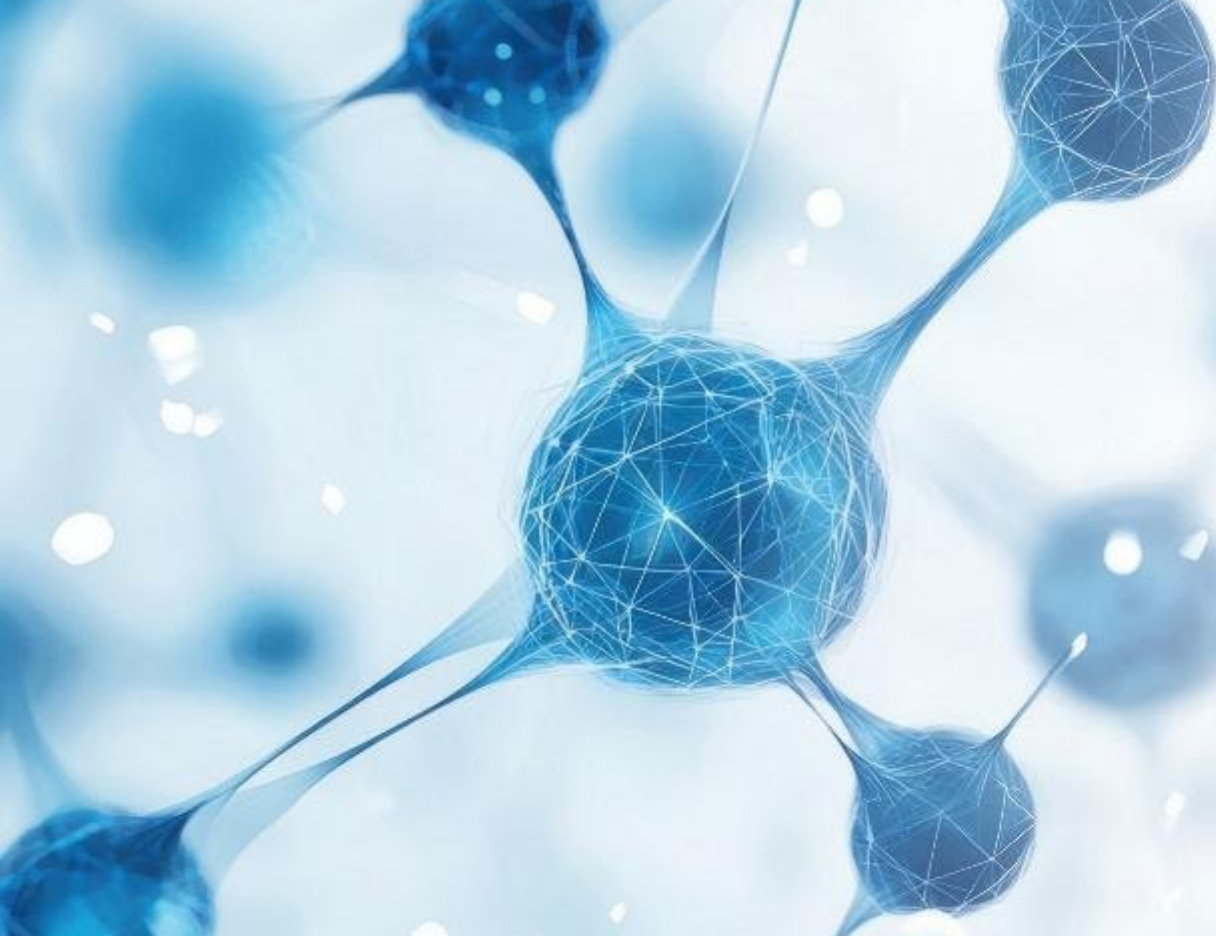




**Webinar #2: Performance
Aspects of the AE&RR Exposure
Drafts – Proposed ISA 330
(Revised) and Proposed ISA 520
(Revised)**

Exposure Drafts for the IAASB Audit Evidence
& Risk Response Project

| October 5, 10:00 UTC |

| October 7, 19:00 UTC |

Webinar Agenda

- | | |
|----|--|
| 01 | Welcome and Opening Remarks |
| 02 | Overview of the Audit Evidence and Risk Response (AE&RR) Project and Technology Related Enhancements |
| 03 | Reinforcing the Risk-Based Model |
| 04 | Substantive Procedures in Response to Assessed Risks |
| 05 | Tests of Controls |
| 06 | Analytical Procedures |
| 07 | Holistic Evaluation of Audit Evidence |
| 08 | Q&A |
| 09 | Public Consultation and Ways Forward |

Webinar Presenters



Edo Kienhuis

IAASB Vice-Chair



Neil Morris

IAASB Member

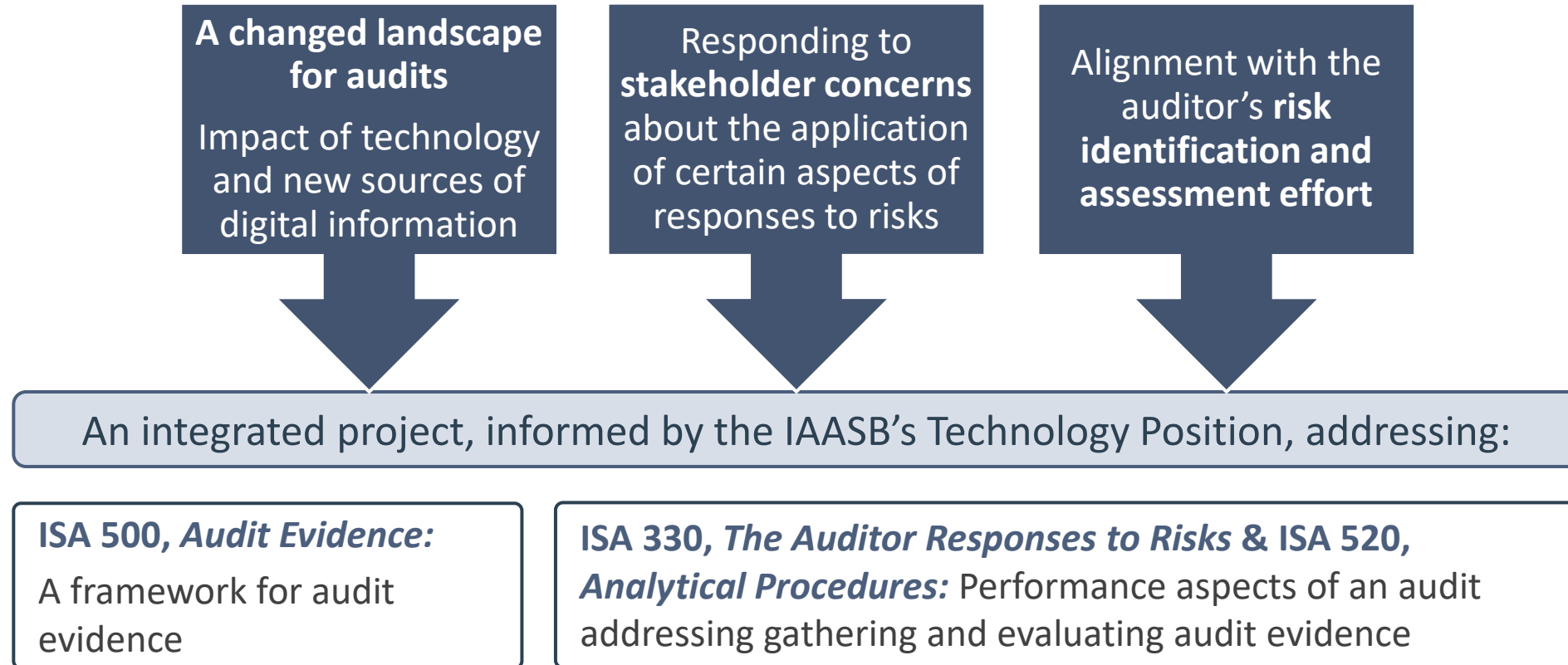


Kalina Shukarova Savovska

IAASB Director and AE&RR
Project Lead

Overview of the AE&RR Project and Technology Related Enhancements

AE&RR Project



Nature of Audit Procedures

CLARIFYING HOW THE AUDITOR ACHIEVES THE PURPOSE OF AUDIT PROCEDURES WHEN USING TECHNOLOGICAL TOOLS

Technological tools are increasingly used to design and perform audit procedures



Need for the ISAs to be adaptable to evolving technologies:

Emphasizing the intended purpose(s) of audit procedures

Supporting the auditor in achieving the purpose of substantive procedures

01.

Revised definition of “substantive procedures” and “tests of controls”

02.

New definitions of “tests of details” and “substantive analytical procedures”

03.

Broader notion of “an audit procedure used for more than one purpose”

Evolving Systems of Internal Control

ENTITIES' INCREASED USE OF TECHNOLOGY IN SYSTEMS OF INTERNAL CONTROL

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

Automated Controls &
Real-Time Monitoring

Intelligent Automation &
Advanced Data Processing

Cybersecurity & Access
Governance

Data Governance &
Analytics Controls

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

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

01.

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

02.

Revised requirements and application material related to general IT controls

03.

Examples of controls operating in technologies that produce variable outputs

Reinforcing the Risk-Based Model

Extant Requirements for Material COTABDs

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

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

What it means

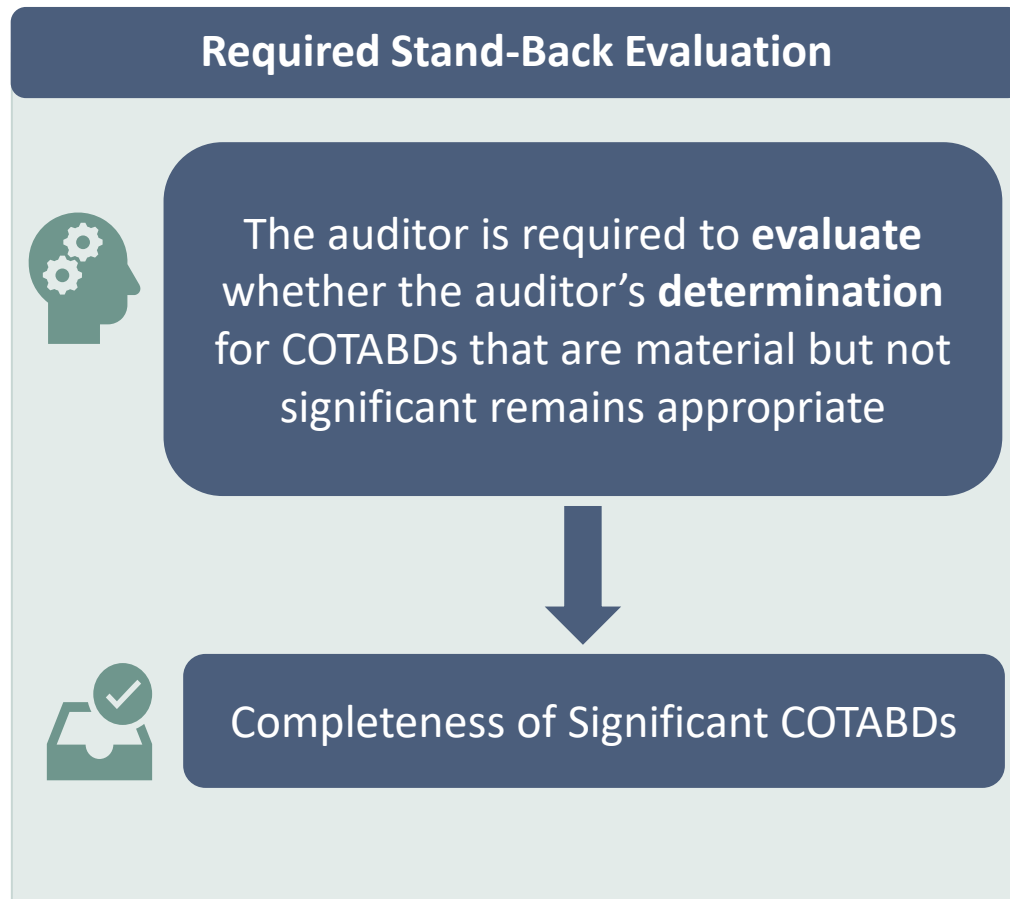
- Requirement to design and perform substantive procedures, related to at least one assertion of:
 - Each **material** COTABD for which the auditor has determined that there are no ROMMs before consideration of controls; **and**
 - Each **significant** COTABD for which the planned response to all ROMMs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

The Rationale (its intended purpose)

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

Project to Revise ISA 315

PREVIOUS IAASB DELIBERATIONS ON PARAGRAPH 18 OF ISA 330



Previous IAASB Views: Mixed

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

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

Perspectives on the Need for the Extant Requirement

OPERATIONALIZATION CHALLENGES AND A VARIETY OF PERSPECTIVES

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

Operational Questions

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

“Compliance Mindset”

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



Some Investors

- Provides comfort that important items are substantiated



Some Regulators

- Instances of noncompliance where insufficient or inappropriate work performed



Some Practitioners and JSS

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

A Key Decision for Public Consultation

REINFORCING THE PRINCIPLES OF A RISK-BASED AUDIT MODEL

ALTERNATIVES CONSIDERED

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

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

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

IAASB's DECISION & PROPOSALS

Option 1:

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

PUBLIC INTEREST RATIONALE

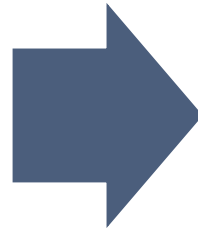
The extant requirement undermines the risk assessment process and auditors' professional judgments

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

Reinforcing the Risk-Based Model

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

Perform robust risk assessment procedures supported by a holistic evaluation of audit evidence obtained and of professional judgments made on the basis of that evidence
ISA 315 (Revised 2019)



Design and perform further audit procedures that, based on that audit evidence, **are responsive to the identified and assessed ROMMs at the assertion level**, for each significant COTABD
Proposed ISA 330 (Revised)

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

Substantive Procedures in Response to Assessed Risks

Definitions related to Substantive Procedures

BROADENING THE DEFINITION FOR SUBSTANTIVE PROCEDURES AND CLARIFYING THEIR PURPOSE

Substantive Procedures

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



Tests of Details (of COTABDs*)

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



Substantive Analytical Procedures

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

** Classes of transactions, account balances or disclosures*

When Are Substantive Procedures Required?

CLARIFYING REQUIREMENTS TO DESIGN AND PERFORM SUBSTANTIVE PROCEDURES

IAASB's Decision

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

IAASB's Proposals

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

Strengthening Substantive Analytical Procedures

ENHANCING THE EFFECTIVENESS OF SUBSTANTIVE ANALYTICAL PROCEDURES TO DETECT MATERIAL MISSTATEMENTS

Level of Precision of the Auditor's Expectation

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

Threshold for Evaluating Differences from Expected Amounts

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

Investigating Results of Substantive Analytical Procedures

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

Tests of Controls

Definition of Tests of Controls

BROADENING THE USE OF TESTS OF CONTROLS

Tests of Controls

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



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

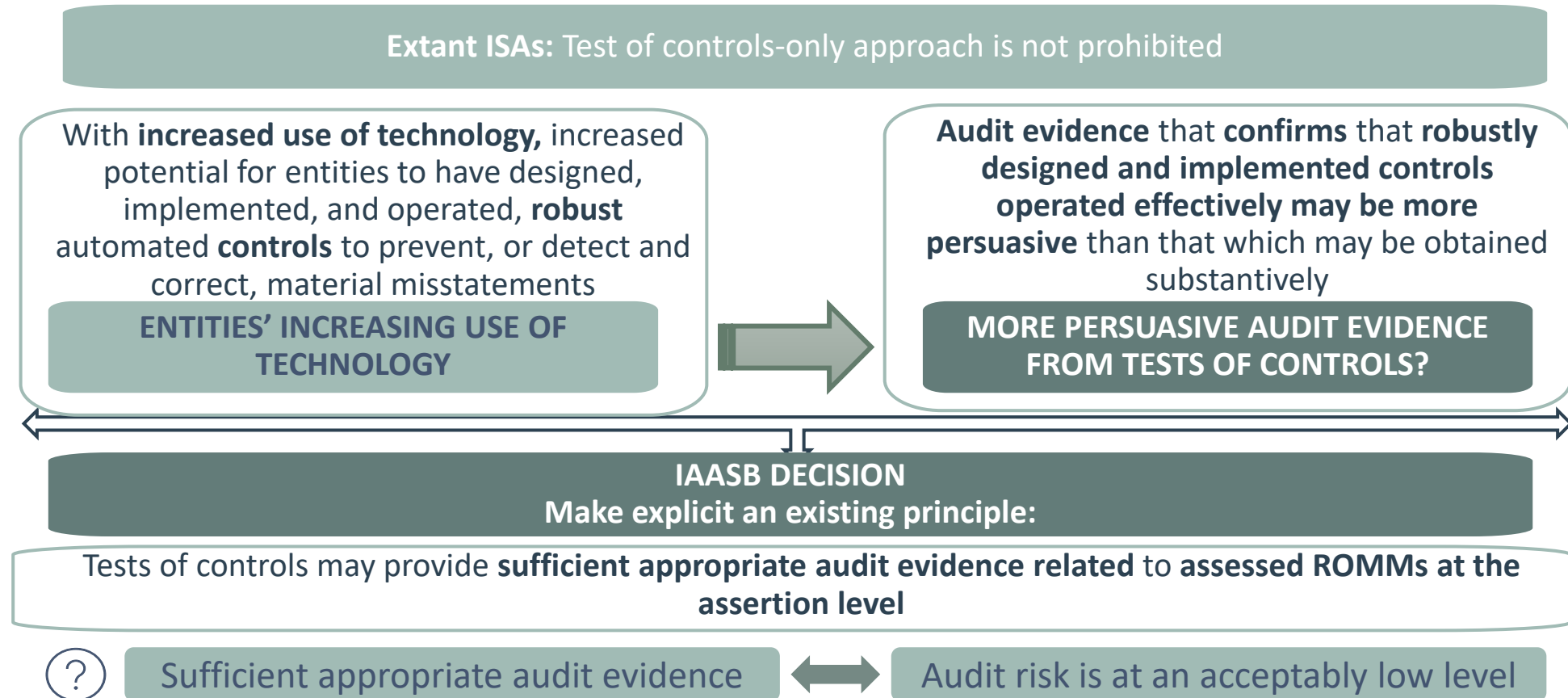


As an **audit procedure** when evaluating the reliability of information intended to be used as audit evidence

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

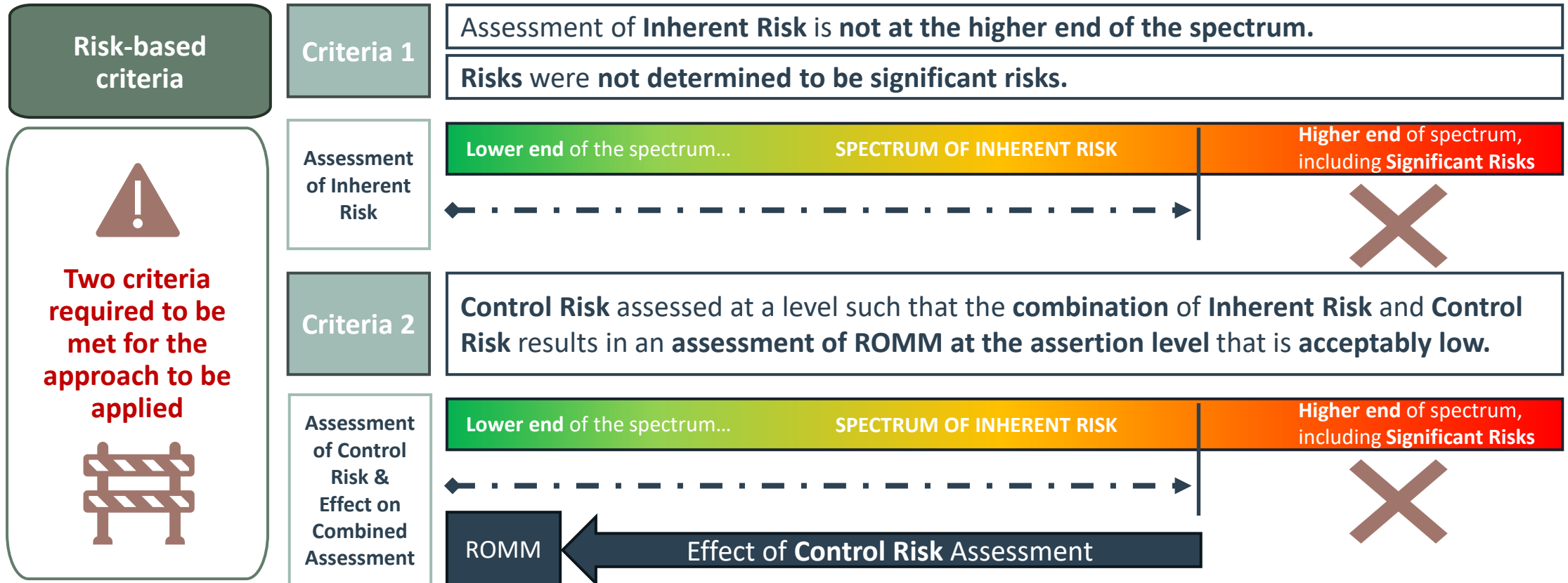
Responding to Risks through Tests of Controls Alone

IMPORTANCE OF ROBUST CONTROLS IN DESIGNING EFFECTIVE RESPONSES TO ASSESSED ROMMS



Criteria for a Test of Controls Alone Approach

CHARACTERISTICS OF IDENTIFIED ROMM FOR WHICH THE APPROACH MAY BE APPROPRIATE



Conditions for a Test of Controls Alone Approach

MEETING THE CRITERIA RELATED TO CONTROL RISK

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



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

Are controls manual or automated?

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

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

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

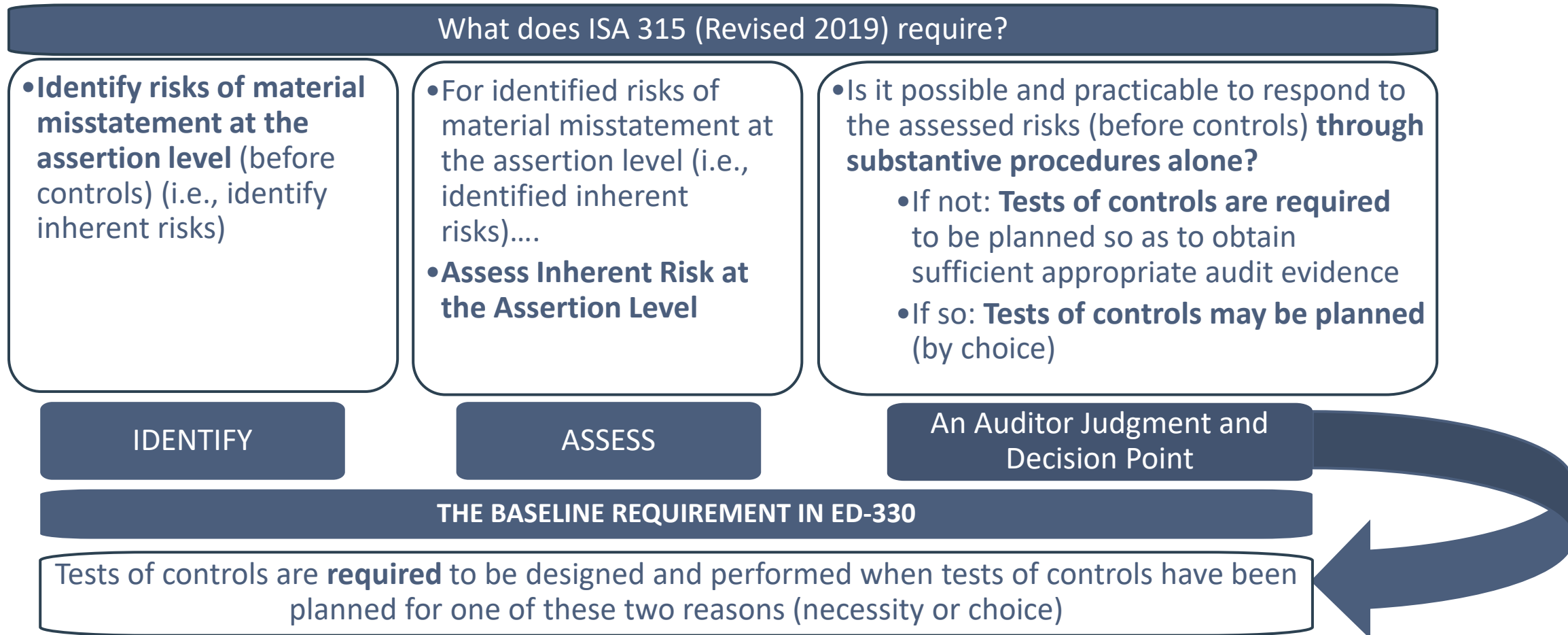
Has the entity documented the process by which the control operates?

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

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

The Baseline Requirement on Tests of Controls

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



Clarifications for Tests of Controls

Indirect Controls, Including GITCs

- Removed the redundant requirement to determine *whether it is necessary* to test indirect controls
- Clarified the relationship between direct and indirect controls and how ineffective indirect controls affect the evaluation of direct controls.

Using Audit Evidence from a Previous Audit

- Extant principles retained, and aligned with terms and concepts in ISA 315 (Revised 2019)
- Clarified a **three-year baseline** for retesting a control
- Emphasized auditor's decision about which controls should be tested each year is **professional judgment**

Effectiveness of Controls and Results of Tests of Controls

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

Analytical Procedures

An Overall Framework for Analytical Procedures

BROADENING THE SCOPE OF ISA 520

Analytical Procedures

A type of audit procedure that involves an evaluation of financial information through analysis of plausible relationships among financial information, non-financial information, or both



Results of Analytical
Procedures as Risk
Assessment
Procedures



Substantive
Analytical
Procedures



Analytical
Procedures that
Assist When
Forming an Overall
Conclusion

Definition of Substantive Analytical Procedures

DIFFERENTIATING ANALYTICAL PROCEDURES AND SUBSTANTIVE ANALYTICAL PROCEDURES

Substantive Analytical Procedures

A substantive procedure that involves a comparison of a sufficiently precise expectation developed by the auditor, based on one or more plausible and predictable relationships, to recorded amounts to detect a material misstatement



Purpose: A substantive procedure to detect a material misstatement



Plausible and predictable relationships



Auditor's expectations: Sufficiently precise

Investigation of Differences in SAPs

STRENGTHENING THE THRESHOLD AND INVESTIGATION REQUIREMENTS

Threshold for Further Investigation

The threshold cannot exceed performance materiality



Compare the auditor's expectation with the recorded amount



Investigate differences that exceeds the threshold

Obtain audit evidence relevant to management's responses

Non-SAP Analytical Procedures

CLARIFYING THEIR ROLE IN OBTAINING AUDIT EVIDENCE ACROSS PROPOSED ISA 330, ISA 500 AND ISA 520

Recognizing analytical procedures performed as further audit procedures that are not SAPs contribute to audit evidence

Proposed ISA 330

- When designing and performing further audit procedures, the auditor may design and perform analytical procedures that are not SAPs, in combination with tests of controls or tests of details

Proposed ISA 500

- Analytical procedures that are not substantive analytical procedures, when performed alone, do not provide sufficient appropriate audit evidence of the absence of a material misstatement

Proposed ISA 520

- Analytical procedures that are not SAPs provide audit evidence

Holistic Evaluation of Audit Evidence

Holistic Evaluation of Audit Evidence

WHERE SHOULD HOLISTIC EVALUATION REQUIREMENTS BE IN THE ISAS?

Criteria for Holistic Evaluation Requirements



Criteria 1:

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



Criteria 2:

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



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



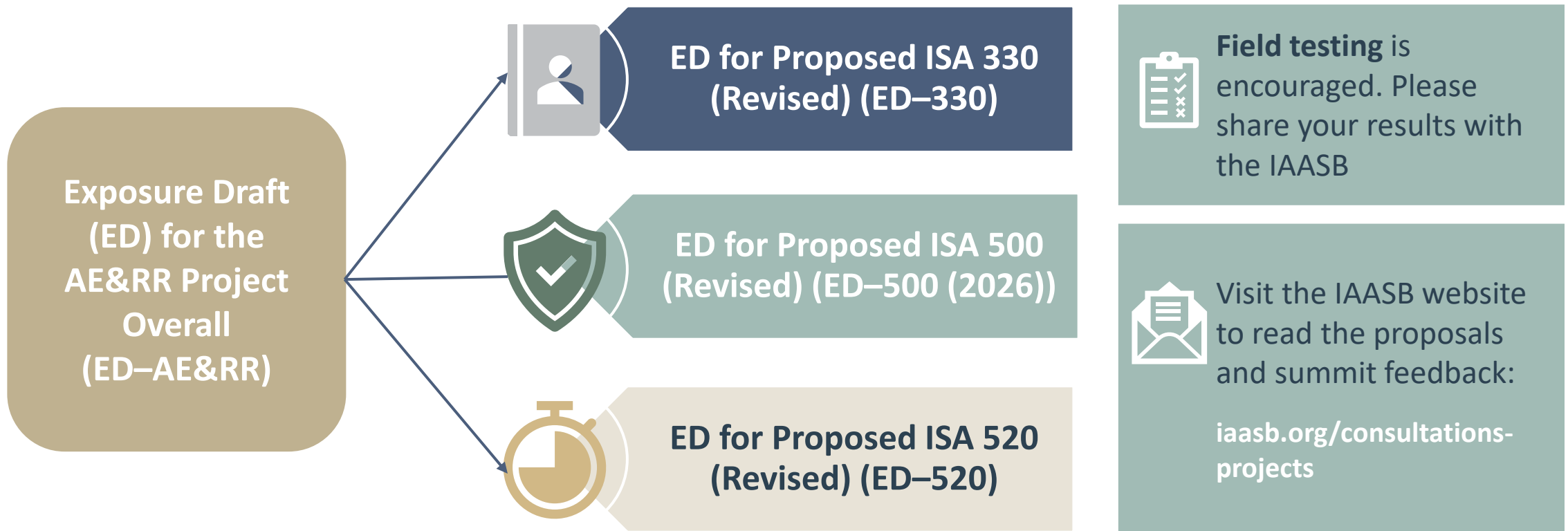
Questions

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Public Consultation Now Open

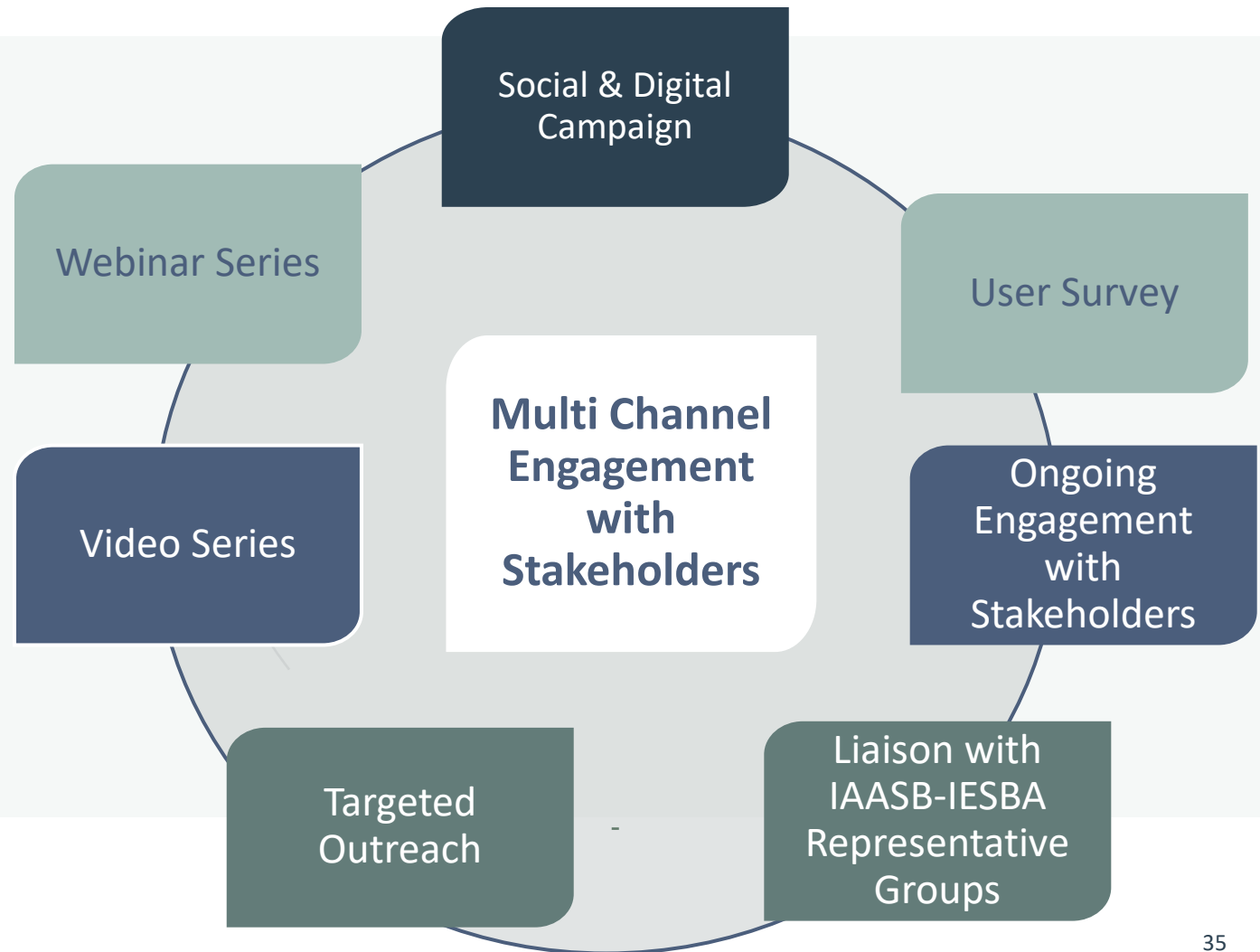
Public Consultation Now Open!

Consultation Open until December 15, 2026



Consultation Approach & Stakeholder Engagement

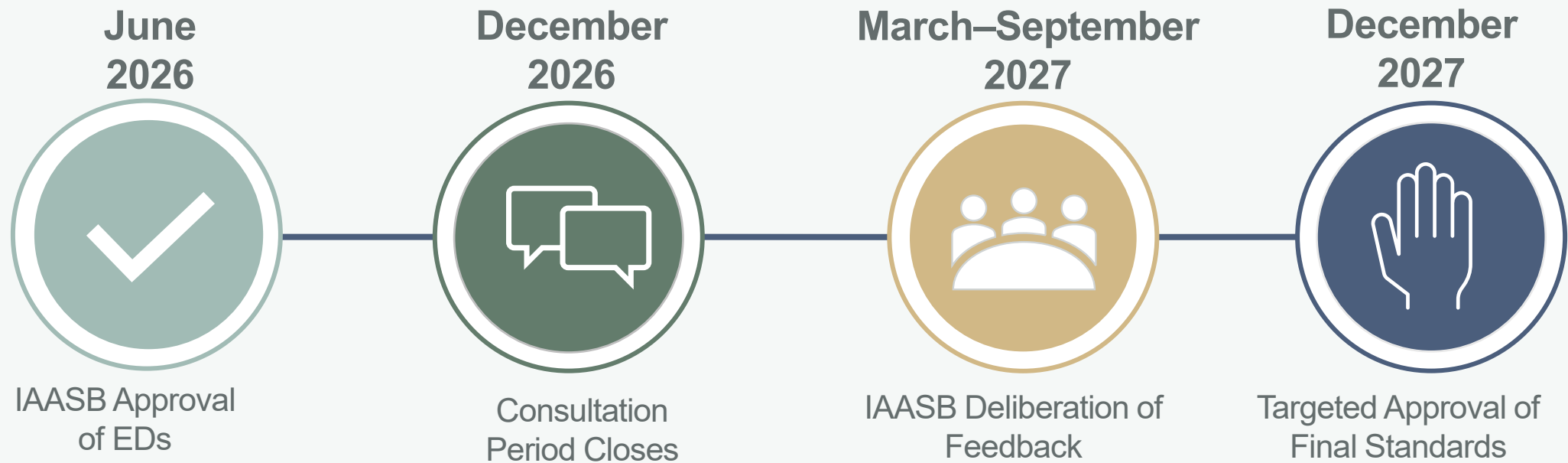
**Proactive
Communication
and Robust
Engagement
Throughout
Consultation
Period**





Way Forward

Anticipated Timeline to Final Approval



Ongoing Stakeholder Outreach and Coordination Activities

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