information technology on the audit procedures, including the availability of data and the expected use of ~~computer-assisted audit techniques~~ technological tools.
- …

…

ISA 315 (REVISED 2019), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Introduction

…

5. ISA 200 explains that risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.[40] For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ISA. The degree to which inherent risk varies is referred to in this ISA as the 'spectrum of inherent risk.'

…

7. The auditor's risk identification and assessment process is iterative and dynamic. The auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement. In obtaining the understanding required by this ISA, initial expectations of risks may be developed, which may be further refined as the auditor progresses through the risk identification and assessment process. In addition, this ISA and Proposed ISA 330 (Revised) require the auditor to revise the risk assessments, and modify further overall responses and further audit procedures, based on audit evidence obtained from performing further audit procedures in accordance with Proposed ISA 330 (Revised), or if new information is obtained.

8. Proposed ISA 330 (Revised) requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.[41] Proposed ISA 330 (Revised) further explains that the auditor's assessment of the risks of material misstatement at the financial statement level, and the auditor's overall responses, are ~~is~~ affected by the auditor's understanding of the entity's system of internal control ~~environment~~. Proposed ISA 330 (Revised) also requires the auditor to design and perform further audit procedures whose nature, timing and

[40] ISA 200, paragraph A46 and Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraphs 6–7

[41] Proposed ISA 330 (Revised), paragraph 5

extent are based on and are responsive to the assessed risks of material misstatement at the assertion level for each significant class of transactions, account balance and disclosure.[42]

…

Definitions

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

(a)A Accounting records – The records of initial accounting entries and supporting records. (Ref: Para. A1A)

(a) Assertions – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement. (Ref: Para. A1)

…

(j) Risk assessment procedures – ~~The a~~Audit procedures designed and performed for the purpose of ~~to~~ identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

…

Requirements

Risk Assessment Procedures and Related Activities

13. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (Ref: Para. A11–A18)

(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and

(b) The design of further audit procedures in accordance with Proposed ISA 330 (Revised).

…

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

…

Control activities

26. The auditor shall obtain an understanding of the control activities component, through performing risk assessment procedures, by: (Ref: Para. A147–A157)

[42] Proposed ISA 330 (Revised), paragraph 6

(a) Identifying controls that address risks of material misstatement at the assertion level in the control activities component as follows: (i) Controls that address a risk that is determined to be a significant risk; (Ref: Para. A158–A159) (ii) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A160–A161) (iii) Controls for which the auditor plans to test <u>their</u> operating effectiveness ~~in determining the nature, timing and extent of substantive testing~~, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; and (Ref: Para. A162–A164) (iv) Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgment; (Ref: Para. A165) (b) Based on controls identified in (a), identifying the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT; (Ref: Para. A166–A172)	(c) For such IT applications and other aspects of the IT environment identified in (b), identifying: (Ref: Para. A173–A174) (i) The related risks arising from the use of IT; and (ii) The entity's general IT controls that address such risks; and (d) For each control identified in (a) or (c)(ii): (Ref: Para. A175–A181) (i) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (ii) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

…

Identifying Risks of Material Misstatement

…

29. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A202–A204<u>B</u>)

…

Assessing Control Risk

34. If the auditor plans to test the operating effectiveness of controls as part of the further audit procedures, the auditor shall assess control risk. If the auditor does not plan to test the operating effectiveness of controls, the auditor's assessment of control risk shall be such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A226–A229)

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall ~~take into account~~ consider all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the ~~whether corroborative or contradictory to~~ assertions made by management. (Ref: Para. A230–A231~~2~~)

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

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's determination remains appropriate. (Ref: Para. A230C~~3~~, A232B–A233B~~5~~)

Revision of Risk Assessment

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

…

Documentation

38. In applying ISA 230, ~~T~~the auditor shall include in the audit documentation:[43] (Ref: Para. A237–A241)

    (a) The discussion among the engagement team and the significant decisions reached;

    (b) Key elements of the auditor's understanding in accordance with paragraphs 19, 21, 22, 24 and 25,~~:~~ the sources of information from which the auditor's understanding was obtained,~~:~~ and the risk assessment procedures performed;

    (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with ~~the requirements in~~ paragraph 26; ~~and~~

    (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made; and~~.~~

[43] ISA 230, *Audit Documentation*, paragraphs 8–11, ~~and~~ A6–A7 and Appendix

(e) The basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. (Ref: Para. A238A)

…

Application and Other Explanatory Material

Definitions (Ref: Para. 12)

A1A. Accounting records may include payment records, including electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

…

Risk Assessment Procedures and Related Activities (Ref: Para. 13–18)

…

Sources of Audit Evidence (Ref: Para. 13)

A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence. In addition to information from other sources,[44] sources of information for risk assessment procedures may include:

- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.
- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor ~~considers~~ evaluates the relevance and reliability of the information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).[45]

A19. Proposed ISA 500 (Revised)[46] explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in ~~electronic~~ digital form or only at certain points in time.[47] The auditor may perform substantive procedures or tests of controls, in accordance with Proposed ISA 330 (Revised), concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material

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[44] See paragraphs A37 and A38

[45] Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 11~~7~~

[46] Proposed ISA 500 (Revised), paragraphs ~~A14–~~A17 and ~~A21–A25~~ Appendix 1

[47] Proposed ISA 500 (Revised), paragraph A55~~-A16~~

misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls. 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.[48]

…

~~Automated~~ Technological Tools ~~and Techniques~~ (Ref: Para. 14)

A21. Using ~~automated~~ technological tools ~~and techniques~~, the auditor may perform risk assessment procedures on large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, recalculations, reperformance or reconciliations.

…

Analytical Procedures (Ref: Para. 14(b))

Why Analytical Procedures Are Performed as a Risk Assessment Procedure

…

A28. Analytical procedures performed as risk assessment procedures may therefore assist in identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level, by identifying aspects of the entity of which the auditor was unaware or understanding how inherent risk factors, such as change, affect susceptibility of assertions to misstatement.

Types of Analytical Procedures

…

A30. This ISA deals with the auditor's use of analytical procedures as risk assessment procedures as described in paragraphs A27–A29. Proposed ISA 520 (Revised)[49] deals with the auditor's use of substantive analytical procedures ~~as substantive procedures ("substantive analytical procedures")~~. It also deals with ~~and~~ the auditor's responsibility relating to the results of analytical procedures used as risk assessment procedures and to perform analytical procedures near the end of the audit. ~~Accordingly, analytical procedures performed as risk assessment procedures are not required to be performed in accordance with the requirements of ISA 520. However, the requirements and application material in ISA 520 may provide useful guidance to the auditor when performing analytical procedures as part of the risk assessment procedures.~~

~~Automated tools and techniques~~ Technological tools

A31. Analytical procedures can be performed using ~~a number of tools or techniques, which may be automated~~ technological tools. ~~Applying automated analytical procedures to the data may be referred to as data analytics.~~

[48] Proposed ISA 500 (Revised), paragraph 10

[49] Proposed ISA 520 (Revised), *Analytical Procedures*

> Example:
>
> The auditor may use a spreadsheet to perform a comparison of actual recorded amounts to budgeted amounts, or may perform a more advanced procedure by extracting data from the entity's information system, and further analyzing this data using visualization techniques to identify classes of transactions, account balances or disclosures for which further specific risk assessment procedures may be warranted.

…

~~Automated~~ Technological tools ~~and techniques~~

A35. ~~Automated~~ Technological tools ~~or techniques~~ may also be used to observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. 19–27)

…

Why an Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework Is Required (Ref: Para. 19–20)

…

A51. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, also informs how the auditor plans and performs further audit procedures, for example, when:

- Developing expectations for use when performing substantive analytical procedures in accordance with Proposed ISA 520 (Revised); [50]
- Designing and performing further audit procedures to obtain sufficient appropriate audit evidence in accordance with Proposed ISA 330 (Revised); and
- Evaluating the sufficiency and appropriateness of audit evidence obtained (e.g., relating to assumptions or management's oral and written representations).

…

~~Automated~~ Technological tools ~~and techniques~~

A57. The auditor may use ~~automated~~ technological tools ~~and techniques~~ to understand flows of transactions and processing as part of the auditor's procedures to understand the information system. An outcome of these procedures may be that the auditor obtains information about the entity's organizational structure or those with whom the entity conducts business (e.g., vendors, customers, related parties).

…

[50] Proposed ISA 520 (Revised), paragraph ~~8~~5

How Inherent Risk Factors Affect Susceptibility of Assertions to Misstatement (Ref: Para. 19(c))

…

A85. Understanding the entity and its environment, and the applicable financial reporting framework, assists the auditor in identifying events or conditions, the characteristics of which may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement. These characteristics are inherent risk factors. Inherent risk factors may affect susceptibility of assertions to misstatement by influencing the likelihood of occurrence of a misstatement or the magnitude of the misstatement if it were to occur. Understanding how inherent risk factors affect the susceptibility of assertions to misstatement may assist the auditor with a preliminary understanding of the likelihood or magnitude of misstatements, which assists the auditor in identifying risks of material misstatement at the assertion level in accordance with paragraph 28(b). Understanding the degree to which inherent risk factors affect susceptibility of assertions to misstatement also assists the auditor in assessing the likelihood and magnitude of a possible misstatement when assessing inherent risk in accordance with paragraph 31(a). Accordingly, understanding the inherent risk factors may also assist the auditor in designing and performing further audit procedures in accordance with Proposed ISA 330 (Revised).

…

Control Environment, The Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control (Ref: Para. 21–24)

…

A98. 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. Therefore, the auditor's understanding and evaluations of these components affect the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level. Risks of material misstatement at the financial statement level affect the auditor's design of overall responses, including, as explained in Proposed ISA 330 (Revised), an influence on the nature, timing and extent of the auditor's further procedures.[51]

…

A125. The auditor is required to identify specific controls in the control activities component, and evaluate the design and determine whether the controls have been implemented, as it assists the auditor's understanding about management's approach to addressing certain risks and therefore provides a basis for the design and performance of further audit procedures responsive to these risks as required by Proposed ISA 330 (Revised). The higher on the spectrum of inherent risk an inherent risk is assessed, the more persuasive the audit evidence needs to be. Even when the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding may ~~still affect~~assist in the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

…

[51] Proposed ISA 330 (Revised), paragraphs A~~41~~–A~~73~~

A128. In obtaining an understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through, and out of the entity's information system, the auditor may also identify controls in the control activities component that are required to be identified in accordance with paragraph 26(a). The auditor's identification and evaluation of controls in the control activities component may first focus on controls over journal entries and controls that the auditor plans to test the operating effectiveness of ~~in designing the nature, timing and extent of substantive procedures~~.

…

Scalability

A131. The information system, and related business processes, in less complex entities are likely to be less sophisticated than in larger entities, and are likely to involve a less complex IT environment; however, the role of the information system is just as important. Less complex entities with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an audit of a less complex entity, and may involve a greater amount of inquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important ~~to provide a basis~~ for the design of further audit procedures in accordance with Proposed ISA 330 (Revised) and may further assist the auditor in identifying or assessing risks of material misstatement (see paragraph A86).

…

~~Automated~~ Technological tools ~~and techniques~~

A137. The auditor may also use ~~automated techniques~~ technological tools to obtain direct access to, or a digital download from, the databases in the entity's information system that store accounting records of transactions. By applying ~~automated~~ technological tools ~~or techniques~~ to this information, the auditor may confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. Analysis of complete or large sets of transactions may also result in the identification of variations from the normal, or expected, processing procedures for these transactions, which may result in the identification of risks of material misstatement.

…

Control Activities (Ref: Para. 26)

Controls in the control activities component

…

A151. The controls that the auditor is required to identify and evaluate the design, and determine the implementation of, in accordance with paragraph 26 are those:

- Controls which the auditor plans to test the operating effectiveness of ~~in determining the nature, timing and extent of substantive procedures~~. The evaluation of such controls provides the basis for the auditor's design of tests of controls ~~procedures~~ in accordance with Proposed ISA 330 (Revised). These controls also include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.

- Controls ~~include controls~~ that address significant risks and controls over journal entries. The auditor's identification and evaluation of such controls may also influence the auditor's understanding of the risks of material misstatement, including the identification of additional risks of material misstatement (see paragraph A95). This understanding also ~~provides the basis for~~ assists the auditor's design of the nature, timing and extent of substantive ~~audit~~ procedures that are responsive to the related assessed risks of material misstatement.
- Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgment.

…

Controls that address risks of material misstatement at the assertion level (Ref: Para. 26(a))

Controls that address risks that are determined to be a significant risk (Ref: Para. 26(a)(i))

…

A158. Regardless of whether the auditor plans to test the operating effectiveness of controls that address significant risks, the understanding obtained about management's approach to addressing those risks may ~~provide a basis for~~ assist in the design and performance of substantive procedures responsive to significant risks as required by Proposed ISA 330 (Revised).[52] Although risks relating to significant non-routine or judgmental matters are often less likely to be subject to routine controls, management may have other responses intended to deal with such risks. Accordingly, the auditor's understanding of whether the entity has designed and implemented controls for significant risks arising from non-routine or judgmental matters may include whether and how management responds to the risks. Such responses may include:

- Controls, such as a review of assumptions by senior management or experts.
- Documented processes for accounting estimations.
- Approval by those charged with governance.

> Example:
>
> Where there are one-off events such as the receipt of a notice of a significant lawsuit, consideration of the entity's response may include such matters as whether it has been referred to appropriate experts (such as internal or external legal counsel), whether an assessment has been made of the potential effect, and how it is proposed that the circumstances are to be disclosed in the financial statements.

…

Controls over journal entries (Ref: Para. 26(a)(ii))

A160. Controls that address risks of material misstatement at the assertion level that are expected to be identified for all audits are controls over journal entries, because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to

[52] Proposed ISA 330 (Revised), paragraph 10~~21~~

which other controls are identified may vary based on the nature of the entity and the auditor's planned approach to further audit procedures.

> Example:
>
> In an audit of a less complex entity, the entity's information system may not be complex and the auditor may not plan to ~~rely on the operating effectiveness of~~ test controls. Further, the auditor may not have identified any significant risks or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such an audit, the auditor may determine that there are no identified controls other than the entity's controls over journal entries.

~~Automated~~ Technological tools ~~and techniques~~

A161. In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in ~~electronic~~ digital form and may therefore be more easily identified through the use of ~~automated techniques~~ technological tools.

…

Controls for which the auditor plans to test the operating effectiveness (Ref: Para. 26(a)(iii))

A162. The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with Proposed ISA 330 (Revised),[53] to design and perform tests of controls if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which ~~that address such risks of material misstatement when~~ substantive procedures alone cannot ~~do not~~ provide sufficient appropriate audit evidence ~~at the assertion level~~. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.

A163. In other cases, when the auditor plans to obtain audit evidence about ~~test take into account~~ the operating effectiveness of controls as part of the further audit procedures ~~in determining the nature, timing and extent of substantive procedures~~ in accordance with Proposed ISA 330 (Revised), such controls are also required to be identified.[54] ~~because ISA 330[55] requires the auditor to design and perform tests of those controls.~~

> Examples:
>
> The auditor may plan to test the operating effectiveness of controls:
>
> - Over routine classes of transactions because such testing may be more effective or efficient for large volumes of homogenous transactions.

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[53] Proposed ISA 330 (Revised), paragraph 14~~8~~

[54] Proposed ISA 330 (Revised), paragraphs 6–7 and 14

[55] ~~ISA 330, paragraph 8(a)~~

- Over the completeness and accuracy of information produced by the entity (e.g., controls over the preparation of system-generated reports), to ~~determine~~ evaluate the reliability of that information, when the auditor intends to take into account the operating effectiveness of those controls in designing and performing further audit procedures.
- Relating to operations and compliance objectives when they relate to data the auditor evaluates or uses in applying audit procedures.

…

Identifying IT applications and other aspects of the IT environment (Ref: Para. 26(b))

Why the auditor identifies risks arising from the use of IT and general IT controls related to identified IT applications and other aspects of the IT environment

A166. Understanding the risks arising from the use of IT and the general IT controls implemented by the entity to address those risks may affect:

- The auditor's decision about whether to test the operating effectiveness of controls ~~to~~that address risks of material misstatement at the assertion level;

  Example:

  When general IT controls are not designed effectively or appropriately implemented to address risks arising from the use of IT (e.g., controls do not appropriately prevent or detect unauthorized program changes or unauthorized access to IT applications), this may affect the auditor's decision to ~~rely on~~ test automated controls within the affected IT applications.

- …
- The auditor's strategy for testing information produced by the entity ~~that is produced by or involves information from the entity's IT applications~~;

  Example:

  When information intended to be used as audit evidence is information produced by the entity ~~to be used~~ as ~~audit evidence is produced by IT applications~~, the auditor may determine to test controls over system-generated reports, including identification and testing of the general IT controls that address risks of inappropriate or unauthorized program changes or direct data changes to the reports.

- …
- The design of further audit procedures.

  Example:

  If information processing controls depend on general IT controls, the auditor may determine to test the operating effectiveness of the general IT controls, which will then require the design of tests of controls for such general IT controls. If, in the same circumstances, the auditor determines not to test the operating effectiveness of the general IT controls, or the general IT controls are expected to be ineffective, the auditor may perform audit procedures

that address whether the related risks arising from the use of IT have occurred ~~may need to be addressed through the design of substantive procedures~~. However, the risks arising from the use of IT may not be able to be addressed when such risks relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. In such circumstances, the auditor may need to consider the implications for the audit opinion.

…

Identifying IT applications that are subject to risks arising from the use of IT

…

A169. The controls identified by the auditor may depend on system-generated reports, in which case the IT applications that produce those reports may be subject to risks arising from the use of IT. In other cases, the auditor may not plan to ~~rely on~~ test controls over the system-generated reports and plan to obtain audit evidence about the reliability of the information through performing other audit procedures, such as ~~directly~~ testing a sample of ~~the~~ inputs to, and outputs ~~of~~ from such reports to supporting documentation.~~, i~~In such ~~which~~ cases, the auditor may not identify the related IT applications as being subject to risks arising from IT.

Scalability

A170. The extent of the auditor's understanding of the IT processes, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors.

Examples:

- …
- …
- When management is not relying on automated controls or general IT controls to process transactions or maintain the data, and the auditor has not identified any automated controls or other information processing controls (or any that depend on general IT controls), the auditor may plan to ~~directly test any~~evaluate the reliability of the information generated internally from the entity's information system ~~produced by the entity involving IT~~ by performing audit procedures other than test of controls, and may not identify any IT applications that are subject to risks arising from the use of IT.
- …

…

Evaluating the design, and determining implementation, of identified controls in the control activities component (Ref: Para 26(d))

A179. The auditor may conclude that a control~~,~~ which is effectively designed and implemented~~,~~ may be appropriate to test ~~in order to take its operating effectiveness into account in designing substantive procedures~~. However, when a control is not designed or implemented effectively, there is no benefit

in testing it. When the auditor plans to test a control, the information obtained about the extent to which the control addresses the identified risk(s) of material misstatement at the assertion level (i.e., the inherent risk) is an input to the auditor's control risk assessment at the assertion level.

A180. Evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to ~~test~~ obtain audit evidence about their operating effectiveness. However, for some automated controls~~,~~ that are designed and implemented using technology that produce consistent output, the auditor may plan to test the operating effectiveness of ~~automated controls by identifying and testing~~ the general IT controls that provide for the consistent operation of ~~an~~ such automated controls instead of performing tests of operating effectiveness on the automated controls directly. 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. Tests of the operating effectiveness of controls as part of the further audit procedures, including tests of indirect controls, are further described in Proposed ISA 330 (Revised).[56]

A181. When the auditor does not plan to test the operating effectiveness of identified controls as part of the further audit procedures, the auditor's understanding may still assist in the design of the nature, timing and extent of substantive ~~audit~~ procedures that are responsive to the related risks of material misstatement.

> Example:
>
> The results of these risk assessment procedures may provide a basis for the auditor's consideration of possible deviations in a population when designing audit samples.

A182. In performing the evaluations of each of the components of the entity's system of internal control,[57] the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying control deficiencies. If the auditor has identified one or more control deficiencies, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with Proposed ISA 330 (Revised).

…

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)

Why the Auditor Identifies and Assesses the Risks of Material Misstatement

…

A185. Information gathered by performing risk assessment procedures is used as audit evidence to provide the basis for the identification and assessment of the risks of material misstatement. For example, the audit evidence obtained when evaluating the design of identified controls and determining whether those controls have been implemented in the control activities component, is used as audit evidence to support the risk assessment. Such evidence also provides a basis for the auditor to design overall responses to address the assessed risks of material misstatement at the financial statement level, as well as designing and performing further audit procedures whose nature, timing

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[56] Proposed ISA 330 (Revised), paragraphs 14~~8~~–26~~11~~

[57] Paragraphs 21(b), 22(b), 24(c), 25(c) and 26(d)

and extent are responsive to the assessed risks of material misstatement at the assertion level, in accordance with Proposed ISA 330 (Revised).

…

Risks of Material Misstatement at the Financial Statement Level (Ref: Para. 28(a) and 30)

…

A193. The auditor identifies risks of material misstatement at the financial statement level to determine whether the risks have a pervasive effect on the financial statements, and would therefore require an overall response in accordance with Proposed ISA 330 (Revised).[58]

…

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

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

A202. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides the basis for the scope of the auditor's understanding of the entity's information system required to be obtained in accordance with paragraph 25(a). This understanding may further assist the auditor in identifying and assessing risks of material misstatement (see paragraph A86).

~~Automated~~ Technological Tools ~~and Techniques~~

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

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

Disclosures that May Be Significant

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

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[58] Proposed ISA 330 (Revised), paragraph 5

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

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

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

> Example:
>
> An entity has a share capital account balance that is material to its financial statements. The share capital consists solely of common shares issued upon the entity's incorporation many years ago, with no new share issuances, repurchases, or complex equity features (such as options, warrants, or convertible instruments) occurring during the current period. The auditor has determined that the share capital account is not subject to inherent risk factors such as complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors. Therefore, the auditor has not identified a risk of material misstatement and the account balance and disclosure are not determined to be a significant class of transactions, account balance or disclosure.

A204B. Paragraphs A230C, A233B and A236A provide further guidance that is relevant to classes of transactions, account balances and disclosures that are not significant, but that are material.

…

Assessing Risks of Material Misstatement at the Assertion Level

Assessing Inherent Risk (Ref: Para. 31–33)

Assessing the likelihood and magnitude of misstatement (Ref: Para: 31)

Why the auditor assesses likelihood and magnitude of misstatement

…

A206. Assessing the inherent risk of identified risks of material misstatement also assists the auditor in determining significant risks. The auditor determines significant risks because specific responses to significant risks are required in accordance with Proposed ISA 330 (Revised) and other ISAs.

…

A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

- Controls that address significant risks are required to be identified in accordance with paragraph 26(a)(i), with a requirement to evaluate whether the control has been designed effectively and implemented in accordance with paragraph 26(d).
- Proposed ISA 330 (Revised) requires controls that address significant risks to be tested in the current period (when the auditor ~~intends~~ plans to ~~rely on~~ test the operating effectiveness of such controls) and substantive procedures to be planned and performed that are specifically responsive to the identified significant risk.[59]
- Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk.[60]
- …

…

A222. Due to the nature of a risk of material misstatement, and the control activities that address that risk, in some circumstances the only way to obtain sufficient appropriate audit evidence is to test the operating effectiveness of controls. Accordingly, there is a requirement for the auditor to identify any such risks because of the implications for the design and performance of further audit procedures in accordance with Proposed ISA 330 (Revised) to address risks of material misstatement at the assertion level.

A223. Paragraph 26(a)(iii) also requires the identification of controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence because the auditor is required, in accordance with Proposed ISA 330 (Revised),[61] to design and perform tests of such controls.

Determining risks for which substantive procedures alone do not provide sufficient appropriate audit evidence

A224. Where routine business transactions are subject to highly automated processing with little or no manual intervention, it may not be possible to obtain sufficient appropriate audit evidence in responding to assessed risks of material misstatement by performing only substantive procedures ~~in relation to the risk~~. This may be the case in circumstances where a significant amount of an entity's information is initiated, recorded, processed, or reported only in ~~electronic~~ digital form such as in an information system that involves a high degree of integration across its IT applications. In such cases:

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[59] Proposed ISA 330 (Revised), paragraphs 10~~15~~ and 19~~21~~

[60] Proposed ISA 330 (Revised), paragraph 7(c~~b~~)

[61] Proposed ISA 330 (Revised), paragraph ~~8~~14

- The reliability of the information intended to be used as ~~A~~audit evidence which, may be available only in ~~electronic~~ digital form, may ~~and its sufficiency and appropriateness usually~~ depend on the operating effectiveness of controls over its accuracy and completeness~~. and t~~Therefore the auditor may not be able to obtain sufficient appropriate audit evidence without testing the operating effectiveness of those controls in evaluating the reliability of information.
- The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.

> Example:
>
> It is typically not possible to obtain sufficient appropriate audit evidence relating to revenue for a telecommunications entity based on substantive procedures alone. This is because the evidence of call or data activity does not exist in a form that is observable. Instead, substantial controls testing is typically performed to determine that the origination and completion of calls, and data activity is correctly captured (e.g., minutes of a call or volume of a download) and recorded correctly in the entity's billing system.

…

A226. The auditor's plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor's assessment of control risk. 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 tested the operating effectiveness of the controls in accordance with Proposed ISA 330 (Revised), the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment in accordance with paragraph 37.

…

A229. When the auditor plans to test the operating effectiveness of an automated control, the auditor may also plan to test the operating effectiveness of the relevant general IT controls that support the continued functioning of that automated control to address the risks arising from the use of IT, and to provide a basis for the auditor's expectation that the automated control operated effectively throughout the period. When the auditor expects related general IT controls to be ineffective, this determination may affect the auditor's assessment of control risk at the assertion level ~~and the auditor's further audit procedures may need to include substantive procedures to address the applicable risks arising from the use of IT~~. Further guidance about the procedures that the auditor may perform in these circumstances is provided in Proposed ISA 330 (Revised).[62]

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

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

A230. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risks of material misstatement. This provides the basis for the

[62] Proposed ISA ~~500~~330 (Revised), paragraphs A54–A57~~5~~

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

Professional Skepticism

A230A. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether there is any evidence that is contradictory that may indicate a risk of material misstatement. [Moved from Para. A232]

The Evaluation of the Audit Evidence

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

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

A230C. The auditor may perform the evaluation required by paragraph 36 simultaneously with the evaluation required by paragraph 35. In doing so, the auditor considers whether the risk assessment procedures designed and performed provide sufficient understanding to conclude that no risks of material misstatement remain unidentified. This understanding informs the auditor's evaluation of whether the basis for determining that material classes of transactions, account balances, or disclosures are not significant remains appropriate.

A231. Audit evidence from risk assessment procedures comprises both evidence that may support and corroborate the assertions made by management~~,~~ and ~~or~~ evidence that may contradict such assertions.[63]

[63] Proposed ISA 500 (Revised), paragraph A7 ~~A5~~

~~Professional Skepticism~~

~~A232. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether there is any evidence that is contradictory that may indicate a risk of material misstatement.~~ [Moved to Para. A230A]

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

A232B. For classes of transactions, account balances or disclosures that have been determined to be material classes of transactions, account balances or disclosures in accordance with ISA 320, but have not been determined to be significant classes of transactions, account balances or disclosures, the auditor may evaluate that the auditor's determination remains appropriate. This may be the case when the auditor considers there to be an absence of inherent risk factors, such as complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

~~A233. As explained in ISA 320,[64] materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements.[65] For the purpose of this ISA and paragraph 18 of ISA 330, classes of transactions, account balances or disclosures are material if omitting, misstating or obscuring information about them could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.~~

~~A234. There may be classes of transactions, account balances or disclosures that are material but have not been determined to be significant classes of transactions, account balances or disclosures (i.e., there are no relevant assertions identified).~~

> ~~Example:~~
>
> ~~The entity may have a disclosure about executive compensation for which the auditor has not identified a risk of material misstatement. However, the auditor may determine that this disclosure is material based on the considerations in paragraph A233.~~

~~A235. Audit procedures to address classes of transactions, account balances or disclosures that are material but are not determined to be significant are addressed in ISA 330.[66] When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph 29, the class of transactions, account balance or disclosure is also a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA 330.~~

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

~~[64] ISA 320, paragraph A1~~

~~[65] ISA 320, paragraph 4~~

~~[66] ISA 330, paragraph 18~~

account balances or disclosures, not previously determined as such, are significant classes of transactions, account balances or disclosures. The auditor may identify previously unrecognized complexity, subjectivity, change, uncertainty, susceptibility to misstatement due to management bias or other fraud risk factors which leads the auditor to identify a risk of material misstatement at the assertion level that had not been previously identified.

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

Revision of Risk Assessment (Ref: Para. 37)

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

> Example:
>
> The auditor's ~~entity's~~ risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures, the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor's risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. Paragraphs 24, 25~~16~~ and 26~~17~~A of Proposed ISA 330 (Revised) provide further guidance about evaluating the operating effectiveness of controls and the results of tests of controls.

A236A. The reasons for the revision of the identification or assessment of risks of material misstatement in accordance with paragraph 37 may result in the auditor reconsidering whether a class of transactions, account balance or disclosure, not previously determined to be significant is a significant class of transactions, account balance or disclosure in accordance with paragraph 36.

…

Documentation

…

A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may

nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts the assertions made by management~~'s assertions~~, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- …
- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, ~~whether~~ including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate ~~corroborative~~ or contradict~~ory to~~ the assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- Paragraph 36, which requires the auditor to evaluate, when applicable, whether the auditor's determination that there are no risks of material misstatement for a material class of transactions, account balance or disclosure remains appropriate.

A238A. The auditor uses professional judgment in documenting the basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. However, the auditor is not required to prepare audit documentation at the assertion level for such classes of transactions, account balances or disclosures. ISA 230 requires audit documentation to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the basis for the auditor's significant judgments.[67]

…

Appendix 3

(Ref: Para. 12(m), 21–26, A90–A181)

Understanding the Entity's System of Internal Control

...

18. Communication, which involves providing an understanding of individual roles and responsibilities pertaining to the entity's system of internal control, may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda. Communication also can be made ~~electronically~~ in digital form, orally, and through the actions of management.

...

[67] ISA 230, paragraph 8

Appendix 5

(Ref: Para. 25(a), 26(b)–(c), A94, A166–A172)

Considerations for Understanding Information Technology (IT)

…

Scalability

15. …

Example characteristics of an IT application that is likely not subject to risks arising from IT	Example characteristics of an IT application that is likely subject to risks arising from IT
• … • … • The auditor will <u>evaluate the reliability of the</u> ~~directly test~~ information produced by the entity ~~used as audit evidence~~ <u>by performing audit procedures that are not tests of controls</u>.	• …

…

ISA 320, MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

…

Application and Other Explanatory Material

Materiality and Audit Risk (Ref: Para. 5)

A1. In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk. Materiality and audit risk are considered throughout the audit, in particular, when:

(a) Identifying and assessing the risks of material misstatement;

(b) Determining the nature, timing and extent of further audit procedures;[68] and

(c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

…

[68] <u>Proposed</u> ISA 330 <u>(Revised)</u>, *The Auditor's Responses to Assessed Risks*

ISA 402, AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315 (Revised 2019)[69] and Proposed ISA 330 (Revised)[70] in obtaining an understanding of the user entity, including the entity's system of internal control relevant to the preparation of the financial statements, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

…

Requirements

…

Responding to the Assessed Risks of Material Misstatement

15. In responding to assessed risks in accordance with Proposed ISA 330 (Revised), the user auditor shall:

    (a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and, if not,

    (b) Perform further audit procedures to obtain sufficient appropriate audit evidence or use another auditor to perform those procedures at the service organization on the user auditor's behalf. (Ref: Para. A24–A28)

…

Application and Other Explanatory Material

…

Responding to the Assessed Risks of Material Misstatement

…

A25. When the service organization maintains material elements of the accounting records of the user entity, direct access to those records may be necessary in order for the user auditor to obtain sufficient appropriate audit evidence relating to the operations of controls over those records or to substantiate transactions and balances recorded in them, or both. Such access may involve either physical inspection of records at the service organization's premises or interrogation of records maintained ~~electronically~~ in digital form, from the user entity or another location, or both. Where direct access is achieved electronically, the user auditor may thereby obtain evidence as to the adequacy of controls operated by the service organization over the completeness and integrity of the user entity's data for which the service organization is responsible.

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

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

…

Test of Controls

A29. The user auditor is required by Proposed ISA 330 (Revised)[71] to design and perform tests of controls ~~to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls~~ in certain circumstances. In the context of a service organization, this requirement applies when the auditor plans to obtain audit evidence about the operating effectiveness of controls at the service organization in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, the auditor shall design and perform tests of controls.~~:~~

~~(a) The user auditor's assessment of risks of material misstatement includes an expectation that the controls at the service organization are operating effectively (that is, the user auditor intends to rely on the operating effectiveness of controls at the service organization in determining the nature, timing and extent of substantive procedures); or~~

~~(b) Substantive procedures alone, or in combination with tests of the operating effectiveness of controls at the user entity, cannot provide sufficient appropriate audit evidence at the assertion level.~~

…

A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant the audit evidence from the test may be ~~the test may provide~~. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

A33. It may also be necessary for the user auditor to obtain additional evidence about significant changes to the controls at the service organization outside of the period covered by the type 2 report or determine additional audit procedures to be performed. Relevant factors in determining what additional audit evidence to obtain about controls at the service organization that were operating outside of the period covered by the service auditor's report may include:

- The significance of the assessed risks of material misstatement at the assertion level;
- The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel;
- The degree to which audit evidence about the operating effectiveness of those controls was obtained;
- The length of the remaining period;

[71] Proposed ISA 330 (Revised), paragraph 14~~8~~

- The extent to which the user auditor intends to reduce further substantive procedures based on the reliance on audit evidence obtained about the operating effectiveness of controls; and
- The effectiveness of the control environment and the user entity's process to monitor the system of internal control.

…

ISA 510, INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES

…

Appendix

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

Illustration 1:

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Audi-tor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 2

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Audi-tor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 530, AUDIT SAMPLING

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.

2. This ISA complements Proposed ISA 500 (Revised),[72] which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of ~~to~~ obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence. Proposed ISA 500 (Revised) provides guidance on the various approaches (i.e., means) available to the auditor for selecting items for testing, of which audit sampling is one means.

…

Application and Other Explanatory Material

…

Sample Design, Size, and Selection of Items for Testing

Sample Design (Ref: Para. 6)

…

A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining

[72] Proposed ISA 500 (Revised), *Audit Evidence*

what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the requirement in~~of~~ paragraph 12~~9~~ of Proposed ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

…

Projecting Misstatements (Ref: Para. 14)

…

A20. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. Proposed ISA 330 (Revised)[73] provides guidance when deviations from the expected operation of controls ~~upon which the auditor intends to rely~~ are detected.

…

Appendix 4

(Ref: Para. A13)

Sample Selection Methods

…

(e) Block selection…

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use technological tools to identify and select items for testing.

ISA 540 (REVISED), AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),[74] Proposed ISA 330 (Revised),[75] ISA 450,[76] Proposed ISA 500 (Revised)[77] and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

…

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[73] Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraphs A79–A81~~17~~

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

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

[76] ISA 450, *Evaluation of Misstatements Identified during the Audit*

[77] Proposed ISA 500 (Revised), *Audit Evidence*

5. This ISA refers to relevant requirements in ISA 315 (Revised 2019) and Proposed ISA 330 (Revised), and provides related guidance, to emphasize the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:

   - There are controls required to be identified by ISA 315 (Revised 2019), for which the auditor is required to evaluate their design and determine whether they have been implemented.
   - To ~~test~~ obtain audit evidence about the operating effectiveness of relevant controls.

6. ISA 315 (Revised 2019) also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level. In assessing control risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on audit evidence about the operating effectiveness of controls. If the auditor does not plan to test the operating effectiveness of controls as part of the further audit procedures, ~~or does not intend to rely on the operating effectiveness of controls,~~ the auditor's assessment of control risk is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A10)

7. This ISA emphasizes that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to ~~the reasons for~~ the assessed risks of material misstatement at the assertion level, ~~taking into account the effect of one or more inherent risk factors~~ taking into account the reasons for the assessment of inherent risk and ~~the auditor's assessment~~ of control risk at the assertion level, for each significant class of transactions, account balance and disclosure.

…

Requirements

…

Responses to the Assessed Risks of Material Misstatement

18. As required by Proposed ISA 330 (Revised),[~~78~~] the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level,[79] ~~considering:~~ taking into account the reasons for the assessment ~~given to those~~ of inherent risk~~s~~ and of control risk at the assertion level.

    The auditor's further audit procedures shall include one or more of the following approaches:

    (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);

    (b) Testing how management made the accounting estimate (see paragraphs 22–27); or

    (c) Developing an auditor's point estimate or range (see paragraphs 28–29).

    The auditor's further audit procedures shall take into account that the higher the assessed inherent risk is on the spectrum of inherent risk ~~of material misstatement~~, the more persuasive the audit evidence needs to be.[80] The auditor shall design and perform further audit procedures in a manner

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[78] ~~ISA 330, paragraphs 6–15 and 18~~

[79] Proposed ISA 330 (Revised), paragraphs 6–7 and 10~~21~~

[80] Proposed ISA 330 (Revised), paragraph 7(c~~b~~)

that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A81–A84)

19. As required by Proposed ISA 330 (Revised),[81] ~~the auditor shall design and perform tests~~ if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, the auditor shall design and perform tests of controls. ~~to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if:~~

    ~~(a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively; or~~

    ~~(b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.~~

    In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment ~~given to the risks of material misstatement~~ of control risk. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence about the operating effectiveness of controls the greater the reliance the auditor places on ~~the effectiveness of a control~~ such evidence in responding to assessed risks of material misstatement at the assertion level.[82] (Ref: Para. A85–A89)

20. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to ~~rely on~~ test those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.[83] (Ref: Para. A90)

…

Testing How Management Made the Accounting Estimate

…

Data

25. In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:

    (a) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate (Ref: Para. A95, A106);

    (b) Whether judgments made in selecting the data give rise to indicators of possible management bias; (Ref: Para. A96)

    (c) Whether the data is relevant and reliable in the circumstances;[84] and (Ref: Para. A107)

    (d) Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms. (Ref: Para. A108)

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81 Proposed ISA 330 (Revised), paragraph 14~~8~~

82 Proposed ISA 330 (Revised), paragraph 15~~9~~

83 Proposed ISA 330 (Revised), paragraphs 10~~15~~ and 19~~21~~

84 Proposed ISA 500 (Revised), paragraphs 11–13

…

Other Considerations Relating to Audit Evidence

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in Proposed ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence for a relevant assertion in accordance with paragraph ~~8(c)~~14(d) of Proposed ISA 500 (Revised). In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, the auditor's understanding of how the information prepared by the expert has been used by management in making the accounting estimates included in the financial statement, and the auditor's familiarity with the expert's field of expertise. (Ref: Para. A126–A132)

…

Overall Evaluation Based on Audit Procedures Performed

33. In applying Proposed ISA 330 (Revised) to accounting estimates,[85] the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)

(a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;

(b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and

(c) ~~Sufficient appropriate audit evidence has been obtained~~ The audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement.

34. In making the evaluation required by paragraph 33(c), 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 made by management in the financial statements. ~~take into account all relevant audit evidence obtained, whether corroborative or contradictory.~~[86] If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).[87]

…

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[85] Proposed ISA 330 (Revised), paragraphs 30–32~~25–26~~

[86] Proposed ISA 330 (Revised), paragraph 31~~ISA 500, paragraph 11~~

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

Documentation

39. The auditor shall include in the audit documentation:[88] (Ref: Para. A149–A152)

    (a) Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;

    (b) The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level,[89] taking into account the reasons for the assessment of inherent risk and of control risk at the assertion level ~~taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks;~~

    (c) The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;

    (d) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph 32; and

    (e) Significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

…

Application and Other Explanatory Material

…

Key Concepts of This ISA

…

Control Risk (Ref: Para. 6)

A10. In assessing control risk at the assertion level in accordance with ISA 315 (Revised 2019), the auditor takes into account whether the auditor plans to test the operating effectiveness of controls as part of the further audit procedures. When the auditor is considering whether to test the operating effectiveness of controls, the auditor's evaluation that controls are effectively designed and have been implemented supports an expectation, by the auditor, about the operating effectiveness of the controls in establishing the plan to test them.

…

Management's application of specialized skills or knowledge, including the use of management's experts (Ref: Para. 13(f))

A31. The auditor may consider whether the following circumstances increase the likelihood that management needs to engage an expert:[90]

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88 ISA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix ~~10~~

89 Proposed ISA 330 (Revised), paragraph ~~28~~33(b)

90 Proposed ISA 500 (Revised), paragraph 14~~8~~

- The specialized nature of the matter requiring estimation, for example, the accounting estimate may involve measurement of mineral or hydrocarbon reserves in extractive industries or the evaluation of the likely outcome of applying complex contractual terms.
- The complex nature of the models required to apply the relevant requirements of the applicable financial reporting framework, as may be the case in certain measurements, such as level 3 fair values.
- The unusual or infrequent nature of the condition, transaction or event requiring an accounting estimate.

…

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 4, 16)

…

A65. Paragraph A44 of ISA 200 states that the ISAs typically refer to the "risks of material misstatement" rather than to inherent risk and control risk separately. ISA 315 (Revised 2019) requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the risks of material misstatement at the assertion level, including significant risks, in accordance with Proposed ISA 330 (Revised).

…

A71. The auditor's assessment of control risk may be done in different ways depending on preferred audit techniques or methodologies. The control risk assessment may be expressed using qualitative categories (for example, control risk assessed as maximum, moderate, minimum) or in terms of the auditor's expectation of how effective the control(s) is in addressing the identified risk~~, that is, the planned reliance on the effective operation of controls~~. For example, if control risk is assessed as maximum, the auditor does not plan to test the operating effectiveness ~~contemplates no reliance on the effective operation~~ of controls. If control risk is assessed at less than maximum, the auditor ~~contemplates reliance on the effective operation~~ plans to test the operating effectiveness of controls.

…

Responses to the Assessed Risks of Material Misstatement

…

Obtaining Relevant and Reliable Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises ~~both information~~ evidence that supports and corroborates management's assertions, and ~~any information~~ evidence that contradicts such assertions.[91] Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

A83. Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of the inherent risk is on the spectrum of inherent risk.[92] Therefore, the consideration of the nature or quantity of the audit evidence may be more important

[91] Proposed ISA 500 (Revised), paragraphs A6–A7~~A5~~

[92] Proposed ISA 330 (Revised), paragraphs 7(c~~b~~) and A22–A25~~19~~

when inherent risks relating to an accounting estimate is assessed at the higher end of the spectrum of inherent risk.

Scalability

A84. The nature, timing and extent of the auditor's further audit procedures are affected by, for example:

- The assessed risks of material misstatement, which affect the persuasiveness of the audit evidence needed and influence the approach the auditor selects to audit an accounting estimate. For example, the assessed risks of material misstatement relating to the existence or valuation assertions may be lower for a straightforward accrual for bonuses that are paid to employees shortly after period end. In this situation, it may be more practical for the auditor to obtain sufficient appropriate audit evidence by evaluating events occurring up to the date of the auditor's report, rather than through other testing approaches.
- The reasons for the assessment~~ed risks of material misstatement~~ of inherent risk and of control risk at the assertion level, for each significant class of transactions, account balance and disclosure.

When the Auditor Intends to ~~Rely on~~ Test the Operating Effectiveness of Controls (Ref: Para: 19)

A85. ~~Testing~~ Obtaining audit evidence about the operating effectiveness of controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks. This may be the case when the accounting estimate is subject to or affected by a high degree of complexity. When the accounting estimate is affected by a high degree of subjectivity, and therefore requires significant judgment by management, inherent limitations in the effectiveness of the design of controls may lead the auditor to focus more on substantive procedures than on testing the operating effectiveness of controls.

…

A88. Circumstances when risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level may exist include:

- When controls are necessary to mitigate risks relating to the initiation, recording, processing, or reporting of information obtained from outside of the general and subsidiary ledgers.
- Information supporting one or more assertions is ~~electronically~~ initiated, recorded, processed, or reported in digital form. This is likely to be the case when there is a high volume of transactions or data, or a complex model is used, requiring the extensive use of information technology to ensure the accuracy and completeness of the information. A complex expected credit loss provision may be required for a financial institution or utility entity. For example, in the case of a utility entity, the data used in developing the expected credit loss provision may comprise many small balances resulting from a high volume of transactions. In these circumstances, the auditor may conclude that sufficient appropriate audit evidence cannot be obtained without testing controls around the model used to develop the expected credit loss provision.

In such cases, the sufficiency and appropriateness of the audit evidence may depend on the effectiveness of controls over the accuracy and completeness of the information.

…

Significant Risks (Ref: Para. 20)

A90. When the auditor's further audit procedures in response to a significant risk consist only of substantive procedures, Proposed ISA 330 (Revised)[93] requires that those procedures include tests of details. Such tests of details may be designed and performed under each of the approaches described in paragraph 18 of this ISA based on the auditor's professional judgment in the circumstances. Examples of tests of details for significant risks related to accounting estimates include:

- Examination, for example, examining contracts to corroborate terms or assumptions.
- Recalculation, for example, verifying the mathematical accuracy of a model.
- Agreeing assumptions used to supporting documentation, such as third-party published information.

…

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity,~~ Proposed ISA 500 (Revised) requires the auditor to evaluate ~~whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes~~ the relevance and reliability of information intended to be used as audit evidence, by considering the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. When information intended to be used as audit evidence is information produced by the entity, the auditor is required to evaluate, to the extent necessary, the accuracy and completeness of the information.[94]

…

External Information Sources

A127. As explained in Proposed ISA 500 (Revised),[95] the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the relevance of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors~~. For example:

- When market or industry data, prices, or pricing related data, are obtained from a single external information source, specializing in such information, the auditor may seek a price from an alternative independent source with which to compare.

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[93] Proposed ISA 330 (Revised), paragraph 10~~21~~

[94] Proposed ISA 500 (Revised), paragraph~~s~~ 11–12~~9~~

[95] Proposed ISA 500 (Revised), paragraph A32, A43 and A55~~A35~~

- When market or industry data, prices, or pricing related data, are obtained from multiple independent external information sources and points to consensus across those sources, the auditor may need to obtain less evidence about the reliability of the data from an individual source.
- When information obtained from multiple information sources points to divergent market views the auditor may seek to understand the reasons for the diversity in views. The diversity may result from the use of different methods, assumptions, or data. For example, one source may be using current prices and another source using future prices. When the diversity relates to estimation uncertainty, the auditor is required by paragraph 26(b) to obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, the disclosures in the financial statements that describe the estimation uncertainty are reasonable. In such cases professional judgment is also important in considering information about the methods, assumptions or data applied.
- When information obtained from an external information source has been developed by that source using its own model(s), the auditor may consider that the credibility of the external information source is of significance in the circumstances when evaluating the reliability of the information. Paragraphs A53–A5443 of Proposed ISA 500 (Revised) provides relevant guidance.

…

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph A38~~-A44~~ of Proposed ISA 500 (Revised) provides guidance for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an ~~with respect to restrictions placed by the~~ external information source ~~on the provision of supporting information~~.

…

Management's Expert

…

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph ~~8(c)~~14(d) of Proposed ISA 500 (Revised).

…

Overall Evaluation Based on Audit Procedures Performed (Ref: Para. 33)

A137. 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.[96] In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.

…

Documentation (Ref: Para. 39)

A149. ISA 315 (Revised 2019)[97] and Proposed ISA 330 (Revised)[98] provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in ISA 230. In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements of the auditor's understanding of the entity and its environment related to accounting estimates. In addition, the auditor's judgments about the assessed risks of material misstatement related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

A150. In documenting the linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level, in accordance with Proposed ISA 330 (Revised),[99] this ISA requires that the auditor take into account the reasons for the assessment of inherent risk and of control risk. ~~given to the risks of material misstatement at the assertion level. Those reasons may relate to one or more inherent risk factors or the auditor's assessment of control risk.~~ However, the auditor is not required to document how every inherent risk factor was taken into account in identifying and assessing the risks of material misstatement in relation to each accounting estimate.

…

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient ~~the sufficiency and~~ appropriate~~ness of the~~ audit evidence has been obtained. Examples of

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96 Proposed ISA 330 (Revised), paragraph A85~~62~~

97 ISA 315 (Revised), paragraphs 38 and A237–A241

98 Proposed ISA 330 (Revised), paragraphs 33~~28~~ and A88~~65~~

99 Proposed ISA 330 (Revised), paragraph 7

other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- Paragraph 13(d), regarding how the auditor has applied an understanding in developing the auditor's own expectation of the accounting estimates and related disclosures to be included in the entity's financial statements and how that expectation compares with the entity's financial statements prepared by management;
- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate or towards excluding audit evidence that may ~~be~~ contradic~~tory~~ assertions made by management;
- Paragraphs 23(b), 24(b), 25(b) and 32, which address indicators of possible management bias; and
- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ 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 made by management in the financial statements ~~whether corroborative or contradictory~~.

…

Appendix 1

(Ref: Para. 2, 4, 12(c), A8, A66)

Inherent Risk Factors

…

Complexity

…

11. Complexity relating to data may arise, for example, in the following circumstances:

    (a) When data is difficult to obtain or when it relates to transactions that are not generally accessible. Even when such data is accessible, for example through an external information source, it may be difficult to ~~consider~~ evaluate the relevance and reliability of the data, unless the external information source discloses adequate information about the underlying data sources it has used and about any data processing that has been performed.

    (b) When data reflecting an external information source's views about future conditions or events, which may be relevant in developing support for an assumption, is difficult to understand without transparency about the rationale and information taken into account in developing those views.

    (c) When certain types of data are inherently difficult to understand because they require an understanding of technically complex business or legal concepts, such as may be required to properly understand data that comprises the terms of legal agreements about transactions involving complex financial instruments or insurance products.

…

ISA 550, RELATED PARTIES

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised 2019),[100] Proposed ISA 330 (Revised),[101] and ISA 240 (Revised)[102] are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

…

Requirements

…

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

20. As part of the Proposed ISA 330 (Revised) requirement that the auditor respond to assessed risks,[103] the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions. These audit procedures shall include those required by paragraphs 21–24. (Ref: Para. A31–A34)

…

Application and Other Explanatory Material

…

A31. The nature, timing and extent of the further audit procedures that the auditor may select to respond to the assessed risks of material misstatement associated with related party relationships and transactions depend upon the nature of those risks and the circumstances of the entity.[104]

…

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive ~~audit~~ procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported

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

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

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

103 Proposed ISA 330 (Revised), paragraphs 5–~~7~~6

104 Proposed ISA 330 (Revised) provides further guidance on considering the nature, timing and extent of further audit procedures. ISA 240 (Revised) establishes requirements and provides guidance on appropriate responses to assessed risks of material misstatement due to fraud.

~~electronically~~ in digital form in an integrated system, the auditor may determine that it is not possible to design effective substantive ~~audit~~ procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the Proposed ISA 330 (Revised) requirement to design and perform tests of controls in responding to the assessed risks of material misstatement ~~obtain sufficient appropriate audit evidence as to the operating effectiveness of controls~~,[105] the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

…

Substantive Procedures Relating to Newly Identified Related Parties or Significant Related Party Transactions (Ref: Para. 22(c))

…

A36. Examples of substantive ~~audit~~ procedures that the auditor may perform relating to newly identified related parties or significant related party transactions include:

- Making inquiries regarding the nature of the entity's relationships with the newly identified related parties, including (where appropriate and not prohibited by law, regulation or ethical rules) inquiring of parties outside the entity who are presumed to have significant knowledge of the entity and its business, such as legal counsel, principal agents, major representatives, consultants, guarantors, or other close business partners.
- Conducting an analysis of accounting records for transactions with the newly identified related parties. Such an analysis may be facilitated using ~~computer-assisted audit techniques~~ technological tools.
- Verifying the terms and conditions of the newly identified related party transactions, and evaluating whether the transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

…

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:

  Is overly complex (for example, it may involve multiple related parties within a group).

  Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.

  Lacks an apparent logical business reason for its occurrence.

  Involves previously unidentified related parties.

  Is processed in an unusual manner.

[105] Proposed ISA 330 (Revised), paragraph 14~~8~~

- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.
- If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with Proposed ISA 500 (Revised),[106] to ~~consider~~ evaluate the reliability of management's explanations and representations on other significant matters.

…

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction (Ref: Para. 24)

…

A44. Evaluating management's support for this assertion may involve one or more of the following:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including performing audit procedures relating to ~~testing the data to determine their~~ accuracy~~,~~ and completeness ~~and relevance~~.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

…

ISA 570 (REVISED 2024), GOING CONCERN

Introduction

…

Application and Other Explanatory Material

…

A13. The auditor may also use ~~automated~~ technological tools ~~and techniques~~ when designing and performing risk assessment procedures as required by paragraph 11.

> Examples:
>
> The auditor may use ~~automated~~ technological tools ~~and techniques~~ when:
>
> - Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events.

[106] Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 15–17~~11~~

- Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for prediction of bankruptcy or insolvency).

…

Significant Assumptions (Ref: Para. 19(b))

A42. Considerations for the auditor's evaluation regarding the significant assumptions on which management's assessment is based may include:

- …

Example:

The use of ~~automated~~ technological tools ~~and techniques~~ may assist the auditor when performing sensitivity analysis of management's assessment of going concern to understand how outcomes are affected by changes in input variables such as discount or growth rates.

…

A44. ~~When using information produced by the entity,~~ Proposed ISA 500 (Revised)[~~107~~] requires the auditor to evaluate ~~whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes~~ the relevance and reliability of information intended to be used as audit evidence, by considering the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. When information intended to be used as audit evidence is information produced by the entity, the auditor is required to evaluate, to the extent necessary, the accuracy and completeness of the information.[108]

…

Scalability (Ref: Para. 19)

A46. The nature and extent of the auditor's procedures may vary depending on the method, significant assumptions and data used by management to assess the entity's ability to continue as a going concern as well as the nature and circumstances of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples:

Method

- …
- …

[~~107~~] ~~ISA 500 (Revised), *Audit Evidence,* paragraph 9~~

[108] Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs 11–12

Significant Assumptions

- …
- …

Data

- When management's assessment of going concern includes large volumes of data from multiple sources, there may be inherent complexity in evaluating the reliability of the data used and the auditor's procedures may employ ~~automated~~ technological tools ~~and techniques~~ to evaluate the reliability of the data used by management.

…

A61. In certain circumstances the auditor may consider requesting an external confirmation[109] of the existence and terms of borrowing facilities between the entity and external finance providers.

Examples:

Requesting an external confirmation may be appropriate when:

- Borrowing facilities are being renewed in the assessment period.
- There are limited financial resources available to the entity beyond those required to continue its operations.
- The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the date of approval of the financial statements.
- There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.
- There is a significant deterioration in projected cash flows.
- The value of assets granted as security for borrowing is declining.
- The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

…

Financial Support by Third Parties or Related Parties, Including the Entity's Owner-Manager

Intent (Ref: Para. 28)

A63. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient appropriate audit evidence about

[109] Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraph 11~~19~~

their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by ~~electronic~~ digital or other medium[110] and may include:

- Terms and conditions of the commitment from those parties.
- When applicable, the legality and enforceability of the commitments.
- The period or the specific date to which the parties intend to provide the financial support.

…

Implications for the Auditor's Report (Ref: Para. 34–38)

…

A79. The statements required by paragraphs 34–36 represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example reference to where the respective responsibilities of those with responsibility for the financial statements and of the auditor in relation to going concern are described. ~~The~~ Appendix 2 of ISA 700 (Revised) includes illustrative wording to be included in the auditor's report in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and of the auditor.

…

Appendix

(Ref: Para. A78, A81, A89, A91–A92)

Illustrations of Independent Auditor's Reports Related to Going Concern

…

Illustration 1 – An Auditor's Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When No Material Uncertainty Exists

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

[110] ISA 505, *External Confirmations*, paragraph 6(a)

Illustration 2 – An Auditor's Report of a Listed Entity Containing an Unmodified Opinion When No Material Uncertainty Exists and Disclosure in the Financial Statements About the Significant Judgments Made by Management in Concluding That There is No Material Uncertainty Is Adequate

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 3 – An Auditor's Report of an Entity Other Than a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 4 – An Auditor's Report of a Listed Entity Containing an Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 5 – An Auditor's Report of a Listed Entity Containing a Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 6 – An Auditor's Report of an Entity Other Than a Listed Entity Containing an Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 580, WRITTEN REPRESENTATIONS

Introduction

…

Written Representations as Audit Evidence

3. Audit evidence is ~~the~~ information, after applying audit procedures, that the auditor uses ~~used by the auditor in arriving at the~~ to draw conclusions that form the basis for ~~on which~~ the auditor's opinion and report ~~is based~~.[111] Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

…

ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements (a group audit). This ISA deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular ISA 220 (Revised),[112] ISA 230,[113] ISA 300,[114] ISA 315 (Revised 2019),[115] and Proposed ISA 330 (Revised).[116] (Ref: Para. A1–A2)

…

Involvement of Component Auditors

6. ISA 220 (Revised)[117] requires the engagement partner to determine that sufficient and appropriate

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111 Proposed ISA 500 (Revised), *Audit Evidence*, paragraph ~~5(c)~~8(b)

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

113 ISA 230, *Audit Documentation*

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

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

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

117 ISA 220 (Revised), paragraph 25

human, technological and intellectual resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors. Therefore, this ISA requires the group auditor to determine the nature, timing and extent of involvement of component auditors.

…

Requirements

…

Responding to the Assessed Risks of Material Misstatement

37. In applying Proposed ISA 330 (Revised),[118] the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A124–A139)

…

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying Proposed ISA 330 (Revised),[119] the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151–A155)

…

Application and Other Explanatory Material

…

A41. If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may be able to obtain information to be used as audit evidence regarding the entity's financial information, for example:

- Financial information that is available from group management, as group management also needs to obtain the non-controlled entity's financial information in order to prepare the group financial statements.
- Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity.

It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.[120]

…

---

[118] Proposed ISA 330 (Revised), paragraphs 6–7

[119] Proposed ISA 330 (Revised), paragraph 31~~26~~

[120] Proposed ISA 330 (Revised), paragraph 7(c~~b~~)

~~Automated~~ Technological tools ~~and techniques~~

A68. When determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of ~~automated~~ technological tools ~~and techniques~~. For example, as described in ISA 220 (Revised), when the group auditor requires component auditors to use specific ~~automated~~ technological tools ~~and techniques~~ when performing audit procedures, the group auditor may communicate with component auditors that the use of such ~~automated~~ technological tools ~~and techniques~~ need to comply with the group auditor's instructions.

…

A81. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the ~~audit~~ technological tools used for the group audit.

…

Large Number of Components Whose Financial Information Is Individually Immaterial but Material in the Aggregate to the Group Financial Statements

…

A129. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may also include substantive analytical procedures in accordance with Proposed ISA 520 (Revised).[121] Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference ~~of recorded amounts from expected values~~ between the expectation developed by the group auditor and the recorded amounts (or amounts derived from recorded amounts) in performing the substantive analytical procedures. The use of ~~automated~~ technological tools ~~and techniques~~ may be helpful in these circumstances.

…

Operating Effectiveness of Controls

A137. The group auditor may ~~rely on~~ test the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components. Proposed ISA 330 (Revised)[122] requires the auditor to design and perform tests of controls if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. ~~to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls.~~ Component auditors may be involved in designing and performing such tests of controls.

---

[121] Proposed ISA 520 (Revised), *Analytical Procedures*, paragraphs 6(b) and 8

[122] Proposed ISA 330 (Revised), paragraph 14~~8~~

A138. If the auditor identifies deviations from the expected operations of controls ~~upon which the auditor intends to rely are detected~~, Proposed ISA 330 (Revised)[123] requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

…

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 51)

…

A152. The evaluation required by paragraph 51 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. ~~The requirement in ISA 330[124] for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.~~

A153. The group auditor may consider the engagement team's exercise of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to:

- Obtain audit evidence that is easier to access without ~~giving~~ appropriately ~~consideration to~~ evaluating its relevance and reliability:
- Obtain less persuasive evidence than is necessary in the circumstances; or
- Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

…

A178. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, ~~an electronic audit~~ an IT application ~~tool~~ may be used to facilitate communications between the group auditor and component auditors. The ~~electronic audit~~ IT application ~~tool~~ also may be used

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[123] Proposed ISA 330 (Revised), paragraphs 25–26~~17~~

[124] ~~ISA 330, paragraph 18~~

for audit documentation, including providing information about the reviewer(s) and the date(s) and extent of their review.

…

Appendix 1

(Ref: Para. A45)

Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

…

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the Other Information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[*Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]*

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 610 (REVISED 2013), USING THE WORK OF INTERNAL AUDITORS

Introduction

…

Relationship between ISA 315 (Revised 2019) and ISA 610 (Revised 2013)

…

10. There may be individuals in an entity that perform procedures similar to those performed by an

internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with Proposed ISA 330 (Revised).[125]

…

Requirements

…

Using Internal Auditors to Provide Direct Assistance

…

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised). In so doing:

    (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and

    (b) The review procedures shall include the external auditor checking back to the underlying ~~audit evidence~~ information for some of the work performed by the internal auditors.

    The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

…

Application and Other Explanatory Material

Definition of Internal Audit Function (Ref: Para. 2, 14(a))

…

A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA, although they may perform controls that can be tested in accordance with Proposed ISA 330 (Revised). For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.

…

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

ISA 620, USING THE WORK OF AN AUDITOR'S EXPERT

Introduction

Scope of this ISA

…

2. This ISA does not deal with:

   (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);[126] or

   (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in Proposed ISA 500 (Revised).[127]

…

Application and Other Explanatory Material

…

A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's expert may include:

- Whether management has used a management's expert in preparing the financial statements (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- The risks of material misstatement in the matter.
- The expected nature of procedures to respond to identified risks, including: the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.

A9. When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.

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[126] ISA 220 (Revised), *Quality Management for an Audit of Financial Statements,* paragraph A19

[127] Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs ~~A45–A59~~14, A62–A74

- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

Proposed ISA 500 (Revised)[128] includes requirements and guidance regarding the ~~effect~~ evaluation of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

…

ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

…

Requirements

…

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.[129,130]

11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall ~~take into account~~ consider:

    (a) The auditor's conclusion, in accordance with paragraph 11A, ~~ISA 330,~~ whether sufficient appropriate audit evidence has been obtained; ~~131~~

    (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;[132] and

    (c) The evaluations required by paragraphs 12–15.

11A. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In doing so, the auditor shall consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A0–A0B)

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

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128 Proposed ISA 500 (Revised), paragraph 14(a)~~8~~

129 ISA 200, paragraph 11

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

~~131 ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26~~

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

…

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:

    (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

    (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

    the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

…

Application and Other Explanatory Material

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

A0. As explained in ISA 200, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.[133] Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.[134]

A0A. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.[135] The auditor's professional judgment as to what constitutes sufficient appropriate audit evidence may be influenced by factors such as:

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

[133] ISA 200, paragraph 5

[134] ISA 200, paragraph 17

[135] ISA 200, paragraph A34

- Understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

A0B. The auditor is required to use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to evaluate whether sufficient appropriate audit evidence has been obtained.[136] Other relevant ISAs also establish separate evaluations of the audit evidence obtained throughout the audit to support the auditor in concluding whether sufficient appropriate audit evidence has been obtained. Appendix 1 lists the other ISAs that contain separate evaluations of the audit evidence obtained.

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

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

…

Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using ~~an electronic~~ a digital medium.

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

…

Responsibilities for the Financial Statements (Ref: Para. 33–34)

…

A49. ~~The~~ Appendix 2 ~~to this ISA~~ provides illustrations of how the requirement in paragraph 34(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in ~~the~~ Appendix 2 ~~to this ISA~~ may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

…

A51. The description of the auditor's responsibilities as required by paragraphs 37–40 ~~of this ISA~~ may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements. Illustration 2 in ~~the~~ Appendix 2 ~~to this ISA~~ includes an example of how this may be done.

…

[136] ISA 200, paragraph 21(b)

A53. ~~The~~ Appendix 2 ~~to this ISA~~ provides illustrations of how the requirement in paragraph 38(c), to provide a description of materiality, would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in ~~the~~ Appendix 2 ~~to this ISA~~ may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

…

Appendix 1

(Ref: Para. A0B)

Separate Evaluations of the Audit Evidence Obtained in Other ISAs

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

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 54
- ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 35
- Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* – paragraph 31
- ISA 505, *External Confirmations* – paragraph 16
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 33(c)
- ISA 570 (Revised 2024), *Going Concern* – paragraph 30
- ISA 600 (Revised), *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 51

…

Appendix 2

(Ref: Para. A19)

Illustrations of Independent Auditor's Reports on Financial Statements

…

ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

Scope of this ISA

…

Application and Other Explanatory Material

…

Matters that Required Significant Auditor Attention (Ref: Para. 9)

A12. The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk.[137] ~~When obtaining more persuasive audit evidence~~ This may include ~~because of a higher assessment of risk, the auditor may increase~~ increasing the quantity of the evidence obtained, or obtaining evidence that is of higher quality ~~more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources~~.[138]

…

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~or~~ audit evidence obtained throughout the audit.

…

ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

…

Appendix

(Ref: Para. A17–A18, A25)

Illustrations of Independent Auditor's Reports with Modifications to the Opinion

…

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

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[137] Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraph 7(cb)

[138] Proposed ISA 330 (Revised), paragraphs A22–A25~~A19~~

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

…

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

…

Appendix 3

(Ref: Para. A17)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Appendix 4

(Ref: Para. A8)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 710, COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

…

Appendix

(Ref: Para. A5, A7, A10)

Illustrations of Independent Auditors' Reports

Illustration 1 – Corresponding Figures

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 2 – Corresponding Figures

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 3 – Corresponding Figures

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 4 – Comparative Financial Statements

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

…

Application and Other Explanatory Material

Definitions

Annual Report (Ref: Para. 12(a))

…

A4. An annual report may be made available to users in printed ~~form,~~ or ~~electronically~~ digital form, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.

…

Obtaining the Other Information (Ref: Para. 13)

…

A19. When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this ISA. The auditor has no responsibility under this ISA to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed ~~electronically~~ in digital form.

…

Appendix 2

(Ref: Para. 21-22, A53)

Illustrations of Independent Auditors' Reports Relating to Other Information

…

Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 2 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 3 – An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 4 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 5 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in Appendix 2 of ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [name].]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 6 – An auditor's report of any entity, whether listed or other than listed, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the

auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [name].]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

Illustration 7 – An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

…

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in Appendix 2 of ISA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [name].]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

…

ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

…

Application and Other Explanatory Material

…

A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be ~~acquired~~ obtained in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~further~~ to obtain audit evidence to supplement the information obtained ~~corroborate audit evidence acquired~~ from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised 2024) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

…

INTERNATIONAL AUDITING PRACTICE NOTE 1000, SPECIAL CONSIDERATIONS IN AUDITING FINANCIAL INSTRUMENTS

Introduction

…

2. The following International Standards on Auditing (ISAs) are particularly relevant to audits of financial instruments:

   (a) ISA 540[139] deals with the auditor's responsibilities relating to auditing accounting estimates, including accounting estimates related to financial instruments measured at fair value;

   (b) ISA 315 (Revised 2019)[140] and Proposed ISA 330 (Revised)[141] deal with identifying and assessing risks of material misstatement and responding to those risks; and

   (c) Proposed ISA 500 (Revised)[142] explains what constitutes audit evidence and deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of ~~to~~ obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence.

…

[139] ISA 540, *Auditing Accounting Estimates and Related Disclosures*

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

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

[142] Proposed ISA 500 (Revised), *Audit Evidence*

Planning Considerations

…

Using Those with Specialized Skills and Knowledge in the Audit

…

79. Accordingly, auditing financial instruments may require the involvement of one or more experts or specialists, for example, in the areas of:

    - …
    - Evaluating information technology controls, especially in entities with a high volume of financial instruments. In such entities information technology may be highly complex, for example when significant information about those financial instruments is transmitted, processed, maintained or accessed ~~electronically~~ in digital form. In addition, it may include relevant services provided by a service organization.

…

Assessing and Responding to the Risks of Material Misstatement

…

Assessing the Risk of Material Misstatement

89. The auditor's assessment of the identified risks at the assertion level in accordance with ISA 315 (Revised 2019) includes evaluating the design and implementation of internal control. It provides a basis for considering the appropriate audit approach for designing and performing further audit procedures in accordance with Proposed ISA 330 (Revised), including both substantive procedures and tests of controls. The approach taken is influenced by the auditor's understanding of internal control relevant to the audit, including the strength of the control environment and any risk management function, the size and complexity of the entity's operations and whether the auditor's assessment of the risks of material misstatement include an expectation that controls are operating effectively.

…

Factors to Consider in Determining Whether, and to What Extent, to Test the Operating Effectiveness of Controls

91. An expectation that controls are operating effectively may be more common when dealing with a financial institution with well-established controls, and therefore controls testing may be an effective means of obtaining audit evidence. When an entity has a trading function, substantive tests alone may not provide sufficient appropriate audit evidence due to the volume of contracts and the different systems used. ~~Tests of controls, however, will not be sufficient on their own as the auditor is required by ISA 330 to design and perform substantive procedures for each material class of transactions, account balance and disclosure.~~[143]

…

~~[143] ISA 330, paragraph 18~~

95. In reaching a decision on the nature, timing and extent of testing of controls, the auditor may consider factors such as:

- The nature, frequency and volume of financial instrument transactions;
- …
- The issues the controls are intended to address, for example, controls related to the exercise of judgments compared with controls over supporting data. Substantive procedures ~~tests~~ are more likely to be effective than ~~relying on~~ testing the operating effectiveness of controls related to the exercise of judgment;
- …

…

Substantive Procedures

96. Designing substantive procedures includes consideration of:

- The use of analytical procedures[144]—While analytical procedures undertaken by the auditor can be effective as risk assessment procedures to provide the auditor with information about an entity's business, they may ~~be less~~not be effective as substantive procedures when performed alone. This is because the complex interplay of the drivers of the valuation often mask any unusual trends that might arise.
- Non-routine transactions—Many financial transactions are negotiated contracts between an entity and its counterparty (often known as "over the counter" or OTC.) To the extent that financial instrument transactions are not routine and outside an entity's normal activities, a substantive audit approach may be the most effective means of achieving the planned audit objectives. In instances where financial instrument transactions are not undertaken routinely, the auditor's responses to assessed risk, including designing and performing audit procedures, have regard to the entity's possible lack of experience in this area.
- Availability of evidence—For example, when the entity uses a third-party pricing source, evidence concerning the relevant financial statement assertions may not be available from the entity.
- Procedures performed in other audit areas—Procedures performed in other financial statement areas may provide evidence about the completeness of financial instrument transactions. These procedures may include tests of subsequent cash receipts and payments, and the search for unrecorded liabilities.
- Selection of items for testing—In some cases, the financial instrument portfolio will comprise instruments with varying complexity and risk. In such cases, judgmental sampling may be useful.

…

---

[144] ISA 315 (Revised 2019), paragraph 14(b), requires the auditor to apply analytical procedures as risk assessment procedures to assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 9~~6~~, requires the auditor to use analytical procedures in forming an overall conclusion on the financial statements. Analytical procedures may also be applied at other stages of the audit.

~~Dual-Purpose Tests~~ An Audit Procedure Used for More than One Purpose

98. Although the purpose of a test of controls is different from the purpose of a test of details, it may be efficient to perform both at the same time by, for example:

- Performing a test of controls and a test of details on the same transaction (for example, testing whether a signed contract has been maintained and whether the details of the financial instrument have been appropriately captured in a summary sheet; or
- Testing controls when testing management's process of making valuation estimates.

Timing of the Auditor's Procedures[145]

…

Procedures Relating to Completeness, Accuracy, Existence, Occurrence and Rights and Obligations

…

104. Procedures that may provide audit evidence to support the completeness, accuracy, and existence assertions include:

- External confirmation[146] of bank accounts, trades, and custodian statements. This can be done by direct confirmation with the counterparty (including the use of bank confirmations), where a reply is sent to the auditor directly. Alternatively, this information may be obtained from the counterparty's systems through a data feed. Where this is done, controls to prevent tampering with the computer systems through which the information is transmitted may be considered by the auditor in evaluating the reliability of the evidence from the confirmation. If confirmations are not received, the auditor may be able to obtain evidence by reviewing contracts and testing relevant controls. External confirmations, however, often do not provide adequate audit evidence with respect to the valuation assertion though they may assist in identifying any side agreements.

…

Significant Risks

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111. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of Proposed ISA 330 (Revised), ISA 540 requires the auditor to evaluate the following:

(a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed measurement uncertainty in making the accounting estimate;

(b) Whether the significant assumptions used by management are reasonable; and

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145 Paragraphs 12–13~~11–12~~ and 21~~22–23~~ of Proposed ISA 330 (Revised) establish requirements when the auditor performs procedures at an interim period and explains how such audit evidence can be used.

146 ISA 505, *External Confirmations*, deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of Proposed ISA 330 (Revised) and Proposed ISA 500 (Revised), *Audit Evidence*. See also the Staff Audit Practice Alert, Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements, issued in November 2009.

(c) Where relevant to the reasonableness of the significant assumptions used by management, or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

…

Developing an Audit Approach

114. In testing how management values the financial instrument and in responding to the assessed risks of material misstatement in accordance with ISA 540, the auditor undertakes one or more of the following procedures, taking account of the nature of the accounting estimates:

(a) Test how management made the accounting estimate and the data on which it is based (including valuation techniques used by the entity in its valuations).

(b) ~~Test~~ Obtain audit evidence about the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.

(c) Develop a point estimate or a range to evaluate management's point estimate.

(d) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.

Many auditors find that a combination of testing how management valued the financial instrument, and the data on which it is based, and ~~testing~~ obtaining audit evidence about the operating effectiveness of controls, will be an effective and efficient audit approach. While subsequent events may provide some evidence about the valuation of financial instruments, other factors may need to be taken into account to address any changes in market conditions subsequent to the balance sheet date. If the auditor is unable to test how management made the estimate, the auditor may choose to develop a point estimate or range.

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Audit Considerations When a Management's Expert Is Used by the Entity

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134. Paragraph 14~~8~~ of Proposed ISA 500 (Revised) contains requirements for the auditor when evaluating evidence from an expert engaged by management. The extent of the auditor's procedures in relation to a management's expert and that expert's work depend on the significance of the expert's work for the auditor's purposes. Evaluating the appropriateness of management's expert's work assists the auditor in assessing whether the prices or valuations supplied by a management's expert provide sufficient appropriate audit evidence to support the valuations. Examples of procedures the auditor may perform include:

- Evaluating the competence, capabilities and objectivity of management's expert for example: their relationship with the entity; their reputation and standing in the market; their experience with the particular types of instruments; and their understanding of the relevant financial reporting framework applicable to the valuations;
- Obtaining an understanding of the work of the management's expert, for example by assessing the appropriateness of the valuation technique(s) used and the key market variables and assumptions used in the valuation technique(s);

- Obtaining an understanding of how the information prepared by that expert has been used by management in the preparation of the financial statements, for example, by considering the appropriateness of the information prepared by that expert, and understanding the modifications made by management to the information prepared by that expert, and the reasons for such modifications;
- Evaluating the appropriateness of that expert's work as audit evidence. At this point, the focus is on the appropriateness of the expert's work at the level of the individual financial instrument. For a sample of the relevant instruments, it may be appropriate to develop an estimate independently (see paragraphs 136 to 137 on developing a point estimate or range), using different data and assumptions, then compare that estimate to that of the management's expert; and
- Other procedures may include:
    - Modeling different assumptions to derive assumptions in another model, then considering the reasonableness of those derived assumptions.
    - Comparing management's point estimates with the auditor's point estimates to determine if management's estimates are consistently higher or lower.

…

Appendix

(Ref: Para. A14)

Examples of Controls Relating to Financial Instruments

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Use of Service Organizations

10. Entities may also use service organizations (for example asset managers) to initiate the purchase or sale of financial instruments, to maintain records of transactions for the entity or to value financial instruments. Some entities may be dependent on these service organizations to provide the basis of reporting for the financial instruments held. However, if management does not have an understanding about the controls in place at a service organization, the auditor may not be able to obtain sufficient appropriate audit evidence ~~to rely on~~ about the operating effectiveness of controls at that service organization. See ISA 402, which establishes requirements for the auditor to obtain sufficient appropriate audit evidence when an entity uses the services of one or more service organizations.

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