

Exposure Draft

Proposed International Standard on
Auditing 520 (Revised)

Analytical Procedures

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

AUGUST 2026

COMMENTS DUE: DECEMBER 15, 2026



IAASB™

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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) should be read along with the cover EM accompanying the Exposure Draft (ED) for the Audit Evidence and Risk Response project overall (ED–AE&RR), and the EMs for Proposed International Standard on Auditing (ISA) 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330), and Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)), 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 specific to ED–520. The EMs accompanying ED–330 and ED–500 (2026) include questions that are specific to issues considered by the IAASB in developing those proposed standards. In addition, the cover EM accompanying ED–AE&RR addresses issues that are relevant to all the in-scope standards for this project. They 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

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Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of Proposed ISA 520 (Revised), *Analytical Procedures* (ED–520), which was approved for exposure by the IAASB in June 2026.
2. ED–520 is part of a package of three proposed revised standards of the Audit Evidence and Risk Response project, which also include Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330) and Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)), in respect of which the IAASB is seeking public comment. In addition, the cover EM accompanying the exposure draft for the IAASB's Audit Evidence and Risk Response project overall (ED–AE&RR) addresses issues that are relevant to the three exposure drafts.

Section 1 – Significant Matters

Section 1–A. Scope and Objectives of ED–520

3. The scope of extant ISA 520 is two-fold. It addresses the auditor's use of analytical procedures as substantive procedures (“substantive analytical procedures”) and deals with the auditor's responsibilities to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. The scope paragraph of extant ISA 520 also refers to ISA 315 (Revised 2019),¹ explaining that that ISA deals with the use of analytical procedures as risk assessment procedures.
4. Because analytical procedures as risk assessment procedures are not addressed through requirements in extant ISA 520, the objectives of the extant standard, which refer to the intended outcome of the auditor's work effort in applying the standard, are also two-fold. They reflect the focus of the auditor to obtain relevant and reliable audit evidence when using substantive analytical procedures and to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Developments Since ISA 520 was Last Redrafted

5. Since extant ISA 520 was last redrafted during 2006–2008 as part of the Clarity of IAASB Standards project,² the use of analytical procedures in audits has evolved significantly. Analytical procedures are increasingly used throughout the audit, facilitated by the use of technological tools that enable the analysis of larger volumes of financial and non-financial information. Against this backdrop, stakeholders have highlighted the importance of clarifying the role of analytical procedures within the broader audit evidence framework and providing clearer articulation of how analytical procedures may be used for different audit purposes in an audit.

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, establishes requirements in paragraph 14(b) regarding the design and performance of analytical procedures as risk assessment procedures.

² See the [Clarity of IAASB Standards Project](#).

Proposals in ED–520

6. The IAASB is proposing to provide clarity in ED–520 regarding the auditor’s use of analytical procedures across all stages of an audit, including for risk assessment procedures, substantive procedures and analytical procedures that assist when forming an overall conclusion. Doing so would allow ED–520 to embed a complete framework to support auditors’ judgments when using analytical procedures and addressing, as necessary, the results of such procedures. It would also help clarify and contrast the distinct purposes of analytical procedures when they are used for identifying and assessing risks of material misstatement (ROMMs) or when assisting in forming an overall conclusion versus when they are used to detect material misstatements at the assertion level.
7. The proposed revisions to the scope paragraphs 1–3 of ED–520 reflect this approach. In addition, the IAASB is proposing changes to the objectives in paragraph 5 of ED–520 to address the audit evidence obtained when using analytical procedures as (i) risk assessment procedures; (ii) substantive procedures; and (iii) near the end of the audit that assist when forming an overall conclusion whether the financial statements are consistent with the auditor’s understanding of the entity.

Section 1–B. Definitions*Refinements to the Definition of Analytical Procedures*

8. The IAASB retained but clarified the definition for analytical procedures in paragraph 6(a) of ED–520. In proposing refinements to the definition, the IAASB:
 - Specified in the definition that analytical procedures are 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.
 - Removed the second sentence of the extant definition that refers to the investigation of identified fluctuations or relationships. This is because an investigation is not a defining characteristic of an analytical procedure but rather a response that may be necessary when the results of an analytical procedure indicate matters requiring further consideration. Also, the proposals include in paragraph 7 of ED–520 a new requirement to address the results of analytical procedures performed as risk assessment procedures that identify fluctuations or relationships that are inconsistent with other relevant information or differ from expected results (see paragraph 24 below).
9. Paragraph A4 of ED–520 provides a specific clarification about analytical procedures that are not substantive analytical procedures, including that when such analytical procedures are performed alone, they do not provide sufficient appropriate audit evidence of the absence of a material misstatement. This application material, together with paragraph A29 of ED–330, aims to reinforce the notion that all evidence obtained in an audit contributes to the auditor obtaining sufficient appropriate audit evidence, even when the evidence is obtained from an audit procedure that, on its own, is not precise enough to detect a material misstatement. Accordingly, such analytical procedures that are performed in combination with tests of controls or tests of details may increase the persuasiveness of the audit evidence obtained in the circumstances.

Defining Substantive Analytical Procedures

10. Substantive analytical procedures are encapsulated in the definition of substantive procedures in paragraph 4(a) of ED–330, however they are not separately defined or described for the purposes of the extant ISAs.
11. Information-gathering in the course of the Audit Evidence and Risk Response project indicated that designing and performing effective substantive analytical procedures to obtain audit evidence remains a challenging area in practice. Stakeholders highlighted challenges in distinguishing substantive analytical procedures from other uses of analytical procedures throughout the audit. There have also been instances of regulatory findings where a procedure is labeled as a substantive analytical procedure but fails to meet the extant ISA 520 requirements (e.g., the procedure is too high-level, generic, lacks disaggregation or precision to be able to detect a material misstatement).
12. The IAASB is proposing in paragraph 6(b) of ED–520 to define substantive analytical procedures, separately from the definition of analytical procedures. Doing so would enhance clarity and understandability and facilitate consistency in practice by minimizing the likelihood of varying interpretations that could occur as to whether an audit procedure constitutes a substantive analytical procedure.
13. The text of the definition also embeds the following features that differentiate a substantive analytical procedure from an analytical procedure used more broadly in other aspects of an audit:
 - Developing a *sufficiently precise* auditor's expectation of a recorded amount to detect a material misstatement at the assertion level. While it holds true that analytical procedures used for other purposes in an audit may also include developing expectations, the precision level of such expectations provides the auditor only with a broad initial indication about the likelihood of a material misstatement (e.g., for risk identification and assessment) or is sufficient to corroborate conclusions previously formed during the audit (e.g., for analytical procedures performed near the end of the audit).
 - Basing such expectation on *plausible and predictable* relationship(s) among relevant and reliable information. While it holds true that the application of analytical procedures broadly is always based on an expectation that plausible relationships among relevant information exist and continue to exist in the absence of known conditions to the contrary, for substantive analytical procedures the relationship needs to be plausible and predictable and the reliability of the information on which the auditor's expectation is based needs to be sufficient to enable the auditor to detect material misstatements at the assertion level.

Section 1–C. Substantive Analytical Procedures

14. As discussed in paragraph 11 above, information gathering during the Audit Evidence and Risk Response project, indicates concerns about the inappropriate design and use of substantive analytical procedures, whether performed manually or when using technological tools, in areas such as:
 - Determining whether the relationship used in the substantive analytical procedure is sufficiently plausible and predictable.
 - The validity of the procedure because of use of unreliable information without evaluating the accuracy and completeness of the information.

- Developing expectations that are sufficiently precise to identify differences that may be misstatements.
- Failures to corroborate explanations obtained through inquiry when investigating differences from expectations that exceed the threshold that is acceptable without further investigation.

Level of Precision of the Auditor's Expectation

15. The IAASB is proposing in ED–520 (paragraphs 8(b) and A12–A20), the following key changes to enhance or clarify the principles addressing the level of precision of the auditor's expectation:
 - The lead-in sentence of the requirement in paragraph 8(b) emphasizes that the auditor's expectation is based on one or more plausible and predictable relationships among financial information, non-financial information, or both. Application material sets out factors that may affect the plausibility and predictability of relationships and provides an example.
 - Paragraph 8(b)(i) refers to foundational requirements in ED–500 (2026) to evaluate the relevance and reliability of information intended to be used as audit evidence, emphasizing that such requirements apply to evaluating the reliability of the information used to develop the auditor's expectation.
 - Paragraph 8(b)(ii) requires the auditor to determine whether the auditor's expectation is sufficiently precise to detect a misstatement. Application material provides linkages to the relevance of information addressed in ED–500 (2026), including that the level of detail of the information is a necessary consideration when developing a sufficiently precise auditor's expectation.

Threshold for Evaluating Differences from Expected Amounts

16. The precision of a substantive analytical procedure, among other matters, depends on the level at which the amount of difference between the expectation developed by the auditor and the recorded amount that is acceptable without further investigation is set (i.e., the threshold to evaluate differences). If this threshold is set too high, then by design, the substantive analytical procedure is unlikely to be effective to meet the purpose of a substantive procedure, which is to detect material misstatements at the assertion level.
17. ISA 320³ requires the auditor to determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. This ISA also explains that performance materiality is set at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level.⁴
18. On this basis, the IAASB formed the view that for a substantive analytical procedure, it is necessary to explicitly recognize in the requirements of ED–520 that the threshold to evaluate differences from expected amounts that is acceptable without investigation does not exceed performance materiality (see paragraph 8(c) of ED–520).

³ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 11

⁴ ISA 320, paragraph A13

Investigating Results of Substantive Analytical Procedures

19. Paragraph 7 of extant ISA 520 is all-encompassing as it applies to investigating the results of analytical procedures broadly, including for substantive analytical procedures. The IAASB discussed that the current combined structure of the requirement may lack emphasis about the nature and extent of the investigation that is required in the case of substantive analytical procedures compared to analytical procedures that are not used as substantive procedures.
20. Accordingly, in developing ED-520, the IAASB separated the requirements for investigating the results of analytical procedures to address two distinct circumstances, as follows:
 - The extant requirement in paragraph 7 of ISA 520 was retained but repurposed into paragraph 10 of ED-520 to apply to investigating the results of analytical procedures that assist when forming an overall conclusion (see paragraph 25 below).
 - A new requirement was developed in paragraph 8(d) of ED-520 to investigate differences exceeding the amount of difference that is acceptable without further investigation which is specific to substantive analytical procedures. Such requirement is placed in the section addressing substantive analytical procedures and in doing so signals that the investigation, when applicable, is an integral part of the design and performance of the substantive analytical procedure.
21. The IAASB considers that this approach appropriately differentiates investigation procedures required for substantive analytical procedures, given their distinct purpose to detect material misstatements at the assertion level. The new requirement addressing the investigation of differences for substantive analytical procedures in paragraph 8(d) of ED-520 also aims to promote a more robust investigation of differences identified through substantive analytical procedures and strengthen the audit evidence obtained.
22. Application material in paragraphs A21–A24 of ED-520 explains that:
 - Differences between the auditor's expectation and the entity's recorded amount may result from imprecision in the auditor's expectation or from a misstatement. However, when the auditor is satisfied that the expectation is sufficiently precise, a difference exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement (see also paragraph 18 above).
 - Inquiry alone does not provide sufficient appropriate audit evidence regarding the absence of a material misstatement. Accordingly, the auditor obtains audit evidence relevant to responses to inquiries of management, and as appropriate, others within or outside the entity.

Section 1–D. Results of Other Analytical Procedures*Results of Analytical Procedures Performed as Risk Assessment Procedures*

23. As discussed in paragraph 5 above, information-gathering indicates that auditors commonly design and perform analytical procedures by using technological tools to, for example, analyze entire populations of transactions. When performed effectively, such analytical procedures may aid more precise risk identification and assessment. For example, when the results of analytical procedures using technological tools identify specific areas where ROMMs exist (e.g., by identifying fluctuations, unusual items, inconsistencies or outliers), auditors may conduct inquiries of management to further understand the reasons behind such items and determine how the items affect the risk assessment

related to the population. In addition, based on the results of the analytical procedure, the auditor may determine that residual ROMM related to the remainder of the population is at an acceptably low level.

24. To reinforce the iterative nature of risk identification and assessment, the IAASB is proposing a new requirement in paragraph 7 of ED-520, with supporting application material, to address the results of analytical procedures performed as risk assessment procedures that identify fluctuations or relationships that are inconsistent with other relevant information or differ from expected results. The requirement is reflective of the increased use of analytical procedures as risk assessment procedures. It also reinforces the notion that it is the auditor's consideration of the results of analytical procedures performed as risk assessment procedures that supports the robustness of the auditor's identification and assessment of ROMMs.

Analytical Procedures That Assist When Forming an Overall Conclusion

25. Paragraphs 9–10 of ED-520 address requirements for analytical procedures performed near the end of the audit that assist the auditor with forming an overall conclusion. While certain refinements are proposed to the text of these requirements and related application material, the overall approach remains largely unmodified from extant.

Section 2 – Questions for Respondents

26. Respondents are asked to respond to the questions in the table below 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 ED–520. 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).

In addition, the cover EM accompanying ED–AE&RR includes an **invitation for field testing** of all or certain proposals. Field testing is not required in order to respond to ED–520, but if you or your organization has undertaken or facilitated any field testing, the IAASB welcomes the sharing of those results as part of your responses to the relevant questions below.

Questions for Respondents	Related Section or Paragraphs in this EM
1. Do you agree with the revised scope and objectives of ED–520?	Section 1–A: Paragraphs 3–7
2. Do you support the proposals in ED–520 relating to definitions; specifically:	Section 1–B:
(a) The revised definition of analytical procedures?	Paragraph 8
(b) The clarification in paragraph A4 of ED–520 about analytical procedures that are not substantive analytical procedures?	Paragraph 9
(c) Introducing a definition of substantive analytical procedures, including whether this definition appropriately embeds the features that differentiate substantive analytical procedures from an analytical procedure used more broadly in other aspects of an audit?	Paragraphs 10–13
3. For substantive analytical procedures, do you support the proposals (requirements and application material) in ED–520 related to the following matters:	Section 1–C:
(a) The level of precision of the auditor’s expectation, including the linkage to ED–500 (2026) with respect to evaluating the reliability of information used in developing such expectation?	Paragraph 15
(b) The threshold for determining the amount of difference from expected amounts that is acceptable without further investigation?	Paragraphs 16–18
(c) Investigating the results of substantive analytical procedures?	Paragraphs 19–22
4. Are there any other matters you would like to raise in relation to ED–520? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.	Any Section in this EM or matters not specifically discussed

PROPOSED INTERNATIONAL STANDARD ON AUDITING 520 (REVISED)

ANALYTICAL PROCEDURES

(Effective for audits of financial statements for periods
beginning on or after [DATE])

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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility relating to:
 - (a) The results of analytical procedures used as risk assessment procedures; and
 - (b) Performing analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.
2. ISA 315 (Revised 2019)¹ establishes requirements and provides guidance regarding designing and performing risk assessment procedures, which include analytical procedures. Analytical procedures as risk assessment procedures are designed and performed to identify and assess risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
3. Proposed ISA 330 (Revised)² establishes requirements and provides guidance regarding the nature, timing and extent of further audit procedures responsive to the assessed risks of material misstatement at the assertion level. These audit procedures may include substantive analytical procedures.³ Substantive analytical procedures are designed and performed to detect material misstatements at the assertion level.

Effective Date

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

Objectives

5. The objectives of the auditor are to obtain audit evidence when using analytical procedures:
 - (a) As risk assessment procedures;
 - (b) As substantive procedures; and
 - (c) Near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Definitions

6. For the purposes of the ISAs, the following terms have the meaning attributed below:
 - (a) 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. (Ref: Para. A1–A5)
 - (b) 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

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 14(b)

² Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraph 6

³ Proposed ISA 330 (Revised), paragraphs 7(b) and 9

predictable relationships among financial information, non-financial information, or both, to recorded amounts (or amounts derived from recorded amounts) to detect a material misstatement.

Requirements

Results of Analytical Procedures Performed as Risk Assessment Procedures

7. When performing analytical procedures as risk assessment procedures,⁴ if the auditor identifies fluctuations or relationships that are inconsistent with other relevant information, or that differ from expected results, the auditor shall consider the effect those results have on the identification and assessment of the risks of material misstatement. (Ref: Para. A6–A7)

Substantive Analytical Procedures

8. When designing and performing substantive analytical procedures in accordance with Proposed ISA 330 (Revised),⁵ the auditor shall: (Ref: Para. A8–A9)
 - (a) Determine the suitability of substantive analytical procedures in responding to assessed risks of material misstatement at the assertion level; (Ref: Para. A10–A11)
 - (b) Develop an expectation of recorded amounts (or amounts derived from recorded amounts) based on one or more plausible and predictable relationships among financial information, non-financial information, or both. In developing such an expectation, the auditor shall: (Ref: Para. A12–A13)
 - (i) Evaluate the reliability of information from which the auditor's expectation is developed in accordance with Proposed ISA 500 (Revised);⁶ and (Ref: Para. A14–A17)
 - (ii) Determine whether the expectation is sufficiently precise to detect a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated. (Ref: Para. A18–A20)
 - (c) Determine an amount, not exceeding performance materiality,⁷ as a basis for evaluating any difference between the expectation developed by the auditor and the recorded amounts (or amounts derived from recorded amounts) that is acceptable without further investigation of whether a misstatement exists as required by paragraph 8(d); and
 - (d) If the auditor identifies a difference that exceeds the amount determined in accordance with paragraph 8(c), investigate the difference to determine whether a misstatement exists. In doing so, the auditor shall: (Ref: Para. A21–A22)
 - (i) Make inquiries of management, and as appropriate, others within or outside the entity and obtain audit evidence relevant to responses to such inquiries; and (Ref: Para. A23)
 - (ii) Perform other audit procedures as necessary in the circumstances. (Ref: Para. A24)

⁴ ISA 315 (Revised 2019), paragraph 14(b)

⁵ Proposed ISA 330 (Revised), paragraphs 6–7 and 9

⁶ Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs 11–13

⁷ ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 11 and A13

Analytical Procedures that Assist When Forming an Overall Conclusion

9. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: Para. A25–A26)
10. If, in performing analytical procedures in accordance with paragraph 9, the auditor identifies fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected results, the auditor shall investigate such differences. In doing so, the auditor shall:
 - (a) Make inquiries of management, and as appropriate, others within or outside the entity and obtain audit evidence relevant to responses to such inquiries; and (Ref: Para. A27)
 - (b) Perform other audit procedures as necessary in the circumstances. (Ref: Para. A28)

Application and Other Explanatory Material

Definitions

Analytical Procedures (Ref: Para. 6(a))

- A1. Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:
 - Comparable information for prior periods.
 - Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
 - Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- A2. Analytical procedures also include consideration of relationships, for example:
 - Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
 - Between financial information and relevant non-financial information, such as payroll costs and number of employees.
- A3. The application of planned analytical procedures is based on the expectation that one or more plausible relationships among information exist and continue in the absence of known conditions to the contrary. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.
- A4. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures and explains that analytical procedures may provide audit evidence. However, 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 at the assertion level.⁸

- A5. As explained in ISA 200,⁹ the application of professional skepticism by the auditor includes being alert to, for example, audit evidence that contradicts other audit evidence obtained and to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Designing and performing analytical procedures in an unbiased manner assists the auditor in identifying potentially contradictory information.

Results of Analytical Procedures Performed as Risk Assessment Procedures (Ref: Para. 7)

- A6. The results of analytical procedures may assist the auditor in identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised 2019). For example, the auditor may:
- Identify inconsistencies, unusual transactions or events and amounts, ratios and trends that indicate matters that may have audit implications, such as risks of material misstatement, especially those due to fraud.¹⁰
 - Become aware of information relating to other areas of the audit where risks of material misstatement had not been previously identified, or of new information that may cause the auditor to revise the identification or assessment of risks of material misstatement.¹¹
 - Consider how the results of analytical procedures may affect the design of other risk assessment procedures.

The results of analytical procedures may also assist the design of further audit procedures in accordance with Proposed ISA 330 (Revised).

- A7. In considering the effect of the results of analytical procedures performed as risk assessment procedures, the auditor may perform additional risk assessment procedures, for example, making inquiries of management, corroborated through inspection or observation. These additional risk assessment procedures may assist the auditor in refining initial expectations of risks.¹²

Example:

An auditor may perform analytical procedures by comparing current year revenue to prior periods and industry trends. If revenue has increased significantly while cost of sales or receivables remain unchanged, this may indicate that a risk of material misstatement in revenue recognition exists. To refine the auditor's initial expectations of the risks of material misstatement the auditor may conduct inquiries of management to understand the reasons for the significant or unusual fluctuations, inconsistencies or differences, such as changes in pricing strategy, customer mix or billing practices.

⁸ Proposed ISA 500 (Revised), Appendix 1

⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A21

¹⁰ ISA 315 (Revised 2019), paragraph A27

¹¹ ISA 315 (Revised 2019), paragraph 37

¹² ISA 315 (Revised 2019), paragraph 7

Substantive Analytical Procedures (Ref: Para. 8)

- A8. The auditor's substantive procedures in responding to the assessed risks of material misstatement at the assertion level may include tests of details or substantive analytical procedures. The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's professional judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.
- A9. Proposed ISA 330 (Revised)¹³ requires the auditor to respond to the risks of material misstatement in an unbiased manner. Designing and performing substantive analytical procedures to obtain audit evidence in an unbiased manner may involve, for example, avoiding using the recorded amount (or other amounts derived from the recorded amount), that is being tested when developing an expectation of recorded amounts.

Suitability of Substantive Analytical Procedures (Ref: Para. 8(a))

- A10. The auditor's determination of the suitability of substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the risks of material misstatement. Substantive analytical procedures are ordinarily more likely to provide sufficient appropriate audit evidence in response to assessed risks of material misstatement at the assertion level related to significant classes of transactions that consist of large volumes of transactions that are predictable over time. The application of planned substantive analytical procedures is based on the expectation that one or more plausible and predictable relationships among information exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular substantive analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

Examples:

- In some cases, an unsophisticated predictive model may be effective as a substantive analytical procedure. This may be the case where an entity has a known number of employees at fixed rates of pay throughout the period. In such circumstances, it may be possible for the auditor to use this information to predict the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant class of transactions in the financial statements.
- A substantive analytical procedure involving the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, may provide persuasive audit evidence, provided the information used to develop an expectation is evaluated as reliable.

¹³ Proposed ISA 330 (Revised), paragraph 8

Considerations Specific to Public Sector Entities

A11. The relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or related governmental entities and other non-for-profit public sector organizations. For example, in many public sector entities there may be little direct relationship between revenue and expenditure. Also, industry data or statistics for comparative purposes may not be available in the public sector. However, relationships may exist between revenue or expenditure and other financial or non-financial information. For example, in governmental entities, there may be a relationship among road repairs and maintenance expenses and the cost of materials used (e.g., asphalt and concrete and kilometers of road paved).

Identifying a Plausible and Predictable Relationship (Ref: Para. 8(b))

A12. When determining whether a relationship is sufficiently plausible and predictable, the auditor may consider information obtained from the auditor's understanding of the entity and its environment and other procedures performed to comply with the ISAs, which may provide information related to matters such as business changes, unusual transactions, general economic conditions and industry factors.

A13. Factors that may affect the plausibility and predictability of the relationship may include:

- The nature of the financial and non-financial information (e.g., in certain circumstances, there may be a predictable relationship between payroll expense and number of employees).
- Stability and consistency over time (e.g., relationships that have remained stable or consistent in prior periods may be more predictable over time).
- Cyclicity or seasonality (e.g., recurring cycles or seasonal trends may make a relationship more predictable).
- Complexity of the relationship (e.g., relationships affected by multiple variables may be more difficult to predict).

The plausibility and predictability of a relationship may change due to circumstances such as changes in regulatory, economic or operating environment, new business models, products or activities.

Example:

As a result of business disruptions to an entity's operations in the current period (e.g., suspended production and product deliveries that are significantly delayed), the relationship between actual sales revenue and budgeted sales revenue may no longer be plausible.

Reliability of Information (Ref: Para. 8(b)(i))

A14. Proposed ISA 500 (Revised)¹⁴ establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is reliable, which includes evaluating the reliability of the information from which the auditor's expectation is developed. In making this evaluation, the auditor is required to consider:

¹⁴ Proposed ISA 500 (Revised), paragraphs 11–13

- The source of the information (e.g., information from external sources may be less susceptible to management bias when it is less likely for management to influence such information source).
- The attributes of reliability of information that are of significance in the circumstances to meet the intended purpose of the substantive analytical procedure, including, if the information is information produced by the entity, to evaluate, to the extent necessary, the accuracy and completeness of such information.

A15. In evaluating the reliability of information from which the auditor's expectation is developed, the auditor may also consider matters such as:

- Comparability of the information (e.g., broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products).
- Form, availability, accessibility and understandability of the information (e.g., whether budgets have been established as results to be expected rather than as goals to be achieved).
- Controls addressing the preparation of the information that are designed to ensure its completeness, accuracy and validity (e.g., controls over the preparation, review and maintenance of budgets).

Such matters may be relevant irrespective of whether the auditor performs substantive analytical procedures on the entity's period-end financial statements, or at an interim date and plans to perform substantive analytical procedures for the remaining period. Proposed ISA 330 (Revised) establishes requirements and provides guidance on substantive procedures performed at an interim date.¹⁵

A16. The auditor may evaluate the reliability of the information used in performing substantive analytical procedures by testing the operating effectiveness of controls addressing the entity's preparation of information. The auditor may test the operating effectiveness of controls that address the reliability of non-financial information in conjunction with tests of controls that address the reliability of financial information.

Example:

In establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit prices. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit prices in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to other procedures to evaluate the reliability of such information.

A17. The auditor may inquire of management as to the availability and reliability of information needed to develop the auditor's expectation for use in the substantive analytical procedures, and the results of any analytical or similar procedures performed by the entity. It may be effective to use analytical information prepared by management, provided the auditor is satisfied that such information is evaluated as reliable.

¹⁵ Proposed ISA 330 (Revised), paragraphs 12–13

Determining Whether the Expectation Is Sufficiently Precise (Ref: Para. 8(b)(ii))

A18. Proposed ISA 500 (Revised) establishes requirements and guidance for evaluating whether the information intended to be used as audit evidence is relevant and sets out factors that may affect the relevance of such information.¹⁶ For a substantive analytical procedure, the level of detail of the information needed to meet the intended purpose of the audit procedure is a necessary consideration when developing a sufficiently precise expectation of recorded amounts or amounts derived from recorded amounts. As required by paragraph 8(b), a sufficiently precise expectation is based on identifying one or more plausible and predictable relationships among financial information, non-financial information or both, with such relationships expected to continue in the absence of known conditions to the contrary.

A19. Matters that may be relevant to the auditor's determination in accordance with paragraph 8(b)(ii) may include:

- The accuracy with which the expected results of substantive analytical procedures can be predicted.

Example:

The auditor may be able to develop a sufficiently precise expectation of the amount of the entity's interest expense for the period, based on the relationship between the principal amount of the entity's borrowing facility and applicable interest rates during the period.

- The degree to which information can be disaggregated.

Example:

Substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation or to financial information of components of a diversified entity, than when applied to financial statements at an aggregated level for the entity as a whole.

- The availability of information on which to base an expectation, as well as how external factors may affect such information. If the information is available, the auditor is required to evaluate the reliability of the information in accordance with paragraph 8(b)(i).

Examples:

The auditor may consider whether:

- Financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures.
- External factors, such as general economic conditions, changes in interest rates or industry trends affect financial or non-financial information.

¹⁶ Proposed ISA 500 (Revised), paragraphs 11 and A40–A41

- A20. The auditor may use technological tools when designing and performing substantive analytical procedures to assist in developing an expectation that is more precise.

Examples:

The auditor may use technological tools to analyze:

- Unstructured data from industry reports obtained directly by the auditor from external sources. By transforming the data into structured information and analyzing factors such as market growth rates, competitor performance and pricing trends, the auditor may develop a more precise expectation about the entity's performance or financial results relative to industry wide trends or conditions.
- The entity's historical monthly revenue and cost of sales information and identify a predictable relationship between revenue and cost of sales. By incorporating variables, such as seasonal trends, changes in pricing and volumes of goods sold, the technological tool may enable the auditor to develop a more precise expectation of the current period's cost of sales relative to revenue.

Investigating Results of Substantive Analytical Procedures (Ref: Para. 8(d))

- A21. When the auditor is satisfied that the expectation of recorded amounts (or amounts derived from recorded amounts) is appropriate, a difference exceeding the amount that is acceptable without further investigation ordinarily indicates a misstatement. ISA 450¹⁷ requires the auditor to consider both the size and the nature of a misstatement, and the particular circumstances of its occurrence, when evaluating whether the misstatement is material. ISA 450 also provides guidance on the circumstances that may affect the evaluation of a misstatement.¹⁸
- A22. When investigating a difference, the auditor may obtain new information of which the auditor was not aware when developing the auditor's expectation of the recorded amounts (or amounts derived from recorded amounts). In such circumstances, the auditor may revise the identification or assessment of the risks of material misstatement,¹⁹ modify the design of the substantive analytical procedures or perform other substantive procedures to determine whether there is a misstatement.
- A23. Proposed ISA 500 (Revised) explains that inquiry alone does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.²⁰ Accordingly, the auditor is required by paragraph 8(d)(i) to obtain audit evidence relevant to the responses to inquiries made of management, and as appropriate, others within and outside the entity to respond to an assessed risk of material misstatement.

Example:

In testing an entity's product sales, the auditor may develop an expectation based on quantity of products sold and the unit price. In doing so, the auditor may identify a difference from the recorded

¹⁷ ISA 450, *Evaluation of Misstatements Identified During the Audit*, paragraph 11(a)

¹⁸ ISA 450, paragraph A21

¹⁹ ISA 315 (Revised 2019), paragraph 37

²⁰ Proposed ISA 500 (Revised), Appendix 1, paragraphs 14–17

amount that exceeds the amount acceptable without further investigation. To investigate the difference, the auditor makes inquiries of management regarding the reasons for the difference, and inspects supporting documents, such as delivery reports provided by a third-party shipping company to corroborate the explanations provided by management.

- A24. The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

Analytical Procedures that Assist When Forming an Overall Conclusion

Designing and Performing Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 9)

- A25. The conclusions drawn from the results of analytical procedures designed and performed in accordance with paragraph 9 are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.
- A26. The analytical procedures performed in accordance with paragraph 9 may be similar to those that would be used as risk assessment procedures.

Investigating Results of Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 10)

- A27. In obtaining audit evidence relevant to the responses to inquiries made of management, and as appropriate, others within or outside the entity, the auditor may evaluate the consistency of such responses with:
- The auditor's understanding of the entity and its environment (e.g., general economic conditions, industry factors and the entity's history);
 - Other audit evidence obtained during the course of the audit; or
 - The auditor's prior experience on the audit or similar engagements.
- A28. In the case of analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion, the need to perform other audit procedures may arise when, for example, management responses are inconsistent with the auditor's knowledge obtained in the audit or when the results of the audit procedures performed in accordance with paragraph 10(a) are not considered adequate. The results of such analytical procedures, together with management's responses to the auditor's inquiries, may also identify a previously unrecognized risk of material misstatement. In such circumstances, the auditor is required to revise the assessment of the risks of material misstatement in accordance with ISA 315 (Revised 2019) and modify the planned further audit procedures accordingly.²¹

²¹ ISA 315 (Revised 2019), paragraph 37

International Standards on Auditing, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Review Engagements, International Standards on Sustainability Assurance, International Standards on Assurance Engagements, International Standards on Related Services, International Standards on Quality Management, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are copyright of IFAC.

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