

Exposure Draft

Proposed International Standard on
Auditing 330 (Revised)

The Auditor's Responses to Assessed Risks

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

AUGUST 2026

COMMENTS DUE: *DECEMBER 15, 2026*

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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) 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 specific to ED–330. The EMs accompanying ED–500 (2026) and ED–520 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 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330), which was approved for exposure by the IAASB in June 2026.
2. ED–330 is part of a package of three proposed revised standards of the Audit Evidence and Risk Response project, which also include Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)) and Proposed ISA 520 (Revised), *Analytical Procedures* (ED–520), 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. Enhancing the Alignment with ISA 315 (Revised 2019)¹

3. The IAASB project to revise ISA 315 (Revised 2019) was a comprehensive revision of the standard to support a robust identification and assessment of the risks of material misstatement (ROMMs) at the financial statement and assertion level. The approved revisions included introducing new concepts, terminology, strengthened requirements and application material.
4. Notwithstanding conforming and consequential amendments to other ISAs at the time ISA 315 (Revised 2019) was approved, including extant ISA 330, stakeholders have noted certain challenges which are driving a need to clarify how such concepts and revisions are linked to the work effort performed under ED–330 when designing and implementing responses to ROMM.
5. Accordingly, a specific focus for the revisions to ED–330 is to clarify how the requirements reflect, or are linked to, the work effort performed as part of the auditor's risk identification and assessment under ISA 315 (Revised 2019), including to improve the alignment of terms and concepts between these standards to increase the coherence of the suite of ISAs.
6. The enhancements of an alignment nature with ISA 315 (Revised 2019) are reflected as an integral part of the collective revisions to the requirements and application material of ED–330. The sections below highlight, as applicable, specific considerations of an alignment nature.

Section 1–B. Definitions

Future Proofing the Definition of Substantive Procedures

7. The proposals in paragraph 4(a) of ED–330 include the following refinements to the definition for substantive procedures:
 - Clarifying in the definition the *purpose* of a substantive procedure, which is to detect material misstatements at the assertion level.
 - Future proofing the definition by recognizing that substantive procedures *include*, rather than *comprise*, test of details (of classes of transactions, account balances or disclosures) or substantive analytical procedures. This change acknowledges the possibility that other

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

substantive procedures may be performed beyond tests of detail and substantive analytical procedures that are capable of detecting material misstatements at the assertion level.

8. In proposing these changes, the IAASB remained mindful of the need for the standards to stand the test of time as new approaches, enabled by technological tools, may be developed in the future driven by innovation, including ones that blend aspects of both tests of details and of substantive analytical procedures, to achieve a purpose of detecting material misstatements at the assertion level.
9. The IAASB also considered but decided against introducing a third category of substantive procedures, that would include “other *types of audit procedures* designed to detect material misstatement at the assertion level” to more explicitly accommodate “combinations of types of audit procedures” that do not fit neatly into the existing categories of substantive procedures. This was because of the IAASB’s view that a *type* of audit procedure is the means by which a *purpose* (e.g., to detect a material misstatement) is achieved.
10. In its deliberations, the IAASB also determined that substantive procedures may combine types of procedures as part of their performance. Therefore, bucketing the different types of procedures into the categories of substantive procedures is challenging. For example, irrespective of whether the auditor uses a technological tool or not:
 - A substantive analytical procedure involves developing a sufficiently precise expectation of recorded amounts (or amounts derived from recorded amounts). In establishing the reliability of the information on which an expectation is developed, which is an integral part of the procedure, the auditor may, for example, inspect a document (e.g., a rental contract).
 - Analytical procedures may be used as substantive analytical procedures. Investigating the difference of recorded amounts from expected values when necessary is an integral part of the performance of a substantive analytical procedure. Such investigation will entail inquiry and necessary corroboration, or other types of procedures, such as an inspection, to meet the purpose of detecting a material misstatement at the assertion level.
 - Developing an auditor’s point estimate to evaluate management’s point estimate includes elements of an analytical procedure (by developing an expectation such as a range) and of reperformance (by independent execution of a procedure).
 - A test of details performed on selected items from a population of transactions may involve the inspection of documents or records, inquiries of accounting personnel and recalculating certain transaction results.

Broadening the Definition of Tests of Controls

11. The IAASB discussed that, as currently defined, it is not explicit that tests of controls may be used for a purpose other than designing and performing further audit procedures to respond to an assessed ROMM at the assertion level, such as may be the case when evaluating the reliability of information intended to be used as audit evidence.
12. The proposals in paragraph 4(b) of ED–330 include revisions to the definition of tests of controls by broadening its scope to facilitate testing of the operating effectiveness of controls that operate more widely than at the assertion level. The IAASB is also proposing:
 - To clarify the *purpose* of tests of controls in the definition which is to obtain audit evidence about the operating effectiveness of controls.

- New application material in paragraph A1 of ED–330 to establish linkages with ED–500 (2026), given that a test of controls may be used to evaluate the reliability of information, in addition to obtaining audit evidence about the operating effectiveness of controls that address ROMMs at the assertion level.

Defining Tests of Details

13. The term “tests of details” is not described or defined in extant ISAs. The IAASB Glossary of Terms does provide a definition for the term “test” as *the application of procedures to some or all items in a population*. Also, some ISAs provide examples of tests of details in the context of specific matters addressed by those standards.²
14. Information gathering during the Audit Evidence and Risk Response project 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. In the case of audit sampling, for example, the categorization of procedures as substantive analytical procedures or tests of details could affect the extent to which sample sizes may be reduced based on “other substantive procedures” already performed in the circumstances.³ In addition, there is an observed diverging practice in how tests of details are interpreted when categorizing procedures performed for the purpose of detecting material misstatements. For example:
 - Some methodologies very narrowly define a test of details as a specific type of audit procedure (e.g., an inspection or examination) while others do not pursue definitions or descriptions for tests of details, mirroring the approach in the extant ISAs. Other methodologies describe tests of details rather than defining them by providing examples or guidance of what these procedures may entail (e.g., direct confirmation, tests over aspects of individual transactions or balances).
 - Some methodologies are permissive for a substantive analytical procedure that is highly precise and supported by reliable external information to be considered a test of details on the basis that it encompasses elements of an inspection or reperformance.⁴ Such interpretations may inadvertently be permitting that a substantive analytical procedure labeled as a test of details could alone be responsive to a significant risk (see paragraph 39 below).
15. The manner in which the categories of audit procedures are interpreted or understood in practice also 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. If there is uncertainty about whether certain audit procedures qualify as substantive procedures, or if there is lack of a common understanding of what the categories of substantive procedures entail, then this may risk auditors making determinations about means of selecting items for testing and the extent of testing (e.g., sample sizes) that are insufficient, such that

² For example, paragraph A90 of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, provides examples of tests of details for significant risks related to accounting estimates.

³ See Appendix 3 of ISA 530, *Audit Sampling*, that explains the more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.

⁴ For example, using a rental contract to develop an expectation for revenue which is compared to a recorded amount.

auditors may conclude that they have achieved sufficient appropriate audit evidence without having done so.

16. In order to provide clarity around key terminology used in the ISAs to better enable consistency in practice to deliver high-quality audits, the IAASB is proposing in paragraph 4(c) of ED-330 a new definition of “tests of details.” The proposed definition builds on the definition of “test” in the IAASB Glossary of Terms and specifies that tests of details include *the application of audit procedures to obtain audit evidence about each item selected for testing*. Supporting application material to the definition in paragraphs A2–A3 of ED-330 explains what a test of details may entail and provides examples of tests of details to further illustrate. It also refers to the non-exhaustive types of audit procedures addressed in Appendix 1 of ED-500 (2026) and highlights that inquiry alone does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
17. The definition for “tests of details” is also intended to apply more broadly than only to achieve a purpose of detecting material misstatements at the assertion level. For example, the auditor may perform procedures on specific items to obtain evidence about the accuracy of a document when evaluating the reliability of information intended to be used as audit evidence. The retention of the phrase “of classes of transactions, account balances or disclosures” (COTABDs) when referring to tests of details encapsulated in the definition of substantive procedures aims to differentiate this aspect further by reflecting that for tests of details to be a substantive procedure, they are performed on items that enable the auditor to draw conclusions related to COTABDs.

Section 1–C. Reinforcing the Concept of and Robustness of a Risk-Based Audit

18. This section addresses the position that the IAASB has currently taken to seek public input on its proposals to remove paragraph 18 of extant ISA 330 and replace it with enhancements to the requirements and application material in ISA 315 (Revised 2019). In doing so, the IAASB also will seek views on the other options that it considered at its December 2025 meeting.⁵ This position taken reflects a desire of the IAASB to reinforce the more robust risk assessment process that has been established under ISA 315 (Revised 2019) which is the bedrock of a risk-based audit in accordance with the ISAs. At the same time, the IAASB recognizes that these are matters that have previously been discussed and on which divergent views among stakeholders remain, and on which current performance considerations may impact. Therefore, the IAASB wishes to engage in a dialogue with stakeholders through this ED consultation to understand all perspectives and potential consequences of the proposed changes compared to other alternatives.

The Requirement in Paragraph 18 of Extant ISA 330 and its Rationale

19. Paragraph 18 of extant ISA 330 requires the auditor to design and perform substantive procedures for each material COTABD, irrespective of the assessed ROMM. This requirement applies in two circumstances, as follows:
 - When the auditor has determined that a material COTABD is not a significant COTABD.
 - When further audit procedures for a significant COTABD do not include substantive procedures (i.e., when they include only tests of controls).

⁵ See [Agenda Item 5](#) and the [approved minutes](#) of the IAASB December 2025 meeting.

20. Related application material explains that the requirement reflects the fact that: (i) the auditor's assessment of risk is judgmental and so may not identify all ROMMs, and (ii) there are inherent limitations to controls, including management override. The extant standards also explain that a COTABD is deemed to be 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.⁶
21. The rationale above; specifically, with respect to guarding against imperfect risk identification and assessment (i.e., a "safety net"), was intended to apply broadly, to address the needs of a range of stakeholder groups which rely on the IAASB standards, as follows:
 - Providing users with confidence that material COTABDs have received some level of substantive audit work.
 - Reducing the risk that auditors conclude they have obtained sufficient appropriate audit evidence when risks have not been appropriately identified or responded to.
 - Establishing a baseline level of substantive work for regulators and oversight bodies.
22. The requirement in paragraph 18 of extant ISA 330 dates back to the original issuance of ISA 330, as part of the IAASB's Audit Risk project in 2003. It pre-dates two important revisions to other ISAs, as follows:
 - The materiality standard, which established a framework for forming materiality judgments and a distinction between how the auditor applies materiality (to possible misstatements) and how financial reporting frameworks (and users) contextualize materiality; and
 - The revisions reflected in ISA 315 (Revised 2019), which substantially increased the work effort required to identify and assess ROMMs and introduced a "stand-back" to evaluate whether the determination that a material COTABD may not be a significant COTABD was appropriate (see paragraph 23 below).

Previous IAASB Decisions and Rationale

23. During the ISA 315 (Revised 2019) project, a "stand-back" requirement was introduced in paragraph 36, requiring the auditor to reevaluate, for a material COTABD that has not been determined to be a significant COTABD, whether that determination remains appropriate. The rationale for this requirement included driving the completeness of the identification and assessment of ROMMs, including the determination of significant COTABDs.
24. The IAASB recognized that both paragraph 36 of ISA 315 (Revised 2019) and paragraph 18 of extant ISA 330 serve a similar purpose: to safeguard against imperfect risk identification and assessment. However, paragraph 18 of extant ISA 330 has an additional purpose: to safeguard against an approach to further audit procedures that includes only tests of controls for an entire significant COTABD (i.e., to prevent that across all relevant assertions for a significant COTABD, only tests of controls are performed).⁷

⁶ ISA 315 (Revised 2019), paragraph A233

⁷ See the [Exposure Draft, ISA 315 \(Revised\), Identifying and Assessing the Risks of Material Misstatement](#), paragraph 66.

25. During the development of ISA 315 (Revised 2019), IAASB members expressed different views:
- Some members had the view that paragraph 18 of extant ISA 330 should no longer be necessary as the more robust risk assessment, including the “stand-back” requirement, in ISA 315 (Revised 2019) would adequately cover all material COTABDs.
 - Some members had the view that paragraph 18 of extant ISA 330 is necessary to prevent situations in which further audit procedures for an entire significant COTABD would comprise only tests of controls.
 - Some members took the view that the “stand-back” requirement in paragraph 36 of ISA 315 (Revised 2019) should not be necessary, as the enhanced risk assessment requirements in the revised standard were sufficiently robust, and paragraph 18 of extant ISA 330 could still serve its current purpose as an appropriate safeguard.
26. On balance, at the time, the Board agreed to consult with stakeholders about whether to retain one or both requirements. Based on feedback received, which was mixed, the Board did not find a compelling reason to make changes to what had been exposed and that the matter would be reconsidered in the future. Accordingly, both the “stand-back” requirement in paragraph 36 of ISA 315 (Revised 2019), and the “safety net” in paragraph 18 of ISA 330 were retained.

Varying Stakeholder Perspectives from Recent Outreach⁸

27. In the course of the Audit Evidence and Risk Response Project, the IAASB has engaged with a broad range of stakeholder groups to obtain views on paragraph 18 of extant ISA 330, including focused discussions with users of financial statements, securities and audit regulators, audit firms, Forum of Firms (FoF) representatives, Jurisdictional Standard Setters (JSS) and with members of the International Federation of Accountants (IFAC) Small and Medium Practices Advisory Group (SMPAG). In addition, this topic was discussed among participants at a roundtable in July 2025 with a diverse stakeholder representation. The roundtable convened representatives from the regulatory and audit oversight community and the auditing profession to discuss varying stakeholder perspectives for selected topics considered under the project and to inform future actions of the IAASB.
28. From the feedback, stakeholders identified challenges in consistently applying and enforcing the requirement, including determining how materiality should be considered in the circumstances, which assertions should be addressed when no relevant assertions have been identified, and the nature and extent of substantive procedures needed to satisfy the requirement. In addition, there was a range of perspectives on this matter:
- Majority of users of financial statements, regulators and SMPAG members generally supported retaining some form of safety net for material COTABDs, noting the public interest value of providing confidence that important financial statement items are subject to substantive audit work.
 - The majority of FoF members and some JSS representatives questioned that since ISA 315 (Revised 2019) was revised to provide for a more robust risk assessment, whether the requirement remains consistent with this new approach, noting that the auditor has already obtained evidence through the risk identification and assessment process supporting the

⁸ See [Agenda Item 9–A](#) discussed at the September 2025 IAASB meeting.

conclusion that a material COTABD is not significant.

29. While there were varying perspectives from the feedback on the appropriateness of either removing or retaining paragraph 18 of extant ISA 330, there was strong support among all stakeholder groups for requiring more work over financial statement items where ROMMs are identified and assessed (i.e., a risk-based audit approach).

Options to Address Paragraph 18 of Extant ISA 330

30. In the course of the Audit Evidence and Risk Response project, the Board deliberated several options to address paragraph 18 of extant ISA 330. Paragraphs 31–33 below present the Options deliberated by the IAASB at its December 2025 meeting before reaching its position reflected in the proposals of ED–330 (these are presented as **Options 1 to 3**, following the same sequence in which they were presented for the IAASB December 2025 meeting).⁹

31. **Option 1 – Remove paragraph 18 of extant ISA 330 and replace it with enhancements to ISA 315 (Revised 2019).** This would entail removing the extant requirement (paragraph 18) and related extant application material (paragraphs A43–A44) and replacing it with strengthened requirements and application material in ISA 315 (Revised 2019). This would include a documentation requirement for the basis of the auditor’s determination in accordance with paragraph 36 of ISA 315 (Revised 2019) related to material COTABDs that are not significant COTABDs, thereby enhancing the robustness of the auditor’s risk assessment procedures. In addition, the application material to the “stand-back” evaluations in paragraphs 35 and 36 of ISA 315 (Revised 2019) would be used to connect these evaluations and to further clarify their application to support a robust risk identification and assessment.

A majority of Board members supported **Option 1** given that compared to the other options it most closely aligns to the risk-based approach that underpins the ISAs (i.e., it does not undermine the risk assessment process). Members also noted that certain performance challenges cited by some stakeholder groups relating to auditors not consistently performing robust risk assessment procedures, could be better addressed by strengthening the existing requirements and application material in ISA 315 (Revised 2019) to support and clarify certain aspects of the risk assessment process. In addition, concerns about removing the safeguard that prevented performing further audit procedures comprising only tests of controls *at the significant COTABD level* would effectively be circumvented by the IAASB’s decision to incorporate in ED–330 a requirement and application material that address when it is appropriate to perform tests of controls alone *at the assertion level* for significant COTABDs (further discussed in **Section 1–E**, paragraphs 49–56).

32. **Option 2 – Retain paragraph 18 of extant ISA 330 and add refinements to the application material.** This would entail adding in the application material examples of assertions the auditor may focus on to aid operationalizing the requirement to address challenges stakeholders have cited regarding which assertions should be addressed, recognizing that for a material COTABD that is not a significant COTABD, the auditor didn’t identify any relevant assertions. In addition, the application material would be clarified to explicitly acknowledge that under certain circumstances a tests of controls alone approach to address *an assertion-level ROMM* would be appropriate in accordance with the IAASB’s decision to incorporate such approach in ED–330 (further discussed in **Section 1–E**, paragraphs 49–56).

⁹ See [Agenda Item 5](#) and the [approved minutes](#) of the IAASB December 2025 meeting.

A minority of Board members supported **Option 2**, citing the value of retaining substantive work for all material COTABDs, thereby confirming the rationale that underpinned the extant requirement, but with enhancements in the application material that reflect further considerations during the Audit Evidence and Risk Response project. In addition, these members viewed that the persuasiveness of the rationale for the other options were not as compelling as for this option to retain the status quo.

33. **Option 3 – Revise paragraph 18 of extant ISA 330 to be a conditioned on the auditor's determination and update the application material to support its implementation.** The requirement would be for the auditor to determine the need to design and perform substantive procedures for each material COTABD that has not been determined to be a significant COTABD, meaning the obligation to perform substantive procedures would apply only when specific criteria are met, such as the presence of specific information needs of users. Application material would support the auditor's exercise of professional judgment and clarify when such need may arise, including that a material COTABD that has not been determined to be a significant COTABD may nevertheless be of particular importance to users of the financial statements. The intent is that any substantive procedures are focused on, and proportionate to, the circumstances of the engagement, while avoiding unnecessary work in areas where a ROMM has not been identified. This option would continue to set a safeguard against imperfect risk assessment by retaining some level of substantive work on a conditional basis. Regarding the other safeguard in extant ISA 330 that prevents the performance of further audit procedures comprising only tests of controls *at the significant COTABD level*, the position would be the same as under Option 1 (see paragraph 31 above).

A minority of Board members supported **Option 3**. In addition, some Board members noted concerns around the ability of auditors to implement this option consistently in view that the notion of “matters that are of particular importance to users of financial statements” is difficult to interpret and apply, including how this should be considered in the context of the auditor already having made materiality judgments that account for user needs. In addition, views were expressed that this option may cause excessive costs if implemented while not resolving or adding to the practical challenges with operationalizing the extant requirement.

The IAASB Position Reflected in the Proposals of ED–330

34. On balance, the Board agreed to incorporate **Option 1** in ED–330 and the conforming and consequential amendments to ISA 315 (Revised 2019). These enhancements are reflected in the Conforming and Consequential Amendments that are included in ED–AE&RR and further explained below.
35. The IAASB is proposing the following enhancements to ISA 315 (Revised 2019) to effect **Option 1**:
- A new documentation requirement in paragraph 38(e) of ISA 315 (Revised 2019) to strengthen and clarify the documentation expectations about the basis for the auditor's determination that material COTABDs are not significant COTABDs when performing the “stand-back” evaluation in paragraph 36 of ISA 315 (Revised 2019).
 - New application material in paragraphs A204A, A230B–A233B to clarify and strengthen the “stand-back” evaluations required by paragraphs 35–36 of ISA 315 (Revised 2019), including their interaction. In addition, clarifying the focus on the inherent risk factors, rather than user needs, as potential trigger for redetermining a material COTABD as a significant COTABD, given that the auditor would already have taken user needs into account in determining

materiality.

36. In addition, the IAASB notes its proposals in paragraph 31 of ED–330 which include a new holistic evaluation relevant to further audit procedures and the proposals to reposition the overall conclusion on whether sufficient appropriate audit evidence has been obtained into ISA 700 (Revised)¹⁰ (see paragraphs 54 and 71–73 of the EM to ED–AE&RR). Individually, and collectively, such evaluations and conclusions, and the evaluations in ISA 315 (Revised 2019), support the robustness of the auditor's risk assessment and responses to assessed ROMMs.
37. In proposing the changes discussed in paragraphs 34–35 above, the Board recognized that the diversity of views expressed by members about the various options considered warranted seeking further input from stakeholders during the ED–330 consultation period. On balance, the Board believes that the position in the exposure draft is more consistent with the risk-based audit approach as encompassed by ISA 315 (Revised 2019) and with achieving the auditor's objective in an audit in accordance with ISA 200.¹¹ In addition, to support audit quality, the ISAs already include requirements that address the public interest expectation for robust risk assessment procedures (e.g., the “stand-back” evaluations required by paragraphs 35–36 of ISA 315 (Revised 2019)). Additionally, the proposed changes aim to better support auditors in delivering high quality audits by:
- Focusing their work effort on those financial statement items where ROMMs are identified and assessed.
 - Leading to more robust risk assessments through auditors needing to justify whether the risk assessment procedures provide an appropriate basis for the identification and assessment of ROMMs, including the determination where material COTABDs are not significant COTABDs.
 - Avoiding a “checklist” mentality that is cited to be driven by paragraph 18 of extant ISA 330 (i.e., an approach to defaulting to substantive procedures and which in certain instances results in the arbitrary selection of an assertion(s) to meet the requirement) and instead allow for a principle-based approach that is more scalable and allows tailoring across audits for a wide range of entities.

Section 1–D. Substantive Procedures

Designing and Performing Substantive Procedures

38. The IAASB is proposing in paragraph 9 of ED–330 a new baseline requirement for designing and performing substantive procedures in responding to assessed ROMM at the assertion level. In proposing this change, the IAASB aims to:
- Reaffirm the fundamental contribution of substantive procedures in obtaining audit evidence at the assertion level when responding to ROMM.
 - Highlight the connectivity of the requirements in the standard, thereby enhancing understandability. The requirement complements proposed paragraph 7(b) of ED–330, which specifically requires the auditor to plan to perform substantive procedures, tests of controls, or a combination of both.

¹⁰ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- Enhance the linkages between ED–330 and ISA 315 (Revised 2019) by explicitly connecting the design and performance of substantive procedures to assessed ROMM at the assertion level.

Substantive Procedures Responsive to Significant Risks

39. When the auditor has determined that an assessed ROMM at the assertion level is a significant risk, paragraph 21 of extant ISA 330 requires the auditor to design and perform substantive procedures that are specifically responsive to that risk. In addition, if the approach to a significant risk consists only of substantive procedures, then the auditor's procedures are required to include tests of details.
40. Information gathering during the Audit Evidence and Risk Response project and the IAASB's work to establish a Technology Position, indicate a landscape of growing use of technological tools by auditors. Such tools may facilitate the use of more disaggregated information when performing substantive analytical procedures, which has raised questions whether the distinction between a test of details and substantive analytical procedures in the standards remains appropriate.
41. In addition, there have been a range of views among different stakeholder groups, as outlined below, on the appropriateness of using a substantive analytical procedure as the sole response to a significant risk:
 - Monitoring Group members and regulators and audit oversight authorities disagree that such an approach should be permitted. These stakeholders have expressed concerns about the impact on audit quality by failing to adequately address significant risks in view of reoccurring challenges from inspection findings around appropriate execution of substantive analytical procedures.
 - Accounting firms, FoF representatives and certain stakeholders from Professional Accountancy Organizations, support the IAASB exploring this matter, given that the use of technological tools has the potential to enable highly precise expectations by using external information sources that provide more persuasive audit evidence than testing a selection of individual transactions.
42. The IAASB formed the view that performing a procedure that enables the auditor to evaluate the reasonableness of a recorded amount by comparing it to a sufficiently precise expectation of that amount (i.e., a substantive analytical procedure) is different in substance to a procedure from which confirming or disconfirming audit evidence can be obtained relating to items selected from the population making up that recorded amount (i.e., a test of details). Such a difference remains irrespective of whether or not technological tools are used to perform the procedures.
43. The IAASB also deliberated that the circumstances that result in an auditor's determination that an assessed ROMM is a significant risk are of relevance. Assessed risks that are determined to be significant are unlikely to relate to assertions of COTABDs that are predictable and capable of precise estimation, because by definition, they are assessed as close to the upper end of the spectrum of inherent risk. The placement on the spectrum is affected by the degree to which inherent risk factors affect the susceptibility of an assertion to material misstatement. The IAASB formed the view that these features would mean that it would be challenging for there to be applicable predictable relationships that would support an auditors' use of substantive analytical procedures alone as a response to assessed risks that have been determined to be significant.

44. Accordingly, the IAASB has retained its view from extant that substantive analytical procedures are insufficient by themselves to provide sufficient appropriate evidence to respond to a significant risk, irrespective of whether a technological tool is used or not, as reflected in paragraph 10 of ED–330. In forming its view, the IAASB also considered its proposals discussed in paragraph 7 above to broaden the definition for substantive procedures to *include* test of details and substantive analytical procedures in order to future-proof its standards. This change acknowledges the possibility that other substantive procedures may be performed beyond tests of detail and substantive analytical procedures, in combination with tests of controls, that could be specifically responsive to a significant risk.

Section 1–E. Tests of Controls

Baseline Requirement to Design and Perform Tests of Controls

45. The requirement in paragraph 14 of ED–330 retains the underlying principles from paragraph 8 of extant ISA 330 and does not mandate the performance of tests of controls. The design and performance of tests of controls remain conditional on the auditor's plans to obtain audit evidence about the operating effectiveness of controls in responding to ROMMs at the assertion level, which includes, but is not limited to, circumstances when substantive procedures alone cannot provide sufficient appropriate audit evidence.
46. While the underlying principles remain the same, the changes proposed to the requirement in paragraph 14 of ED–330 reflect:
- Restructuring the paragraph so that it opens with the conditionality to emphasize the conditional nature of the requirement.
 - Aligning with language used by ISA 315 (Revised 2019) related to the auditor's plans to perform tests of controls, to reflect in simpler terms the underlying principle inherent in the requirement.
 - Streamlining the requirement to one overarching condition, which includes the specific circumstance of responding to risks for which the auditor has determined that substantive procedures alone cannot provide sufficient appropriate audit evidence.

Substantive Procedures Alone Unable to Provide Sufficient Appropriate Audit Evidence

47. To enhance clarity and consistency of implementation, new application material, with examples and factors, is included in paragraphs A48–A49 of ED–330 that illustrate a broader range of considerations to aid auditors in consistently identifying circumstances when substantive procedures alone are unable to provide sufficient appropriate audit evidence.
48. The application material also clarifies that, in the context of when substantive procedures alone cannot provide sufficient appropriate audit evidence, the meaning of “cannot” encompasses both *impossibility* and *impracticability*. Impracticability is a different threshold that acknowledges the practical context in which audit engagements occur.¹² Therefore, in some circumstances, it may be theoretically possible, but impracticable, to design and perform substantive procedures alone to respond to an assessed ROMM at the assertion level and in such circumstances, the auditor is required to design and perform tests of controls.

¹² See, for example, ISA 200, paragraph A53.

Responding to Assessed ROMMs at the Assertion Level Through Tests of Controls Alone

Current Approach Under the Extant ISAs

49. As explained in paragraph 19 above, in complying with paragraph 18 of extant ISA 330 the auditor designs and performs substantive procedures for each material COTABD. However, because the requirement applies at the COTABD level, rather than at the assertion level, it does not require substantive procedures to be performed to address *each* relevant assertion of each significant COTABD. Accordingly, for a significant COTABD, paragraph 18 of extant ISA 330 does not prohibit a test of controls alone approach *at the assertion level*, but prevents the approach being applied for the entire COTABD.
50. Paragraph A43 of ISA 200 sets out that in an audit under the ISAs some control risk will always exist.¹³ Notwithstanding that inherent limitations in internal controls will always exist, the audit risk model is not premised on the possibility that controls in an entity are able to eliminate ROMMs; but only to reduce to an acceptably low level the risk that a material misstatement that exists is not detected.
51. At the assertion level, this means that a test of controls-only approach is possible when the auditor's assessment of ROMM at the assertion level is *at or below* the acceptably low level, *even if detection risk is not directly addressed through substantive procedures*.
52. Paragraph A4 of extant ISA 330 supports this, by clarifying that the auditor does not need to design and perform further audit procedures where the assessment of the ROMM is below the acceptably low level. This can arise in one of two circumstances:
- The auditor's assessment of inherent risk at the assertion level is *at (or below) the acceptably low level*; or
 - The auditor's assessment of inherent risk is *higher than the acceptably low level*, but the auditor's assessment of control risk in accordance with ISA 315 (Revised 2019)¹⁴ is that there are controls that are designed effectively and implemented, that address the assessed inherent risk to an extent that the "net or combined assessment"¹⁵ of ROMM at the assertion level is at (or below) the acceptably low level. In such circumstances, the auditor is required by extant ISA 330 to design and perform tests of controls to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls. If the results of the tests of controls confirm the auditor's initial expectation about the operating effectiveness of those controls, thereby confirming their assessment of control risk, the auditor need not perform substantive procedures.

¹³ Paragraph A43 of ISA 200 explains that internal control, no matter how well designed and operated, can only reduce, but not eliminate ROMM 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.

¹⁴ ISA 315 (Revised 2019, paragraph 34

¹⁵ The "net or combined assessment" of ROMM at the assertion level results from the auditor's separate assessments of inherent risk and control risk. It is the auditor's assessment of the ROMM at the assertion level after considering the effect of controls. See also the definition of ROMM in paragraph 13(n) of ISA 200.

Proposals in ED–330

53. In the course of the Audit Evidence and Risk Response project, feedback from certain stakeholders has indicated the need to clarify that the ISAs allow for relevant assertions of a significant COTABD to be addressed through tests of controls alone (i.e., that tests of controls alone are able to provide sufficient appropriate evidence that a significant COTABD is free of ROMM in relation to a relevant assertion), and in what circumstances this applies. In addition, some stakeholders have indicated views that such an approach is not permitted under extant ISAs, while other stakeholder groups note strong caution about continuing to *allow or emphasizing that* tests of controls alone are sufficient to respond to an assessed ROMM at the assertion level.
54. The IAASB formed the view that it is in the public interest to make explicit that a tests of controls alone approach to address assessed ROMMs at the assertion level is not *prohibited* by extant ISAs and remains conceptually sound and consistent with the audit risk model in a narrow range of circumstances. The IAASB also believes that addressing this circumstance explicitly in the ISAs is necessary for the standards to remain future proof so they are able to stand the test of time and continue to support quality audits in a rapidly evolving technology-driven environment. This is because in a technologically evolving environment, it may become more likely that for certain assertions of COTABDs, the audit evidence from tests of controls would be of higher quality than that which may be obtained substantively.
55. The IAASB deliberated that the standard should facilitate the auditor's judgments about when a tests of controls alone approach to address assessed ROMMs at the assertion level is appropriate as well as provide clarity about the circumstances when it may apply. Accordingly, the IAASB proposes:
 - In paragraph 16 of ED–330, a new requirement setting a “risk-based” threshold for when it is appropriate for the auditor to respond to assessed ROMMs at the assertion level through a tests of controls alone approach, including that both conditions set by the requirement need to be met. In proposing this change, the IAASB considered that with the removal of paragraph 18 of extant ISA 330 (see **Section 1–C**) there no longer is a restriction on performing only tests of controls at *the significant COTABD level* and, therefore, a need to introduce robust conditions to apply at the assertion level for significant COTABDs. The conditions in the requirement recognize that it is the combination of the level at which the inherent risk is assessed (i.e., not assessed on the higher end of the spectrum of inherent risk and not determined to be significant risks) and the auditor's expectation about the operating effectiveness of the controls that address such inherent risk (i.e., the auditor's assessment of control risk) that determines whether the ROMM at the assertion level is at an acceptably low level and that drives the auditor's professional judgment about using a tests of controls alone approach.
 - In paragraph 20 of ED–330, a new requirement setting an obligation that if an auditor intends to respond to assessed ROMMs at the assertion level through tests of controls alone, the auditor performs such tests of controls in the current period.
 - In paragraph A52 of ED–330, application material that highlights matters that the auditor may consider in determining whether such an approach is appropriate in the circumstances.
56. The IAASB also deliberated that ED–330 establishes other requirements that supplement the auditor's judgments about the appropriate use of a tests of controls only approach. For example:

- Paragraph 10 of ED–330 requires substantive procedures to be performed in responding to significant risks.
- Paragraph 31 of ED–330 introduces a new holistic evaluation that is specific to further audit procedures. The auditor is required by paragraph 32 of ED–330 to obtain further audit evidence if, based on the holistic evaluation, the auditor determines that sufficient appropriate audit evidence has not been obtained related to a relevant assertion about a COTABD. This extends to circumstances where tests of controls alone have not resulted in the ROMMs at the assertion level being at the acceptably low level. If this is the case, then the auditor is required to perform additional work to obtain sufficient appropriate audit evidence, and such work may likely involve substantive procedures.

Indirect Controls, Including General Information Technology Controls (GITCs)

57. Paragraph 10(b) of extant ISA 330 requires the auditor to determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether *it is necessary* to test the operating effectiveness of indirect controls.
58. The IAASB deliberated that the auditor's determination of which controls to test is a decision made in complying with requirements of ISA 315 (Revised 2019) (i.e., to identify certain controls including those that the auditor plans to test). Also, as acknowledged by the application material of ISA 315 (Revised 2019), the extent to which controls address an identified ROMM (i.e. an inherent risk) is an input in the auditor's assessment of control risk.¹⁶ Therefore, the IAASB considered that retaining a separate requirement in ED–330 to determine whether *it is necessary* to test indirect controls is redundant.
59. Accordingly, when redrafting the requirements for the nature and extent of tests of controls in paragraph 17 of ED–330, the “controls” referred to *already* include indirect controls when necessary. The redrafting for the requirement also retains the core principle that obtaining audit evidence about the operating effectiveness of controls requires more than inquiry alone.
60. Substantial application material has been provided in paragraphs A53–A63 of ED–330 that:
 - Explains the requirement in paragraph 17 of ED–330 applies to the aggregation of controls that the auditor has planned to test in responding to assessed ROMMs at the assertion level, which may be a combination of direct and indirect controls.
 - Retains its focus on the auditor's approach to indirect controls, including GITCs.
 - Acknowledges that, because of the indirect relationship between indirect controls and the prevention, or detection and correction of material misstatements at the assertion level, it is possible for an indirect control to not operate effectively, without affecting the auditor's conclusions about the operating effectiveness of direct controls. In such cases, the auditor would be required, in applying paragraph 17 of ED–330, to design and perform procedures that can provide audit evidence about that fact.
61. Together, these revisions seek to support consistent interpretation and practice for designing audit procedures to obtain sufficient appropriate audit evidence about the operating effectiveness of controls. Further, by clarifying that it *may* be possible to obtain audit evidence about the operating

¹⁶ ISA 315 (Revised 2019), paragraph A228

effectiveness of controls that address assessed ROMMs at the assertion level, even in the absence of effective indirect controls, and clarifying how the auditor may do so, the revisions aim to reduce a perceived barrier to auditors designing tests of controls as part of their procedures to address assessed ROMMs at the assertion level.

Impacts of Technology on Automated Controls

62. Guidance in ISA 315 (Revised 2019) explains that automated controls may be more reliable than manual controls because they cannot be as easily bypassed, ignored, or overridden, and they are also less prone to simple errors and mistakes.¹⁷ This expectation is premised on the assumption that such controls are designed and implemented to be performed using, or within, technology that produces consistent outputs. Accordingly, automated controls are understood to operate consistently throughout a period.
63. Paragraphs A59 and A62–A63 of ED–330 provide guidance that raises awareness about the possible implications of emerging technologies on the consistency of the operation of controls. The application material recognizes that in the evolving technological environment some controls may have been designed and implemented to be performed using technology that produces variable outputs or technology that changes, evolves or updates over time. The guidance also acknowledges that controls that operate in an IT system may not all operate with the same consistency, and therefore, not all automated controls are to be considered in the same way.

Using Audit Evidence Obtained in a Previous Period as Evidence in the Current Period

64. The IAASB is proposing to retain and clarify the requirements addressing the use of audit evidence about the operating effectiveness of controls obtained in previous audits to address the following key matters (paragraphs 22–23 of ED–330):
 - Align the requirements and related application material with terms and concepts addressed by ISA 315 (Revised 2019). In particular, paragraph A70 of ED–330 refers to ISA 315 (Revised 2019) which describes that 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,¹⁸ and similarly the audit evidence about the operating effectiveness of manual controls in previous audits does not provide audit evidence about the operating effectiveness of such controls in the current period.
 - Clarify the three-year baseline for retesting a control to refer to once in every third year, irrespective of how many audits are conducted during that period.
 - Emphasize that the auditor's decision about which controls should be tested each year is a matter of professional judgment.

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

65. The revisions in paragraphs 24–26 and the related application material of ED–330 aim to support more consistent practice in determining the consequences of plausible outcomes of testing controls. These changes:

¹⁷ ISA 315 (Revised 2019), Appendix 5, paragraph 2.

¹⁸ ISA 315 (Revised 2019), paragraph A180

- Require that, if deviations are identified from the expected operation of controls, inquiries alone to understand the matters and their potential consequences are not sufficient. Auditors are required to obtain audit evidence relevant to responses to such inquiries.
- Clarify that the identification of deviations from the expected operation of a control does not necessarily result in a determination that the tested controls were ineffective.
- Enhance the linkage between the outcomes of tests of controls, and the auditor's assessment of control risk.
- Explicitly require that, when the auditor does not obtain sufficient appropriate evidence about the operating effectiveness of the controls that have been tested, the auditor revises the assessment of control risk, and modifies the nature, timing and extent of substantive procedures to be performed, such that sufficient appropriate evidence can be obtained. This proposal reinforces the iterative nature of the audit and provides a clear linkage between the auditor's risk assessment and further audit procedures.

Section 1–F. Other Matters

Improvements to the Flow and Readability of ED–330

66. The IAASB has proposed reordering the requirements and related application material on substantive procedures to precede the requirements and related application material for tests of controls. In addition, the sections for *Tests of Controls* and *Substantive Procedures* have been elevated into standalone sections (in bold headings) to provide both equal prominence in the standard.

Responding to Assessed ROMM at the Assertion Level

67. ED–330 retains in paragraph 6 the baseline requirement to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed ROMM at the assertion level and clarifies that such design and performance is for each significant COTABD.
68. In addition, the revisions to paragraph 7 of ED–330 aim to:
- Enhance the alignment with the separate assessments of inherent risk and control risk required by ISA 315 (Revised 2019). In doing so, the IAASB decided to replace the extant consideration with the work effort verb “take into account,” given that in the particular context, it more clearly articulates the consequences for the other actions that the auditor takes based on the reasons for the assessment of inherent and control risk at the assertion level.
 - Make it explicit in paragraph 7(b) that when responding to assessed ROMM at the assertion level, the auditor's further audit procedures are required to be substantive procedures, tests of controls, or a combination of both, depending on the circumstances.
 - Establish a clear linkage in paragraph 7(c) between the auditor's assessment of *inherent* risk on a spectrum and the persuasiveness of the audit evidence that is required to be obtained.

Selecting Items for Testing

69. Paragraph 10 of extant ISA 500 requires the auditor, when designing tests of controls and tests of details, to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. The IAASB agreed to place this requirement in paragraph 27 of ED–330 as this ISA, rather than ED–500 (2026), addresses requirements and application material for tests of controls

and tests of details. In addition, new application material in paragraph A82 of ED–330 refers to Appendix 2 of ED–500 (2026) that continues to describe the various approaches to selecting items for testing and provides illustrative examples.

Section 2 – Questions for Respondents

70. 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–330. 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–330, 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 that the collective revisions to the requirements and application material reflected in ED–330 enhance alignment with concepts and principles addressed in ISA 315 (Revised 2019), including for terminology related matters?	Section 1–A: Paragraphs 3–6
2. Do you support the revised and new definitions for: (a) Substantive procedures? (b) Tests of controls? (c) Tests of details?	Section 1–B: Paragraphs 7–10 Paragraph 11–12 Paragraphs 13–17
3. Do you support removing paragraph 18 of extant ISA 330 (and the related application material in paragraphs A43–A44) and replacing it with strengthened requirements and application material in ISA 315 (Revised 2019)? Please also include any views you may have regarding the options that the Board deliberated in addressing this matter (see paragraphs 30–33 of Section 1–C).	Section 1–C: Paragraphs 18–37
4. For substantive procedures, do you support: (a) The new baseline requirement for designing and performing substantive procedures in paragraph 9 of ED–330? (b) Retaining the approach from extant ISA 330 that when the auditor's approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details on the basis that substantive analytical procedures are insufficient by themselves to provide sufficient appropriate evidence to respond to a significant risk?	Section 1–D: Paragraph 38 Paragraphs 39–44

Questions for Respondents	Related Section or Paragraphs in this EM
5. For tests of controls, do you support the following proposals in ED-330: (a) The principle reflected in the conditional requirement in paragraph 16 of ED-330 that makes explicit the possibility of performing tests of control alone to address ROMMs at the assertion level? (b) The circumstances in which a “tests of controls alone” approach (see (a) above) is appropriate, including the criteria (see paragraphs 16(a) and (b), 20 and the related application material) for such an approach? (c) Indirect controls, including the Board’s position that “controls” in paragraph 17 of ED-330 already include indirect controls when necessary, and the application material that has been added to clarify the auditor’s approach to indirect controls (including GITCs)? (d) The application material in paragraphs A59 and A62–A63 of ED-330 that addresses the possible impact of emerging technologies on the auditor’s considerations relating to the consistency of the operation of automated controls?	Section 1–E: Paragraphs 49–56 Paragraphs 49–56 Paragraphs 57–61 Paragraphs 62–63
6. Are there any other matters you would like to raise in relation to ED-330? 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 330 (REVISED)

THE AUDITOR'S RESPONSES TO ASSESSED RISKS

(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 responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 (Revised 2019)¹ in an audit of financial statements.

Effective Date

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

Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Substantive procedures – Audit procedures designed for the purpose of detecting material misstatements at the assertion level. Substantive procedures include tests of details (of classes of transactions, account balances or disclosures) or substantive analytical procedures.²
 - (b) Tests of controls – Audit procedures designed for the purpose of obtaining audit evidence about the operating effectiveness of controls. (Ref: Para. A1)
 - (c) Tests of details – The application of audit procedures to obtain audit evidence about each item selected for testing. (Ref: Para. A2–A3)

Requirements

Overall Responses

5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A4–A7)

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

6. The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level for each significant class of transactions, account balance and disclosure. (Ref: Para. A8–A12; A27–A32)
7. In designing the further audit procedures to be performed, the auditor shall: (Ref: Para. A13–A21)
 - (a) Take into account the reasons for the assessment of inherent risk and of control risk at the assertion level;

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

² Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 6(b) defines the term “substantive analytical procedure.”

- (b) Plan to perform substantive procedures, tests of controls, or a combination of both; and (Ref: Para. A8)
- (c) Plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. (Ref: Para. A22–A25)

Responding to Assessed Risks of Material Misstatement in an Unbiased Manner

8. The auditor shall respond to assessed risks of material misstatement in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A26)

Substantive Procedures

Designing and Performing Substantive Procedures

9. The auditor shall design and perform substantive procedures in responding to the assessed risks of material misstatement at the assertion level, unless the auditor responds to assessed risks of material misstatement at the assertion level through tests of controls alone in accordance with paragraph 16. (Ref: Para. A27–A32)

Substantive Procedures Responsive to Significant Risks

10. If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall design and perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. (Ref: Para. A33)

External Confirmation Procedures

11. The auditor shall consider whether to perform external confirmation procedures when designing substantive procedures. (Ref: Para. A34–A37)

Timing of Substantive Procedures

12. If the auditor performs substantive procedures at an interim date, the auditor shall address the period from the interim date to the period end by performing: (Ref: Para. A38–A42)
 - (a) Substantive procedures combined with tests of controls; or
 - (b) If the auditor determines that it is sufficient, further substantive procedures only.
13. If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall determine whether to modify:
 - (a) The related identification and assessment of risks of material misstatement at the assertion level, and
 - (b) The planned nature, timing or extent of substantive procedures that are responsive to such risks. (Ref: Para. A43)

Tests of Controls

Designing and Performing Tests of Controls

14. 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.³ (Ref: Para. A44–A49)
15. The auditor shall obtain more persuasive audit evidence about the operating effectiveness of controls, the greater the reliance the auditor places on such audit evidence in responding to assessed risks of material misstatement at the assertion level. (Ref: Para. A50–A51)
16. If the auditor plans to respond to assessed risks of material misstatement at the assertion level through tests of controls alone, the auditor shall only do so when:
 - (a) The inherent risk related to such risks is not assessed on the higher end of the spectrum of inherent risk and no such risks are determined to be significant risks;⁴ and
 - (b) The auditor's expectation about the operating effectiveness of the controls that address inherent risk is such that the risks of material misstatement at the assertion level are at an acceptably low level. (Ref: Para. A52)

Nature and Extent of Tests of Controls

17. In designing and performing tests of controls, the auditor shall obtain audit evidence about the operating effectiveness of the controls, including with respect to: (Ref: Para. A53–A63)
 - (a) How the controls were applied at relevant times during the period under audit;
 - (b) The consistency with which they were applied; and
 - (c) By whom or by what means they were applied.

Inquiry alone cannot provide sufficient appropriate evidence about the operating effectiveness of controls.

Timing of Tests of Controls

18. Subject to paragraphs 19–21, the auditor shall obtain audit evidence about the operating effectiveness of controls for the particular point in time, or throughout the period, for which the auditor plans to place reliance on such evidence. (Ref: Para. A64–A65)

Controls Addressing Significant Risks

19. If the auditor plans to test controls that address a risk the auditor has determined to be a significant risk, the auditor shall do so in the current period. (Ref: Para. A66)

³ ISA 315 (Revised 2019), paragraphs 33–34

⁴ ISA 315 (Revised 2019), paragraphs 12(l), 31–32

Tests of Controls Alone

20. If the auditor plans to respond to an assessed risk of material misstatement at the assertion level through tests of controls alone, the auditor shall test those controls in the current period. (Ref: Para. A66)

Using Audit Evidence Obtained During an Interim Period

21. If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period and intends to extend the conclusions of those tests of controls for the remaining period, the auditor shall:
 - (a) Obtain audit evidence about significant changes, if any, to those controls between the interim date and the period end; and
 - (b) Determine the additional audit evidence to be obtained about the operating effectiveness of the controls for the remaining period. (Ref: Para. A67–A68)

Using Audit Evidence Obtained in Previous Audits

22. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider: (Ref: Para. A66, A69)
 - (a) The assessed risks of material misstatement and the persuasiveness of audit evidence necessary in the current period to respond to the assessed risks of material misstatement;
 - (b) The risks arising from the characteristics of the control, including whether it is manual or automated; (Ref: Para. A70)
 - (c) The results of the auditor's evaluations of the entity's control environment, risk assessment process, process to monitor the system of internal controls and the information system and communication;⁵
 - (d) The audit evidence obtained in the current period related to risks arising from the use of IT, including, as applicable, about the operating effectiveness of general IT controls; (Ref: Para. A71)
 - (e) Whether the control operated effectively in the previous audit, including the nature and extent of deviations in the application of the control noted in previous audits and whether there have been changes to the design or implementation of the control that may affect its effective operation; and
 - (f) Whether the lack of a change in a particular control poses a risk due to changing circumstances. (Ref: Para. A72)
23. If, in responding to assessed risks of material misstatement at the assertion level, the auditor plans to use audit evidence about the operating effectiveness of controls that was obtained in an audit conducted within the previous three years, the auditor shall obtain audit evidence about whether significant changes have occurred since the previous audit that affect the continuing relevance or

⁵ ISA 315 (Revised 2019), paragraph A196

reliability of that audit evidence, through inquiry combined with observation or inspection, to confirm the understanding of those controls; and (Ref: Para. A73)

- (a) If there have been significant changes that affect the continuing relevance or reliability of the audit evidence from the previous audit, the auditor shall test the controls in the current period; or (Ref: Para. A74)
- (b) If there have not been significant changes that affect the continuing relevance or reliability of the audit evidence from the previous audit, the auditor shall: (Ref: Para. A75–A76)
 - (i) Test such controls at least once in every third year; and
 - (ii) Test some of those controls in the current period, to avoid the possibility of obtaining audit evidence about the operating effectiveness of such controls in a single audit and obtaining no such audit evidence in the subsequent two years.

Evaluating the Operating Effectiveness of Controls

- 24. When evaluating the operating effectiveness of controls, the auditor shall evaluate whether identified misstatements, if any, indicate that controls that have been tested may not be operating effectively. (Ref: Para. A77–A78)

Results of Tests of Controls

- 25. If the auditor identifies deviations from the expected operation of controls, the auditor shall:
 - (a) Make specific inquiries to understand these matters and their potential consequences, and obtain audit evidence relevant to responses to such inquiries; and (Ref: Para. A79)
 - (b) Determine whether: (Ref: Para. A80–A81)
 - (i) The audit evidence obtained from the tests of controls performed provides an appropriate basis for confirming the auditor's assessment of control risk;⁶ or
 - (ii) Additional tests of controls are necessary to obtain such a basis.
- 26. If the auditor is unable to obtain an appropriate basis for confirming the auditor's assessment of control risk, the auditor shall:
 - (a) Revise the assessment of control risk; and
 - (b) Modify the nature, timing and extent of substantive procedures to respond to the assessed risk of material misstatement at the assertion level.

Selecting Items for Testing

- 27. When designing tests of controls or tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the intended purpose(s) of the audit procedure. (Ref: Para. A82)

Audit Procedures Related to the Financial Statement Closing Process

- 28. The auditor shall: (Ref: Para. A83)

⁶ ISA 315 (Revised 2019), paragraphs 34 and A226

- (a) Agree or reconcile the information in the financial statements with the underlying accounting records, including agreeing or reconciling the information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
- (b) Examine material journal entries and other adjustments made during the course of preparing the financial statements.

Adequacy of Presentation of the Financial Statements

29. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:
- (a) Classification and description of financial information and the underlying transactions, events and conditions; and
 - (b) Presentation, structure and content of the financial statements. (Ref: Para. A84)

Evaluating the Sufficiency and Appropriateness of Audit Evidence

30. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement remain appropriate. (Ref: Para. A85–A86)
31. The auditor shall evaluate whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement. In doing so, 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 in the financial statements. (Ref: Para. A87)
32. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence related to a relevant assertion, the auditor shall evaluate the implications for the audit or for the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).⁷

Documentation

33. In applying ISA 230,⁸ the auditor shall include in the audit documentation:
- (a) The overall responses to address the assessed risks of material misstatement at the financial statement level;
 - (b) The nature, timing and extent of the further audit procedures performed and their linkage with the assessed risks of material misstatement at the assertion level; and
 - (c) The results of the further audit procedures performed, including the conclusions if these are not otherwise clear. (Ref: Para. A88)

⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

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

34. If the auditor uses audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached in a previous audit about the operating effectiveness of those controls.
35. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

Application and Other Explanatory Material

Definitions

Tests of Controls (Ref: Para. 4(b))

A1. Tests of controls may be performed to:

- Obtain audit evidence about the operating effectiveness of controls that address risks of material misstatement at the assertion level, thereby confirming the auditor's assessment of control risk;⁹ or
- Evaluate the reliability of information intended to be used as audit evidence, in accordance with Proposed ISA 500 (Revised).¹⁰

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

A2. A test of details may include testing aspects (e.g., date, amount or contractual terms of a transaction) of the specific items selected (e.g., an invoice) relevant to a class of transactions, account balance or disclosure. An item may also be a characteristic, circumstance, event or condition.

Examples:

- Inspecting documents (e.g., purchase orders, vendor shipping documents and vendor invoices) and agreeing information in those documents to the details recorded in the inventory sub-ledger.
- Inspecting a sample of subsequent cash receipts, shipping documentation and sales recorded near the period end to obtain audit evidence related to the completeness of sales.
- Recalculating the depreciation of selected items of property, plant and equipment.
- Inspecting the physical existence, nature and condition of an item of property, plant and equipment recorded in the entity's register of property, plant and equipment.

A3. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures that may be relevant when designing and performing a test of details and explains that inquiry alone does not

⁹ ISA 315 (Revised 2019), paragraph 34

¹⁰ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 13

provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.¹¹

Overall Responses (Ref: Para. 5)

- A4. Overall responses to address the assessed risks of material misstatement at the financial statement level may include:
- Emphasizing to the engagement team the need to maintain professional skepticism and discussing those areas on the audit where skepticism will be particularly important.
 - Assigning more experienced staff or those with specialized skills or using experts.
 - Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
 - Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
 - Changes to the overall audit strategy as required by ISA 300,¹² or planned audit procedures, and may include changes to:
 - The auditor's determination of performance materiality in accordance with ISA 320.¹³
 - The auditor's plans to test the operating effectiveness of controls, or the persuasiveness of audit evidence needed about the operating effectiveness of the controls, particularly when deficiencies in components of the entity's system of internal control have been identified.
 - The nature, timing and extent of substantive procedures.
- A5. The assessment of the risks of material misstatement at the financial statement level, and therefore the auditor's overall responses are affected by the auditor's understanding of the entity's system of internal control, in accordance with ISA 315 (Revised 2019).¹⁴ Deficiencies in the entity's control environment, risk assessment process or its process to monitor the system of internal control could have pervasive effects on the preparation of the financial statements. The auditor may have determined that deficiencies within these or other components of the entity's system of internal control affected the assessment of risks of material misstatement at the assertion level. Accordingly, the auditor's overall responses may also be reflected in the auditor's planned approach at the assertion level, by, for example:
- Conducting more audit procedures as of the period end rather than at an interim date.
 - Obtaining more extensive audit evidence from substantive procedures than from testing the operating effectiveness of controls.
 - Increasing the number of locations to be included in the audit scope.

¹¹ Proposed ISA 500 (Revised), Appendix 1

¹² ISA 300, *Planning an Audit of Financial Statements*

¹³ ISA 320, *Materiality in Planning and Performing an Audit*

¹⁴ ISA 315 (Revised 2019), paragraph A196

- A6. Such considerations, therefore, have a significant bearing on the auditor's general approach to designing further audit procedures, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).
- A7. In the absence of controls, or when significant deficiencies in the system of internal control are identified,¹⁵ the auditor may be unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. ISA 705 (Revised) establishes requirements and provides guidance that apply in such circumstances.¹⁶

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

Further Audit Procedures at the Assertion Level (Ref: Para. 6, 7(b))

- A8. The auditor's assessment of identified risks of material misstatement at the assertion level in accordance with ISA 315 (Revised 2019) provides a basis for designing and performing further audit procedures. For example, when designing further audit procedures, taking into account the reasons for the assessment of inherent risk and of control risk at the assertion level for each significant class of transactions, account balance and disclosure, the auditor may determine that:
- Performing tests of controls is necessary in combination with substantive procedures, to obtain sufficient appropriate audit evidence at the assertion level. This is the case when the auditor has identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level (see paragraph 14);¹⁷
 - Performing substantive procedures alone may provide sufficient appropriate audit evidence at the assertion level. In these circumstances, the auditor's assessment of control risk is such that the risk of material misstatement is the same as the assessment of inherent risk,¹⁸ and therefore, the effect of controls is excluded from the assessment of the risk of material misstatement at the assertion level;
 - Even though substantive procedures alone may provide sufficient appropriate evidence at the assertion level, a combined approach using both tests of controls and substantive procedures is an effective approach; or
 - Performing tests of controls alone may provide sufficient appropriate audit evidence at the assertion level. Paragraph 16 applies in such circumstances.

The auditor need not design and perform further audit procedures when the assessment of inherent risk is such that the risk of material misstatement is at an acceptably low level.

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

- A9. As explained in Proposed ISA 500 (Revised), the nature of an audit procedure is characterized by its purpose and its type.¹⁹ The nature of the further audit procedures is of most importance in responding

¹⁵ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

¹⁶ ISA 705 (Revised), paragraphs 6(b), 7(b), and 9

¹⁷ ISA 315 (Revised 2019), paragraph 33

¹⁸ ISA 315 (Revised 2019), paragraph 34

¹⁹ Proposed ISA 500 (Revised), paragraph A16

to the assessed risks.

- A10. The timing of an audit procedure refers to when it is performed, or to the period or date to which the audit evidence applies.
- A11. The extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control.
- A12. Designing and performing further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level provides a clear linkage between the auditor's further audit procedures and the risk assessment.

Designing Responses to the Assessed Risks of Material Misstatement at the Assertion Level (Ref: Para. 7)

Nature

- A13. ISA 315 (Revised 2019) requires that the auditor's assessment of risks of material misstatement at the assertion level is performed by separately assessing inherent risk and control risk.²⁰ The auditor assesses inherent risk by assessing the likelihood and magnitude of a misstatement taking into account how, and the degree to which, the inherent risk factors affect the susceptibility to misstatement of relevant assertions. The auditor's assessed risks of material misstatement at the assertion level, including the reasons for those assessments, may affect the types of audit procedures to be performed and their combination. Further, certain audit procedures may be more appropriate for some assertions than for others.

Example:

In relation to revenue, tests of controls may be more responsive to assessed risks of material misstatement related to the completeness assertion, whereas substantive procedures may be more responsive to assessed risks of material misstatement related to the occurrence assertion.

- A14. The reasons for the auditor's assessment of risks of material misstatement at the assertion level are also relevant in determining the nature of the audit procedures that may be performed to obtain audit evidence about that assertion.

Example:

If assessed risks of material misstatement at the assertion level are lower because the auditor has formed an initial expectation that controls that address the inherent risk are operating effectively, and the auditor plans to base the nature, timing and extent of the substantive procedures on that lower assessment, then the auditor designs and performs tests of those controls, as required by paragraph 14. This may be the case, for example, for classes of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

- A15. The entity's use of technologies may also be a relevant consideration in determining the nature of audit procedures. For example, if an entity has implemented complex technologies, the auditor may have determined that tests of controls are necessary, or may determine that it is necessary or more

²⁰ ISA 315 (Revised 2019), paragraphs 31 and 34

effective to use technological tools to perform certain types of audit procedures that may not practicably be performed manually. In those circumstances, the engagement partner is required to have determined, in accordance with ISA 220 (Revised),²¹ that sufficient and appropriate technological resources, which may include technological tools, are assigned or made available to the engagement team.

Timing

A16. The auditor may perform tests of controls or substantive procedures at an interim date, at period end or after the period end.

Examples:

- Performing audit procedures before the period end may assist the auditor with identifying significant matters at an early stage of the audit and consequently resolving them with the assistance of management or with developing an effective audit approach to address such matters.
- Performing audit procedures unannounced or at unpredictable times (e.g., performing audit procedures at selected locations on an unannounced basis) may be particularly relevant when considering the response to risks of material misstatement due to fraud.

A17. Certain audit procedures can be performed only at or after the period end.

Examples:

- Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.
- Inspecting adjustments made during the course of preparing the financial statements.
- Procedures to respond to assessed risks of material misstatement related to the occurrence and cutoff assertions, for example those identified because at the period end, the entity may have entered into improper sales contracts or transactions may not have been finalized.

A18. The auditor's consideration of when to perform audit procedures may also be influenced by factors such as:

- The auditor's understanding of the entity's control environment, risk assessment process and its process for monitoring the system of internal control.
- When information is available (e.g., information in digital form may subsequently be overwritten or procedures to be observed may occur only at certain times).
- The reasons for the assessment of the risk of material misstatement at the assertion level (e.g., if the inherent risk related to the occurrence assertion related to revenue is assessed higher on the spectrum of inherent risk because of an incentive to inflate revenues to meet earnings

²¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 25

expectations by the subsequent creation of false sales agreements, the auditor may plan to inspect contracts available on the date of the period end rather than at another date).

- The period or date to which the audit evidence relates.
- The timing of the preparation of the financial statements, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of financial performance, the statement of changes in equity or the statement of cash flows.

Extent

- A19. The extent of an audit procedure judged necessary is determined after considering performance materiality, the assessed risk and the persuasiveness of the audit evidence that the auditor plans to obtain. When a single purpose is met by a combination of audit procedures, the extent of each audit procedure is considered separately. In general, the extent of audit procedures increases the higher the assessed risk of material misstatement. However, increasing the extent of an audit procedure is effective only if the audit procedure itself is responsive to the reasons for the assessment of risk.
- A20. The use of technological tools may enable more effective testing of a more extensive volume of transactions which may be useful when the auditor decides or is required by paragraph 26(b) to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud.

Examples:

The auditor may use technological tools to:

- Select a sample of transactions from the entity's records in accordance with ISA 530.²²
- Consider the characteristics of a population of transactions to determine an appropriate method of selecting items for testing.
- Apply an audit procedure to each item in a population instead of applying a procedure to each item in a sample.
- Agree detailed information recorded during the period for large populations of transactions (such as dates, quantities and prices) to supporting documents (such as customer orders, invoices, shipping documents and cash receipts).

Considerations specific to public sector entities

- A21. For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.

Higher Assessment of Inherent Risk (Ref: Para. 7(c))

- A22. For assessed risks of material misstatement at the assertion level, the higher the assessment of inherent risk on the spectrum of inherent risk, the more persuasive the audit evidence is required to be. This may include increasing the quantity of the evidence obtained or obtaining evidence that is of higher quality, by altering the nature, timing and extent of further audit procedures performed.

²² ISA 530, *Audit Sampling*

Examples:

The auditor may obtain more persuasive evidence by:

- Obtaining audit evidence from multiple independent sources, including from third parties, and evaluating whether the information obtained from the sources is consistent or inconsistent, and whether it corroborates or contradicts the assertions in the financial statements.
- Performing more extensive testing for tests of controls and tests of details, such as a larger sample size for audit sampling purposes.

- A23. Significant risks are defined in ISA 315 (Revised 2019) as identified risks of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of a potential misstatement should that misstatement occur, or that is to be treated as a significant risk in accordance with the requirements of other ISAs.²³ Accordingly, paragraph 7(c) requires that the audit evidence planned to be obtained in response to such risks be more persuasive than the audit evidence that is planned to be obtained to address risks that are assessed at a lower level on the spectrum of inherent risk.
- A24. Significant risks are less likely to be subject to routine controls when they relate to non-routine and judgmental matters. However, the auditor is nonetheless required to perform procedures in accordance with ISA 315 (Revised 2019) to identify, evaluate the design and determine the implementation of controls that address such risks.²⁴ As described in ISA 315 (Revised 2019),²⁵ irrespective of whether the auditor plans to test the operating effectiveness of such controls, the auditor's understanding about management's approach to addressing significant risks may assist the auditor in designing and performing substantive procedures that are appropriately responsive to those risks.
- A25. When an assessed risk of material misstatement is treated as a significant risk in accordance with the requirements of other ISAs, the other ISAs may include audit procedures that are specifically required to be performed in order to appropriately respond to those risks. For example, in accordance with ISA 240 (Revised)²⁶ the auditor is required to design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Responding to Assessed Risks of Material Misstatement in an Unbiased Manner (Ref: Para. 8)

- A26. Designing and performing further audit procedures in an unbiased manner may assist the auditor in identifying potentially contradictory information. This may assist the auditor in exercising professional skepticism when evaluating whether the audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement at the financial statement and assertion level. Maintaining professional skepticism throughout the audit is necessary

²³ ISA 315 (Revised 2019), paragraph 12(l)

²⁴ ISA 315 (Revised 2019), paragraph 26(a)(i)

²⁵ ISA 315 (Revised 2019), paragraph A158

²⁶ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 47–48

if the auditor is, for example, to reduce the risks of using inappropriate assumptions in determining the nature, timing and extent of the further audit procedures and evaluating the results thereof.²⁷

Substantive Procedures

Nature and Extent of Substantive Procedures (Ref: Para. 6, 9)

A27. Depending on the circumstances, the auditor may determine that:

- Performing substantive analytical procedures as the only substantive procedure may provide sufficient appropriate audit evidence. For example, this may be the case when the auditor's further audit procedures also include tests of controls, or when the assessed inherent risk is not determined to be a significant risk (see paragraph 10).
- Performing tests of details, alone or in combination with tests of controls, may provide sufficient appropriate audit evidence at the assertion level.

A28. 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. Proposed ISA 520 (Revised) establishes requirements and provides guidance on performing substantive analytical procedures and on the application of analytical procedures during an audit.

A29. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures.²⁸ When designing and performing further audit procedures, the auditor may design and perform analytical procedures that are not substantive analytical procedures,²⁹ in combination with tests of controls or tests of details. The combination of such analytical procedures and tests of controls or tests of details may increase the persuasiveness of the audit evidence obtained in the circumstances.

A30. The reasons for the assessment of the risks of material misstatement at the assertion level and the nature of the relevant assertion are relevant to the design of tests of details.

Example:

Tests of details related to the existence or occurrence assertion may involve selecting from items contained in a significant class of transactions, account balance or disclosure and obtaining information about selected items. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the significant class of transactions, account balance or disclosure and performing procedures to determine whether they are included.

A31. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size.³⁰ However, other matters are also relevant, including whether other means of selecting items for testing, or a combination of means of selecting items for testing, is more effective in meeting the intended purpose of the audit procedure (see paragraph A82).

²⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A21–A25

²⁸ Proposed ISA 500 (Revised), Appendix 1

²⁹ Proposed ISA 520 (Revised), paragraphs 6(b) and 8

³⁰ ISA 530, paragraph 7

- A32. The results from substantive procedures may identify exceptions³¹ or inconsistencies³² that require further investigation to determine whether a control deviation or a misstatement exists. Other ISAs establish requirements and provide guidance that are relevant to the nature and extent of such investigation procedures.

Substantive Procedures Responsive to Significant Risks (Ref: Para. 10)

- A33. Paragraph 10 requires the auditor to perform substantive procedures, the nature, timing and extent of which are specifically responsive to risks the auditor has determined to be significant risks (see also paragraph A6).

Example:

Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining persuasive audit evidence to respond to significant risks of material misstatement, whether due to fraud or error. If the auditor identifies that management is under pressure to meet earnings expectations, there may be a risk of material misstatement due to fraud, that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may design external confirmation procedures not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 11)

- A34. External confirmation procedures are more often performed when addressing assessed risks of material misstatement at the assertion level associated with account balances, but need not be restricted to these items.

Example:

The auditor may request external confirmation of the terms of agreements, contracts or transactions between an entity and other parties. External confirmation procedures may also provide information that can be used as audit evidence about the absence of certain conditions, such as a request that specifically seeks confirmation that no "side agreements" exists that may be relevant to an entity's revenue cutoff assertion.

Other situations where external confirmation procedures may provide audit evidence in responding to assessed risks of material misstatement include:

- Bank balances and other information relevant to banking relationships.
- Accounts receivable balances and terms.

³¹ ISA 505, *External Confirmations*, paragraphs 6(e) and 14

³² Proposed ISA 500 (Revised), paragraph 17 and Proposed ISA 520, paragraphs 7, 8(d) and 10

- Inventories held by third parties at bonded warehouses for processing or on consignment.
 - Property title deeds held by lawyers or financiers for safe custody or as security.
 - Investments held for safekeeping by third parties or purchased from stockbrokers but not delivered at the balance sheet date.
 - Amounts due to lenders, including relevant terms of repayment and restrictive covenants.
 - Accounts payable balances and terms.
- A35. The information in external confirmations may provide persuasive audit evidence relating to certain assertions and less persuasive evidence about others. For example, external confirmations may provide less persuasive audit evidence relating to the valuation of accounts receivable balances, than they do of their existence.
- A36. The auditor may determine that the information obtained by performing external confirmation procedures to address assessed risks of material misstatement related to a relevant assertion may also be used as audit evidence related to another relevant assertion. For example, confirmation requests for bank balances often include requests for information relevant to other significant disclosures or other relevant assertions. Such considerations may influence the auditor's decision about whether to perform external confirmation procedures.
- A37. The auditor's decision whether external confirmation procedures are to be performed when designing substantive procedures may be influenced by factors such as:
- The confirming party's knowledge of the subject matter. Responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
 - The ability or willingness of the intended confirming party to respond. For example, the confirming party:
 - May not accept responsibility for responding to a confirmation request;
 - May consider responding too costly or time consuming;
 - May have concerns about the potential legal liability resulting from responding;
 - May account for transactions in different currencies; or
 - May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.
 - The objectivity of the intended confirming party. If the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.

Timing of Substantive Procedures (Ref: Para. 12–13)

- A38. In most cases, the audit evidence obtained from substantive procedures performed in a previous audit is not relevant for the current period. There are, however, exceptions. For example, a legal opinion obtained in a previous audit related to the structure of a securitization to which no changes have occurred, may be relevant in the current period. In such cases, it may be appropriate to use

such audit evidence if that evidence and the related subject matter have not fundamentally changed and audit procedures have been performed during the current period to evaluate whether the audit evidence from the previous audit remains relevant and reliable for the current audit.

Using Audit Evidence Obtained During an Interim Period (Ref: Para. 12)

A39. In some circumstances, the auditor may determine that it is effective to perform substantive procedures at an interim date. For example, the auditor may compare and reconcile information concerning a significant account balance at the period end with the comparable information at the interim date to:

- Identify amounts that appear unusual;
- Investigate any such amounts; and
- Perform substantive procedures for the intervening period.

A40. Factors such as the following may influence the auditor's decisions about whether to perform substantive procedures at an interim date:

- The auditor's understanding of the entity's control environment, risk assessment process and process for monitoring the system of internal control and other controls.
- The availability at a later date of information necessary for the auditor's procedures.
- The purpose of the substantive procedure.
- The assessed risks of material misstatement at the assertion level.
- The nature of the class of transactions, account balance or disclosure and the relevant assertions.
- The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

A41. Performing substantive procedures at an interim date without obtaining further audit evidence from substantive procedures that address the intervening period increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened.

A42. Factors such as the following may influence whether the substantive procedures to be performed with respect to the period between the interim date and the period end may comprise substantive analytical procedures:

- Whether the period-end balances of the particular classes of transactions or account balances are reasonably predictable with respect to amount, relative significance and composition.
- Whether the entity's procedures for analyzing and adjusting such classes of transactions or account balances at interim dates and for establishing proper accounting cutoffs are appropriate.
- Whether the information system contains information concerning the balances at the period end and the transactions in the remaining period that is sufficient to permit investigation of:
 - Significant unusual transactions or entries (including those at or near the period end);

- Other causes of significant fluctuations, or expected fluctuations that did not occur; and
- Changes in the composition of the classes of transactions or account balances.

Misstatements Detected at an Interim Date (Ref: Para. 13)

A43. When the auditor determines that the planned nature, timing or extent of substantive procedures need to be modified as a result of unexpected misstatements detected at an interim date, such modification may include extending or repeating the procedures performed at the interim date at the period end.

Tests of Controls

Designing and Performing Tests of Controls (Ref: Para. 14)

- A44. As described in ISA 315 (Revised 2019), the auditor develops an initial expectation of the operating effectiveness of controls based on the auditor's evaluation of the effectiveness of design, and the determination of implementation, of the identified controls in the control activities component, which forms the basis for the auditor's assessment of control risk.³³ Once the auditor has obtained audit evidence about the operating effectiveness of the controls, by testing those controls, the auditor will be able to confirm this initial expectation about the operating effectiveness of controls, and the assessment of control risk. If, having performed tests of controls, the auditor determines that controls are not operating effectively, in accordance with the initial expectation of the operating effectiveness of controls, the auditor is required in accordance with paragraph 26 to revise the control risk assessment and modify the nature, timing and extent of substantive procedures, to respond to the assessed risks of material misstatement at the assertion level.
- A45. In other circumstances, the auditor may not expect controls to be sufficiently precise to prevent, or detect and correct a material misstatement at the assertion level, or controls may not have been sufficiently documented by the entity for the auditor to form an expectation that they are operating effectively. In such circumstances, the auditor may design and perform further audit procedures that are primarily, or only, substantive procedures.
- A46. Testing the operating effectiveness of controls is different from obtaining an understanding of and evaluating the design and implementation of controls in accordance with ISA 315 (Revised 2019).³⁴ However, the same types of audit procedures are applied, so the auditor may obtain audit evidence about the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented. As required by Proposed ISA 500 (Revised), when the auditor uses an audit procedure for more than one purpose, the auditor evaluates whether the audit evidence obtained meets each intended purpose.³⁵
- A47. Although some risk assessment procedures may not have been specifically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls that consequently, may be used in performing tests of controls.³⁶ However, as described in ISA 315 (Revised 2019), the evidence obtained from evaluating the design and determining the

³³ ISA 315 (Revised 2019), paragraph A226

³⁴ ISA 315 (Revised 2019), paragraph 26

³⁵ Proposed ISA 500 (Revised), paragraph 10

³⁶ ISA 315 (Revised 2019), paragraph A19

implementation of identified controls in the control activities component is not sufficient to test their operating effectiveness.³⁷

When Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence (Ref: Para. 14)

A48. In some cases, the auditor may have determined, in applying ISA 315 (Revised 2019), that it is impossible or impracticable to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.³⁸ In such cases, paragraph 14 requires the auditor to perform tests of controls that address the assessed risks of material misstatement at the assertion level for which substantive procedures alone cannot provide sufficient appropriate audit evidence. In making such a determination, the auditor may have considered matters such as:

- The relevant assertion addressed by the further audit procedures.
- The extent to which information intended to be used as audit evidence about a class of transactions, account balance or disclosure is:
 - Available to the auditor from sources outside of the entity's information system.
 - Initiated, processed, recorded and reported entirely within the entity's information system.
 - Dependent on the continued operating effectiveness of controls, including general IT controls, that support the integrity of information.
- The characteristics of the class of transaction, account balance or disclosure.

These factors are non-exhaustive, and the existence of one or more factors does not always indicate that substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

Examples:

The auditor may have determined that substantive procedures alone cannot provide sufficient appropriate audit evidence when:

- An entity conducts its business using IT and transactions are initiated, processed, recorded and reported entirely within the entity's information system.
- An entity reports accounting estimates based on complex models that, for example, incorporate information from a wide range of sources internal and external to the entity, such that the accuracy of the estimate depends on the operating effectiveness of controls over the models.
- An entity operates across multiple locations that process cash sales (e.g., food and beverage outlets or retail stores), where control activities at certain points in the information processing system are necessary for achieving the entity's financial reporting objectives.

³⁷ ISA 315 (Revised 2019), paragraph A180

³⁸ ISA 315 (Revised 2019), paragraph 33

- An entity performs cycle inventory counts across multiple locations throughout the period, such that the accuracy, completeness and valuation of inventory and amounts recorded as costs of goods sold are dependent on the operating effectiveness of those controls.

A49. ISA 315 (Revised 2019)³⁹ and ISA 540 (Revised)⁴⁰ also include examples of situations in which substantive procedures alone are unlikely to provide sufficient appropriate audit evidence.

The Persuasiveness of Audit Evidence About the Operating Effectiveness of Controls (Ref: Para. 15–16)

A50. The audit evidence to be obtained about the operating effectiveness of controls is required to be more persuasive in certain circumstances than in others. For example, more persuasive audit evidence may be sought about the operating effectiveness of controls when the further audit procedures designed and performed in accordance with paragraph 6 consist primarily, or only, of tests of controls or when it is not possible or practicable to obtain sufficient appropriate audit evidence at the assertion level from substantive procedures alone.

A51. In considering the persuasiveness of the audit evidence that the auditor expects to obtain about the operating effectiveness of controls, the auditor may consider matters such as the source, form, availability and accessibility of the information expected to be available about their effective operation.

A52. As described in ISA 200, effective internal controls generally reduce but do not eliminate the risk of material misstatement.⁴¹ However, in some circumstances, based on an evaluation of the design, and determination of implementation, of controls in accordance with ISA 315 (Revised 2019),⁴² the auditor may have formed an expectation that certain controls address assessed inherent risks at the assertion level to such an extent that the risks of material misstatement at the assertion level are at an acceptably low level. Forming such an expectation is a matter of professional judgment that is affected by the extent to which the controls are sufficiently precise to address inherent risk. In making such a judgment, the auditor may consider matters such as (see also paragraph A45):

- Characteristics of the controls, including whether they are automated or manual, and whether they are preventative or detective controls, or a combination thereof. For example, the auditor may consider that a combination of preventative and detective controls is more effective at addressing the reasons for the assessment of inherent risk, such that the assessed risk of material misstatement at the assertion level is at an acceptably low level,
- The extent to which controls are specifically responsive to the reasons for, or the events or conditions that gave rise to, the identification of the risks of material misstatement at the assertion level and the assessment of inherent risk.
- Whether the auditor's expectation about the operating effectiveness of controls was formed based on controls that the entity has designed, documented and implemented in response to risks of material misstatement that were identified by the entity's risk assessment process.
- Whether controls are subject to the entity's process for monitoring their system of internal control. The auditor may have a higher expectation of effectiveness of controls when

³⁹ ISA 315 (Revised 2019), paragraph A224

⁴⁰ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A87–A89

⁴¹ ISA 200, paragraph A43

⁴² ISA 315 (Revised 2019), paragraph 26

management has established monitoring processes to evaluate the operating effectiveness of controls that they have designed and implemented.

Example:

An entity may calculate payroll expenses by capturing data through biometric devices and the automated application of hourly rates and overtime rules, with specific approvals required for editing any of the data. The auditor may determine that controls around the data capture and the automated application of rates, in combination with the general IT controls, may be able to reduce risks of material misstatement relating to the occurrence and accuracy of payroll, arising from the possibility of unauthorized editing of the rates, hours or data, to an acceptably low level. Further, the auditor may determine that the audit evidence expected to be obtained about their operating effectiveness is sufficiently persuasive to respond to such risks without the need for substantive procedures.

Nature and Extent of Tests of Controls (Ref: Para. 17)

Controls to be Tested

A53. In designing and performing tests of controls, the controls to be tested may include a combination of direct and indirect controls.⁴³ If substantially different controls were used by the entity at different times during the period under audit, each is considered separately. As described in ISA 315 (Revised 2019), direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls support the operation of direct controls.⁴⁴

Indirect Controls, including General IT Controls

A54. As described in ISA 315 (Revised 2019), the auditor may have determined that it is necessary to test a combination of controls that includes more than one direct control, or that includes a combination of direct and indirect controls.⁴⁵ For example, the auditor's assessment of control risk at the assertion level may have included an initial expectation that direct controls and the indirect controls that support the operation of those direct controls, including general IT controls, are both operating effectively. The auditor's procedures in accordance with paragraph 17 in such circumstances are therefore performed to obtain audit evidence about the operating effectiveness of both the direct and indirect controls.

A55. In other circumstances, the auditor's assessment of control risk at the assertion level may have taken into account both the auditor's initial expectation that direct controls are operating effectively, and the auditor's consideration that indirect controls may not have operated effectively.⁴⁶ In such circumstances, the auditor may determine that in order to obtain persuasive audit evidence about the operating effectiveness of controls, it is necessary to:

- Test the direct controls, and

⁴³ ISA 315 (Revised 2019), paragraph A228

⁴⁴ ISA 315 (Revised 2019), paragraph A5

⁴⁵ ISA 315 (Revised 2019), paragraph A228

⁴⁶ ISA 315 (Revised 2019), paragraph A166

- Perform audit procedures to obtain audit evidence about whether events or conditions that give rise to the risks that such an indirect control would have addressed, have occurred, and if so, whether their occurrence has affected the operation of the direct controls that they supported.

A56. Similarly, the auditor may have identified general IT controls as indirect controls that support the operation of a direct control to be tested, and may have determined that testing both the direct controls and the general IT controls is necessary to appropriately address the risk of material misstatement. However, if the auditor determined that certain general IT controls are not designed, or not operating effectively, the auditor may determine it is still possible to obtain persuasive audit evidence about the operating effectiveness of direct controls at the assertion level, by performing audit procedures that address the risks arising from the use of IT, identified in accordance with ISA 315 (Revised 2019).⁴⁷ Such procedures may address determining whether:

- The related risks arising from the use of IT have occurred.

Such audit procedures are not tests of controls and do not provide audit evidence about the operating effectiveness of general IT controls. Rather, they provide audit evidence about whether the events or conditions giving rise to risks arising from the use of IT have occurred, and whether their occurrence has affected the operating effectiveness of the direct controls that are responsive to the assessed risks of material misstatement.

Example:

If access controls are not designed effectively, and users have unauthorized access to an IT application, but cannot access or modify the system logs that track access, the auditor may inspect the system logs to obtain audit evidence about whether unauthorized users accessed the IT application during the period and consequently whether the related controls may have not operated effectively because of unauthorized access.

- There are other controls that address the related risk(s) arising from the use of IT.

If so, the auditor may identify such controls (if not already identified), evaluate their design, determine that they have been implemented, and perform tests of their operating effectiveness. Such audit procedures are tests of controls.

Example:

If a general IT control related to user access is not designed, or not operating effectively, the entity may have alternative controls in place. For example, IT management may review end user access reports on a timely basis or the entity may reconcile information that may be affected by the general IT control deficiency to external sources (e.g., a bank statement) or to other internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

A57. The auditor may have obtained audit evidence about the operating effectiveness of general IT controls when evaluating the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).⁴⁸ The auditor may consider that the audit evidence

⁴⁷ ISA 315 (Revised 2019), paragraph 26(c)(i)

⁴⁸ Proposed ISA 500 (Revised), paragraph 13

obtained from those procedures may also be used as audit evidence that contributes to achieving the purpose of the procedures required by paragraph 14.

Audit Procedures to Obtain Audit Evidence About the Operating Effectiveness of Controls

- A58. As described in ISA 315 (Revised 2019), inquiry alone is not sufficient for obtaining audit evidence about the design and implementation of identified controls.⁴⁹ Similarly, inquiry alone does not provide sufficient appropriate evidence about the operating effectiveness of controls. Accordingly, when the auditor performs inquiries, the auditor also performs other audit procedures in addition to inquiry to obtain such evidence.
- A59. Characteristics of a control, including its nature and precision, may influence the type of audit procedures required to obtain audit evidence about whether the control was operating effectively.

Examples of how the characteristics of a control may affect the type of audit procedures to be performed in obtaining audit evidence about its operating effectiveness:

- If the operating effectiveness of a control is evidenced by written documentation, the auditor may decide to inspect such written documentation to obtain audit evidence about operating effectiveness.
- Evidence about the operation of some types of controls may only exist in digital form. In such circumstances, audit evidence about operating effectiveness may be obtained through inquiry in combination with other audit procedures, including audit procedures performed by using technological tools.

Examples of how the characteristics of a control may affect the extent or the timing of audit procedures in obtaining audit evidence about its operating effectiveness:

- Manual controls and IT dependent manual controls that involve human intervention and judgment and may be more susceptible to override or error. Accordingly, as described in ISA 315 (Revised 2019), 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.⁵⁰
- Some automated controls (e.g., those designed and implemented to be performed using technology that produces consistent outputs) may be less susceptible to processing errors and may operate consistently unless the related IT application changes. In such cases, it may only be necessary to obtain audit evidence about the operating effectiveness of such controls at a point in time within the audit period, in order to have an appropriate basis on which to evaluate the operating effectiveness of such controls.
- Some controls may have been designed and implemented to be performed using technology that produces variable outputs or technology that changes, evolves or updates over time. Such characteristics may affect the auditor's decisions about the timing of the tests of controls (e.g., whether to obtain audit evidence at a point in time or at different points in time throughout the period).

⁴⁹ ISA 315 (Revised 2019), paragraph A177

⁵⁰ ISA 315 (Revised 2019), paragraph A180

A60. The persuasiveness of the audit evidence obtained from tests of controls may also be affected by the type of audit procedure performed. In this regard, inquiry combined with inspection, or the reperformance of a control may provide more persuasive audit evidence than inquiry and observation of a control activity, since an observation is pertinent only at the point in time at which it is made.

Extent of Tests of Controls

A61. When more persuasive audit evidence is needed regarding the operating effectiveness of controls, it may be appropriate to increase the extent of testing of the controls. In determining the extent of tests of controls, the auditor may consider matters such as:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the audit period for which the auditor places reliance on the audit evidence about the operating effectiveness of the control.
- The expected rate of deviations, if any, in the operation of a control and the specific conditions that may indicate there are deficiencies in controls.
- The relevance and reliability of the information used as audit evidence about the operating effectiveness of the control at the assertion level and the resulting persuasiveness of the audit evidence obtained about the operating effectiveness of controls.
- The extent to which audit evidence is obtained from tests of other controls related to the same relevant assertion.
- Whether substantive procedures have also been designed and performed in responding to assessed risks of material misstatement at the assertion level.

ISA 530⁵¹ contains further guidance on the extent of testing.

A62. For some automated controls (e.g., those that are designed and implemented using technology designed to produce consistent outputs) it may not be necessary to increase the extent of testing in order to obtain more persuasive audit evidence about their operating effectiveness. This is because such automated controls may ordinarily be expected to operate consistently unless the IT application they operate in (including the tables, files or other permanent data used by the IT application) is changed. Accordingly, once the auditor has determined that such an automated control is operating as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing other audit procedures to obtain audit evidence that the control continues to operate effectively. Such audit procedures may include those designed to test the operating effectiveness of general IT controls related to the IT application or to obtain audit evidence about whether events or conditions giving rise to risks arising from the use of IT have occurred, as described in paragraph A56.

A63. The characteristics of the IT application that the automated control operates in, and the characteristics of the automated control, may affect the auditor's judgment about the level of consistency with which an automated control is performed. For example, an auditor may assess that controls that are operated by the entity using technology that produces variable outputs or technology that changes, evolves or updates over time, are not expected to operate consistently throughout the audit period. In such circumstances, when considering whether there is a need to increase the extent

⁵¹ ISA 530, Appendix 2

of testing to obtain more persuasive audit evidence about the operating effectiveness of such controls, the auditor may consider matters such as how the entity expects the control to operate, monitors performance and identifies and responds to deviations and inconsistencies in its operation. It may be appropriate to consider whether audit evidence may be expected to be available about the operation of compensating controls or about related governance activities, monitoring controls or other supporting controls of the entity.

Timing of Tests of Controls (Ref: Para. 18)

- A64. As explained in paragraph A10, the timing of tests of controls refers to when the audit evidence about the operating effectiveness of controls is obtained, and to the particular point in time or period of time to which the audit evidence relates.
- A65. Audit evidence that a control operated effectively at only a point in time may be sufficient and appropriate in certain circumstances. For example, it may be appropriate to obtain audit evidence about the operating effectiveness of controls over the entity's physical inventory count at the period end. In other circumstances, tests that are capable of providing audit evidence about the operating effectiveness of controls at relevant times during a period are appropriate. For example, when planning to obtain audit evidence about the operating effectiveness of controls of recorded transactions throughout the period, or when performing tests of controls in the entity's process to monitor the system of internal control.

Testing Controls in the Current Period (Ref: Para. 19–20, 23)

- A66. In the circumstances described in paragraphs 19 and 20, the auditor cannot use audit evidence about the operating effectiveness of controls that was obtained in a previous audit as audit evidence about the operating effectiveness of controls in the current period.

Using Audit Evidence Obtained During an Interim Period (Ref: Para. 21(b))

- A67. In determining the additional audit evidence to obtain about the operating effectiveness of controls that were operating in an interim period, during the period remaining between the interim date and the end of the period, the auditor may consider factors such as:
- The risk of material misstatement at the assertion level that the controls are responsive to.
 - The nature or characteristics of the controls that were tested at or during the interim period, and the significance of changes to their design or implementation since they were tested, including changes in the entity's information system.
 - The persuasiveness of the audit evidence needed about the operating effectiveness of those controls.
 - The length of the period between the interim date and the period end.
 - The extent to which the auditor intends to modify the nature, timing and extent of substantive procedures based on the operating effectiveness of controls.
 - The results of the auditor's evaluations relating to the entity's control environment, risk assessment process, process to monitor the system of internal controls and the information system and communication.

- A68. Additional audit evidence may be obtained, for example, by increasing the extent of tests of direct controls to address the remaining period, or testing the indirect controls for that period which may include monitoring controls as part of the entity's system of internal control.

Using Audit Evidence Obtained in Previous Audits (Ref: Para. 22)

- A69. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence for use in the current period, if the auditor performs audit procedures to establish its continuing relevance and reliability in the current period.⁵²

Example:

In performing a previous audit, the auditor may have determined that an automated control, supported by effective general IT controls, was operating as intended. In the current audit, the auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective operation through a combination of inquiries of management, the inspection of logs indicating what controls have been changed and the testing of general IT controls that support its application, for example, those addressing unauthorized access or changes to the automated controls. Consideration of audit evidence about these changes may support the auditor's decisions about the audit evidence to be obtained in the current period about the operating effectiveness of the controls.

- A70. Manual controls are more susceptible to changes in their operation, including changes in the personnel operating them, than some automated controls (e.g., those that are designed and implemented using technology designed to produce consistent outputs). As described in ISA 315 (Revised 2019), 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.⁵³ Similarly, obtaining audit evidence in previous audits about the operating effectiveness of manual controls, does not provide audit evidence about the operating effectiveness of such controls in the current period.
- A71. When general IT controls are not designed or operating effectively, the auditor may not be able to determine whether the events or conditions giving rise to risks arising from the use of IT have affected the operation of an automated control in the current audit. Accordingly, when general IT controls are not designed or operating effectively, the auditor may be unable to determine that the audit evidence obtained in the previous period about the operating effectiveness of automated controls continues to be relevant and reliable for use as audit evidence for the current audit.
- A72. The auditor may be unable to use audit evidence about the operating effectiveness of controls obtained in a previous audit when, in the auditor's professional judgment, changing circumstances would necessitate a change in the design or operation of the controls in order to effectively address an assessed risk of material misstatement in the current period. Changing circumstances that may pose a risk if controls are not changed may include:
- Changes to risks arising from the use of IT.

⁵² Proposed ISA 500 (Revised), paragraph A7

⁵³ ISA 315 (Revised 2019), paragraph A180

- An increase in the level of assessed risk of material misstatement at the assertion level that the controls are intended to address or changes in the reasons for which such risks were identified or assessed.
- Changes in the entity's information processing activities for significant classes of transactions, account balances and disclosures that may affect the effectiveness of the control.

Changes from previous audits that affect the operating effectiveness of a control (Ref: Para. 23)

- A73. In accordance with ISA 315 (Revised 2019),⁵⁴ the auditor is required, in the current audit, to evaluate the design and determine the implementation of certain controls, including those that the auditor plans to test. Accordingly, the auditor may determine those procedures provide an appropriate basis for the auditor to confirm the understanding of the controls in the current audit, and to evaluate whether there have been significant changes in their design or implementation since the audit in which they were last tested that may affect the continuing relevance or reliability of the audit evidence previously obtained.
- A74. Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued use of such audit evidence. Such changes may include changes in the design or implementation of the control itself, related process changes or changes in the assessed risk of material misstatement that the control is intended to address. For example, changes in an IT application that enable an entity to receive a new report from the system may not affect the relevance of audit evidence from a previous audit. However, a change that causes data to be accumulated or calculated differently may do so.

Controls that have not changed from previous audits (Ref: Para. 23(b))

- A75. The auditor's decision on whether to use audit evidence obtained in an audit conducted within the previous three years, for controls that:
- Have not changed since they were last tested (see paragraph 23(a));
 - Are not controls that address a significant risk (see paragraph 19); and
 - Are not controls that address risks of material misstatement at the assertion level that the auditor plans to address through tests of controls alone (see paragraph 20).

is a matter of professional judgment. In addition, the length of time between retesting such controls is also a matter of professional judgment, but is required by paragraph 23(b)(i) to be at least once in every third year, irrespective of how many audits are conducted during that period. In general, the higher the auditor's assessment of risk of material misstatement, or the greater the persuasiveness of the audit evidence that is needed about the operating effectiveness of controls to address the risk of material misstatement, the shorter the time period elapsed, if any, is likely to be.

- A76. When there are a number of controls for which the auditor intends to use audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to use audit evidence obtained in previous audits. The auditor's decision about which of the controls should be tested each year is a matter of professional judgment.

⁵⁴ ISA 315 (Revised 2019), paragraph 26

Evaluating the Operating Effectiveness of Controls (Ref: Para. 24)

A77. The absence of misstatements detected by substantive procedures does not provide audit evidence that controls related to the assertion being tested are operating effectively. However, a material misstatement detected by the auditor's substantive procedures or other audit procedures is a strong indicator of the existence of a significant deficiency in internal control. ISA 265⁵⁵ 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, and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attention.

A78. Factors that may be relevant in making the evaluation required by paragraph 24, include:

- The nature of identified misstatements and the specific circumstances in which they occurred.
- The materiality of the misstatements, considering qualitative and quantitative characteristics.
- Whether, and the degree to which, misstatements have been identified across more than one assertion or more than one class of transactions, account balance or disclosure.

Results of Tests of Controls (Ref: Para. 25)

A79. The concept of effectiveness of operation of controls recognizes that some deviations in the way controls are applied by the entity may occur. For example, deviations from prescribed controls may be caused by factors such as changes in key personnel, changes in the information used by the entity in applying the control, unexpected fluctuations in the volume of transactions or changes in the control environment that are not directly related to the control or human error. However, not all deviations necessarily affect the operating effectiveness of the controls. ISA 265⁵⁶ establishes requirements and provides guidance related to the identification of deficiencies in internal control, including determining whether they represent significant deficiencies in internal control. Accordingly, paragraph 25(a) requires the auditor to perform audit procedures to understand the reasons for deviations identified, if any, and to use such understanding when evaluating the results of the testing performed.

A80. When the detected rate of deviation does not exceed the expected rate of deviation and such a rate of deviation had been taken into account when the auditor formed their initial judgment about the expected operating effectiveness of the control, the auditor may determine, in complying with paragraph 25(b)(i), that despite identified deviations, the audit evidence obtained provides an appropriate basis for concluding that a control operates effectively to address an assessed risk.

A81. Alternatively, the auditor may determine that the identified deviations appear to indicate that a control may not be operating effectively. In these circumstances, the auditor is required by paragraph 25(b)(ii) to determine whether additional procedures may be performed to obtain sufficient appropriate audit evidence about the operating effectiveness of controls in responding to the assessed risk(s) of material misstatement at the assertion level. Such additional procedures may include:

- Testing more instances of the same control and evaluating the results of the procedures performed on a larger sample of the population.

⁵⁵ ISA 265, paragraph 5

⁵⁶ ISA 265, paragraphs 7 and A1–A11.

- Testing the design and operating effectiveness of other controls that the entity had designed and implemented to address the same risk of material misstatement at the assertion level.

When the deviations identified relate to deviations in the operation of indirect controls, the additional procedures may include performing procedures to detect whether the risks that the controls were designed to address have occurred, such as performing procedures to detect whether risks arising from the use of IT occurred in the absence of effective general IT controls (see also paragraph A56).

Selecting Items for Testing (Ref: Para. 27)

A82. The auditor may use various means (i.e., approaches) to identify and select items for testing, such as selecting all items in a population, selecting only specific items based on criteria that are appropriate, in the auditor's professional judgment, or audit sampling, in accordance with ISA 530. The application of any one or combination of these means may be appropriate depending on the particular circumstances. Proposed ISA 500 (Revised) describes various approaches to selecting items for testing and provides illustrative examples.⁵⁷

Audit Procedures Related to the Financial Statement Closing Process (Ref: Para. 28)

A83. The nature and extent of the audit procedures related to the financial statement closing process is a matter of professional judgment, taking into account the nature and complexity of the entity's financial reporting process and the assessed risks of material misstatement related to this process.

Adequacy of Presentation of the Financial Statements (Ref: Para. 29)

A84. Evaluating the appropriate presentation, arrangement and content of the financial statements includes, for example, consideration of the terminology used as required by the applicable financial reporting framework, the level of detail provided, the aggregation and disaggregation of amounts and the bases of amounts set forth.

Evaluating the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 30–32)

A85. An audit of financial statements is a cumulative and iterative process. 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. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The extent and nature of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgment about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.
- Analytical procedures performed in accordance with paragraph 9 of Proposed ISA 520 (Revised) may indicate a previously unrecognized risk of material misstatement.

⁵⁷ Proposed ISA 500 (Revised), Appendix 2

- The auditor may become aware of previously unrecognized risks of material misstatement, because of new information related to risks arising from the entity's use of IT, as a result of evaluating general IT controls over a complex or advanced technology as ineffective.

In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on a revised consideration of the identified and assessed risks of material misstatement, whether due to fraud or error, and the effect on the significant classes of transactions, account balances or disclosures and their relevant assertions. ISA 315 (Revised 2019) established requirements and provides guidance on revising the auditor's risk assessment.⁵⁸

A86. The auditor cannot assume that an instance of fraud or error is an isolated occurrence. Therefore, the consideration of how the detection of a misstatement affects the assessed risks of material misstatement is important in determining whether the assessment remains appropriate.

A87. In evaluating whether the audit evidence obtained from the further audit procedures is, together with the audit evidence obtained from risk assessment procedures, sufficient and appropriate in responding to the assessed risks of material misstatement, the auditor may consider matters such as:

- The nature, timing and extent of the further audit procedures performed in responding to the assessed risks of material misstatement at the assertion level for each significant class of transactions, account balance and disclosure.
- The persuasiveness of the audit evidence obtained. As explained in paragraph A22, the higher the assessed inherent risk on the spectrum of inherent risk, the more persuasive the audit evidence is required to be.
- The interrelationship among relevant assertions of significant classes of transactions, account balances or disclosures, and the aggregate audit evidence obtained for each significant class of transactions, account balance or disclosure.
- The effect on the auditor's evaluation of the operating effectiveness of controls, when deviations are identified in the operation of controls that address risks of material misstatement at the assertion level, especially those for which the auditor had determined that substantive procedures alone are unable to provide sufficient appropriate audit evidence.

Documentation (Ref: Para. 33)

A88. The form and extent of audit documentation is a matter of professional judgment, which may be influenced by the nature, size and complexity of the entity and its system of internal control, the availability of information from the entity and any technological tools used in performing the audit.

⁵⁸ 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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