



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting - SUPPLEMENTARY (PUBLIC)

Wednesday, 5 August 2026

11:15 am (NZST)

Held at:

Virtual

Microsoft Teams Meeting

INDEX

Cover Page

Index

Agenda

Attached Documents:

6.4 a	6.4 Workpapers-soc-reports-in-ISA for LCE_2026.pdf.....	8
6.5 a	6.5 IAASB-explanatory-memo_2026.pdf.....	52
6.6 a	6.6 IAASB-exposure-draft_2026.pdf.....	100
9.5 a	9.5 Proposed-ISA330 (Revised) - APPROVED text.pdf.....	172
9.6 a	9.6 Proposed-ISA500 (Revised) - APPROVED text.pdf.....	203
9.7 a	9.7 Proposed-ISA520 (Revised) - APPROVED text.pdf.....	251
9.8 a	9.8 Proposed-Conforming-and-Consequential-Amendments - APPROVED.pdf.....	261
10.3 a	10.3 Summary-of-feedback-received-from-outreach_Jul 2026.pdf.....	356

AGENDA

NZAUASB BOARD MEETING - SUPPLEMENTARY (PUBLIC)



Name:	New Zealand Auditing and Assurance Standards Board
Date:	Wednesday, 5 August 2026
Time:	11:15 am to 4:30 pm (NZST)
Location:	Virtual, Microsoft Teams Meeting https://teams.microsoft.com/l/meetup-join/19%3ameeting_ZWNIYTcyYTUtZmViNS00ZTM1LThkMzktYTcyYTRjYzlxZGRj%40thread.v2/0?context=%7b%22Tid%22%3a%2253996152-4561-4986-a4e9-e98f4cb07127%22%2c%22Oid%22%3a%22b97c12ab-c641-4058-991e-63d6af4c5103%22%7d Remote Meeting only - Please join this meeting via the link above.
Committee Members:	Graeme Pinfold (Committee Chair), Darby Healey, Doug Niven, Michael Bradbury, Rebecca Palmer, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
Attendees:	Misha Pieters, Karen Tipper, Bruce McNiven, Lisa Thomas, Thinus Peyper, Sharon Walker, Catherine Thompson

1. Open Meeting (PRIVATE)
2. Standing Items (PRIVATE)
3. Discussions (PRIVATE)
4. Update (PRIVATE)
5. Board Management (PRIVATE)
6. Less complex entities (PUBLIC)

6.1 Summary paper

11:15 am (15 min)

Bruce McNiven, Lisa Thomas

For Noting

Paper

6.2 NZ consultation document

11:30 am (15 min)

For Decision

Paper

6.3 NZ exposure draft

11:45 am (15 min)

Bruce McNiven

For Decision

Paper

6.4 Mapping of proposed amendments

12:00 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

6.4.a 6.4 Workpapers-soc-reports-in-ISA for LCE_2026.pdf

8

6.5 IAASB explanatory memo

12:05 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

6.5.a 6.5 IAASB-explanatory-memo_2026.pdf

52

6.6 IAASB ED

12:10 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

6.6.a 6.6 IAASB-exposure-draft_2026.pdf

100

7. EG Au 8 approval (PUBLIC)

7.1 Summary paper

12:15 pm (10 min)

Thinus Peyper

For Noting

Late paper

7.2 Guidance

12:25 pm (20 min)

For Decision

Late paper

8. Valuation Guidance (PUBLIC)

8.1 Summary paper

12:45 pm (10 min)

Thinus Peyper

For Noting

Paper

8.2 Project Plan

12:55 pm (20 min)

For Decision

Paper

8.3 LUNCH 1:15 pm (45 min)

9. Audit evidence and risk response (PUBLIC)

9.1 Summary paper 2:00 pm (10 min)

Thinus Peyper

For Noting

Paper

9.2 Engagement plan 2:10 pm (5 min)

For Noting

Paper

9.3 NZ consultation document 2:15 pm (20 min)

For Decision

Paper

9.4 Overview of key proposals 2:35 pm (5 min)

For Noting

Paper

9.5 ED ISA 330 (approved text) 2:40 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

9.5.a	9.5 Proposed-ISA330 (Revised) - APPROVED text.pdf	172

9.6 ED ISA 500 (approved text) 2:45 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

9.6.a	9.6 Proposed-ISA500 (Revised) - APPROVED text.pdf	203

9.7 ED ISA 520 (approved text) 2:50 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

9.7.a	9.7 Proposed-ISA520 (Revised) - APPROVED text.pdf	251

9.8 Conforming and consequential amendments (approved text) 2:55 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

9.8.a	9.8 Proposed-Conforming-and-Consequential-Amendments - APPROVED.pdf	261

10. Interim review engagements (PUBLIC)

10.1 Summary paper 3:00 pm (10 min)

Sharon Walker

For Noting

Paper

10.2 Draft response 3:10 pm (30 min)

For Decision

Paper

10.3 Summary of feedback from outreach 3:40 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

10.3.a	10.3 Summary-of-feedback-received-from-outreach_Jul 2026.pdf	356

10.4 AFTERNOON TEA 3:45 pm (15 min)

11. Sustainability implementation support (PUBLIC)

11.1 Summary paper 4:00 pm (5 min)

Karen Tipper

For Noting

Paper

11.2 Illustrative report 4:05 pm (10 min)

For Decision

Paper

12. Technology implementation support (PUBLIC)

12.1 Summary paper 4:15 pm (15 min)

Karen Tipper

For Noting

Paper

13. Board Management (PRIVATE)

14. Close Meeting (PRIVATE)

14.1 Closing

4:30 pm

For Noting

Next meeting: NZAuASB meeting - 14 Oct 2026, 10:00 am

Supplementary: Mapping of proposed amendments

The purpose of this document is to document the proposed amendments to be presented in the exposure draft *Amendments to the ISA (NZ) for LCE 2026*. Section 2, provides a mapping document of the proposed changes.

This mapping document illustrates how the requirements from ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation* have, or have not, been incorporated as amendments of the ISA (NZ) for LCE. Prepared by XRB staff, this document is not an authoritative pronouncement of the XRB. It was created to facilitate the review of the proposed amendments to the ISA (NZ) for LCE and does not form part of the materials on which we are seeking views. This document analyses each ISA (NZ) 402 paragraph, using the IAASB's Alignment principles, to determine what elements should, or should not, be included in the ISA (NZ) for LCE. It does not aim to exhaustively explain the reasons behind each adjustment. The below is ordered by the paragraph numbering of ISA (NZ) 402 but it will not necessarily line up with the flow of the content of the standard.

Contents

1. What needs changing in the ISA (NZ) for LCE?	1
2. What requirements need to be included in the ISA (NZ) for LCE	2

1. What needs changing in the ISA (NZ) for LCE?

Remove part of EEM above A3: ...

- Also, the ISA (NZ) for LCE does not include any requirements addressing:
 - Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.
 - When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.
 - ~~When the auditor intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.~~

Edit part of EEM below 6.3.11:

The service organisation may have engaged a service auditor to provide a report on the description and design (a type 1 report), or on the description, design and operating effectiveness (a type 2 report), of controls at the service organisation. Such reports may assist provide information for the auditor in obtaining an understanding of the user entity's system of internal control. ~~However, this standard has not been designed for, and therefore does not include requirements to address, the auditor's use of such reports as~~ A type 1 report or type 2 report may also be used as audit evidence about the design, and implementation of controls at the service organisation, and a type 2 report may be used as audit evidence about the or operating effectiveness of controls at the service organisation.

Supplementary: Mapping of proposed amendments

Additional amendment that we will include in this exposure draft:

We are also making one very small amendment to a bullet point in the illustrative auditor's reports and engagement letters. The amendment replaces references to disclosures made by [management and those charged with governance] with [management] to align with paragraph at 9.2.4. (c), which states that the auditor evaluates whether "the accounting estimates and related disclosures made by management are reasonable".

Adjust audit report content at 11.14.1 and NZ9.4.1

As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

...

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and Those Charged with Governance].

Adjust Engagement letters at Appendix 2 and Appendix 2A

We will conduct our audit in accordance with the ISA (NZ) for LCE. The ISA (NZ) for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

...

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management and those charged with governance].

Guidance that will need changing

Supplemental guidance for the authority, which also refers to type 1/type 2 reports. This will be amended prior to the release of the amended ISA (NZ) for LCE.

2. What requirements need to be included in the ISA (NZ) for LCE

The following is based on the drafting principles of the ISA for LCE, summarised in the [June 2024 supplementary papers](#), page 20, and taking into account the latest CUSP [drafting principles and guidelines](#). We have also reviewed the IAASB's mapping documents <https://www.iaasb.org/publications/mapping-documents-isas-proposed-isa-lce>, relevant IAASB board papers, relevant XRB workpapers used in the development of the standard.

Our approach to developing the exposure draft is to:

- consider the requirements of ISA (NZ) 402 and determine which requirements are relevant for the circumstances of New Zealand LCEs;
- where relevant, consider how to make requirements proportionate for LCEs;
- determine what application material to include as EEM; and
- consider what other changes need to be made to the current standard, e.g., removing the current restrictions on relying on controls reports as audit evidence.

Supplementary: Mapping of proposed amendments

The following sets out the requirements and application material from ISA (NZ) 402 and documents our thinking as to whether content should be included as requirements or EEM in the ISA (NZ) for LCE.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
Introduction: Scope of this ISA (NZ)	1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations. Specifically, it expands on how the user auditor applies ISA (NZ) 315 (Revised 2019) ¹ and ISA (NZ) 330 ² in obtaining an understanding of the user entity, including the entity's system of internal control relevant to the preparation of the financial statements, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.	n/a	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No. Not relevant to this standard. Should / could the requirement be revised or modified for the circumstances of an LCE? - Do the changes result in requirements that still achieve reasonable assurance? -
	2. Many entities outsource aspects of their business to organisations that provide services ranging from performing a specific task under the direction of an entity to replacing an entity's entire business units or functions, such as the tax compliance function. Many of the services provided by such organisations are integral to the entity's business operations; however, not all those services are relevant to the audit.	<i>Included as EEM at 6.3.11.</i>	No further adjustment required to ISA (NZ) for LCE
	3. Services provided by a service organisation are relevant to the audit of a user entity's financial statements when those services, and the controls over them, are part of the user entity's information system, the preparation of the financial statements. Most controls at the service organisation are likely to be part of the user entity's information system relevant to the preparation of the financial statements, or related controls, such as controls over the safeguarding of	<i>EEM at 6.3.11 The services of a service organisation are relevant to the entity's process to prepare its financial statements when those services, and the controls over them, are part of, or affect the process described in paragraph 6.3.8.</i>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No. Not relevant to this standard. It is background in nature. The first sentence of para 3 of ISA (NZ) 402 essentially repeats the definition of service organisation. The rest of para 3 is summarised in the current EEM at 6.3.11 and is considered sufficient. Should / could the requirement be revised or modified for the circumstances of an LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	assets. A service organisation's services are part of a user entity's information system if these services affect any of the following: a. How information relating to significant classes of transactions, account balances and disclosures flows through the user entity's information system, whether manually or using IT, and whether obtained from within or outside the general ledger and subsidiary ledgers. This includes when the service organisation's services affect how: i. Transactions of the user entity are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and ii. Information about events or conditions, other than transactions, is captured, processed and disclosed by the user entity in the financial statements. b. The accounting records, specific accounts in the user entity's financial statements and other supporting records relating to the flows of information in paragraph 3(a); c. The financial reporting process used to prepare the user entity's financial statements from the records described in paragraph 3(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions,		Do the changes result in requirements that still achieve reasonable assurance? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	account balances and disclosures; and d. The entity's IT environment relevant to (a) to (c) above		
	4. The nature and extent of work to be performed by the user auditor regarding the services provided by a service organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit.	<i>EEM at 6.3.11</i> <i>The auditor's understanding helps to inform the auditor about the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, which affect the nature and extent of work to be performed by the auditor regarding the services provided by a service organisation.</i>	No change needed to ISA for LCE
	5. This ISA (NZ) does not apply to services provided by financial institutions that are limited to processing, for an entity's account held at the financial institution, transactions that are specifically authorised by the entity, such as the processing of cheque account transactions by a bank or the processing of securities transactions by a broker. In addition, this ISA (NZ) does not apply to the audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders.	Add EEM to 6.3.11 <u>Service organisations do not include financial institutions that only process transactions for an entity's account held at the financial institution in accordance with the entity's specific authorisation, for example, the processing of account transactions by a bank or securities transactions by a broker.</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes, BUT as essential explanatory material. As this is an introductory paragraph in ISA (NZ) 402, we consider that adding as EEM is suitable. Should / could the requirement be revised or modified for the circumstances of an LCE? propose adding as EEM to 6.3.11 The first part of para 5 provides more clarity on what is a service organisation. Added after discussions with stakeholders that it may help to add Cheques not used in NZ, change to "account transactions" – this is consistent with terminology in EG Au8, para 4, (ie current practice) The second part of para 5. is unlikely to apply in the case of an audit of a less complex entity. Do the changes result in requirements that still achieve reasonable assurance? Yes

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
Objectives	7. The objectives of the user auditor, when the user entity uses the services of a service organisation, are: a. To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement; and b. To design and perform audit procedures responsive to those risks.		Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No, general objectives are in Part 6 and Part 7 Should / could the requirement be revised or modified for the circumstances of an LCE? - Do the changes result in requirements that still achieve reasonable assurance? -
Definitions	8. For purposes of the ISAs (NZ), the following terms have the meanings attributed below: a. Complementary user entity controls – Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.	Appendix 1, Glossary <u>Complementary user entity controls – Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes – add this definition to the glossary section. Should / could the requirement be revised or modified for the circumstances of an LCE? No Do the changes result in requirements that still achieve reasonable assurance? -
	b. Report on the description and design of controls at a service organisation (referred to in this ISA (NZ) as a type 1 report) – A report that comprises: i. A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and	<u>Type 1 report – A report on the description and design of controls at a service organisation, a report that comprises:</u> i. <u>A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and implemented as at a specified date; and</u> ii. <u>A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes – add this definition to the glossary section. Should / could the requirement be revised or modified for the circumstances of an LCE? Yes, change definition introduction to type 1 report - for greater understandability Do the changes result in requirements that still achieve reasonable assurance? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	implemented as at a specified date; and ii. A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.	<u>description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.</u>	
	c. Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in this ISA (NZ) as a type 2 report) – A report that comprises: i. A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and ii. A report by the service auditor with the objective of conveying reasonable assurance that includes: a. The service auditor's opinion on the description of the service	<u>Type 2 report – A report on the description, design, and operating effectiveness of controls at a service organisation that comprises:</u> i. <u>A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and</u> ii. <u>A report by the service auditor with the objective of conveying reasonable assurance that includes:</u> <u>a. The service auditor's opinion on the description of the service organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes – add this definition to the glossary section. Should / could the requirement be revised or modified for the circumstances of an LCE? Yes, change definition introduction to “type 2 report” - for greater understandability (and better navigation to the definition in the standards navigator) Do the changes result in requirements that still achieve reasonable assurance? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and b. A description of the service auditor's tests of the controls and the results thereof.	<u>b. A description of the service auditor's tests of the controls and the results thereof.</u>	
	d. Service auditor – An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation. e. Service organisation – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.	<u>Service auditor - An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.</u> <u>Service organisation - A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are relevant to a user entity's process to prepare its financial statements.</u>	No further adjustment required to ISA (NZ) for LCE
	f. Service organisation's system – The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report.	<u>Service organisation's system – The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes – add this definition to the glossary section. Should / could the requirement be revised or modified for the circumstances of an LCE? No Do the changes result in requirements that still achieve reasonable assurance? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	g. Subservice organisation – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting. h. User auditor – An auditor who audits and reports on the financial statements of a user entity.	Subservice organisation – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Partly – have added definition of subservice organisation as it may be applicable in the context of an audit of a LCE. User auditor is not a term used in the ISA (NZ) for LCE, so will not be added as it is not applicable Should / could the requirement be revised or modified for the circumstances of an LCE? No change to the 402 definition of subservice organisation Do the changes result in requirements that still achieve reasonable assurance? Yes
	i. User entity – An entity that uses a service organisation and whose financial statements are being audited.	User entity—An entity that uses a service organisation and whose financial statements are being audited.	No further adjustment required to ISA (NZ) for LCE
Requirements Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control	9. When obtaining an understanding of the user entity in accordance with ISA (NZ) 315 (Revised 2019),³ the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including: (Ref: Para. A1-A2) a. The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control; (Ref: Para. A3-A5) b. The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation; (Ref: Para. A6) c. The degree of interaction between the activities of the service organisation and those of the user entity; and (Ref: Para. A7)	Understanding the Services Provided by a Service Organisation 6.3.11. If the entity uses the services of a service organisation and those services are relevant to the entity's process to prepare its financial statements, the auditor's understanding in accordance with paragraphs 6.3.8. shall include: (a) The nature of the services provided by the service organisation and the significance of those services to the entity including the effect thereof on the user entity's system of internal control; (b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation; (c) The degree of interaction between the activities of the service organisation and those of the user entity; and (d) The relevant contractual terms for the activities undertaken by the service organisation.	No further adjustment required to ISA (NZ) for LCE

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	d. The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation. (Ref: Para. A8-A11)	...	
	10. When obtaining an understanding of the entity's system internal control in accordance with ISA (NZ) 315 (Revised 2019), the user auditor shall identify controls in the control activities component ⁴ at the user entity, from those that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation and evaluate their design and determine whether they have been implemented. ⁵ (Ref: Para. A12-A14)	6.3.42~~16~~ The auditor shall obtain an understanding of the entity's control activities by identifying controls that address risks of material misstatement at the assertion level as set out below. For each control identified in (a)—(e) below, the auditor shall perform procedures, beyond enquiry, to evaluate whether the control is designed effectively and has been implemented: a. Controls that address risks determined to be significant risks; b. Controls over journal entries, including journal entries to record non-recurring, unusual transactions or adjustments; c. Controls, if any, for which the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive testing, including those controls that address risks for which substantive procedures alone are not enough to obtain sufficient appropriate audit evidence; and d. Controls, if any, related to significant transactions and arrangements with related parties, and significant transactions and arrangements outside the normal course of business. e. Controls, if any, in (a) to (d) at the user entity related to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation.	No further adjustment required to ISA (NZ) for LCE

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	11. The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control has been obtained to provide an appropriate basis for the identification and assessment of the risks of material misstatement.	6.3.11 ... The auditor's understanding shall be sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement.	No further adjustment required to ISA (NZ) for LCE
	12. If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures: a. Obtaining a type 1 or type 2 report, if available; b. Contacting the service organisation, through the user entity, to obtain specific information; c. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or d. Using another auditor to perform procedures that will provide the necessary information about controls at the service organisation. (Ref: Para. A15-A20)	-	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? We would not include ISA (NZ) 402 paragraph 12 in the ISA (NZ) for LCE because it prescribes detailed "how to" procedures for obtaining an understanding when information from the entity is insufficient, whereas the ISA (NZ) for LCE is drafted at a higher level and generally avoids prescribing that level of procedural detail. The standard already requires the auditor to obtain a sufficient understanding and sufficient appropriate audit evidence, so specifying these particular follow-up procedures is not necessary to achieve reasonable assurance. Should / could the requirement be revised or modified for the circumstances of an LCE? - Do the changes result in requirements that still achieve reasonable assurance? -
<i>Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation</i>	13. In determining the sufficiency and appropriateness of the audit evidence provided by a type 1 or type 2 report, the user auditor shall be satisfied as to: a. The service auditor's professional competence and independence from the service organisation; and	Use of a Type 1 report or Type 2 report NZ 6.3.13. If the auditor intends to use a type 1 report or type 2 report as audit evidence, the auditor shall evaluate: a. the professional competence of the service auditor; b. the independence of the service auditor from the service organisation;	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant where the auditor intends to use a type 1 report or type 2 report as audit evidence. Should / could the requirement be revised or modified for the circumstances of an LCE? Yes. The ISA (NZ) 402 requirement can be simplified and adapted for the ISA (NZ) for LCE by:

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	b. The adequacy of the standards under which the type 1 or type 2 report was issued. (Ref: Para. A21)	<u>c. the adequacy of the standards applied in the type 1 report or type 2 report; and</u> <u>d. whether the report is as at an appropriate date or covers an appropriate time period.</u>	- making the requirement conditional on the auditor intending to use a type 1 report or type 2 report as audit evidence - using clearer ISA (NZ) for LCE drafting, such as requiring the auditor to evaluate the specified matters (Being satisfied does not indicate a level of work effort required. Using the CUSP drafting principles, recommend using “evaluate” as this requires the auditor to reach a conclusion.) - separating competence and independence into distinct items - including the timing consideration expressly, currently in paras 14 (a) and 17 (a) of ISA (NZ) 402 so the auditor evaluates whether the report is as at an appropriate date or covers an appropriate period Do the changes result in requirements that still achieve reasonable assurance? Yes. The revised requirement still achieves reasonable assurance because it requires the auditor to determine whether the type 1 report or type 2 report provides sufficient appropriate audit evidence for the intended purpose and to evaluate the key matters affecting reliability and relevance of that evidence, namely the service auditor’s competence and independence, the adequacy of the standards applied, and the appropriateness of the date or period covered by the report.
	14.If the user auditor plans to use a type 1 or type 2 report as audit evidence to support the user auditor’s understanding about the design and implementation of controls at the service organisation, the user auditor shall: a. Evaluate whether the description and design of controls at the service organisation is at a date or for a period that is appropriate for the user auditor’s purposes;	<u>6.3.15 If the auditor intends to use a type 1 report or type 2 report as audit evidence to support the auditor’s understanding about the design and implementation of controls at the service organisation, the auditor shall:</u> <u>a. Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant and appropriate where the auditor intends to use a type 1 report or type 2 report as audit evidence to support the auditor’s understanding of the design and implementation of controls at the service organisation. Should / could the requirement be revised or modified for the circumstances of an LCE?

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	b. Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the user entity's controls at the service organisation; and c. Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. (Ref: Para. A22-A23)	<u>entity has designed and implemented such controls; and</u> <u>b. Evaluate whether the report provides sufficient appropriate audit evidence to support the auditor's understanding of the design and implementation of controls at the service organisation.</u>	Yes. The requirement can be revised for the ISA (NZ) for LCE by simplifying and reordering the source requirements. In particular, paragraph 14(a) of ISA (NZ) 402 has been moved into the previous paragraph because that timing consideration is common to both use of a type 1 or type 2 report to support the auditor's understanding and use of a type 2 report as audit evidence of operating effectiveness. The revised requirement also uses clearer ISA (NZ) for LCE drafting by making it conditional on the auditor intending to use the report, retaining the requirement to consider complementary user entity controls, and expressing the evidential assessment more directly. Do the changes result in requirements that still achieve reasonable assurance? Yes. The revised requirement still achieves reasonable assurance because it requires the auditor to consider whether complementary user entity controls are relevant and, if so, whether the entity has designed and implemented them, and to evaluate whether the report provides sufficient appropriate audit evidence to support the auditor's understanding of the design and implementation of controls at the service organisation. Moving the common timing consideration to the previous paragraph does not reduce the level of assurance achieved.
Responding to the Assessed Risks of Material Misstatement	15. In responding to assessed risks in accordance with ISA (NZ) 330, the user auditor shall: a. Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and, if not, b. Perform further audit procedures to obtain sufficient appropriate audit evidence or use another auditor to	<i>Using the Services of a Service Organisation</i> 7.4.28. If the entity is using the services of a service organisation, the auditor shall: a. Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available at the entity; and, if not, b. Perform further audit procedures to obtain sufficient appropriate audit evidence.	No further adjustment required to ISA (NZ) for LCE

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	perform those procedures at the service organisation on the user auditor's behalf. (Ref: Para. A24-A28)		
<i>Tests of Controls</i>	16. When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures: - Obtaining a type 2 report, if available; - Performing appropriate tests of controls at the service organisation; or - Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor. (Ref: Para. A29-A30)	<u>7.4.29.If the auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the auditor shall obtain audit evidence about the operating effectiveness of those controls.</u> <u>The auditor may obtain audit evidence about the operating effectiveness of controls at the service organisation by:</u> <u>Obtaining a type 2 report, if available; or</u> <u>Performing appropriate tests of controls at the service organisation.</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant and appropriate where the auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively. Should / could the requirement be revised or modified for the circumstances of an LCE? Yes. The requirement can be simplified for the ISA (NZ) for LCE by retaining the core obligation to obtain audit evidence about the operating effectiveness of controls at the service organisation, while omitting the detailed list of procedures in ISA (NZ) 402. In particular, the option of using another auditor should not be included, as the use of component auditors is restricted in the ISA (NZ) for LCE. It is also appropriate for the ISA (NZ) for LCE to include the possible procedures, namely obtaining a type 2 report, if available, or performing appropriate tests of controls at the service organisation, in EEM rather than in the requirement itself. Do the changes result in requirements that still achieve reasonable assurance? Yes. The revised requirement still achieves reasonable assurance because it preserves the essential obligation for the auditor to obtain audit evidence about the operating effectiveness of controls at the service organisation when the auditor expects those controls to be operating effectively. Omitting the option of using another auditor does not reduce the level of assurance achieved, as that approach is restricted in the ISA (NZ) for LCE, and the

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
			remaining approaches provide an appropriate basis for obtaining sufficient appropriate audit evidence.
<i>Using a Type 2 Report as Audit Evidence that Controls at the Service Organisation Are Operating Effectively</i>	17. If, in accordance with paragraph 16(a), the user auditor plans to use a type 2 report as audit evidence that controls at the service organisation are operating effectively, the user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by: - Evaluating whether the description, design and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes; - Determining whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness; - Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and - Evaluating whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit	<u>Use of a type 2 report</u> <u>7.4.30 If the auditor intends to use a type 2 report as audit evidence that controls at the service organisation are operating effectively, the auditor shall determine whether the type 2 report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the auditor's risk assessment. In making this determination, the auditor shall:</u> <u>Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness;</u> <u>Evaluate the adequacy of the time period covered by the tests of controls and the time elapsed since the tests of controls were performed;</u> <u>Evaluate whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report:</u> <u>are relevant to the assertions in the user entity's financial statements; and</u> <u>provide sufficient appropriate audit evidence to support the auditor's risk assessment.</u>	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant and appropriate where the auditor intends to use a type 2 report as audit evidence that controls at the service organisation are operating effectively. Should / could the requirement be revised or modified for the circumstances of an LCE? Yes. The requirement can be revised for the ISA (NZ) for LCE by simplifying the structure and adapting the drafting to the style of the standard, while retaining the core matters relevant to determining whether a type 2 report provides sufficient appropriate audit evidence. In particular, paragraph 17(a) of ISA (NZ) 402 has been moved to the earlier requirement (6.3.13d.) because the appropriateness of the date or period covered by the report is a common consideration when using either a type 1 report or a type 2 report. The revised requirement also makes the condition explicit by referring to when the auditor intends to use a type 2 report, introduces the listed matters through "In making this determination", and presents the final matter more clearly by separating relevance to the assertions from sufficiency and appropriateness of the audit evidence. Do the changes result in requirements that still achieve reasonable assurance? Yes. The revised requirement still achieves reasonable assurance because it requires the auditor to determine whether the type 2 report provides sufficient appropriate audit evidence to support the auditor's risk assessment and to evaluate the key matters affecting that conclusion. These include whether relevant complementary user entity controls have been designed, implemented and, where relevant, tested for operating effectiveness, whether

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	evidence to support the user auditor's risk assessment. (Ref: Para. A31-A39)		the period covered by the tests of controls is adequate and sufficiently current, and whether the tests of controls performed by the service auditor and the results thereof are relevant to the assertions and provide sufficient appropriate audit evidence. Moving the common date or period consideration to the earlier requirement does not reduce the level of assurance achieved.
Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation	18.If the user auditor plans to use a type 1 or a type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity's financial statements, the user auditor shall apply the requirements of this ISA (NZ) with respect to the services provided by the subservice organisation. (Ref: Para. A40)	6.3.14 If the auditor intends to use a type 1 or a type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity's financial statements, the auditor shall apply the requirements of this standard with respect to the services provided by the subservice organisation.	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant and appropriate where the auditor intends to use a type 1 report or type 2 report that excludes the services provided by a subservice organisation, and those excluded services are relevant to the audit of the user entity's financial statements. Paragraph 18 will be included in the ISA (NZ) for LCE so that the auditor applies the relevant requirements to the services provided by the subservice organisation. Should / could the requirement be revised or modified for the circumstances? Only minor change - change ISA (NZ) to standard Do the changes result in requirements that still achieve reasonable assurance? Yes.
Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation	19.The user auditor shall enquire of management of the user entity whether the service organisation has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial statements of the user entity.	6.3.12. If the entity uses the services of a service organisation and those services are relevant to the entity's process to prepare its financial statements, the auditor shall enquire of management whether the service organisation has reported, or the entity is otherwise aware of any: (a) fraud; (b) non-compliance with laws or regulations; and (c) uncorrected misstatements affecting the entity's financial statements. The auditor shall evaluate how such matters affect the nature, timing and extent of further audit	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? Yes. The requirement is relevant and appropriate where the entity uses a service organisation, as fraud, non-compliance with laws and regulations, or uncorrected misstatements reported by the service organisation, or otherwise known to the entity, may affect the audit of the entity's financial statements. Paragraph 19 will be included in the ISA (NZ) for LCE so that the auditor enquires about those matters and evaluates their effect on the nature, timing and extent

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	The user auditor shall evaluate how such matters affect the nature, timing and extent of the user auditor's further audit procedures, including the effect on the user auditor's conclusions and user auditor's report. (Ref: Para. A41)	procedures, including their effect on the auditor's conclusions and auditor's report.	of further audit procedures, including the effect on the auditor's conclusions and report. Should / could the requirement be revised or modified for the circumstances? Only changes are needed to align the wording with ISA (NZ) for LCE drafting style. Do the changes result in requirements that still achieve reasonable assurance? Yes.
Reporting by the User Auditor	20.The user auditor shall modify the opinion in the user auditor's report in accordance with ISA (NZ) 7056 if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements. (Ref: Para. A42)	-	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No. A separate requirement is not necessary in the ISA (NZ) for LCE because the consequences of being unable to obtain sufficient appropriate audit evidence are already addressed in the reporting requirements dealing with modified opinions. Table A at Para 9.5.2 enables the auditor to modify the auditors report where there is an "Inability to obtain sufficient appropriate audit evidence". Should / could the requirement be revised or modified for the circumstances? No Do the changes result in requirements that still achieve reasonable assurance? -
	21.The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion. (Ref: Para. A43)	-	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No. The requirement is unlikely to be relevant in the circumstances of an audit of an LCE because reference in the auditor's report to the work of a service auditor would not ordinarily be expected. There is no known law or regulation in NZ that requires the user auditor to refer to the work of a service auditor in the audit report. Should / could the requirement be revised or modified for the circumstances?

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
			No Do the changes result in requirements that still achieve reasonable assurance? -
	22.If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion. (Ref: Para. A44)	-	Is the requirement relevant and appropriate in the circumstances of an audit of an LCE? No. The requirement is unlikely to be relevant in the circumstances of an audit of an LCE because reference in the auditor's report to the work of a service auditor in explaining a modified opinion would not ordinarily be expected. Should / could the requirement be revised or modified for the circumstances? No. If such circumstances were to arise, the auditor would apply the relevant reporting requirements and professional judgement in explaining the modification. Do the changes result in requirements that still achieve reasonable assurance? -
APPLICATION AND OTHER EXPLANATORY MATERIAL			
Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control <i>Sources of Information</i> (Ref: Para. 9)	A1.Information on the nature of the services provided by a service organisation may be available from a wide variety of sources, such as: • User manuals. • System overviews. • Technical manuals. • The contract or service level agreement between the user entity and the service organisation. • Reports by service organisations, the internal audit function or regulatory authorities on controls at the service organisation.	-	A1-A2 Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No No. This material is not sufficiently relevant and appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is primarily a list of possible information sources and general background about prior experience. It is descriptive rather than essential to understanding or applying a requirement in the standard. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The ISA (NZ) for LCE generally avoids detailed lists of possible sources and other "how to" guidance of this kind.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	Reports by the service auditor, including management letters, if available. A2. Knowledge obtained through the user auditor's experience with the service organisation, for example through experience with other audit engagements, may also be helpful in obtaining an understanding of the nature of the services provided by the service organisation. This may be particularly helpful if the services and controls at the service organisation over those services are highly standardised.		Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>Nature of the Services Provided by the Service Organisation (Ref: Para. 9(a))</i>	A3. A user entity may use a service organisation such as one that processes transactions and maintains related accountability, or records transactions and processes related data. Service organisations that provide such services include, for example, bank trust departments that invest and service assets for employee benefit plans or for others; mortgage bankers that service mortgages for others; and application service providers that provide packaged software applications and a technology environment that enables customers to process financial and operational transactions. A4. Examples of service organisation services that are relevant to the audit include: - Maintenance of the user entity's accounting records. - Management of assets. Initiating, recording or processing transactions as agent of the user entity.	Add to EEM at 6.3.11 [NZ] LCEs may often use external bookkeeping services ranging from the initiation, recording and processing of certain transactions (for example, processing of payroll and payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organisation for the preparation of its financial statements does not relieve management of the less complex entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. We believe it is beneficial to expand the EEM to include the initiation and recording along with processing of transactions, consistent with paragraph A4. Service organisations don't just do bookkeeping services, so we will delete that reference as well. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The key elements are already included at para 6.3.11, but we have made a minor change to be consistent with the third example of para. A4. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? Yes
<i>Considerations Specific to Smaller Entities</i>	A5. Smaller entities may use external bookkeeping services ranging from the	<i>Already included in 6.3.11, above</i>	No further change needed

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	processing of certain transactions (for example, payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organisation for the preparation of its financial statements does not relieve management of the smaller entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.		
<i>Nature and Materiality of Transactions Processed by the Service Organisation (Ref: Para. 9(b))</i>	A6.A service organisation may establish policies and procedures that affect the user entity's internal control. These policies and procedures are at least in part physically and operationally separate from the user entity. The significance of the controls of the service organisation to those of the user entity depends on the nature of the services provided by the service organisation, including the nature and materiality of the transactions it processes for the user entity. In certain situations, the transactions processed and the accounts affected by the service organisation may not appear to be material to the user entity's financial statements, but the nature of the transactions processed may be significant and the user auditor may determine that an understanding of those controls is necessary in the circumstances.		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No No. This material is largely background in nature. The core point, that the significance of controls at the service organisation depends on the nature of the services and the transactions processed, is already reflected in the requirement to understand the nature and significance of the services provided by the service organisation. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The paragraph provides general explanatory context rather than essential explanatory material needed to apply the requirement, and the ISA (NZ) for LCE generally avoids this level of background discussion. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>The Degree of Interaction between the Activities of the Service Organisation and the User Entity (Ref: Para. 9(c))</i>	A7.The significance of the controls of the service organisation to those of the user entity also depends on the degree of interaction between its activities and those of the user entity. The degree of interaction refers to the extent to which a user entity is able to and elects to implement effective controls over the	EEM at 6.3.11 The auditor's understanding helps to inform the auditor about the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, which affect the nature and extent of work to be performed by the auditor regarding the	No further change needed

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	processing performed by the service organisation. For example, a high degree of interaction exists between the activities of the user entity and those at the service organisation when the user entity authorises transactions and the service organisation processes and does the accounting for those transactions. In these circumstances, it may be practicable for the user entity to implement effective controls over those transactions. On the other hand, when the service organisation initiates or initially records, processes, and does the accounting for the user entity's transactions, there is a lower degree of interaction between the two organisations. In these circumstances, the user entity may be unable to, or may elect not to, implement effective controls over these transactions at the user entity and may rely on controls at the service organisation.	services provided by a service organisation. The significance of the controls of the service organisation relative to those of the entity depends on the degree of interaction between the service organisation's activities and those of the entity. For example, the service organisation may process and account for transactions that are still required to be authorised by the entity, alternatively the entity may rely on such controls being affected at the service organisation.	
<i>Nature of the Relationship between the User Entity and the Service Organisation (Ref: Para. 9(d))</i>	A8.The contract or service level agreement between the user entity and the service organisation may provide for matters such as: • The information to be provided to the user entity and responsibilities for initiating transactions relating to the activities undertaken by the service organisation; • The application of requirements of regulatory bodies concerning the form of records to be maintained, or access to them; • The indemnification, if any, to be provided to the user entity in the event of a performance failure; • Whether the service organisation will provide a report on its controls and, if so, whether such report would be a type 1 or type 2 report;	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is a detailed list of matters that may be covered in a contract or service level agreement. It is background and implementation guidance, rather than essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The ISA (NZ) for LCE already requires the auditor to understand the relevant contractual terms for the activities undertaken by the service organisation at 6.3.11, and the detailed list of possible matters is not necessary to support application of that requirement.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	- Whether the user auditor has rights of access to the accounting records of the user entity maintained by the service organisation and other information necessary for the conduct of the audit; and - Whether the agreement allows for direct communication between the user auditor and the service auditor.		Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A9. There is a direct relationship between the service organisation and the user entity and between the service organisation and the service auditor. These relationships do not necessarily create a direct relationship between the user auditor and the service auditor. When there is no direct relationship between the user auditor and the service auditor, communications between the user auditor and the service auditor are usually conducted through the user entity and the service organisation. A direct relationship may also be created between a user auditor and a service auditor, taking into account the relevant ethical and confidentiality considerations. A user auditor, for example, may use a service auditor to perform procedures on the user auditor's behalf, such as: (a) Tests of controls at the service organisation; or (b) Substantive procedures on the user entity's financial statement transactions and balances maintained by a service organisation.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is largely background in nature and discusses possible direct communication between the auditor and the service auditor, including the service auditor performing procedures on the auditor's behalf. That is unlikely to arise in an audit of an LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. It explains relationship and communication pathways rather than providing essential explanatory material for applying the ISA (NZ) for LCE requirements, and it also includes use of a service auditor to perform procedures on the auditor's behalf. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>Considerations Specific to Public Sector Entities</i>	A10. Public sector auditors generally have broad rights of access established by legislation. However, there may be situations where such rights of access are not available, for example when the service organisation is located in a different jurisdiction. In such	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No No. This material is not relevant and appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is specific to public sector audit access rights and the

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	cases, a public sector auditor may need to obtain an understanding of the legislation applicable in the different jurisdiction to determine whether appropriate access rights can be obtained. A public sector auditor may also obtain or ask the user entity to incorporate rights of access in any contractual arrangements between the user entity and the service organisation. A11.Public sector auditors may also use another auditor to perform tests of controls or substantive procedures in relation to compliance with law, regulation or other authority.		possible use of another auditor. Both are unlikely to arise in the circumstances of an audit of an LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>Understanding the Controls Relating to Services Provided by the Service Organisation</i> (Ref: Para. 10)	A12.The user entity may establish controls over the service organisation's services that may be tested by the user auditor and that may enable the user auditor to conclude that the user entity's controls are operating effectively for some or all of the related assertions, regardless of the controls in place at the service organisation. If a user entity, for example, uses a service organisation to process its payroll transactions, the user entity may establish controls over the submission and receipt of payroll information that could prevent or detect material misstatements. These controls may include: • Comparing the data submitted to the service organisation with reports of information received from the service organisation after the data has been processed. • Recomputing a sample of the payroll amounts for clerical accuracy and reviewing the total amount of the payroll for reasonableness.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. There are no detailed examples in the ISA (NZ) for LCE, and the standard generally does not explain how procedures should be implemented. This material is detailed implementation guidance rather than essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. A12 and A13 provide specific examples of controls and testing, and A14 largely restates broader principles about when controls may be relevant where substantive procedures alone are not enough. That level of detail is not consistent with the drafting approach in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	A13. In this situation, the user auditor may perform tests of the user entity's controls over payroll processing that would provide a basis for the user auditor to conclude that the user entity's controls are operating effectively for the assertions related to payroll transactions. A14. As noted in ISA (NZ) 315 (Revised 2019),⁸ in respect of some risks, the user auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions and account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. Such automated processing characteristics may be particularly present when the user entity uses service organisations. In such cases, the user entity's controls over such risks are relevant to the audit and the user auditor is required to obtain an understanding of, and to evaluate, such controls in accordance with paragraphs 9 and 10 of this ISA (NZ).		
<i>Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity (Ref: Para. 12)</i>	A15. The user auditor's decision as to which procedure, individually or in combination, in paragraph 12 to undertake, in order to obtain the information necessary to provide a basis for the identification and assessment of the risks of material misstatement in relation to the user entity's use of the service organisation, may be influenced by such matters as: • The size of both the user entity and the service organisation; • The complexity of the transactions at the user entity and the complexity of	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it provides detailed "how to" guidance on selecting procedures when a sufficient understanding cannot be obtained. It also refers to using another auditor, which is inconsistent with the more limited approach on the use of component auditors in the ISA (NZ) for LCE. Should / could the AM be revised or modified for the circumstances of an LCE?

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	the services provided by the service organisation; • The location of the service organisation (for example, the user auditor may decide to use another auditor to perform procedures at the service organisation on the user auditor's behalf if the service organisation is in a remote location); • Whether the procedure(s) is expected to effectively provide the user auditor with sufficient appropriate audit evidence; and • The nature of the relationship between the user entity and the service organisation.		No. It is more appropriate not to include this material. The paragraph is closely linked to ISA (NZ) 402 paragraph 12, which is not being included, and the detailed list of factors is more implementation guidance than essential explanatory material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A16.A service organisation may engage a service auditor to report on the description and design of its controls (type 1 report) or on the description and design of its controls and their operating effectiveness (type 2 report). Type 1 or type 2 reports may be issued under International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 34029 or under standards established by an authorised or recognised standards setting organisation (which may identify them by different names, such as Type A or Type B reports).	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No – similar wording is already included at 6.3.11. Reference to ISAE NZ 3402 is not considered appropriate here. Should / could the AM be revised or modified for the circumstances of an LCE? No Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A17.The availability of a type 1 or type 2 report will generally depend on whether the contract between a service organisation and a user entity includes the provision of such a report by the service organisation. A service organisation may also elect, for practical reasons, to make a type 1 or type 2 report available to the user entities. However, in some cases, a type 1 or type 2 report may not be available to user entities.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it provides general background on the availability of type 1 and type 2 reports, rather than essential explanatory material needed to apply a requirement. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
			The fact that such reports may or may not be available is implicit in the requirements and EEM already and does not need separate EEM. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A18. In some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organisations. As a report on controls at the service organisation may not be available in these circumstances, visiting the service organisation may be the most effective procedure for the user auditor to gain an understanding of controls at the service organisation, as there is likely to be direct interaction of management of the user entity with management at the service organisation.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it provides detailed procedural guidance about visiting the service organisation and refers to outsourcing significant business units or functions, which introduces a level of complexity not ordinarily expected in an audit of an LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. It is detailed implementation guidance linked to circumstances and procedures that the ISA (NZ) for LCE does not need to describe. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organisation related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organisation. The user auditor using the work of another auditor may find the guidance in ISA (NZ) 220 (Revised)10 useful as it relates to	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it discusses using another auditor to obtain information about controls at the service organisation. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	determining the competence and capabilities of the other auditor (including that auditor's independence), the direction and supervision of the other auditor, the nature, timing and extent of the work assigned to the other auditor, and evaluating the sufficiency and appropriateness of the audit evidence obtained.		Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A20.A user entity may use a service organisation that in turn uses a subservice organisation to provide some of the services provided to a user entity that are part of the user entity's information system relevant to financial reporting. The subservice organisation may be a separate entity from the service organisation or may be related to the service organisation. A user auditor may need to consider controls at the subservice organisation. In situations where one or more subservice organisations are used, the interaction between the activities of the user entity and those of the service organisation is expanded to include the interaction between the user entity, the service organisation and the subservice organisations. The degree of this interaction, as well as the nature and materiality of the transactions processed by the service organisation and the subservice organisations are the most important factors for the user auditor to consider in determining the significance of the service organisation's and subservice organisation's controls to the user entity's controls.	Add EEM at 6.3.14. A service organisation may use a subservice organisation to provide some of the services relevant to the entity's process to prepare its financial statements. The auditor may need to consider controls at the subservice organisation when those services are relevant to the audit. In determining the significance of those controls, the auditor may consider the nature and materiality of the transactions processed by the service organisation and the subservice organisation, and the extent of interaction between the entity, the service organisation and the subservice organisation.	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes This material is relevant and appropriate because service organisations may use subservice organisations to provide aspects of the services relevant to an entity's process to prepare its financial statements. The material explains that controls at a subservice organisation may also be relevant to the audit and highlights the key factors that may affect their significance, namely the nature and materiality of the transactions processed and the extent of interaction between the entity, the service organisation and the subservice organisation. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The material should be simplified for the ISA (NZ) for LCE by focusing on the key principle that the auditor may need to consider controls at a subservice organisation when those services are relevant to the audit. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? Yes.
<i>Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the</i>	A21.The user auditor may make enquiries about the service auditor to the service auditor's professional organisation or other practitioners and enquire whether the service	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it provides detailed guidance on how the

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
<i>Service Organisation</i> (Ref: <i>Para. 13-14</i>)	auditor is subject to regulatory oversight. The service auditor may be practising in a jurisdiction where different standards are followed in respect of reports on controls at a service organisation, and the user auditor may obtain information about the standards used by the service auditor from the standard setting organisation.		auditor may assess the service auditor's competence, oversight and the standards used. the standard generally does not explain 'how' the procedures should be implemented. Therefore this AM is not suitable for ISA for LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The requirement itself is sufficient, and the additional detail on making enquiries of professional bodies or standard setters is more detailed than is generally included in EEM in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A22.A type 1 or type 2 report, along with information about the user entity, may assist the user auditor in obtaining an understanding of: a) The aspects of controls at the service organisation that may affect the processing of the user entity's transactions, including the use of subservice organisations; b) The flow of significant transactions through the service organisation to determine the points in the transaction flow where material misstatements in the user entity's financial statements could occur; c) The control objectives at the service organisation that are relevant to the user entity's financial statement assertions; and d) Whether controls at the service organisation are suitably designed and implemented to prevent or detect processing errors that could result in	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No The additional detail in A22 is not essential to applying the requirements. Should / could the AM be revised or modified for the circumstances of an LCE? No Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	material misstatements in the user entity's financial statements. A type 1 or type 2 report may assist the user auditor in obtaining a sufficient understanding to identify and assess the risks of material misstatement. A type 1 report, however, does not provide any evidence of the operating effectiveness of the controls.		
	A23.A type 1 or type 2 report that is as of a date or for a period that is outside of the reporting period of a user entity may assist the user auditor in obtaining a preliminary understanding of the controls implemented at the service organisation if the report is supplemented by additional current information from other sources. If the service organisation's description of controls is as of a date or for a period that precedes the beginning of the period under audit, the user auditor may perform procedures to update the information in a type 1 or type 2 report, such as: • Discussing the changes at the service organisation with user entity personnel • who would be in a position to know of such changes; • Reviewing current documentation and correspondence issued by the service organisation; or • Discussing the changes with service organisation personnel.	<u>EEM at 6.3.13 A type 1 report or type 2 report that is as of a date or for a period outside the entity's reporting period may assist the auditor in obtaining a preliminary understanding of the controls implemented at the service organisation if the report is supplemented by additional current information from other sources. If the service organisation's description of controls is as of a date or for a period before the beginning of the period under audit, the auditor may perform procedures to update the information in the type 1 report or type 2 report.</u>	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material is relevant and appropriate because the timing of a type 1 report or type 2 report is an important consideration when the auditor uses the report to obtain an understanding of controls at the service organisation. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The material can be shortened for the ISA (NZ) for LCE by retaining the core point that a report outside the reporting period may still assist the auditor if supplemented by more current information, and that the auditor may need to update the information in the report. The examples of specific procedures can be omitted as they are more in the nature of detailed implementation guidance than essential explanatory material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? Yes. The shortened wording aligns with the drafting principles and the ISA (NZ) for LCE because it preserves the essential point about the relevance of the report's date or period while avoiding unnecessary procedural detail.
Responding to the Assessed Risks of	A24.Whether the use of a service organisation increases a user entity's risk of material		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
Material Misstatement (Ref: Para. 15)	misstatement depends on the nature of the services provided and the controls over these services; in some cases, the use of a service organisation may decrease a user entity's risk of material misstatement, particularly if the user entity itself does not possess the expertise necessary to undertake particular activities, such as initiating, processing, and recording transactions, or does not have adequate resources (for example, an IT system). A25. When the service organisation maintains material elements of the accounting records of the user entity, direct access to those records may be necessary in order for the user auditor to obtain sufficient appropriate audit evidence relating to the operations of controls over those records or to substantiate transactions and balances recorded in them, or both. Such access may involve either physical inspection of records at the service organisation's premises or interrogation of records maintained electronically from the user entity or another location, or both. Where direct access is achieved electronically, the user auditor may thereby obtain evidence as to the adequacy of controls operated by the service organisation over the completeness and integrity of the user entity's data for which the service organisation is responsible.		material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is largely detailed implementation guidance on how the auditor may obtain audit evidence when a service organisation is used. It includes extensive procedural examples and discussion of using another auditor, which is inconsistent with the ISA (NZ) for LCE's drafting approach and the restricted use of component auditors. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. A24 is general background, A25 provide detailed "how to" guidance on access to records. That level of detail is not necessary as EEM in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A26. In determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity, the following procedures may be considered by the user auditor:	EEM at 7.4.28: [NZ] To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor: Inspect records and documents held by the user entity;	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material already exists and expanding it is to describe current New Zealand circumstances. The auditor of an LCE obtains information directly from the fund manager, but because the entity does not keep its own records of transactions related to the investment held at year-end it should be clear that this is not enough audit evidence. One way to resolve this is to

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	a) Inspecting records and documents held by the user entity: the reliability of this source of evidence is determined by the nature and extent of the accounting records and supporting documentation retained by the user entity. In some cases, the user entity may not maintain independent detailed records or documentation of specific transactions undertaken on its behalf. b) Inspecting records and documents held by the service organisation: the user auditor's access to the records of the service organisation may be established as part of the contractual arrangements between the user entity and the service organisation. The user auditor may also use another auditor, on its behalf, to gain access to the user entity's records maintained by the service organisation. c) Obtaining confirmations of balances and transactions from the service organisation: where the user entity maintains independent records of balances and transactions, confirmation from the service organisation corroborating the user entity's records may constitute reliable audit evidence concerning the existence of the transactions and assets concerned. For example, when multiple service organisations are used, such as an investment manager and a custodian, and these service organisations maintain independent records, the user auditor may confirm balances with these organisations in order to compare this information with the independent records of the user entity.	- Inspect records and documents held by the service organisation; - Obtain confirmations of balances and transactions from the service organisation in instances where the user entity maintains its own independent records of balances and transactions; - Obtain a type 2 report, if available. Corresponding EEM at 11.19.1 To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor: - Inspect records and documents held by the user entity; - Inspect records and documents held by the service organisation; - Obtain confirmations of balances and transactions from the service organisation in instances where the user entity maintains its own independent records of balances and transactions; - Obtain a type 2 report, if available.	use the type 2 report to obtain comfort over the reliability of the information. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. Add one bullet point to the current EEM. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? Yes. The shortened wording aligns with the drafting principles and the ISA (NZ) for LCE because it preserves the essential point about the relevance of the report's date or period while avoiding unnecessary procedural detail.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	If the user entity does not maintain independent records, information obtained in confirmations from the service organisation is merely a statement of what is reflected in the records maintained by the service organisation. Therefore, such confirmations do not, taken alone, constitute reliable audit evidence. In these circumstances, the user auditor may consider whether an alternative source of independent evidence can be identified. d) Performing analytical procedures on the records maintained by the user entity or on the reports received from the service organisation: the effectiveness of analytical procedures is likely to vary by assertion and will be affected by the extent and detail of information available.		
	A27. Another auditor may perform procedures that are substantive in nature for the benefit of user auditors. Such an engagement may involve the performance, by another auditor, of procedures agreed upon by the user entity and its user auditor and by the service organisation and its service auditor. The findings resulting from the procedures performed by another auditor are reviewed by the user auditor to determine whether they constitute sufficient appropriate audit evidence. In addition, there may be requirements imposed by governmental authorities or through contractual arrangements whereby a service auditor performs designated procedures that are substantive in nature. The results of the application of the required procedures to balances and transactions processed by the service organisation may be used by user		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it is largely detailed implementation guidance on how the auditor may obtain audit evidence when a service organisation is used. It includes extensive procedural examples and discussion of using another auditor, which is inconsistent with the ISA (NZ) for LCE's drafting approach and the restricted use of component auditors. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. A27 and A28 include discussion of using another auditor. That level of detail is not necessary as EEM in the ISA (NZ) for LCE.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	auditors as part of the evidence necessary to support their audit opinions. In these circumstances, it may be useful for the user auditor and the service auditor to agree, prior to the performance of the procedures, to the audit documentation or access to audit documentation that will be provided to the user auditor. A28. In certain circumstances, in particular when a user entity outsources some or all of its finance function to a service organisation, the user auditor may face a situation where a significant portion of the audit evidence resides at the service organisation. Substantive procedures may need to be performed at the service organisation by the user auditor or another auditor on its behalf. A service auditor may provide a type 2 report and, in addition, may perform substantive procedures on behalf of the user auditor. The involvement of another auditor does not alter the user auditor's responsibility to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor's opinion. Accordingly, the user auditor's consideration of whether sufficient appropriate audit evidence has been obtained and whether the user auditor needs to perform further substantive procedures includes the user auditor's involvement with, or evidence of, the direction, supervision and performance of the substantive procedures performed by another auditor.		Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>Tests of Controls</i> (Ref: Para. 16)	A29. The user auditor is required by ISA (NZ) 330 to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls in certain circumstances. In the context of a	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it largely restates when tests of controls are required, which is already addressed in the ISA (NZ) for LCE requirements. It is explanatory of broader

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	service organisation, this requirement applies when: a) The user auditor's assessment of risks of material misstatement includes an expectation that the controls at the service organisation are operating effectively (that is, the user auditor intends to rely on the operating effectiveness of controls at the service organisation in determining the nature, timing and extent of substantive procedures); or b) Substantive procedures alone, or in combination with tests of the operating effectiveness of controls at the user entity, cannot provide sufficient appropriate audit evidence at the assertion level.		requirements rather than essential explanatory material specific to service organisations. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE?
	A30.If a type 2 report is not available, a user auditor may contact the service organisation, through the user entity, to request that a service auditor be engaged to provide a type 2 report that includes tests of the operating effectiveness of the controls or the user auditor may use another auditor to perform procedures at the service organisation that test the operating effectiveness of those controls. A user auditor may also visit the service organisation and perform tests of controls if the service organisation agrees to it. The user auditor's risk assessments are based on the combined evidence provided by the work of another auditor and the user auditor's own procedures.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not appropriate for inclusion as EEM in the ISA (NZ) for LCE because it provides detailed procedural guidance on what the auditor may do if a type 2 report is not available. It is "how to" guidance rather than essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. In particular, it refers to using another auditor, which is inconsistent with the more limited approach in the ISA (NZ) for LCE. The remaining points about contacting the service organisation or visiting the service organisation are also more procedural detail than is generally included in EEM. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE?

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
			-
<i>Using a Type 2 Report as Audit Evidence that Controls at the Service Organisation Are Operating Effectively (Ref: Para. 17)</i>	A31.A type 2 report may be intended to satisfy the needs of several different user auditors; therefore tests of controls and results described in the service auditor's report may not be relevant to assertions that are significant in the user entity's financial statements. The relevant tests of controls and results are evaluated to determine that the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment. In doing so, the user auditor may consider the following factors: a) The time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; b) The scope of the service auditor's work and the services and processes covered, the controls tested and tests that were performed, and the way in which tested controls relate to the user entity's controls; and c) The results of those tests of controls and the service auditor's opinion on the operating effectiveness of the controls.	EEM at 6.3.13 A type 2 report may be intended to meet the needs of a range of users. The auditor may evaluate the relevant tests of controls and results to determine whether the service auditor's report provides sufficient appropriate audit evidence.	A31 to A35 Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material is relevant and appropriate because it explains why a type 2 report may not always provide audit evidence that is directly relevant to the auditor's purposes. A type 2 report may be prepared to meet the needs of a range of users, and therefore the tests of controls and related results included in the report may provide sufficient appropriate audit evidence. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The material should be simplified for the ISA (NZ) for LCE by retaining only the core principle that a type 2 report may have been prepared for a broader audience and that the auditor needs to evaluate the relevance of the tests of controls and related results. The detailed factors and examples in A31 are not necessary because the relevant considerations are addressed in the requirements. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A32.For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the user auditor may	EEM at 7.4.30: For some assertions, the shorter the period covered by the tests of controls, and the longer the time elapsed since those tests were performed, the less audit evidence the type 2 report may provide. Where there is limited overlap between the period covered by the type 2 report and the period for which the auditor intends to rely on	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material is relevant and appropriate because it explains how the timing of the tests of controls described in a type 2 report may affect the audit evidence available to support particular assertions. It highlights that the audit evidence provided by a type 2

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	conclude that the type 2 report offers less audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organisation in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.	the report, additional audit evidence may be necessary to support the auditor's assessment of the operating effectiveness of controls relevant to those assertions.	report may decrease when there is limited overlap between the period covered by the report and the period for which the auditor intends to rely on it. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The material should be simplified for the ISA (NZ) for LCE by retaining the core principle that the relevance of audit evidence from a type 2 report depends on the period covered by the tests of controls and the time elapsed since those tests were performed. Detailed discussion about obtaining reports for different periods or using another auditor is not necessary. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? Yes.
	A33.It may also be necessary for the user auditor to obtain additional evidence about significant changes to the relevant controls at the service organisation outside of the period covered by the type 2 report or determine additional audit procedures to be performed. Relevant factors in determining what additional audit evidence to obtain about controls at the service organisation that were operating outside of the period covered by the service auditor's report may include: • The significance of the assessed risks of material misstatement at the assertion level; • The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel; • The degree to which audit evidence about the operating effectiveness of those controls was obtained;	EEM at 7.4.30 Additional audit evidence may be necessary when there have been significant changes to controls at the service organisation outside the period covered by the type 2 report. In determining whether additional audit evidence is necessary, the auditor may consider the significance of the risks of material misstatement at the assertion level, the controls affected by the changes, and the extent of audit evidence already obtained about the operating effectiveness of those controls.	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material is relevant and appropriate because it explains when additional audit evidence may be needed if there have been significant changes to controls at the service organisation outside the period covered by the type 2 report. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. The material should be simplified for the ISA (NZ) for LCE by retaining the core principle that significant changes to controls outside the period covered by the type 2 report may affect the audit evidence available to the auditor. The detailed list in A33 should be shortened to focus on the most relevant considerations: the significance of the risks of material misstatement at the assertion level, the controls affected by the changes, and the extent of audit evidence already obtained about the operating effectiveness of those controls. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE?

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	- The length of the remaining period; - The extent to which the user auditor intends to reduce further substantive procedures based on the reliance on controls; and - The effectiveness of the control environment and the user entity's process to monitor the system of internal control.		Yes.
	A34. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the user entity's process to monitor the system of internal control.	EEM at 7.4.30 Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the entity's process to monitor the system of internal control.	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? Yes. This material is relevant and appropriate because it explains that, where the auditor determines that additional audit evidence is necessary, there are practical ways of obtaining that evidence. It reinforces the principle that the auditor may need to obtain further evidence about the operating effectiveness of controls when reliance is placed on a type 2 report. Should / could the AM be revised or modified for the circumstances of an LCE? Yes. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE?-
	A35. If the service auditor's testing period is completely outside the user entity's financial reporting period, the user auditor will be unable to rely on such tests for the user auditor to conclude that the user entity's controls are operating effectively because they do not provide current audit period evidence of the effectiveness of the controls, unless other procedures are performed.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No Not considered necessary to include this material, as the auditor already is required to evaluate whether the report is as at an appropriate date or covers an appropriate time period. Should / could the AM be revised or modified for the circumstances of an LCE? No Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
	A36. In certain circumstances, a service provided by the service organisation may be designed with the assumption that certain	=	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. While complementary user entity controls are a

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	controls will be implemented by the user entity. For example, the service may be designed with the assumption that the user entity will have controls in place for authorising transactions before they are sent to the service organisation for processing. In such a situation, the service organisation's description of controls may include a description of those complementary user entity controls. The user auditor considers whether those complementary user entity controls are relevant to the service provided to the user entity.		recognised concept in service organisation reporting, the ISA (NZ) for LCE does not need to explain this concept in detail, and we do not consider this to be essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -.
	A37.If the user auditor believes that the service auditor's report may not provide sufficient appropriate audit evidence, for example, if a service auditor's report does not contain a description of the service auditor's tests of controls and results thereon, the user auditor may supplement the understanding of the service auditor's procedures and conclusions by contacting the service organisation, through the user entity, to request a discussion with the service auditor about the scope and results of the service auditor's work. Also, if the user auditor believes it is necessary, the user auditor may contact the service organisation, through the user entity, to request that the service auditor perform procedures at the service organisation. Alternatively, the user auditor, or another auditor at the request of the user auditor, may perform such procedures.		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it provides detailed follow-up guidance on what the auditor may do if a service auditor's report does not provide sufficient appropriate audit evidence. That is not essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The ISA (NZ) for LCE already requires the auditor to determine whether a type 2 report provides sufficient appropriate audit evidence and to obtain further audit evidence where needed. The additional discussion of contacting the service organisation, requesting further procedures from the service auditor, or using another auditor is too detailed for EEM and also includes use of another auditor, which is inconsistent with the more limited approach in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	A38.The service auditor's type 2 report identifies results of tests, including exceptions and other information that could affect the user auditor's conclusions. Exceptions noted by the service auditor or a modified opinion in the service auditor's type 2 report do not automatically mean that the service auditor's type 2 report will not be useful for the audit of the user entity's financial statements in assessing the risks of material misstatement. Rather, the exceptions and the matter giving rise to a modified opinion in the service auditor's type 2 report are considered in the user auditor's assessment of the testing of controls performed by the service auditor. In considering the exceptions and matters giving rise to a modified opinion, the user auditor may discuss such matters with the service auditor. Such communication is dependent upon the user entity contacting the service organisation, and obtaining the service organisation's approval for the communication to take place.		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it provides detailed explanatory guidance on how to interpret exceptions or a modified opinion in a service auditor's type 2 report and how the auditor might follow that up. That is not essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
<i>Communication of deficiencies in internal control identified during the audit</i>	A39. The user auditor is required to communicate in writing significant deficiencies identified during the audit to both management and those charged with governance on a timely basis. The user auditor is also required to communicate to management at an appropriate level of responsibility on a timely basis other deficiencies in internal control identified during the audit that, in the user auditor's professional judgement, are of sufficient importance to merit management's attention. Matters that the user auditor may identify during the audit and may communicate to management and those charged with governance of the user entity include: Any controls within the entity's process to monitor the system of internal control that could be implemented by		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it explains the communication of deficiencies in internal control, which is already addressed elsewhere in the standard. It also includes examples of matters that may be communicated, which are more in the nature of implementation guidance than essential explanatory material. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	the user entity, including those identified as a result of obtaining a type 1 or type 2 report; - Instances where complementary user entity controls are noted in the type 1 or type 2 report and are not implemented at the user entity; and - Controls that may be needed at the service organisation that do not appear to have been implemented or that are not specifically covered by a type 2 report.		
Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation (Ref: Para. 18)	A40. If a service organisation uses a subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method, respectively. If the type 1 or type 2 report excludes the controls at a subservice organisation, and the services provided by the subservice organisation are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of this ISA (NZ) in respect of the subservice organisation. The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit. The application of the requirement in paragraph 9 assists the user auditor in determining the effect of the subservice organisation and the nature and extent of work to be performed.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not sufficiently relevant and appropriate for inclusion as EEM. Some of A40 repeats the requirement that we have added. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The paragraph is closely linked to paragraph 18 of ISA (NZ) 402, which is not being included, and it explains a specialised circumstance rather than providing essential explanatory material for the requirements retained in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation (Ref: Para. 19)	A41.A service organisation may be required under the terms of the contract with user entities to disclose to affected user entities any fraud, non-compliance with laws and regulations or uncorrected misstatements attributable to the service organisation's management or employees. As required by paragraph 19, the user auditor makes enquiries of the user entity management regarding whether the service organisation has reported any such matters and evaluates whether any matters reported by the service organisation affect the nature, timing and extent of the user auditor's further audit procedures. In certain circumstances, the user auditor may require additional information to perform this evaluation, and may request the user entity to contact the service organisation to obtain the necessary information.	-	Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE. It also explains a specific enquiry in relation to fraud, non-compliance with laws and regulations, and uncorrected misstatements, matters that are already addressed more broadly elsewhere in the ISA (NZ) for LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
Reporting by the User Auditor (Ref: Para. 20)	A42.When a user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements, a limitation on the scope of the audit exists. This may be the case when: The user auditor is unable to obtain a sufficient understanding of the services provided by the service organisation and does not have a basis for the identification and assessment of the risks of material misstatement; A user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively and the user auditor is unable to obtain sufficient appropriate audit evidence about the operating effectiveness of these controls; or		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is not necessary as EEM in the ISA (NZ) for LCE because it explains the reporting consequence of being unable to obtain sufficient appropriate audit evidence, which is already addressed in the reporting part of the standard. It is linked to a requirement that is not being included separately in the service organisation section. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The paragraph is largely explanatory material about scope limitation and the distinction between a qualified opinion and a disclaimer of opinion, which is already dealt with in the ISA (NZ) for LCE reporting requirements. Including it here would duplicate material already addressed elsewhere in the standard.

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	Sufficient appropriate audit evidence is only available from records held at the service organisation, and the user auditor is unable to obtain direct access to these records. Whether the user auditor expresses a qualified opinion or disclaims an opinion depends on the user auditor's conclusion as to whether the possible effects on the financial statements are material or pervasive.		Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -
Reference to the Work of a Service Auditor (Ref: Para. 21-22)	A43. In some cases, law or regulation may require a reference to the work of a service auditor in the user auditor's report, for example, for the purposes of transparency in the public sector. In such circumstances, the user auditor may need the consent of the service auditor before making such a reference.		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is unlikely to be relevant in the circumstances of an audit of an LCE because it deals with the unusual situation where law or regulation requires the auditor to refer to the work of a service auditor in the auditor's report. That would not ordinarily be expected in an audit of an LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. It relates to a specific reporting circumstance that is unlikely to arise and is not essential explanatory material for applying the service organisation requirements in the ISA (NZ) for LCE. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Supplementary: Mapping of proposed amendments

Section ISA (NZ) 402	Text ISA (NZ) 402	ISA (NZ) for LCE CURRENT TEXT IS IN BLUE NEW TEXT IS IN RED	Comparison
	A44.The fact that a user entity uses a service organisation does not alter the user auditor's responsibility under ISAs (NZ) to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor's opinion. Therefore, the user auditor does not make reference to the service auditor's report as a basis, in part, for the user auditor's opinion on the user entity's financial statements. However, when the user auditor expresses a modified opinion because of a modified opinion in a service auditor's report, the user auditor is not precluded from referring to the service auditor's report if such reference assists in explaining the reason for the user auditor's modified opinion. In such circumstances, the user auditor may need the consent of the service auditor before making such a reference.		Is the AM relevant and appropriate in the circumstances of an audit of an LCE? No. This material is unlikely to be relevant in the circumstances of an audit of an LCE because it addresses references in the auditor's report to a service auditor's report, including where the auditor expresses a modified opinion. Such reporting detail would not ordinarily be expected in an audit of an LCE. Should / could the AM be revised or modified for the circumstances of an LCE? No. It is more appropriate not to include this material. The paragraph is explanatory material linked to reporting requirements that are themselves not being included, and it is not necessary to support application of the ISA (NZ) for LCE requirements on service organisations. Do the changes result in EEM (Essential Explanatory Material) that aligns with drafting principles and ISA for LCE? -

Explanatory Memorandum

*Proposed International
Standard on Auditing for
Audits of Financial
Statements of Less
Complex Entities
(Revised)*

JULY 2026

COMMENTS DUE: *NOVEMBER 17, 2026*



IAASB™

International Auditing and Assurance Standards Board
AN IFEA BOARD

Copyright © IFAC

Through intellectual property and service level agreements, the International Federation of Accountants manages requests to translate or reproduce IAASB and IESBA content. For permission to reproduce or translate this or any other publication, or for information about intellectual property matters, please visit [Permissions](#) or contact Permissions@ifac.org.

About the IAASB

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

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

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

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ED-ISA for LCE), which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication and the ED-ISA for LCE may be downloaded from the IAASB website: www.iaasb.org.

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

Comments are requested by November 17, 2026.

Use of the Response Form

We welcome comments on all matters addressed in the ED-ISA for LCE 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. 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.

The response form includes all questions in **Section II** of this EM. 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-ISA for LCE, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements or essential explanatory material (EEM).
- 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 parts, sections, headings or paragraphs in the ED-ISA for LCE 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 on the [Proposed ISA for LCE \(Revised\) webpage](#).

EXPLANATORY MEMORANDUM

CONTENTS

	Page
Introduction.....	6
Section I – Significant Matters	8
A. Public Interest Issues Addressed	8
B. Part A, <i>Authority of the ISA for Audits of Financial Statements of Less Complex Entities</i>	9
C. Part 1, <i>Fundamental Concepts, General Principles and Overarching Requirements</i>	9
D. Part 2, <i>Audit Evidence and Documentation</i>	10
E. Part 5, <i>Planning</i>	11
F. Part 6, <i>Risk Identification and Assessment</i>	11
G. Part 7, <i>Responding to Assessed Risks of Material Misstatement</i>	16
H. Part 8, <i>Concluding</i>	19
I. Part 9, <i>Forming an Opinion and Reporting</i>	20
J. Other Matters	21
Section II – Questions for Respondents	22
Appendix	25

Introduction

1. This memorandum provides background to, and an explanation of, the ED-ISA for LCE, which was unanimously approved for exposure by the IAASB in June 2026.

Background

2. In December 2023, the IAASB published [the ISA for LCE](#), a standalone¹ standard which is proportionate and tailored to the needs of an audit of financial statements of an LCE. The ISA for LCE has been designed to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
3. The ISA for LCE was developed to provide a global solution to the growing concern about the length, complexity and understandability of the ISAs and their application to audits of LCEs. The standard was designed following specific principles to address the needs of an audit of an LCE.²
4. The standard is effective for audits of financial statements for periods beginning on or after December 15, 2025.
5. Since the ISA for LCE's publication, the IAASB has supported the adoption and implementation of the standard by, among other actions, developing supplemental guidance on the Authority and Reporting, a first-time implementation guide, an adoption guide, and webinars. These and other materials can be found on [the ISA for LCE focus webpage](#).

Approach for Maintaining the ISA for LCE

6. At the time of approving the extant ISA for LCE in September 2023, the IAASB agreed to have an initial period of stability of at least three years from the date the standard becomes effective.³ Therefore, the first revision to the ISA for LCE will not become effective before December 15, 2028.
7. In December 2025, the IAASB approved the [Approach Statement for Maintaining the ISA for LCE](#) (the Maintenance Approach), which explains the approach and the key principles for revising the ISA for LCE. It operationalizes the maintenance of the standard in a manner that is both effective and efficient, while ensuring transparency and consistency in execution.
8. The Maintenance Approach only addresses revisions to the ISA for LCE arising from new or revised ISAs.⁴

¹ The term "standalone" in the context of the ISA for LCE means that the standard includes all requirements necessary for the auditors to obtain reasonable assurance. It also means that it does not require any other IAASB engagement standards to be applied with the ISA for LCE. Specifically, the standard is separate from the ISAs and there is no direct reference back to the requirements or application material in the ISAs in its application.

² Refer to Section III of the [First-Time Implementation Guide](#) for more information on the overarching concepts in the ISA for LCE, including the standard's overall design.

³ See [Basis for Conclusions](#), Section J - Maintenance.

⁴ The IAASB anticipates that in addition to revisions to the ISA for LCE because of the development of new or revised ISAs, the ISA for LCE may be revised because of monitoring and information-gathering activities, for example, post-implementation review of the ISA for LCE, ongoing monitoring of the environment, related activities of stakeholders (e.g., that of jurisdictional standard setters, policy makers, audit and assurance oversight bodies, international organizations) and feedback received from general or project-specific outreach activities, which may reveal the need for possible standard-setting action.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

9. The purpose of the maintenance is to develop revisions to the ISA for LCE, in light of revisions to identified ISAs, that are:
 - (a) Relevant in the context of the typical nature and circumstances of an audit of an LCE; and
 - (b) Aligned with the core requirements and concepts of the ISAs in a proportionate way.
10. In the outreach the IAASB performed to help with the adoption and implementation of the standard and during the development of ED-ISA for LCE, some stakeholders raised concerns regarding certain aspects of the Maintenance Approach. This matter is further discussed in Section I-J (paragraphs 72–76).

First Revisions of the ISA for LCE

11. The IAASB commenced its work on the first maintenance project of the ISA for LCE in Q3 2025 and in December 2025, the IAASB approved the related [project proposal](#). The project proposal addresses the revisions to the ISA for LCE as a result of the following IAASB projects (collectively referred to as the underlying ISA projects):
 - [Fraud – ISA 240 \(Revised\)](#);⁵
 - [Going Concern – ISA 570 \(Revised 2024\)](#);⁶
 - [Listed Entity and Public Interest Entity \(Narrow-Scope Amendments\)](#); and
 - [Experts \(Narrow-Scope Amendments\)](#).
12. The following are the three main steps in undertaking this maintenance project:⁷
 - Step 1: Consider the relevance to the ISA for LCE of the public interest issues that were addressed during the development of the new or revised ISA(s);
 - Step 2: Develop, based on the approach taken in the new or revised ISA(s) and using the design principles of the ISA for LCE, a solution to address the issues in a manner that is proportionate in the context of the ISA for LCE; and
 - Step 3: Determine whether the proposed revisions to the ISA for LCE achieve the project objective and thereby the purpose of maintaining the standard.

*Coordination with International Ethics Standards Board for Accountants (IESBA) and IAASB Consultation Groups**IESBA*

13. IAASB technical staff coordinated with IESBA technical staff throughout the development of the project proposal and the ED-ISA for LCE to obtain relevant input on technical matters of common interest and the continued interoperability of the two Boards' standards. No issues or concerns were identified by IESBA technical staff.

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

⁶ ISA 570 (Revised 2024), *Going Concern*

⁷ See the Maintenance Approach, paragraph 7.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

IAASB Consultation Groups

14. IAASB technical staff met with the Technology Consultation Group and the Professional Skepticism Consultation Group to discuss whether the ED-ISA for LCE appropriately reflects the revisions reflected in ISA 240 (Revised) and ISA 570 (Revised 2024) relating to technology and professional skepticism, respectively. The groups provided several suggestions to further enhance the standard in these areas and those suggestions were incorporated where deemed appropriate.

Key Stakeholder Engagement

15. As the ISA for LCE has been developed to reflect the typical nature and circumstances of audits of financial statements of LCEs, the IAASB considered it critical to hear from stakeholders that use the ISA for LCE or from auditors that audit LCEs. Therefore, the IAASB undertook outreach with those stakeholders to obtain feedback on proposals, including whether the proposed revisions are relevant and proportionate to the typical nature and circumstances of audits of LCEs.
16. In addition, the inaugural meeting of the [ISA for LCE Advisory Group](#)⁸ was held in April 2026. The ISA for LCE Advisory Group was established to advise on the ISA for LCE as well as matters relating to adoption and implementation of the standard and to serve as a consultative forum for the IAASB to obtain timely and relevant stakeholder input.
17. Stakeholders provided several suggestions to further enhance the standard and those suggestions were incorporated where deemed appropriate.

Section I – Significant Matters

18. This section sets out the key changes proposed to the ISA for LCE as a result of changes to the underlying ISA projects.

A. Public Interest Issues Addressed

19. The IAASB considered the relevance to the ISA for LCE of the public interest issues identified in the underlying ISA projects and how to best incorporate the results of the related standard-setting actions of those projects into the ED-ISA for LCE to achieve the project objectives (see step 1 in paragraph 12). The **Appendix** to this EM maps the relevance of the public interest issues included in the project proposals of the underlying ISA projects to the ISA for LCE and the related key revisions in ED-ISA for LCE. The **Appendix** also highlights the qualitative characteristics of the [Public Interest Framework](#) that were considered to be the criteria of most relevance to assess the proposed revised standard's responsiveness to the public interest.
20. If a public interest issue was deemed (partly) relevant for the ISA for LCE, the IAASB developed a solution to address the issue in a manner that is proportionate in the context of the ISA for LCE (see step 2 in paragraph 12).

⁸ The ISA for LCE Advisory Group comprises eleven members representing a range of stakeholders, including practitioners, jurisdictional standard setters, software providers and academics, drawn from various geographical regions to support global representation.

B. Part A, Authority of the ISA for Audits of Financial Statements of Less Complex Entities

21. The ISA for LCE uses the term “listed entity” in Part A and listed entity is a class of entities for which the use of the ISA for LCE is prohibited. As part of the Listed Entity and Public Interest Entity project, the IAASB replaced the term “listed entity” with “publicly traded entity” in the ISAs and ISQMs.⁹
22. Given that ISQM 1¹⁰ also applies to engagements performed using the ISA for LCE, the IAASB considered it important that the terms are aligned. Therefore, the IAASB replaced the term “listed entity” with “publicly traded entity” in paragraph A.1¹¹ and the EEM under paragraph A.2. The IAASB also added EEM under paragraph A.2. to clarify how legislative or regulatory authorities or relevant local bodies with standard-setting authority may define more explicitly a publicly traded entity in a jurisdiction. As the existing EEM already included guidance on how such authorities or bodies may modify the classes of entities included in paragraph A.1(c), the IAASB considered the new guidance to be appropriately located there.

C. Part 1, Fundamental Concepts, General Principles and Overarching Requirements*The Auditor's Responsibilities Relating to Fraud and Going Concern*

23. As part of the revisions reflected in ISA 240 (Revised), the IAASB decoupled the descriptions about inherent limitations of an audit and the auditor's responsibilities because the inherent limitations do not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. In addition, the IAASB reordered the introductory paragraphs to refer to the auditor's responsibilities before the responsibilities of management and those charged with governance.
24. The IAASB considered the enhanced emphasis on the auditor's responsibilities to be relevant for the typical nature and circumstances of an audit of an LCE. Accordingly, the IAASB decoupled the descriptions about inherent limitations of an audit and the auditor's responsibilities in the EEM and reordered the descriptions of responsibilities so that the auditor's responsibilities are presented before those of management and those charged with governance (see paragraph 1.5.1 and related EEM)
25. To ensure a balanced approach to fraud and going concern and to align with ISA 570 (Revised 2024), the IAASB added a section on Going Concern in Part 1. As in the fraud section, the auditor's responsibilities relating to going concern are clarified (based on paragraph 9 of ISA 570 (Revised 2024)). In doing so, EEM about the auditor's responsibilities relating to going concern was moved from Part 7 to EEM under paragraph 1.4A.1. In addition, EEM relating to management's responsibilities was added under Part 1.4A. This guidance is based on paragraph 4 of ISA 570 (Revised 2024).

⁹ International Standard on Quality Management (ISQM)

¹⁰ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹¹ The ISA for LCE uses a structured numbering system in which the first number identifies the Part, the second identifies the section within that Part, and the third identifies the paragraph. Unless otherwise stated, references to paragraphs using this numbering convention are references to paragraphs in the ISA for LCE.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Guidance Related to Fraud

26. The IAASB is of the view that the following enhancements in ISA 240 (Revised) are relevant to the typical nature and circumstances of an audit of an LCE and, therefore, added EEM under Part 1.5 about:
- (a) *Inherent Limitations* – The IAASB aligned the wording with paragraphs 9 and 10 of ISA 240 (Revised) which describes that while the risk of detecting a misstatement of fraud is higher than error, this does not diminish the auditor's responsibility, nor a justification for less than persuasive audit evidence.
 - (b) *Non-Compliance with Laws and Regulations* – The IAASB linked the auditor's responsibilities relating to identified or suspected fraud with the auditor's responsibilities relating to non-compliance with laws and regulations.
 - (c) *Relationship of Fraud with Corruption, Bribery and Money Laundering* – The IAASB explained how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for the purposes of an audit of financial statements.
 - (d) *Third-Party Fraud* – The IAASB explained that intentional acts by third parties resulting in misappropriation of assets or fraudulent financial reporting are to be regarded as fraud or suspected fraud and clarified who such third-parties may be.

Communication with Those Charged with Governance

27. The Listed Entity and Public Interest Entity project extended the application of the requirement to communicate with those charged with governance a statement regarding compliance with relevant ethical requirements relating to independence from listed entities to all entities (paragraph 18 of ISA 260 (Revised)).¹² The IAASB considered this revision to be relevant to the ISA for LCE as compliance with relevant ethical requirements is foundational to all audits of financial statements and, accordingly, added paragraph 1.8.2(b) to align with ISA 260 (Revised).

D. Part 2, Audit Evidence and Documentation

28. Paragraph 2.3.3 is based on paragraph 22 of ISA 240 (Revised) which deals with maintaining professional skepticism when obtaining information. The sentence stating: "unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine" was removed from paragraph 22 of ISA 240 (Revised). As the application material in paragraph A24 of ISA 200¹³ has a similar sentence ("The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary."),¹⁴ the IAASB moved the first sentence from paragraph 2.3.3. to the EEM. With this change, the ED-ISA for LCE is aligned with the relevant ISAs that address this matter.

¹² ISA 260 (Revised), *Communication with Those Charged with Governance*

¹³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

¹⁴ The IAASB noted that the Audit Evidence and Risk Response project proposes to delete this sentence from paragraph A24 of ISA 200. The IAASB did not incorporate these changes as they are outside of the scope of this maintenance project.

E. Part 5, Planning

29. As part of the Experts project the IAASB made amendments to ISA 620¹⁵ resulting from the revisions to IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to using the work of an external expert. The IAASB did so to maintain interoperability between the IAASB standards and the IESBA Code.
30. As for the ISA for LCE, the IAASB:
- (a) Added a sub-requirement for the auditor to consider whether ethical requirements include provisions related to using the work of an expert when determining the nature, timing and extent of procedures related to an auditor's expert (see paragraph 5.2.11(f)) and aligned the requirement with paragraph 8 of ISA 620; and
 - (b) Added a requirement to prohibit using the work of an auditor's expert when the auditor concludes that the expert does not have the necessary competence, capabilities and objectivity (see paragraph 5.2.12A).

F. Part 6, Risk Identification and Assessment*Fraud Risk Factors and Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern*

Extant ISA for LCE

31. Proportionality is addressed throughout the ISA for LCE but in particular in Part 6. Part 6 addresses proportionality considering that an LCE's system of internal control is generally straightforward and less formalized than in larger and more complex entities.
32. Therefore, during the development of the ISA for LCE, the IAASB made several changes to the ISA requirements that Part 6 is based on. As a result, Part 6 looks and flows differently compared to the related ISAs but still results in appropriate outcomes relating to obtaining an understanding and identifying and assessing the risks of material misstatements (ROMMs) as a basis to design and perform audit procedures responsive to assessed risks.
33. In Part 6, proportionality is addressed as follows:
- (a) In obtaining an understanding of the entity's system of internal control, the following changes were made when the extant ISA for LCE was developed:
 - (i) Instead of obtaining an understanding of and evaluating the entity's risk assessment process and the entity's process for monitoring the internal control system, the ISA for LCE requires the auditor to inquire about these matters (see paragraphs 6.3.1(a) and (c)). This is because inquiry was deemed sufficient and proportionate to an audit of a typical LCE and would appropriately drive the overall consideration of ROMMs and control deficiencies.
 - (ii) The detailed list of matters to be understood in paragraph 21 of ISA 315 (Revised 2019),¹⁶ about the control environment is presented as EEM under paragraph 6.3.7 (first

¹⁵ ISA 620, *Using the Work of an Auditor's Expert*

¹⁶ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

paragraph) as not all matters included in ISA 315 (Revised 2019) are relevant for a typical LCE.

- (iii) The requirement related to the entity's information system and communication in paragraph 25 of ISA 315 (Revised 2019) was adapted to be more direct in the ISA for LCE and focus on the entity's process to prepare its financial statements (paragraphs 6.3.8 and 6.3.10).
- (b) In identifying and assessing ROMMs, the separate requirements in paragraphs 28–31 of ISA 315 (Revised 2019), relating to the identification and assessment of ROMMs, and determining the relevant assertions and the related significant classes of transactions, account balances and disclosures are combined into a single requirement in paragraph 6.4.1, given that these matters are typically addressed in a more straightforward manner and at the same time in an audit of an LCE.

ISA 240 (Revised) and ISA 570 (Revised 2024)

- 34. In the revisions reflected in both ISA 240 (Revised) and ISA 570 (Revised 2024), an important public interest issue was to better link the auditor's understanding and work effort to the more robust risk identification and assessment process in ISA 315 (Revised 2019).
- 35. In doing so, ISA 240 (Revised) focusses on obtaining audit evidence that provides an appropriate basis for the identification and assessment of ROMMs due to fraud at the financial statement and assertion levels taking into account fraud risk factors. ISA 570 (Revised 2024) focuses on the timely identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (events or conditions), including the auditor having an appropriate basis for determining whether events or conditions have been identified.
- 36. In addition, the linkages with ISA 315 (Revised 2019) were enhanced by:
 - (a) Adding new and enhanced requirements that are based on ISA 315 (Revised 2019).
 - (b) Structuring ISA 240 (Revised) and ISA 570 (Revised 2024) to follow a similar structure as ISA 315 (Revised 2019).

Revising the ISA for LCE

- 37. The IAASB wanted to stay true with the design principles of the ISA for LCE while also addressing the public interest issues related to fraud and going concern. In doing so, the IAASB closely looked where in Part 6 more emphasis could be added to the identification of:
 - (a) Fraud risk factors; and
 - (b) Events or conditions related to going concern.
- 38. To do so, the following revisions were made to Part 6:
 - (a) *ROMMs arising from fraud risk factors and events or conditions*. Paragraph 6.2.4 of the extant ISA for LCE requires the auditor, in designing and performing procedures to identify and assess ROMMs, to consider possible ROMMs arising from certain matters, including fraud (see paragraph 6.2.4(a)) and events or conditions (see paragraph 6.2.4(c)).

Paragraph 6.2.4(a) has been revised to align with paragraph 26 of ISA 240 (Revised) by referring to fraud risk factors rather than fraud or error. In addition, the EEM under paragraph

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

6.2.4 (second section) has been enhanced to explain the relationship between fraud risk factors and ROMM due to fraud.

With respect to events or conditions, paragraph 6.2.1(aA) has been added to align with paragraph 11 of ISA 570 (Revised 2024). This new paragraph in ISA 570 (Revised 2024) requires the auditor to design and perform procedures to obtain audit evidence that provides an appropriate basis for determining whether events or conditions have been identified. As a result of the addition of paragraph 6.2.1(aA), paragraph 6.2.4(c) was considered redundant and has been deleted. In addition, the IAASB enhanced the EEM under paragraph 6.2.1 by incorporating guidance, considered essential for applying the requirement relating to events or conditions.

- (b) *Identifying fraud risk factors and events or conditions.* Part 6.3 addresses the auditor's understanding of relevant aspects of the entity. This section is the equivalent of the section on obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control in ISA 315 (Revised 2019). EEM under Part 6.3 has been enhanced to explain that understanding relevant aspects of the entity helps the auditor identify possible fraud risk factors and events or conditions. The IAASB is of the view that being aware of possible fraud risk factors or events or conditions is critical when obtaining an understanding of the entity and that this aligns with the conceptual approach in ISA 240 (Revised) and ISA 570 (Revised 2024).
 - (c) *Evaluating whether fraud risk factors are present.* The IAASB moved part of paragraph 1.5.1(a) to paragraph 6.3.14A to follow the flow of ISA 240 (Revised) and because it was of the view that the flow in ISA 240 (Revised) is more intuitive – the auditor obtains audit evidence from procedures to identify and assess risks (and related activities) and then the auditor evaluates whether, based on that audit evidence, there are fraud risk factors. EEM was added based on paragraph A110 of ISA 240 (Revised) to clarify that it is a matter of professional judgment whether fraud risk factors individually or in combination, indicate that there is a ROMM.
 - (d) *Evaluating whether events or conditions are present.* Similar to the evaluation of fraud risk factors as described in paragraph 38(c), the IAASB is of the view that such an evaluation is useful for events or conditions. Therefore, the IAASB incorporated a going concern lens to paragraph 6.4.8 by adding EEM under paragraph 6.4.8 that the auditor's evaluation may indicate the existence of events or conditions that management has not previously identified or disclosed to the auditor.
 - (e) *Identifying and Assessing ROMMs due to Fraud.* Paragraph 6.4.1 requires the auditor to identify and assess the ROMMs due to fraud or error. The IAASB added a reference to fraud risk factors to align with paragraph 39 of ISA 240 (Revised). In addition, the IAASB added EEM highlighting matters the auditor may consider in determining whether fraud risk factors, individually or in combination, indicate that there are ROMMs due to fraud. This EEM closes the loop from being alert to possible fraud risk factors, to determining how they may impact ROMMs due to fraud.
39. In addition, the IAASB sought to achieve an appropriate balance in how the standard addresses fraud risk factors and events or conditions. The IAASB noted that Appendix 4 of the ISA for LCE includes examples of fraud risk factors, whereas there is currently no equivalent appendix for events or conditions related to going concern. Accordingly, the IAASB has added a new appendix (Appendix

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

3A) containing examples of such events or conditions. The IAASB considers that this appendix would provide useful practical guidance to auditors. Appendix 3A is based on paragraph A7 of ISA 570 (Revised 2024).

Presumption of ROMMs Due to Fraud in Revenue Recognition

Extant ISA for LCE

40. One of the most prominent areas where respondents to the [Exposure Draft](#) (July 2021) of the extant ISA for LCE questioned whether the requirements were proportionate to the typical nature and circumstances of an audit of an LCE, was the presumption that there are risks of fraud in revenue recognition.
41. In response, the IAASB considered making changes in the ISA for LCE to the presumption that there are risks of fraud in revenue recognition and to revise the requirement to instead require an active determination of potential fraud risks resulting from types of revenue, revenue transactions or assertions. However, the IAASB noted that the change would be inconsistent with ISA 240¹⁷ and the direction of the IAASB in its project to revise ISA 240. Therefore, it was decided not to depart from the base requirement in ISA 240 and to retain the presumption (see paragraph 6.4.2).

ISA 240 (Revised)

42. The IAASB enhanced the requirement relating to the presumption of ROMMs due to fraud in revenue recognition in paragraph 41 of ISA 240 (Revised) by:
 - Changing the work effort verb from “evaluate” to “determine”; and
 - Requiring the auditor to take into account related fraud risk factors when determining which types of revenue, revenue transactions or relevant assertions give rise to such risks.

Revising the ISA for LCE

43. The engagement with stakeholders (see paragraphs 15–17) informed the IAASB about the importance of making the presumption of ROMMs due to fraud in revenue recognition proportionate to the typical nature and circumstances of LCEs.
44. Stakeholders, on balance, were of the view that ROMM due to fraud in revenue recognition do arise in audits of LCEs. Therefore, they were supportive of keeping the requirement in paragraph 6.4.2 and aligning it to the equivalent requirement in ISA 240 (Revised). They also noted that the ROMM due to fraud may be higher in areas other than revenue recognition. For example, there may be greater opportunities for management to override controls given that in a typical LCE there is limited segregation of duties allowing a single individual to override controls.
45. On the other hand, stakeholders were generally of the view that the presumption of ROMMs due to fraud in revenue recognition is more likely to be rebutted in an audit of a LCE as a typical LCE is likely to have a single, simple or straightforward revenue stream. In this regard it is also relevant to consider the likelihood of rebuttal in the context of the population of entities whose audits are within the scope of the ISA for LCE compared to the ISAs that apply across the entire spectrum of audited

¹⁷ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

entities (from smaller and less complex to larger and more complex entities, including the most complex entities and publicly traded entities).

46. Based on the stakeholder outreach, the IAASB aligned the requirement related to the presumption of ROMMs due to fraud in revenue recognition (paragraph 6.4.2) with paragraph 41 of ISA 240 (Revised).
47. Regarding the guidance on rebuttal of the presumption of ROMMs due to fraud in revenue recognition, the IAASB considered the following matters:
 - (a) *The overall design principles of the ISA for LCE.* One of the overall design principles is focusing on the outcome the auditor is expected to achieve and states that the requirements in the ISA for LCE are expected to deliver a similar outcome as the ISA requirements when applied to an audit of an LCE.
 - (b) *The key issues identified in the project proposal to revise ISA 240.* The application material in ISA 240 (Revised) relating to ROMMs due to fraud in revenue recognition (paragraphs A119–A125) was developed to address the following key issue: “It is not clear when it may, or may not, be appropriate to rebut the presumption of ROMMs due to fraud in revenue recognition, which has resulted in inconsistent application.”
 - (c) *The Authority of the standard.* In LCEs, revenue recognition is more likely to be simple and straightforward given the following qualitative characteristics as set out in the Authority (paragraph A.3):
 - (i) The entity’s business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks.
 - (ii) The entity’s transactions result from few lines of business or revenue streams.
 - (iii) The entity’s financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.
48. Given the above, the IAASB decided the following:
 - (a) Adding EEM that clarifies how ROMMs due to fraud may arise from revenue recognition in an LCE. The IAASB is of the view that such guidance is useful to support a consistent application of the requirement. The messaging of the EEM is based on paragraphs A119–A121 of ISA 240 (Revised) but has been adapted to the typical nature and circumstances of an audit of an LCE. The EEM also provides examples and links to Appendix 4 of the standard which sets out examples for fraud risk factors (see first paragraph of EEM under paragraph 6.4.2).
 - (b) Adding EEM that explains that determining whether fraud risk factors indicate a ROMM due to fraud is a matter of professional judgment. This EEM is based on paragraph A122 of ISA 240 (Revised) and addresses an important area where the auditor applies professional judgment (see second paragraph of EEM under paragraph 6.4.2).
 - (c) Enhancing EEM that explains when it may be appropriate to rebut the presumption of fraud in revenue recognition. The enhancements are based on paragraph A123 of ISA 240 (Revised) and link back to the qualitative characteristics of an LCE and the fraud risk factors identified (see third paragraph of EEM under paragraph 6.4.2).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

49. Based on these proposals, the IAASB is of the view that the requirement and related EEM is expected to deliver a similar outcome as with the ISA requirements when applied to an audit of an LCE. The IAASB is also of the view that the enhanced EEM will be clearer in highlighting to auditors the matters that ought to be considered about when it may, or may not, be appropriate to rebut the presumption of ROMMs due to fraud in revenue recognition.

G. Part 7, Responding to Assessed Risks of Material Misstatement

Fraud or Suspected Fraud

Extant ISA for LCE

50. In the extant ISA for LCE, fraud or suspected fraud is dealt with in Part 1 and includes specific communication and documentation requirements. In addition, one of the auditor's objectives in Part 7 is to respond appropriately to ROMMs arising from fraud or suspected fraud and the part sets out requirements for the design and implementation of responses to assessed ROMMs at the financial statement and assertion levels.

ISA 240 (Revised)

51. To enhance clarity around the auditor's response when fraud or suspected fraud is identified in the audit, ISA 240 (Revised) introduced:
- (a) A separate section for audit procedures when fraud is identified or suspected.
 - (b) Requirements that clarify that the auditor is required to obtain an understanding of the identified fraud or suspected fraud and the engagement partner's responsibilities relating to fraud or suspected fraud (paragraph 55 and 56 of ISA 240 (Revised)).
 - (c) A threshold for the auditor to exclude from further consideration those instances of fraud or suspected fraud that are "clearly inconsequential" (paragraph 56 of ISA 240 (Revised)).

Revising the ISA for LCE

52. Given the public interest importance of the changes to ISA 240 (Revised) regarding fraud or suspected fraud, the IAASB decided to mirror ISA 240 (Revised) by introducing a separate section containing requirements that apply when fraud or suspected fraud is identified. The IAASB is of the view that this section is most appropriately located in Part 7.4 (Specific Focus Areas), which contains requirements relating to specific audit procedures on particular topics. The section is placed immediately after the section on "Audit Procedures When Non-Compliance with Law or Regulation is Identified or Suspected," thereby locating the requirements relating to fraud or suspected fraud alongside similar requirements addressing non-compliance with laws and regulations.
53. The IAASB noted that Part 1 in the extant ISA for LCE also includes requirements addressing fraud or suspected fraud. However, Part 1 focuses on fundamental concepts, general principles and overarching requirements, and therefore specific procedures to address fraud or suspected fraud do not naturally fit in Part 1. Given the introduction of a section on fraud or suspected fraud in Part 7, the IAASB decided to relocate the related specific communication and documentation requirements from Part 1 to Part 7.
54. The IAASB is of the view that the requirements in paragraphs 55 and 56 of ISA 240 (Revised) are relevant to audits for LCEs because they provide greater clarity regarding the auditor's response to

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

fraud or suspected fraud. Accordingly, requirements based on these requirements have been added (see paragraphs 7.4.27A and 7.4.27B). In doing so, the IAASB introduced scalability, similar to ISA 240 (Revised), by having the “clearly inconsequential” threshold. In addition, to further enhance scalability and facilitate easy navigation, the IAASB has presented the requirements that apply if the auditor identifies fraud or suspected fraud within a text box to clearly distinguish the conditional requirements.

Going Concern Section (Part 7.4)

Extant ISA for LCE

55. Part 7.4 of the extant ISA for LCE includes procedures for evaluating management’s assessment of the entity’s ability to continue as a going concern.

ISA 570 (Revised 2024)

56. To strengthen the auditor’s evaluation of management’s assessment of the entity’s ability to continue as a going concern, ISA 570 (Revised 2024) includes new and enhanced requirements. New requirements include evaluating the method, significant assumptions and data used by management to make its assessment of going concern (see paragraph 19 of ISA 570 (Revised 2024)) and evaluating the significant assumptions or data if they are included in management’s plans for future actions (see paragraph 27 of ISA 570 (Revised 2024)). These requirements apply the concepts introduced in ISA 540 (Revised).¹⁸
57. In addition, the commencement date of the twelve-month period of management’s assessment, which is used as the basis for the auditor’s evaluation, was changed from the date of the financial statements to the date of approval of the financial statements.

Revising the ISA for LCE

Streamlining the going concern section

58. Stakeholders (see paragraphs 15–17) had several suggestions on how the Evaluating Management’s Assessment section in ISA 570 (Revised 2024) should be adapted to be appropriately proportionate to the typical nature and circumstances of LCEs.
59. In incorporating the expanded section (as included in ISA 570 (Revised 2024)) in the ED-ISA for LCE, the IAASB considered it necessary to streamline the requirements and require the auditor to:
- (a) Design and perform audit procedures to evaluate management’s assessment of the entity’s ability to continue as a going concern (see paragraph 7.4.1). This requirement is based on paragraph 17 of ISA 570 (Revised 2024) and also addresses the auditor’s consideration of whether management’s assessment includes all relevant information of which the auditor is aware (see paragraph 24 of ISA 570 (Revised 2024)).
 - (b) If management has not performed an assessment of the entity’s ability to continue as a going concern that covers a period of at least twelve months from the date of approval of the financial statements, request management to make such assessment (see paragraph 7.4.1A). This requirement is based on paragraphs 16 and 21 of ISA 570 (Revised 2024) and also addresses

¹⁸ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

the auditor's response if management is unwilling to make its assessment (see paragraphs 22–23 of ISA 570 (Revised 2024)).

- (c) Inquire of management regarding its knowledge of events or conditions beyond the period of management's assessment (see paragraph 7.4.3). This requirement was already included in the extant ISA for LCE and has been aligned with paragraph 20 of ISA 570 (Revised 2024).
60. The IAASB also presented the requirements that apply if the auditor identifies events or conditions (paragraphs 7.4.3A, 7.4.4 and 7.4.4A, and the related EEM) within a text box to improve scalability and facilitate navigation by clearly distinguishing the conditional requirements.

The lack of formal going concern assessment by management

61. Stakeholders (see paragraphs 15–17) noted that in a typical LCE, management is unlikely to perform a formal assessment of the entity's ability to continue as a going concern. Stakeholders noted that going concern issues are more likely to be identified when reviewing the financial statements as part of designing and performing procedures for identifying and assessing ROMM and making inquiries with management about the entity's ability to continue as a going concern.
62. The IAASB considered how the standard can reflect the typical nature and circumstances of an LCE, especially the lack of a formal assessment of the entity's ability to continue as a going concern by management, without inadvertently suggesting that management could abdicate their responsibility for assessing the entity's ability to continue as a going concern. In doing so, the IAASB considered:
- (a) The project objectives of the project to revise ISA 570 (Revised).¹⁹ One of the project objectives was to strengthen the auditor's evaluation of management's assessment of going concern;
 - (b) The guidance included in the application material in ISA 570 (Revised 2024); and
 - (c) Stakeholders' comment during the development of the extant ISA for LCE²⁰ and the development of the ED-ISA for LCE.
63. In response, the IAASB considered enhancements to the standard and decided to:
- (a) Retain the EEM under paragraph 7.4.1, which explains how the auditor's evaluation may be satisfied when management has not prepared a detailed assessment. This EEM leverages the application material from paragraph A12 of ISA 570 (Revised) and was generally recognized as being appropriate and proportionate in reflecting the typical nature and circumstances of an LCE.
 - (b) Enhance the EEM under paragraph 7.4.1 by incorporating guidance, based on paragraph A35 of ISA 570 (Revised 2024), explaining that a less extensive analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.
 - (c) Add EEM under paragraph 7.4.1A, based on paragraph A56 of ISA 570 (Revised 2024), relating to when management's assessment covers a period of less than twelve months from

¹⁹ ISA 570 (Revised 2024), *Going Concern*

²⁰ The lack of a formal going concern assessment by management was also raised during the development of the extant ISA for LCE (see [Agenda Item 6](#), paragraph 48(b) of the March 2023 IAASB meeting).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

the date of approval of the financial statements and extends the assessment through less formal means.

64. The IAASB decided not to limit the requirement in paragraph 7.4.1 to inquiry and discussion, as there may be circumstances where additional procedures are necessary. Also, this could be seen as contrary to the project objectives to strengthen the auditor's evaluation of management's assessment of going concern (see paragraph 62(a)).

Management's assessment period

65. Stakeholders (see paragraphs 15–17) noted that the requirement for an assessment period of at least twelve months from the date of approval of the financial statements may require management to extend its assessment beyond the period required by the applicable reporting framework, particularly for LCEs applying local generally accepted accounting principles. Some stakeholders suggested that the ED-ISA for LCE should not prescribe a minimum assessment period and instead incorporate relevant considerations in EEM or take a risk-based approach whereby the period would be extended only when concerns are identified. Others agreed with the requirement for an assessment period of at least twelve months from the date of approval of the financial statements, while noting that management's assessment is often less formal in an LCE environment (also see paragraph 61).
66. The IAASB considered whether the required period of management's assessment of the entity's ability to continue as a going concern should be different from ISA 570 (Revised 2024) but decided not to do so because:
- (a) In developing ISA 570 (Revised 2024), the timeline over which management's going concern assessment is made was deemed to be a public interest issue, which was addressed by changing the commencement date of the minimum twelve-month period of management's going concern assessment; and
 - (b) In many jurisdictions, the approval date of the financial statements of an LCE is often significantly later than the date of the financial statements, thereby making this public interest issue particularly relevant to the typical nature and circumstances of an LCE.

The method, significant assumptions and data used in management's assessment

67. To avoid duplication and recognizing the typical nature of an audit of an LCE, the IAASB considered that a new requirement related to evaluating the method, significant assumptions and data used by management is unnecessary because the auditor could leverage the existing requirements in Part 7 relating to accounting estimates (paragraph 7.4.17). Instead, the IAASB added EEM under paragraphs 7.4.1 and 7.4.4 to highlight that the procedures for accounting estimates may be applied, adapted as appropriate, when relevant.

H. Part 8, *Concluding*

Concluding Activities Related to Fraud

68. ISA 240 (Revised) clarifies the auditor's responses when the auditor determines that the financial statements are materially misstated due to fraud, or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated due

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

to fraud. The IAASB considered this enhancement relevant to audits of LCEs and therefore revised paragraph 8.5.11 to align with paragraph 58 of ISA 240 (Revised).

Concluding Activities Related to Going Concern

69. The IAASB enhanced the “Auditor Conclusions” section in ISA 570 (Revised 2024) in relation to evaluation of possible management bias and the adequacy of disclosures. The IAASB considered these enhancements relevant to audits of LCEs and, accordingly, revised paragraphs 8.5.7–8.5.10 to align more closely with paragraphs 30–33 of ISA 570 (Revised 2024). To follow the same improved flow as ISA 570 (Revised 2024), the IAASB:
- (a) Moved paragraph 8.5.10 (now paragraph 8.5.8A) to precede paragraph 8.5.9; and
 - (b) Relocated EEM from under paragraph 7.4.4 to under paragraph 8.5.9.
70. The IAASB also added guidance to explain that:
- (a) The auditor’s conclusion on whether a material uncertainty exists related to events or conditions is dependent on the auditor’s evaluation of management’s plans for future actions, including examples of plans for future actions. See EEM under paragraph 8.5.8 which is based on paragraphs A6 and A72 of ISA 570 (Revised 2024); and
 - (b) The auditor may determine that additional disclosures are necessary when significant judgments are made by management in concluding that there is no material uncertainty. See EEM under paragraph 8.5.8A which is based on paragraph A75 of ISA 570 (Revised 2024).

I. Part 9, *Forming an Opinion and Reporting*

71. Part 9 presents the reporting requirements using a specified content and format for an unmodified auditor’s report, as well as using tables to present requirements related to circumstances that may lead to modification of the auditor’s report or opinion, and the text that may be used where modifications occur. The changes in ED-ISA for LCE are consistent with this approach in incorporating revisions from the underlying ISA projects. In particular:
- (a) The specified content and format for an unmodified auditor’s report in paragraph 9.4.1 reflects:
 - (i) The addition of a separate “Going Concern” section based on paragraph 34 of ISA 570 (Revised 2024). This paragraph requires the auditor to explicitly state that:
 - a. The auditor has concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - b. The auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern;
 - (ii) Enhancements to the description of the auditor’s responsibilities relating to fraud, based on the conforming amendments to paragraph 40 of ISA 700 (Revised)²¹ as a result of the revision of ISA 240; and
 - (iii) Enhancements to the description of the auditor’s responsibilities relating to the statement provided to those charged with governance on compliance with relevant ethical

²¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

requirements regarding independence, based on the conforming amendments to paragraph 40(b)(i) of ISA 700 (Revised) as a result of the Listed Entity and Public Interest Entity project.

- (b) Requirements relating to modified opinions are addressed in Table C in paragraphs 9.5.17A, 9.5.19–9.5.20A (which are based on paragraphs 36–38 of ISA 570 (Revised 2024)) and in paragraph 9.5.33(b) (which is based on paragraph 19(d) of ISA 705 (Revised)).²²

J. Other Matters

Maintenance of the ISA for LCE

- 72. The IAASB is committed to maintaining the ISA for LCE for changes in the business and audit environment. In this regard, the IAASB recognizes that the ISA for LCE has been designed as a standalone standard that achieves reasonable assurance through requirements and EEM that are relevant and proportionate to the typical nature and circumstances of an audit of an LCE.
- 73. The Maintenance Approach encapsulates the following principles relating to the need to maintain the ISA for LCE in the context of revisions arising from new or revised ISAs:²³
 - (a) Given that the ISA for LCE was designed based on the core requirements and concepts of the ISAs, any public interest issues identified in relation to new or revised ISA(s) would generally be relevant to the ISA for LCE.
 - (b) Given that both the ISAs and the ISA for LCE have been designed to achieve reasonable assurance, the work performed by an auditor under the ISA for LCE should continue to be based on the core requirements and concepts of the ISAs.
- 74. The Maintenance Approach reflects the Board's desire for timely alignment of revisions to the ISA for LCE with revisions to the ISAs rather than adopting an approach of periodic revisions (i.e., resulting in 'packages' of revisions that would become effective every specified number of years, barring any need for urgent intermediate revisions prompted by specific developments in the environment). In considering how best to operationalize this "timely alignment" approach, the IAASB considered:²⁴
 - (a) Revising the ISA for LCE simultaneously with the revision of the related ISA. This option enables the alignment of the effective dates of the revisions to the ISA and the ISA for LCE but there is a risk that the IAASB will be duplicating its deliberations on certain issues as both standards are developing solutions for the similar issues and have consultations that are closely together.
 - (b) Starting with the maintenance of the ISA for LCE when the revision to the ISA is almost finalized. This option allows the maintenance team to leverage the solutions developed during the revisions to the underlying ISA and would avoid redebating issues. Given that the solutions would be already largely developed, revisions to the ISA for LCE would be more focused on applying the design principles for the requirements and EEM of the ISA for LCE and the timeline for maintenance can also be reduced. However, this option would generally result in a one

²² ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

²³ See also paragraph 8 and footnote 4.

²⁴ Refer to the September 2025 IAASB meeting, [Agenda Item 11](#).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

year-later effective date for the revisions to the ISA for LCE compared to the equivalent revisions in the ISA.

On balance, the IAASB concluded that the benefits for commencing the maintenance of the ISA for LCE when the revisions to the ISA are almost finalized outweigh the benefit for aligning the effective dates of the revisions. In making its decisions, the IAASB considered that the gap between the effective dates will be limited and that this time may be used by auditors of LCEs to prepare for the upcoming revisions.

75. During the outreach undertaken supporting the adoption and implementation of the extant ISA for LCE and the development of the ED-ISA for LCE, some stakeholders raised concerns that the maintenance of the ISA for LCE does not adequately recognize the importance of having a stable platform for the ISA for LCE and the standalone nature of the standard. In these stakeholders' view, periodic revisions of the standard would encourage broader adoption and more effective implementation of the ISA for LCE. In addition, these stakeholders highlighted that the IAASB's approach, including the frequency that is driven by the number of ISA projects finalized, and its timing (i.e., commencing a maintenance project when the new or revised ISA(s) is almost finalized) could mean that multiple maintenance projects are performed at the same time. These stakeholders did not question the principles in paragraph 73.
76. To ensure a measured and balanced consideration of relevant factors and consequences (intended and unintended), the IAASB invites views from all stakeholders relating to the matters discussed in this section.

Effective Date

77. The IAASB anticipates that a final revised standard will be approved in **June 2027**, and that it is appropriate for the revised standard to become effective for financial reporting periods beginning on or after approximately 18 months after the approval of proposed ISA for LCE (Revised). The IAASB is of the view that this would provide stakeholders with sufficient time to implement the standard, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools, and training material.
78. The IAASB also notes that a targeted effective date of around December 2028 would be consistent with its decision to allow for a period of stability of three years from the effective date of the extant ISA for LCE (i.e., December 2025). In addition, the revised ISAs which provide the basis for this first maintenance project (see paragraph 11) become effective two years earlier, in December 2026, which will help stakeholders in implementing the proposed ISA or LCE (Revised).

Section II – Questions for Respondents

79. Respondents are asked to respond to the questions below using the **Response Form** as explained in the **Request for Comments** section of this EM. The questions in the table each requires a direct response on whether you agree with the proposals in ED-ISA for LCE. 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)**.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Questions for Respondents	Related Section or Paragraphs in this EM
<i>Overall Impact</i>	
1. Do you agree that ED-ISA for LCE appropriately addresses the relevant public interest issues related to the underlying ISA projects and satisfies the identified qualitative characteristics of the Public Interest Framework? You are invited to include as part of your response insights on the implications or effects of implementing the proposed revisions in ED-ISA for LCE.	Section I-A and the Appendix
<i>Content of ED-ISA for LCE</i>	
2. Provide your views on the proposed revisions to Parts A, 1–10 (and any related Appendices) in ED-ISA for LCE. In responding to this question: • Please distinguish your comments by using a subheading for each of the Parts or Appendices. The Response Form has been set up to facilitate your comments in relation to each Part in ED-ISA for LCE. • Indicate whether the public interest issues identified in the underlying ISA projects are relevant to the ISA for LCE and, if so, whether they are addressed in a proportionate way.	Section I-B to I-I
<i>Other Matters</i>	
Maintenance of the ISA for LCE 3. Do you agree with the Maintenance Approach? Please also share your views relating to the frequency and timing of maintenance projects and how the approach could be improved, including, as applicable, how to achieve the appropriate balance between the desire for stability between different versions of the standard and keeping the standard aligned with the core requirements and concepts of the ISAs.	Section I-J , paragraphs 72–76
Effective Date 4. The IAASB believes that an appropriate implementation period would be approximately 18 months after the expected date of approval of the proposed revised standard. Do you agree that this will provide a sufficient period to support effective implementation of the proposed revisions to the standard? If not, what do you propose and why?	Section I-J , paragraphs 77–78

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Questions for Respondents	Related Section or Paragraphs in this EM
<i>Translations</i>	
5. Recognizing that many respondents may intend to translate the final standard for adoption in their own environments, have you identified any potential translation challenges or issues? If so, please describe the issue identified and clearly indicate the specific paragraph numbers of any requirements, EEM, or appendices to which your comments relate.	

Invitation for Field Testing

80. The IAASB did not believe that field testing was needed before approval of ED-ISA for LCE. However, the IAASB recognizes that some practitioners who use the ISA for LCE may choose to undertake field testing to inform their response to ED-ISA for LCE. Field testing may take different forms and may focus on all or certain proposals of ED-ISA for LCE and may be executed at different levels. Field testing is not required in order to respond to ED-ISA for LCE but is recognized in terms of the additional information and different perspectives that may be obtained in this manner. Accordingly, the IAASB welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to ED-ISA for LCE.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Appendix - Mapping Public Interest Issues of the ISAs Revisions to Key Revisions Proposed to the ISA for LCE

This table in this appendix maps the public interest issues (PII) included in the project proposal of the ISA projects which are in scope of this maintenance of the ISA for LCE project to the key revisions proposed to the ISA for LCE.

1. The column “Description of Key Revisions Proposed” describes the proposed standard-setting actions in ED-ISA for LCE, which are designed to achieve the following qualitative characteristics of the Public Interest Framework (identified as being of most relevance in the project proposal):
 - (a) Consistency
 - (b) Scope
 - (c) Proportionality
 - (d) Relevance
 - (e) Clarity and conciseness
 - (f) Implementability and ability of being consistently applied and globally operable
2. Because these characteristics apply to the ED-ISA for LCE as a whole, rather than to any individual part or requirement(s), they were taken into account in applying the [Maintenance Approach](#) as an overall stand-back whether the proposed revisions result in a revised standard that continues to exhibit these characteristics. Accordingly, the characteristics have not been mapped individually to individual proposed revisions.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Table A: Public Interest Issues included in the Project Proposal of ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
Roles and Responsibilities of the Auditor on Fraud in an Audit of Financial Statements		
1. The introductory paragraphs in ISA 240 explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor's obligations.	Yes	In the EEM under paragraph 1.5. the descriptions about inherent limitations of the audit and the auditor's responsibilities are decoupled. The EEM also reinforces that the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.
2. A need has been expressed to clarify and emphasize the auditor's responsibilities regarding fraud in an audit of financial statements.	Yes	The auditor's responsibilities are presented before those of management and TCWG in order to emphasize the auditor's responsibilities (Requirement and EEM related to paragraph 1.5.1).
3. There are terms and concepts associated with fraud, such as bribery, corruption, and money laundering, that are not directly addressed in the definition of fraud, and it has been noted that it is therefore unclear whether the auditor's procedures extend to include work related to such terms and concepts.	Yes	Clarified in the EEM under Part 1.5 how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for purpose of an audit of financial statements.

²⁵ Unless otherwise stated, if answered yes, the IAASB is of the view that the extant ISA for LCE contains requirements and EEM based on the ISAs requirements that gave rise to this PII. Therefore, the same issue could arise for audit engagements in which the ED- ISA for LCE is applied.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
4. Calls for the auditor undertaking more forensic type procedures, or the need for forensic specialists on all, or some, audits have been made due to the increasing use of forensic procedures on audits, including by forensic specialists.	Yes	Added EEM under paragraph 7.4.27B describing what forensic skills are and explaining that such skills may be needed when fraud or suspected fraud is identified.
Identifying and Assessing ROMMs Due to Fraud		
5. The auditor's risk identification and assessment process as it relates to fraud should be more robust (including that many aspects of the enhanced risk identification and assessment procedures in ISA 315 (Revised 2019) have not been reflected in ISA 240).	Partly The IAASB considered the enhancements made to ISA 240 (Revised) relating to the internal audit function and whistleblower programs not to be relevant, given the typical nature and circumstances of an LCE. In addition, the EEM in Part A states that the ISA for LCE does not include requirements addressing circumstances in which the auditor intends to use the work of internal	- The requirement relating to retrospective review (paragraph 6.2.4A) was moved from Part 7 to Part 6 to better reflect the nature of the procedure. - Paragraph 6.3.8(b) was revised to align with paragraph 35 of ISA 240 (Revised) by reflecting that auditors are required to obtain an understanding related to journal entries and other adjustments. - Part of paragraph 1.5.1(a) relating to evaluating fraud risk factors was moved to paragraph 6.3.14A to make the flow of the standard more intuitive. - Guidance was added in EEM under Part 6.3 explaining that understanding relevant aspects of the entity assists the auditor in identifying fraud risk factors. - EEM relating to fraud risk factors was added throughout Part 6 (including under paragraphs 6.2.4, 6.3.14A and 6.4.1.) to emphasize what fraud risk factors are and how fraud risk factors relate to and influence the identification of ROMMs due to fraud.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
	auditors, as this would ordinarily not be applicable to an audit of an LCE.	
6. The engagement team discussion is not sufficiently robust with respect to the auditor's considerations of fraud throughout the audit.	Yes	The EEM under paragraph 5.2.7 was enhanced by including topics that may be discussed when discussing how and where the entity's financial statements may be susceptible to material misstatement due to fraud.
Responses to the Assessed ROMMs due to Fraud		
7. The auditor's responses to the assessed ROMMs due to fraud should be more robust.	Partly The IAASB considered the reference to complex transactions in paragraph 45 of ISA 240 (Revised) not to be relevant to the ISA for LCE. This is consistent with Part A of the ISA for LCE, which indicates that, in an LCE, few accounts or disclosures in the entity's financial statements necessitate the use of significant management judgment in applying the requirements of the	- The procedures for the auditor to address management override of control were enhanced (see paragraph 7.4.6). For example, new requirements and EEM were added about: - Obtaining audit evidence about the completeness of the population of journal entries; and - Considering the audit evidence obtained from the retrospective review performed.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
	financial reporting framework.	
8. The auditor is inappropriately relying on written representations provided by management addressing fraud in the entity (i.e., clarity is needed that written representations do not relieve the auditor of the responsibility to appropriately respond to the assessed ROMMs due to fraud).	Yes	- Enhanced the requirement by adding that the auditor shall obtain written representations from management and, where appropriate, TCWG, about whether they have appropriately fulfilled their responsibilities for the design, implementation and maintenance of internal control to prevent or detect fraud (see paragraph 8.6.1(d)(i)). - No revisions to the EEM in Part 8.6 are proposed, since the extant EEM already adequately clarifies that written representations do not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities or about specific assertions.
Use of Technology		
9. ISA 240 needs to consider the impact of the entity's ability to use technology to enable fraudulent activity on the auditor's procedures. 10. ISA 240 needs to be modernized for the auditor's considerations about how new and evolving technologies, and current practice, impact the auditor's procedures when considering fraud.	Yes	- EEM was added to: - Paragraph 6.3.8 to provide guidance on the use of technology by the entity to commit fraud; and - Paragraph 8.3.1 to provide an example of how Automated Tools and Techniques (ATT) may be used to determine previously unrecognized ROMM due to fraud.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
Relationship Between and Linkage of ISA 240 With Respect to ISA 250 (Revised)²⁶ and the Other ISAs		
11. The relationship between ISA 240 and ISA 250 (Revised) is unclear, i.e., more clarity is needed if a fraud is identified or suspected, whether the auditor is performing procedures to comply with ISA 240 or ISA 250 (Revised).	Yes	Added EEM under Part 1.5. explaining the auditor's responsibilities related to non-compliance with laws and regulations when fraud or suspected fraud is identified.
12. The relationship between ISA 240 and other ISAs (e.g., standards addressing quality management, written representations, and external confirmations) should be clarified to promote an integrated risk-based approach with respect to fraud.	No – The ISA for LCE is designed to follow the typical flow of an audit and integrates the different concepts. Therefore, the relationship between fraud and other matters does not need to be further clarified in the ED-ISA for LCE.	N/A
Specific Fraud-Related Audit Procedures		
13. Journal entries – uncertainty about how to select which journal entries to test that has resulted in inconsistent application.	Yes	Added a requirement and EEM in Part 7 (paragraph 7.4.6(a)(iA)) for the auditor to obtain audit evidence about the completeness of the population of journal entries and other adjustments made in the preparation of the financial statements throughout the period.

²⁶ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
14. Presumption of fraud risk in revenue recognition – it is not clear when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition, which has resulted in inconsistent application. 15. Presumption of fraud risk in other account balances – stakeholders have questioned whether the presumption of fraud risk should be extended to include other account balances, such as goodwill.	Yes	- Enhanced the requirement by changing the work effort verb from “evaluate” to “determine” which types of revenue, revenue transactions or relevant assertions give rise to ROMMs due to fraud (see paragraph 6.4.2). - Enhanced the EEM related to paragraph 6.4.2 by providing guidance on when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition.
16. Analytical procedures – analytical procedures at the planning and completion stages of the audit are not robust enough to support the auditor’s consideration of the risk of fraud and the planned audit response (nature, timing, extent of audit procedures).	No– The IAASB noted that the paragraphs in ISA 240 (Revised) addressing this public interest issue were already appropriately covered in the ISA for LCE.	N/A
17. Fraud is identified or suspected – lack of clarity around the auditor’s response in such circumstances.	Yes	- Added a separate section in Part 7.4 about fraud and suspected fraud. - Added requirements and EEM (see paragraphs 7.4.27A and 7.4.27B) to: - Clarify that the auditor is required to obtain an understanding of all instances of identified fraud

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
		or suspected fraud in order to determine the effect on the audit engagement; ○ Clarify the engagement partner's responsibilities relating to fraud or suspected fraud that is not clearly inconsequential; and ○ Introduce a threshold in the fraud or suspected fraud requirements allowing the auditor to exclude from further consideration fraud or suspected fraud determined to be clearly inconsequential. • For scalability, presented the above requirements and EEM in a text box with a heading indicating that they apply only if the auditor identifies fraud or suspected fraud. • Enhanced the requirement and related EEM that address the situation when the auditor identifies a misstatement due to fraud by laying out more clearly the auditor's responsibilities (see paragraph 7.5.5). • Enhanced the requirement in paragraph 1.6.2 and related EEM on reporting to an appropriate authority outside the entity as it relates to fraud or suspected fraud. • Moved the specific communication requirements related to fraud and suspected fraud from Part 1 to Part 7 (see paragraphs 7.6.3A–7.6.3C). • Enhanced the requirement (see paragraph 8.5.11) by clarifying the auditor's responsibilities when the

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
		financial statements are materially misstated due to fraud or the auditor is unable to conclude in this regard.
18. Unpredictability of audit procedures – unclear as to the required actions or types of fraud-related procedures to be undertaken by the auditor.	Yes	Added EEM under paragraph 7.2.2 explaining that the auditor may also incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to address assessed ROMMs due to fraud at the assertion level.
19. Non-material fraud – clarity is needed with respect to the auditor's responsibilities and whether more should be done when a possible non-material fraud is identified or suspected.	Yes	Added EEM under paragraph 7.5.5 explaining that even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material.
20. Third party fraud – clarity is needed around the auditor's actions with respect to third party fraud.	Yes	- Added EEM: - Under Part 1.5 explaining that the auditor performs procedures if the auditor identifies fraud or suspected fraud committed against the entity by a party external to the entity; and - Under paragraph 5.2.7 including a reference to third-party fraud as a topic for the discussion by the engagement team.
21. Audit documentation – clarity is needed on what needs to be documented for fraud when identifying and assessing the risk of material misstatement, performing audit procedures and concluding.	Yes	- Moved the specific documentation requirements from Part 1 to Part 7 (see paragraph 7.7.1(h)). - The requirements relating fraud or suspected fraud (see paragraphs 7.7.1(d) and (g)–(h)) were enhanced and a new requirement was added that the results of audit procedures performed, the significant professional

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
		judgments made and the conclusions reached with respect to fraud or suspected fraud should be documented.
22. External confirmations – clarity is needed as to whether the external confirmation process, as relevant to the auditor’s considerations on fraud, should be more robust.	No – The IAASB noted that the paragraphs in ISA 240 (Revised) addressing this public interest issue were already appropriately covered in the ISA for LCE.	• N/A
Professional Skepticism		
23. The appropriate exercise of professional skepticism needs to be reinforced, including reminding the auditor of the importance of remaining alert to conditions that may indicate possible fraud and maintaining professional skepticism throughout the audit.	Yes	• Added additional examples in the EEM under paragraph 1.4.5. about the auditor remaining alert throughout the audit to emphasize the need to exercise professional skepticism. • Moved the reference “Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.” from the requirement (paragraph 2.3.3) to the EEM.
Transparency on the Auditor’s Fraud-Related Procedures		
24. The required communications with Those Charged with Governance (TCWG) on fraud considerations may not be sufficiently robust in the current environment, including that such	Partly The IAASB considered the enhancements made to ISA 240	• Enhanced requirements and EEM in Part 6 (paragraphs 6.3.1 and 6.3.3) relating to inquiries of management and, where appropriate, TCWG about

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ²⁵	Description of Key Revisions Proposed
communications relating to fraud matters are not presently explicitly required throughout the audit.	(Revised) relating to the inquires of individuals in the internal audit function not to be relevant, given the typical nature and circumstances of an LCE.	certain fraud related matters when obtaining an understanding of the entity's system of internal control. Aligned the specific communication requirements in Part 7 ("<i>Specific Communications in Relation to Fraud</i>" section) with new requirements on fraud or suspected fraud in Part 7.4.
25. The auditor's report may not be transparent enough about the auditor's fraud-related responsibilities and procedures.	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	Enhanced the illustrative auditor's report in paragraph 9.4.1 which now better articulates the auditor's responsibilities about the communications made to management, and where appropriate, TCWG as it relates to fraud.

Table B: Public Interest Issues included in the Project Proposal of ISA 570 (Revised 2024), *Going Concern*

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
Risk Identification and Assessment		
26. ISA 570 (Revised) does not reflect the more robust risk identification and assessment process	Partly	Added paragraph 6.2.1(aA), which requires the auditor to design and perform procedures to obtain audit

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
in ISA 315 (Revised 2019). A stronger link to ISA 315 (Revised 2019) would support timely identification of matters relating to management's assessment of going concern about events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Because the ISA for LCE is structured to follow the flow of the audit and is presented as a single standard, the enhancements made in ISA 570 (Revised 2024) to clarify the linkages with ISA 315 (Revised 2019) are not necessarily needed in the ISA for LCE.	evidence that provides an appropriate basis for determining whether events or conditions have been identified. As a result, paragraph 6.2.4(c) was considered redundant and was removed. • Added requirements in Part 6 for the auditor to obtain an understanding of: ○ The applicable financial reporting framework to include an understanding of the requirements of the applicable financial reporting framework relating to going concern, and the related disclosures that are required to be included in the entity's financial statements (paragraph 6.3.5(a)(ii)); and ○ How disclosures related to the entity's ability to continue as a going concern are addressed (paragraph 6.3.8(cA)). • Added EEM in Part 6: ○ Under paragraph 6.2.1 explaining that the identification of events or conditions is performed before considering any related mitigating factors included in management's plans for future actions; ○ Under Part 6.3 explaining that understanding relevant aspects of the entity assists the auditor in identifying events or conditions; and ○ Under paragraph 6.3.1 explaining that inquiries may assist the auditor in understanding how

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
		TCWG exercise oversight over management's assessment of the entity's ability to continue as a going concern. Added Appendix 4A providing examples of events or conditions.
Timeline Over Which the Going Concern Assessment is Made		
27. There was a call to consider requiring the auditor to assess the reasonableness of the period utilized by management in their going concern assessment. 28. There are inconsistencies across financial reporting frameworks in the commencement of the twelve-month period for the going concern assessment. This has resulted in reconsideration of whether the twelve-month period over which the going concern assessment is made should commence on the date of approval of the financial statements (or the date of the auditor's report) instead of the date of the financial statements. Stakeholders also noted that in considering the period of assessment, the requirements of the applicable financial reporting framework need to be taken into account.	Yes	- Added a new requirement in paragraph 7.4.1A requiring the auditor to request management to make an assessment of the entity's ability to continue as a going concern covering a period of at least twelve months from the date of approval of the financial statements. - Added EEM under paragraph 7.4.1A emphasizing that the level of detail and formality of management's update to extend its assessment may vary from entity to entity and that, for LCEs, management may often be able to update its assessment through less formal means.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
Information from Sources external to the Entity		
29. There was a call to consider when auditors may leverage information from sources external to the entity to assist them when evaluating whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. 30. It is unclear when it is appropriate to use information from a third-party when obtaining evidence of financial support.	Yes	• The requirement in paragraph 7.4.4 was enhanced to require the auditor to evaluate management's plans for future actions in relation to its going concern assessment, if events or conditions have been identified. • Added a new requirement in paragraph 7.4.4A for the auditor to obtain audit evidence about the intent and ability of a third or related party, including the entity's owner-manager, to maintain or provide financial support when the entity is dependent on such support. • Moved EEM from under paragraph 7.4.1 to paragraph 7.4.4A explaining matters to consider when the entity is dependent on the support from owner-managers.
Terminology		
31. Certain terminology associated with going concern, such as "Material Uncertainty Related to Going Concern" and "significant doubt" is inconsistently understood and may therefore have varying interpretations. Certain stakeholders noted that some financial reporting frameworks may define these terms differently.	Yes	• Included the definition of 'Material uncertainty (related to going concern)' in the glossary of terms in Appendix 1 of the ED- ISA for LCE, with supporting EEM included in the second paragraph of the EEM under paragraph 8.5.8.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
Audit Techniques – Use of Technology		
32. There is a call to consider modernizing ISA 570 (Revised) for how new and evolving technologies, and current practice, impact the auditor's work related to going concern.	Yes	Added EEM under paragraph 7.4.17 providing examples of ATT that may be used when testing significant assumptions or data. This includes significant assumptions or data related to going concern.
Management's Assessment of Going Concern		
33. ISA 570 (Revised) does not reflect the more robust concepts in ISA 540 (Revised) when designing and performing audit procedures related to management's assessment of going concern. Embedding some of those concepts in ISA 570 (Revised) will assist the auditor by strengthening the audit procedures related to the evaluation of management's assessment of going concern, for example, in relation to the significant assumptions and data used in management's assessment of going concern.	Yes	- Enhanced the requirement for the auditor to design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern (paragraph 7.4.1) by clarifying management's assessment will include significant judgments by management. - Enhanced the requirement for the auditor to inquire of management as to its knowledge of events or conditions beyond the period of management's assessment (paragraph 7.4.3) by adding a conditional requirement that, if management or the auditor identifies such events or conditions, the auditor is required to request management to evaluate their potential significance. - Added a requirement that applies if the auditor identifies events or conditions that management has not previously identified or disclosed to the auditor (see paragraph 7.4.3A).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
		- For scalability, presented the requirements and EEM that apply if the auditor identifies events or conditions in a text box with a heading indicating that they only apply if the auditor identifies events or conditions (see requirements and EEM related to paragraphs 7.4.3A–7.4.4A). - Added EEM under paragraph 7.4.1: - Referring to paragraph 7.4.17 (i.e., the requirement relating to testing how management made the accounting estimate) when evaluating the method, significant assumptions, and data used by management in assessing the entity's ability to continue as a going concern; and - Explaining what is meant by the term 'method' in the context of the standard. - Added specific documentation requirements in Part 7 to promote consistent practice and behavior (paragraph 7.7.4A) and added a documentation requirement in Part 8 (paragraph 8.9.1(c)) relating to the auditor's determination of the adequacy of management's disclosures in the financial statements related to going concern. - Added and enhanced requirements in Part 8 to strengthen the written representation to be obtained from management, reflecting the more robust approach in the standard to evaluating management's assessment (paragraph 8.6.1(m)).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
		Consequently, enhanced the illustrative representation letter in Appendix 7 to reflect the enhanced written representation requirements. - Added EEM to paragraph 8.5.8A to further clarify the requirement related to whether the financial statements provide adequate disclosures about the identified events or conditions. - Clarified paragraph 8.5.9 regarding the adequacy of disclosures when a material uncertainty exists.
Professional Skepticism		
34. The exercise of professional skepticism needs to be reinforced as it relates to the auditor's considerations about the appropriateness of management's use of the going concern basis of accounting, management's assessment of going concern, and maintaining professional skepticism when gathering audit evidence, questioning judgments made and assumptions used, and developing conclusions.	Yes	- New requirements were added to paragraph 8.5.7 requiring the auditor to: - Evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if individually reasonable, are indicators of possible management bias. - Consider all audit evidence obtained when concluding on the appropriateness of management's use of the going concern basis of accounting.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
Transparency About the Auditor's Responsibilities and Work Related to Going Concern		
35. The communication with TCWG on going concern may not be sufficiently robust, including that such communication may not always occur on a timely basis throughout the audit.	Yes	- Added EEM under paragraph 6.4.8 explaining that the auditor's evaluation of the procedures to identify and assess ROMM may indicate the existence of events or conditions that management has not previously identified or disclosed to the auditor. - Strengthened the communication requirements with TCWG (paragraph 8.8.3) to enhance transparency and timely communication when events or conditions have been identified.
36. Where issues related to going concern are identified by the auditor, there is a need to clarify the auditor's responsibilities for additional communications with external parties, including with relevant regulatory authorities (as applicable).	Yes	- Enhanced the requirement in paragraph 1.6.2. relating to reporting to an appropriate authority outside the entity, to include the requirement related to going concern. - Added a requirement (paragraph 1.4A.1) about the auditor's responsibilities related to going concern. This requirement mirrors and precedes a similar requirement for fraud. - The EEM under Part 1.4A explains that the preparation of general purpose financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
37. The auditor's report may not be sufficiently transparent with respect to the auditor's responsibilities and work related to going concern. 38. There is confusion about the "Material Uncertainty Related to Going Concern" section in the auditor's report and its relationship with key audit matter (KAM) and emphasis of matter (EOM) paragraphs where there are going concern issues, including with respect to "close calls".	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	• In the specified format and content of the auditor's report in Part 9.4. ○ Added explicit statements about going concern in a separate section of the auditor's report when the going concern basis of accounting is appropriate and no material uncertainty exists; and ○ Added a footnote indicating that, when significant judgments are made by management in concluding that no material uncertainty exists, the auditor may decide to include: ▪ A reference to the related disclosure(s) in the financial statements, if any; and ▪ A description of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. • In Part 9, strengthened the requirements to include additional statement in the auditor's report, when adequate disclosure of a material uncertainty is made in the financial statements (paragraph 9.6.6), or when adequate disclosure of a material uncertainty is not made in the financial statements (paragraph 9.5.19).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
		- Added requirements in Part 9 (paragraphs 9.5.17A and 9.5.20A) that the auditor should not include a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial statements or express an adverse opinion, unless required by law or regulation. - Clarified that, in the Basis for Disclaimer of Opinion section of the auditor's report, the auditor is required to state that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions (paragraph 9.5.33(b)).

Table C: Public Interest Issues included in the Project Proposal for the Narrow Scope Amendments Related to the Definitions of Listed Entity and PIE

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
39. Increased complexity and inconsistent application and understanding when concepts across the IAASB and IESBA standards differ, including	Yes	In Part A, replaced the term "listed entity" with "publicly traded entity" and added EEM clarifying that legislative or regulatory authorities, or relevant local bodies with

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
when there is misalignment in the types of entities to which differential requirements apply.		standard-setting authority, may define more explicitly a publicly traded entity in a specific jurisdiction (see paragraphs A.1(b) and A.2, EEM under paragraph A.2 and “Qualitative Characteristics” section).
40. When developing or revising the ISQMs and ISAs, the need for a more robust and consistent approach as to when differential requirements for certain entities are appropriate. In particular, when setting differential requirements for certain entities, considering: (a) The need to maintain the relevance, robustness, proportionality and scalability of the ISQMs and ISAs. (b) Increased complexity if there are too many differential requirements for certain entities. (c) The heightened expectations of stakeholders regarding the performance of audit engagements for certain entities.	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	Added a requirement in Part 1 (paragraph 1.8.2(b)) to address the revision in paragraph 18 of ISA 260 (Revised) to explicitly communicate to TCWG about compliance with relevant ethical requirements regarding independence. This requirement in ISA 260 (Revised) now applies to all audit engagements and not only to audits of listed entities.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED ISA FOR LCE (REVISED)

Table D: Public Interest Issues included in the Project Proposal for the Narrow Scope Amendments Arising from the IESBA's Using the Work of an External Expert Project

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale ¹⁰	Description of Key Revisions Proposed
41. The requirements and related application material in the IAASB standards may not be consistent with the revised IESBA Code regarding using the work of an external expert.	Yes	Requirements were added in Part 5 (paragraphs 5.2.11(f) and 5.2.12A) to maintain the interoperability of the standard with the IESBA Code related to using the work of an external expert.

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

International Standards on Auditing, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Assurance Engagements, International Standards on Review 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.

The IAASB®, the International Foundation for Ethics and Audit™ (IFEATM) and the International Federation of Accountants® (IFAC®) do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © July 2026 by the International Federation of Accountants (IFAC). All rights reserved.

Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "Copyright © July 2026 by the International Federation of Accountants® or IFAC®. All rights reserved. Used with permission of IFAC. Permission is granted to make non-commercial copies of this work to achieve maximum exposure and feedback." Written permission is required to translate this document or to reproduce or translate the final version of this standard.

The 'International Auditing and Assurance Standards Board', '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', 'IAASB', 'ISA', 'ISA for LCE', 'ISRE', 'ISSA', 'ISAE', 'ISRS', 'ISQM', 'IAPN', and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries. The 'International Foundation for Ethics and Audit' and 'IFEATM' are trademarks of IFEA, or registered trademarks and service marks of IFEA in the US and other countries.

For copyright, trademark, and permissions information, please visit [Permissions](#) or contact Permissions@ifac.org.



IAASB™

International Auditing and Assurance Standards Board
AN IFEA BOARD

COPYRIGHT OF:



International
Federation
of Accountants®

Exposure Draft

Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised)

JULY 2026

COMMENTS DUE: NOVEMBER 17, 2026

Through intellectual property and service level agreements, the International Federation of Accountants manages requests to translate or reproduce IAASB and IESBA content. For permission to reproduce or translate this or any other publication, or for information about intellectual property matters, please visit [Permissions](#) or contact Permissions@ifac.org.

About the IAASB

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

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

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

...

A. Authority of the ISA for Audits of Financial Statements of Less Complex Entities

...

Limitations for Using the ISA for LCE

...

Specific Prohibitions

Paragraph A.1. sets out the classes of entities for which the use of this standard is specifically prohibited.

A.1. The ISA for LCE shall not be used if:

- (a) Law or regulation prohibits the use of the ISA for LCE or specifies the use of auditing standards other than the ISA for LCE for the audit of the financial statements in that jurisdiction.
- (b) The entity is a ~~listed entity~~ publicly traded entity.
- (c) The entity falls into one of the following classes:
 - (i) An entity one of whose main functions is to take deposits from the public;
 - (ii) An entity one of whose main functions is to provide insurance to the public; or
 - (iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.
- (d) The audit is an audit of group financial statements (group audit) and:
 - (i) Any of the group's individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c); or
 - (ii) Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).

...

A.2. The classes in paragraph A.1.(a) ~~(b)~~ and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can define more explicitly a publicly traded entity (see paragraph A.1.(b)) or modify each class described in paragraph A.1.(c) but a class cannot be removed.

Publicly Traded Entity

If legislative or regulatory authorities or relevant local bodies with standard-setting authority define more explicitly a publicly traded entity in a specific jurisdiction, that more explicit definition applies for purposes of the ISA for LCE. Legislative or regulatory authorities or relevant local bodies with

standard-setting authority may use terms other than publicly traded entity for entities where there is significant public interest in their financial condition due to the potential impact of their financial well-being on stakeholders. These terms are regarded as equivalent to “publicly traded entity”.

Classes of Entities in Paragraph A.1(c)

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific sub-sets within a class to be able to use this standard or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

Qualitative Characteristics

The requirements in this ISA for LCE have been designed to be proportionate to the typical nature and circumstances of an audit of an LCE.

The ISA for LCE has not been designed to address:

- Complex matters or circumstances relating to the nature and extent of the entity’s business activities, operations and related transactions and events relevant to the preparation of the financial statements.
- Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership of the entity, corporate governance arrangements of the entity, or policies, procedures or processes established by the entity.

Also, the ISA for LCE does not include any requirements addressing:

- Procedures or matters typically relevant to ~~listed~~ publicly traded entities, including reporting on segment information or key audit matters.
- When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.
- When the auditor intends to use a report provided by a service auditor of a service organization either as audit evidence about the design and implementation of controls at the service organization (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organization are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.

...

1. Fundamental Concepts, General Principles and Overarching Requirements

Content of this Part

Part 1 sets out the:

- Effective date of this standard.
- The relevant ethical requirements and obligations for firm-level quality management.
- Overall objectives of the auditor. Each Part within this standard contains an objective for planning and performing the audit, and provides a link between the requirements within that Part and the overall objectives of the auditor. The objectives within each Part assist the auditor to understand the intended outcomes of the procedures contained in that Part.
- Fundamental concepts, general principles, and overarching requirements applicable to the engagement, including professional judgment and professional skepticism.
- Overarching requirements in relation to going concern, fraud, law or regulation, reporting to an appropriate authority outside the entity, related parties, and communications with management and, where appropriate, those charged with governance.
- General communication requirements that apply to all Parts. Within individual Parts there may be additional specific communication requirements.

Scope of this Part

The concepts, principles and overarching requirements in this Part apply throughout the audit engagement.

1.1. **Effective Date**

1.1.1 This standard is effective for audits of financial statements of LCEs for periods beginning on or after [date].

...

1.4. **Fundamental Concepts and General Principles for Performing the Audit**

...

Professional Skepticism

1.4.4. The auditor shall plan and perform the audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

1.4.5. The auditor shall design and perform procedures in a way manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

Professional skepticism includes being alert to, for example:

- *Audit evidence that contradicts other audit evidence obtained.*

- *Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.*
- *Information that indicates that one or more fraud risk factors are present.¹*
- *Circumstances that may be indicative of fraud or suspected fraud. ~~Conditions that may indicate possible fraud.~~*
- *Circumstances that suggest the need for audit procedures in addition to those required by this standard.*

Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management, and where appropriate, those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances.

The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management, and where appropriate, those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance.

Conditions of the engagement can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and when evaluating audit evidence.

1.4A. Going Concern

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. [Moved from EEM under paragraph 6.3.1]

Responsibilities of Management

The preparation of general purpose financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

Responsibilities of the Auditor

1.4A.1. The responsibilities of the auditor are to:

¹ Appendix 4 sets out fraud risk factors relevant to less complex entities.

- (a) Obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
- (b) Conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) Report in accordance with this standard.

~~The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude:~~

- ~~• On the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and~~
- ~~• Based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.~~

These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. [Moved from EEM under Part 7.4]

1.5. Fraud

[Moved to EEM under paragraph 1.5.1]

Characteristics of Fraud

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Although fraud is a broad legal concept, for the purposes of this standard, the auditor is concerned with a material misstatement in the financial statements due to fraud. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

Inherent Limitations

~~An auditor conducting an audit in accordance with this standard is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The~~ While the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error ~~that does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. Because of the significance of the inherent limitations of an audit as it relates to fraud, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with this standard. This is because fraud may involve sophisticated and carefully organized schemes designed to~~

conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.

Professional Skepticism

When obtaining reasonable assurance, the auditor is responsible for:

- Maintaining professional skepticism throughout the audit;
- Considering the potential for management override of controls; and
- Recognizing ~~the fact that~~ audit procedures that are effective for detecting error may not be effective in detecting fraud.

Non-Compliance with Laws and Regulations

Fraud ordinarily constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor also has responsibilities related to non-compliance with laws and regulations in this standard.

Relationship of Fraud with Corruption, Bribery and Money Laundering

Corruption, bribery and money laundering are forms of illegal or unethical acts and may be fraudulent acts, or may be carried out to facilitate or conceal fraud.

Third-Party Fraud

If the auditor identifies or suspects an intentional act by a party external to the entity resulting in misappropriation of the entity's assets or fraudulent financial reporting by the entity, the auditor performs audit procedures in accordance with "Responding to Identified Fraud or Suspected Fraud" section in Part 7 of this standard. Parties external to the entity that may commit fraud against the entity may include related parties, customers, suppliers, service providers or other external parties unknown to the entity.

Responsibilities of the Auditor

1.5.1. The responsibilities of the auditor ~~are to~~ shall address the risk of fraud when:

- (a) ~~Identifying and assessing the risks of material misstatement, whether due to fraud or error. In doing so, the auditor shall evaluate whether information obtained from the procedures to identify and assess risks, and related activities, indicates that one or more fraud risk factors are present;~~²
- (b) ~~Obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to assessed risks of material misstatement, including risks of material misstatement due to fraud; and~~
- (c) ~~Responding appropriately to fraud or suspected fraud identified during the audit;~~ and

² Appendix 4 sets out fraud risk factors relevant to less complex entities

- (d) Report in accordance with this standard.

Responsibilities of Management and Those Charged with Governance

The primary responsibility for the prevention and detection of fraud rests with both management, and where appropriate, those charged with governance of the entity. ~~Although fraud is a broad legal concept, for the purposes of this standard, the auditor is concerned with fraud that causes a material misstatement in the financial statements.~~ [Moved from EEM under Part 1.5]

Considerations Specific to Public Sector Entities

The public sector auditor's responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor's mandate. Consequently, the public sector auditor's responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, ~~but may also include a broader responsibility to consider risks of fraud.~~

Auditor Unable to Continue the Engagement

1.5.2. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall determine the legal and professional responsibilities applicable in the circumstances, and consider whether:

- (a) ~~or consider whether it~~ is appropriate to withdraw from the engagement, where withdrawal is possible under law or regulation; or
- (b) Where withdrawal is prohibited by law or regulation, to include a disclaimer of opinion in the auditor's report.

Considerations Specific to Public Sector Entities

In many cases in the public sector, the option of withdrawing from the engagement may not be available to the auditor due to the nature of the mandate or public interest considerations.

1.6. Laws and Regulations

...

1.6A. Reporting to an Appropriate Authority Outside the Entity

Reporting to an Appropriate Authority Outside the Entity

1.6.2. If the auditor:

- (a) ~~has~~ Has identified or suspects non-compliance with laws and regulations;
- (b) Has identified fraud or suspected fraud ~~including fraud;~~
- (c) Considers including a separate section under the heading "Material Uncertainty Related to Going Concern" in the auditor's report; or
- (d) Considers issuing a modified opinion in respect of matters related to going concern,

the auditor shall determine whether law, regulation or relevant ethical requirements:

PROPOSED ISA FOR LCE (REVISED)

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

~~Reporting identified or suspected non-compliance with laws and regulations, including fraud, to an appropriate authority outside the entity may be required or appropriate in the circumstances because:~~

- ~~• The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or~~

~~Law, regulation or relevant ethical requirements provide the auditor with the right to do so.~~

Reporting matters to an appropriate authority outside the entity (i.e., a regulatory, enforcement, supervisory or other appropriate authority) may involve professional judgments. Accordingly, the auditor may consider consulting internally or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

...

1.8. General Communications with Management and Those Charged with Governance

1.8.1. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

1.8.2. The auditor shall communicate with those charged with governance:

- (a) ~~†~~The relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement; and
- (b) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

1.8.3. The auditor shall communicate, on a timely basis, with management and, where appropriate, those charged with governance.

Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees or equivalent.

There may be other cases where it is not clear with whom to communicate, for example in some family-owned businesses, some not-for-profit organizations and some government entities (e.g., the governance structure may not be defined). In such cases the auditor may need to discuss and agree with management or the engaging party with whom communications should be made.

1.8.4. Specific matters to be communicated are required throughout this standard. The auditor shall use professional judgment in determining the appropriate form, timing, and general content of the communications with management, and where appropriate, those charged with governance. When determining the form and timing of communication, the auditor shall consider:

- (a) Legal requirements for communication; and
- (b) The significance of the matters to be communicated.

The appropriate form and timing of communications will vary with the circumstances of the audit, and may be affected by the significance and nature of the matter, and the actions expected to be taken by management, and where appropriate, those charged with governance.

Communication with management and, where appropriate, those charged with governance, often may occur in a less structured manner and matters may be communicated orally. This standard requires that the auditor exercises professional judgement to determine when oral communication of a matter would not be adequate and communication in writing is appropriate. In addition, certain matters are required to be communicated in writing, as set out in this standard.

- 1.8.5. In some cases, all of those charged with governance are involved in managing the entity, for example, an LCE where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this standard are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.
- 1.8.6. Where ~~the~~ responses to inquiries of management, and where appropriate, those charged with governance or others within the entity ~~about a particular matter~~ are inconsistent, the auditor shall investigate the inconsistencies.

Specific Communications in Relation to Fraud

- 1.8.7. [Moved to paragraph 7.6.3A]

[Moved to EEM under paragraph 7.6.3A]

- 1.8.8. [Moved to paragraph 7.6.3B]

- 1.8.9. [Moved to paragraph 7.6.3C]

1.9. ~~Specific Documentation Requirements~~

~~In addition to the general documentation requirements in Part 2.4 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.~~

- 1.9.1. [Moved to paragraph 7.7.1(h)]

2. Audit Evidence and Documentation

...

2.3. Information to be Used as Audit Evidence

...

- 2.3.3. ~~Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.~~ If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further and determine the effect on the rest of the audit evidence obtained.

Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.

...

3. Engagement Quality Management

...

3.2. The Engagement Partner's Responsibilities

Leadership Responsibilities for Managing and Achieving Quality

...

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

3.2.2. In taking overall responsibility for managing and achieving quality on the audit engagement, the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is:

- (a) Responsive to the nature and circumstances of the engagement and the resources assigned; and
- (b) Planned and performed in accordance with the firm's policies or procedures, this standard, relevant ethical requirements and regulatory requirements.

Sufficient and Appropriate Involvement

Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- *Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.*
- *Direction and supervision of the assignees.*
- *Review of the assignees' work to evaluate the conclusions reached.*

Direction, Supervision and Review

The approach to direction, supervision and review may be tailored depending on, for example:

- *The engagement team member's previous experience with the entity and the area to be audited.*
- *The assessed risks of material misstatement. A higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.*
- *Fraud risk factors, fraud or suspected fraud, or control deficiencies related to the prevention or detection of fraud identified during the course of the audit engagement.*
- *The competence and capabilities of the individual engagement team members performing the audit work.*

...

5. Planning

...

5.2. Planning Activities

...

Engagement Team Discussion

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

5.2.7. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, including:

- (a) The application of the applicable financial reporting framework to the entity's facts and circumstances.
- (b) How and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur, and how fraud or error could arise from related party relationships or transactions.

Discussions among the engagement team shall occur setting aside beliefs the engagement team may have that management, and where appropriate, those charged with governance are honest and have integrity.

The engagement team discussion may also include other matters related to the audit such as logistical, operational or other matters (such as when risks of material misstatement may have changed from prior years or matters related to relevant ethical requirements including independence) and the timing of the audit and communications that are required.

In discussing how and where the entity's financial statements may be susceptible to material misstatement due to fraud, the engagement team may exchange ideas about the entity's culture, management's commitment to integrity and ethical values and fraud risk factors, including:

- *Incentives or pressures on management, those charged with governance, where appropriate, or employees to commit fraud;*
- *How one or more individuals among management, those charged with governance, where appropriate, or employees could perpetrate and conceal fraudulent financial reporting; and*
- *How assets of the entity could be misappropriated by management, those charged with governance, where appropriate, employees or third parties.*

In addition to the use of journal entries and other adjustments, significant estimates or transactions outside the normal course of business, the engagement team may consider other ways in which management may override controls, for example, creating fictitious employee or vendor records in an attempt to transfer cash to personal accounts.

5.2.8. When there are engagement team members not involved in the discussion, the engagement partner shall determine which matters are to be communicated to those members.

...

Determining Whether to Use the Work of an Auditor's Expert

5.2.10. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.

...

5.2.11. The auditor shall consider the following when determining the nature, timing and extent of procedures related to the auditor's expert:

- (a) The nature of the matter to which that expert's work relates;
- (b) The risks of material misstatement in the matter to which that expert's work relates;
- (c) The significance of that expert's work in the context of the audit;
- (d) The auditor's knowledge of and experience with previous work performed by that expert; ~~and~~
- (e) Whether that expert is subject to the auditor's firm's quality management policies or procedures; and
- (f) Whether relevant ethical requirements include provisions related to using the work of an expert.

5.2.12. If the auditor is using the work of an auditor's expert, the auditor shall:

- (a) Evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity;
- (b) Obtain sufficient understanding of the field of expertise of the expert to enable the auditor to determine the nature, scope and objectives of the expert's work for the auditor's purpose, and evaluate the adequacy of that work for the auditor's purpose; and
- (c) Agree, in writing when appropriate, the nature, scope and objectives of the expert's work, the respective roles and responsibilities of the auditor and that expert, the nature, timing and extent of communications and the need for the expert to observe confidentiality requirements.

5.2.12A If, based on the evaluation in accordance with paragraph 5.2.12(a), the auditor concludes that the auditor's expert does not have the necessary competence or capabilities, or that threats to the expert's objectivity cannot be eliminated or reduced to an acceptable level, the auditor shall not use the work of that expert.

...

6. Risk Identification and Assessment

...

6.2. Procedures for Identifying and Assessing Risks and Related Activities

6.2.1. The auditor shall design and perform procedures to obtain audit evidence that provides an appropriate basis for:

- (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; ~~and~~
- (aA) Determining whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern; and
- (b) The design of further audit procedures.

The auditor uses professional judgment to determine the nature and extent of the procedures to be performed, which may vary with the formality of the entity's policies or procedures.

Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, the procedures described in paragraph 6.2.3. are still required.

Designing and performing procedures to obtain audit evidence in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of evidence.

Going Concern

Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern of particular relevance to an LCE include the risk that banks and other lenders, close family members or owner-managers may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement. [Moved from EEM under paragraph 6.2.4]

The identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, is before consideration of any related mitigating factors included in management's plans for future actions.

Some events or conditions may not cast significant doubt when considered individually, however when considered collectively with other events or conditions they may do so.

Appendix 3A sets out examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

6.2.2. When obtaining audit evidence to identify and assess risks of material misstatement and design further audit procedures, the auditor shall consider information from:

- (a) The acceptance or continuance procedures; and
- (b) When applicable, other engagements performed by the engagement partner for the entity.

6.2.3. The procedures to identify and assess risks of material misstatement shall include:

- (a) Inquiries of management, and other appropriate individuals within the entity;
- (b) Analytical procedures; and
- (c) Observation and inspection.

...

6.2.4. In designing and performing procedures to identify and assess risks of material misstatement, whether due to fraud or error, the auditor shall consider possible risks of material misstatement arising from:

- (a) Fraud risk factors~~or error~~; and
- (b) Related party relationships and transactions;~~;~~ and
- (c) ~~Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.~~

Fraud

Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively, such as recording fictitious journal entries close to the end of the financial reporting period.

Misappropriation of assets involves the theft of the entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.

Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

Fraud Risk Factors

While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.

In an LCE there may be different fraud risk factors than in more complex entities. On one hand, management or the owner-manager may be able to exercise more effective oversight than in a more complex entity which may compensate for more limited opportunities for segregation of duties. On the other hand, less segregation of duties and more direct involvement of management or the owner-manager may provide management or the owner-manager with a greater opportunity to override controls and commit fraud. LCEs, including owner-managers may also have different pressures or incentives to commit fraud than management in more complex entities.

Appendix 4 sets out fraud risk factors relevant to less complex entities.

Related Parties

In some LCEs, related party transactions between owner-managers and close family members may be common, in particular in closely held entities. These transactions may not be conducted under

normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration, or for consideration significantly different from fair value.

[Moved to EEM under paragraph 6.2.1]

6.2.4A. The auditor shall ~~perform~~ a retrospective review of management judgments and assumptions related to ~~significant—the outcome of previous~~ accounting estimates, ~~reflected in the financial statements of the prior year or where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement, whether due to fraud or error, in the current period.~~ In doing so, the auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. **[Moved from paragraph 7.4.6(b)(ii)]**

6.2.5. If the audit opinion on the prior period's financial statements was modified, the auditor shall evaluate the effect on the current year's financial statements when identifying and assessing risks of material misstatement.

6.3. Understanding Relevant Aspects of the Entity

The auditor's understanding of relevant aspects of the entity, including the entity and its environment, the applicable financial reporting framework and the entity's system of internal control establishes a frame of reference in which the auditor identifies and assesses the risks of material misstatement, and ~~also~~ informs how the auditor plans and performs further audit procedures. Also, understanding relevant aspects of the entity assists the auditor in identifying fraud risk factors and events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Inquiries of Management and Others Within the Entity

6.3.1. The auditor shall inquire of management and, where appropriate, those charged with governance, regarding:

- (a) How the entity identifies business risks relevant to the preparation of the financial statements and how they are addressed;
- (b) The risks of fraud in the entity and the controls that management has established to mitigate these risks;
- (c) The nature and extent of management's direct involvement in operations or other activities that may help management to:
 - (i) ~~prevent or detect misstatements in accounting information; or~~
 - (ii) ~~identify controls deficiencies, including relating to controls to prevent or detect fraud; and that are not operating as intended.~~
 - (iii) Remediate control deficiencies;
- (d) The identity of the entity's related parties, including:
 - (i) Changes from the prior period;
 - (ii) The nature of the relationships between the entity and these related parties; and
 - (iii) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions; ~~and~~

PROPOSED ISA FOR LCE (REVISED)

- (e) Whether the entity is in compliance with laws or regulations that may have an effect on the financial statements, and if there has been any correspondence with relevant licensing or regulatory authorities that may be relevant to the financial statements; and
- (f) The basis for the intended use of the going concern basis of accounting, whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them.

Inquiries of management and, when applicable, those charged with governance, assist the auditor to identify and assess risks of material misstatement and respond to those risks.

Inquiries about how the entity identifies and assesses its business risks relevant to the preparation of the financial statements may assist the auditor in understanding:

- *Where there are identified business risks;*
- *Whether, and how the entity has responded to those risks;*
- *Whether the risks faced by the entity have been identified, assessed and addressed as appropriate to the nature and circumstances of the entity.*

Inquiries about the risks of material misstatement due to fraud in the entity may assist the auditor in understanding:

- ~~*Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;*~~
- *Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;*
- *Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.*

When evaluating management's responses to inquiries, the auditor may judge it necessary to corroborate responses with information from other sources because management is often in the best position to perpetrate fraud.

Inquiring about how management performs activities to prevent or detect misstatements in accounting information, and identifies controls deficiencies that are not operating as intended and remediates control deficiencies, may include inquiring about what information management uses and the basis upon which management considers the information to be sufficiently reliable, as well as inquiring about how deficiencies are remediated. These inquiries assist the auditor to understand whether the other aspects of the entity's system of internal control are present and functioning as appropriate to the entity's circumstances considering the nature and complexity of the entity.

Unless all those charged with governance are involved in managing the entity, inquiries about the basis for the intended use of the going concern basis of accounting may assist the auditor in understanding how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern.

[Moved to EEM under Part 1.4A]

Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner

6.3.2. The auditor shall share relevant information obtained about the entity's related parties with other members of the engagement team.

6.3.3. The auditor shall make inquiries of management, those charged with governance, and as appropriate others within the entity about:

- (a) , to determine whether they have knowledge of any actual, fraud or suspected fraud, including or allegations of alleged fraud affecting the entity affecting the entity.
- (b) Their views about whether and how the financial statements may be materially misstated due to fraud.

...

Understanding the Applicable Financial Reporting Framework

6.3.5. The auditor shall obtain an understanding of:

- (a) The applicable financial reporting framework including,
 - (i) For accounting estimates, the recognition criteria, measurement bases, and the related presentation and disclosure requirements, and how these apply in the context of the nature and circumstances of the entity and its environment.
 - (ii) For going concern, the requirements of the applicable financial reporting framework, and the related disclosures that are required to be included in the entity's financial statements.
- (b) The entity's accounting policies and reasons for any changes thereto.

6.3.6. The auditor shall evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework.

Understanding the Entity's System of Internal Control

In LCEs, and in particular owner-managed entities, the way in which the entity's system of internal control is designed, implemented and maintained may will vary with the entity's size and complexity. When there are no formalized processes or documented policies or procedures, the auditor is still required to obtain an understanding of how management, or where appropriate, those charged with governance prevent and detect fraud and error, and use professional judgment to determine the nature and extent of the procedures to obtain the required understanding.

Considerations Specific to Public Sector Entities

Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority. As a result, their considerations about the system of internal control may be broader and more detailed.

Understanding the Entity's Control Environment

6.3.7. The auditor shall:

- (a) Obtain an understanding of the control environment relevant to the preparation of the financial statements; and
- (b) Evaluate whether the control environment provides an appropriate foundation for the entity's system of internal control considering the nature and complexity of the entity.

The auditor's understanding may include:

- *How management, and where appropriate, those charged with governance, oversee the entity, demonstrate integrity and ethical values, for example, through communication to employees regarding expectations for business practices and ethical behavior;*
- *The culture of the entity, including whether management supports honesty and ethical behavior;*
- *The entity's assignment of authority and responsibility;*
- *How the entity attracts, develops, and retains competent individuals; and*
- *When applicable, how owner-managers are actively involved in the business and how this may impact the risks arising from management override of controls due to lack of segregation of duties.*

The control environment provides an overall foundation for the operation of the other aspects of the entity's system of internal control, and deficiencies may undermine the rest of the entity's system of internal control. Although it does not directly prevent or detect and correct misstatements, it may influence the effectiveness of other controls in the system of internal control. The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's system of internal control and its importance in the entity.

Because the control environment is foundational to the entity's system of internal control, any deficiencies could have pervasive effects on the preparation of the financial statements. Therefore, the auditor's understanding and evaluation of the control environment affects the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level, as well as the auditor's responses to the assessed risks.

Some or all aspects of the control environment may not be applicable for an LCE or may be less formalized. For example, an LCE may not have a written code of conduct but, instead, may have developed a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example.

Some entities may be dominated by a single individual who may exercise a great deal of discretion. The actions and attitudes of that individual may have a pervasive effect on the culture of the entity, which in turn may have a pervasive effect on the control environment. Domination of management by a single individual in an LCE does not generally, in and of itself, indicate a failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. In some entities, the need for management authorization can compensate for

otherwise deficient controls and reduce the risk of employee fraud. However, domination of management by a single individual creates a conducive environment ~~can be a potential control deficiency since there is an opportunity for management override of controls.~~

Understanding the Entity's Process to Prepare its Financial Statements

6.3.8. For significant classes of transactions, account balances and disclosures, the auditor shall obtain an understanding of the entity's process to prepare its financial statements including:

- (a) The accounting records and other records that support the classes of transactions, account balances and disclosures in the financial statements;
- (b) How transactions, journal entries and other adjustments are initiated, and how information about them is recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;
- (c) How information about events and conditions, other than transactions are identified, processed and disclosed; ~~and~~
- (cA) For going concern, how disclosures related to the entity's ability to continue as a going concern are addressed; and
- (d) The entity's resources, including the IT environment, relevant to (a) to (cA) above.

Matters the auditor may consider when obtaining an understanding of the entity's process to prepare its financial statements relating to significant classes of transactions, account balances and disclosures include how:

- *The data or information relating to transactions, other events and conditions is processed;*
- *The integrity of that data or information is maintained; and*
- *The information processes, personnel and other resources are used.*

Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively, which may include, in relation to the entity's process to prepare its financial statements, taking advantage of inadequate information processing controls in information technology applications.

The auditor's understanding may be obtained in various ways and may include:

- *Inquiries of relevant personnel about the procedures used to initiate, record, process and report transactions or about the entity's financial reporting process;*
- *Inspection of policy or process manuals or other documentation of the entity's process to prepare the financial statements;*
- *Observation of the performance of the policies or procedures by entity's personnel; or*
- *Selecting transactions and tracing them through the applicable process to prepare the financial statements (i.e., performing a walk-through).*

LCEs with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies.

Automated Tools and Techniques

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

...

Deficiencies Within the Entity's System of Internal Control

6.3.14. The auditor shall determine whether one or more deficiencies have been identified in the entity's system of internal control and, if so, whether, individually or in combination, they constitute significant deficiencies.

In understanding the entity's system of internal control, the auditor may determine that certain of the entity's policies or procedures are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying deficiencies in internal control. If the auditor has identified one or more deficiencies, the auditor may consider the effect of those deficiencies on the identification and assessment of risks of material misstatement, whether due to fraud or error, and on the design of further audit procedures.

The auditor uses professional judgment in determining whether a deficiency represents a significant deficiency in internal control.

Evaluation of Fraud Risk Factors

6.3.14A. The auditor shall evaluate whether audit evidence obtained from the procedures to identify and assess risks, and related activities, indicates that one or more fraud risk factors are present.

The significance of fraud risk factors varies widely. Some fraud risk factors will be present in entities where the specific conditions do not present risks of material misstatement. Accordingly, the determination as to whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud is a matter of professional judgment.

6.4. Identifying and Assessing the Risks of Material Misstatement

Risks of material misstatement are identified and assessed by the auditor to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

6.4.1. The auditor shall identify and assess the risks of material misstatement, due to fraud or error, taking into account fraud risk factors, at:

- (a) The financial statement level. In doing so, the auditor shall determine whether they affect risks at the assertion level and consider the nature and extent of the pervasive effect of identified risks on the financial statements; and

- (b) The assertion level for classes of transactions, account balances, and disclosures. In doing so, the auditor shall:
 - (i) Determine the relevant assertions and related significant classes of transactions, account balances and disclosures; and
 - (ii) Assess inherent risk for identified risks of material misstatement at the assertion level by assessing the likelihood and magnitude of misstatement.

Financial Statement Level Risks

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks related to specific assertions at the class of transactions, account balance or disclosure level (e.g., risk of management override of controls).

Assertion Level Risks

In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Appendix 5 sets out assertions that may be used by the auditor in considering different types of misstatements at the assertion level.

An assertion about a class of transactions, account balance or disclosure is a relevant assertion when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk) and is based on the auditor's consideration of misstatements that have a reasonable possibility of both occurring (i.e., likelihood), and being material if they were to occur (i.e., magnitude). Significant classes of transactions, account balances and disclosures are those for which there is one or more relevant assertions. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides a basis for the identification and assessment of risks of material misstatement.

Assessing Inherent Risk

The assessed inherent risk for a particular risk of material misstatement at the assertion level represents a judgment within a range, from lower to higher, on the spectrum of inherent risk.

In assessing inherent risk, the auditor uses professional judgment in determining the significance of the combination of the likelihood and magnitude of a misstatement on the spectrum of inherent risk. The judgment about where in the range inherent risk is assessed may vary based on the nature, size or circumstances of the entity, and takes into account the assessed likelihood and magnitude of the misstatement.

In considering the likelihood of a misstatement, the auditor considers the possibility that a misstatement may occur. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to nature, size or circumstances).

When assessing inherent risk, factors relating to the preparation of information required by the applicable financial reporting framework that affect the susceptibility of assertions to misstatement may include:

- *Complexity;*
- *Subjectivity;*
- *Change;*
- *Uncertainty (for accounting estimates this is estimation uncertainty); or*
- *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.*

The presence of these factors may give rise to higher inherent risk and may be an indication that the ISA for LCE is not appropriate for the audit.

When risks of material misstatement relate more pervasively to the financial statements as a whole, and potentially affect many assertions, the risks of material misstatement are assessed at the financial statement level. When assessing risk at the assertion level, the auditor considers the degree to which the risks of material misstatement at the financial statement level affects the assessment of inherent risks for risks of material misstatement at the assertion level.

In identifying and assessing risks of material misstatement, the results of the engagement team discussion and any inquiries relating to fraud and going concern are relevant.

Fraud Risk Factors

In determining whether fraud risk factors, individually or in combination, indicate that there are risks of material misstatement due to fraud, the auditor may consider:

- *The likelihood and magnitude of fraud resulting from fraud risk factors.*
- *The number of fraud risk factors that relate to the same class of transactions, account balance or disclosure.*

Considerations Specific to Public Sector Entities

In exercising professional judgment as to the assessment of the risk of material misstatement, public sector auditors may consider the complexity of the regulations and directives, and the risks of non-compliance with authorities.

- 6.4.2. ~~When~~ identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of material misstatement due to fraud in revenue recognition, ~~determine~~evaluate which types of revenue, revenue transactions, or relevant assertions give rise to such risks, taking into account related fraud risk factors.

Material misstatement due to fraudulent financial reporting in revenue recognition may result from an overstatement of revenues (e.g., through premature revenue recognition or recording fictitious revenues) or an understatement of revenues (e.g., through improperly deferring revenues to a later period). Appendix 4 sets out examples of fraud risk factors, which include certain fraud risk factors that may be specifically relevant in relation to revenue recognition, for example, pressure to obtain additional financing or to meet debt repayment or debt covenant requirements and therefore to

overstate performance to demonstrate profitability, or pressure to understate revenue in order to reduce tax liabilities. In addition, ~~When~~ identifying and assessing risks of material misstatement due to fraud, the auditor may consider whether unusual or unexpected relationships have been identified in performing analytical procedures, including those related to revenue accounts.

If fraud risk factors related to revenue recognition are present, determining whether such fraud risk factors indicate a risk of material misstatement due to fraud is a matter of professional judgment.

Because of the typical nature and circumstances of an LCE, including relevant qualitative characteristics, the entity's revenue recognition often may relate to a simple type of revenue or simple revenue transactions (e.g., leasehold revenue from a single rental property). This together with the auditor's consideration of fraud risk factors and evaluating whether one or more fraud risk factors are present may affect the auditor's determination in accordance with paragraph 6.4.2. Depending on the circumstances, the auditor may conclude that fraud risks factors are not significant and, therefore, may rebut ~~the~~ presumption that there are risks of material misstatement due to fraud related to revenue recognition may be rebutted. For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single rental property.

6.4.3. In identifying and assessing risks of material misstatement relating to an accounting estimate and related disclosure at the assertion level, the auditor shall consider the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the following are affected by complexity, subjectivity, change or management bias:

- (a) The selection and application of the method, the assumptions and data used; and
- (b) The selection of management's point estimate and related disclosures.

...

Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment

6.4.8. The auditor shall evaluate whether the audit evidence obtained from procedures to identify and assess the risks of material misstatement provides an appropriate basis for the identification and assessment of the risks of material misstatement, whether due to fraud or error. If not, the auditor shall perform additional procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall consider all audit evidence obtained from the procedures to identify and assess the risks of material misstatement, whether corroborative or contradictory to assertions made by management.

The auditor's evaluation may indicate the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor. When management has intentionally failed to identify or disclose to the auditor events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, this may raise doubts about management's integrity and honesty.

6.4.9. The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is

obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

- 6.4.10. The auditor shall remain alert throughout the audit for information about audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, the auditor's assessment of the risks of material misstatement may need to be revised.

...

6.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

The form and extent of documentation for the identification and assessment of the risks of material misstatement may be simple and relatively brief, and is influenced by:

- *The nature, size and complexity of the entity and its system of internal control.*
- *Availability of information from the entity.*
- *The audit methodology and technology used in the course of the audit.*

It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it, but rather apply the principles in Part 2.4 and the matters noted below.

- 6.7.1. The auditor shall include the following in the audit documentation:

- (a) Key elements of the auditor's understanding obtained regarding each of the aspects of the entity and its environment, the applicable financial reporting framework, the entity's system of internal control, and the procedures performed to identify and assess risks of material misstatement;
- (b) The names of the identified related parties (including changes from prior period) and the nature of the related party relationships;
- (c) The identified and assessed risks of material misstatement, including risks due to fraud, at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made;
- (d) If the auditor has concluded that the presumption that a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, applicable, the reasons for that the conclusion that there is not a risk of material misstatement due to fraud related to revenue recognition;
- (e) The controls set out in paragraphs 6.3.12. and 6.3.13 and the evaluation whether the control is designed effectively and determination whether the control has been implemented; and
- (f) For accounting estimates, key elements of the auditor's understanding of the accounting estimates, including controls as appropriate, the linkage of the assessed risks of material

PROPOSED ISA FOR LCE (REVISED)

misstatements to the auditor's further procedures, and any indicators of management bias and how those were addressed.

- 6.7.2. The auditor shall document the basis for the evaluation about whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

7. Responding to Assessed Risks of Material Misstatement

Content of this Part

...

Scope of this Part

This Part sets out the specific requirements for obtaining audit evidence through responding to assessed risks of material misstatement. Part 2 also sets out the broad requirements for audit evidence. In complying with the requirements in this Part, the auditor may find it useful to refer to the following that set out relevant matters:

- Going concern – see Part 1.4A.
- Fraud – see Part 1.5.
- Laws and regulations – see Part 1.6.
- Related parties – see Part 1.7.
- Information to be used as audit evidence – see Part 2.3.

...

7.2. Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Financial Statement Level

7.2.1. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, whether due to fraud or error.

...

7.2.2. In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

- (a) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements, may be indicative of fraudulent financial reporting ~~resulting from management's effort to manage earnings~~; and
- (b) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

The auditor may also incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to address assessed risks of material misstatement due to fraud at the assertion level.

The extent to which the auditor chooses to incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures is a matter of professional judgment. Incorporating an element of unpredictability may be achieved by, for example:

- Performing ~~substantive~~ further audit procedures on selected classes of transactions, account balances or disclosures and assertions not otherwise tested due to their materiality or risk that were not determined to be material.

- Performing tests of detail where the auditor performed substantive analytical procedures in previous audits.
- Adjusting the timing of audit procedures from that otherwise expected.
- Using different sampling methods or different approaches to stratify the population.
- Performing audit procedures at different locations or at locations on an unannounced basis.
- Performing substantive analytical procedures at a more detailed level or lowering thresholds when performing substantive analytical procedures for further investigation of unusual or unexpected relationships.
- Using automated tools and techniques, such as anomaly detection or statistical methods, on an entire population to identify items for further investigation.

...

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

...

External Confirmations

...

7.3.23. If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
- (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risks of material misstatement due to fraud, and on the nature, timing and extent of other audit procedures; and
- (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

...

7.3.25. If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risks of material misstatement due to fraud, and on the related nature, timing, and extent of other audit procedures.

...

7.4. Specific Focus Areas

Going Concern

Evaluating Management's Assessment

[Moved to EEM under paragraph 1.4A.1]

- 7.4.1. The auditor shall design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern, including the significant judgments on which management's assessment is based.³ In doing so, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware of as a result of the audit. [Moved from paragraph 7.4.2(b)]

~~In accordance with the requirements of this Part, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. In many cases, the management of less complex entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects.~~

~~It is not the auditor's responsibility to rectify a lack of analysis by management. In some circumstances, however, a less extensive analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. In such cases~~For example, it may be appropriate to discuss the medium- and long-term financing of the entity with management, provided that management's plans can be corroborated by sufficient documentary evidence and are consistent with the auditor's understanding of the entity. Therefore, the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern, for example, may be satisfied by discussion, inquiry and inspection of supporting documentation (e.g., budgets, forecasts and other evidence).

[Moved to EEM under paragraph 7.4.4A]

The Method, Significant Assumptions and Data Used in Management's Assessment

When evaluating the significant judgments on which management's assessment is based, which may include, the method, significant assumptions and data used by management in assessing the entity's ability to continue as a going concern, the auditor may consider the procedures in paragraph 7.4.17, adapted as appropriate.

"Method" refers to the approach taken by management to assess the entity's ability to continue as a going concern, and may not be a measurement technique used by management to make an accounting estimate. A method may be based on using qualitative or quantitative information and involves applying assumptions and data, and taking into account a set of relationships between them.

- 7.4.1A. Where management has not performed an assessment of the entity's ability to continue as a going concern that covers a period of at least twelve months from the date of approval of the financial statements, the auditor shall request management to make such assessment. If management is unwilling to do so, the auditor shall consider the implications for the audit.⁴

If management's assessment covers a period of less than twelve months from the date of approval of the financial statements, the level of detail and the formality of management's process to extend its assessment may vary from entity to entity. For LCEs, it may often be that management can update its assessment through less formal means.

³ For the effect on the auditor's report see Part 9, paragraph 9.5.17.

⁴ For the effect on the auditor's report see Part 9, paragraph 9.5.20 and 9.5.20A

7.4.2. ~~In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall:~~

(a) ~~Cover the same period as used by management, as required by the applicable financial reporting framework. If that period is less than twelve months from the date of the financial statements, the auditor shall ask management to extend the period. If management does not make or extend its assessment, the auditor shall consider the implications for the auditor's report.⁵~~

(b) [Moved to paragraph 7.4.1]

[Moved to EEM under paragraph 7.4.3]

7.4.3 The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. If management or the auditor identifies such events or conditions, the auditor shall request management to evaluate their potential significance on its assessment of the entity's ability to continue as a going concern.

The auditor also remains alert to the possibility that there are known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question management's use of the going concern basis of accounting in preparing the financial statements. The further into the future the events or conditions are, the degree of uncertainty associated with the outcome of an event or condition increases. ~~more significant the going concern issues need to be before the auditor takes further action.~~ [Moved from EEM under paragraph 7.4.2]

The Following Requirements are Conditional and Apply if the Auditor Identifies Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern

7.4.3A If the auditor identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management has not previously identified or disclosed to the auditor, the auditor shall:

- (a) Discuss the matter with management to understand the effects of those events or conditions on management's assessment of the entity's ability to continue as a going concern and request management to evaluate their potential significance;
- (b) Determine whether it is necessary to request management to revise its going concern assessment to address the effect of those events or conditions; and
- (c) If applicable, design and perform additional audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern.

Evaluating Management's Plans for Future Actions

7.4.4. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall evaluate management's plans for future actions in relation to its going concern assessment, including whether to obtain sufficient appropriate audit

⁵ For the effect on the auditor's report see Part 9, paragraph 9.5.20.

~~evidence to determine whether a material uncertainty exists through performing additional procedures, including consideration of mitigating factors. These procedures shall include:~~

- ~~(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.~~
- ~~(ab) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to be sufficient to mitigate the effects of the identified events or conditions improve the situation, and~~
- ~~(b) whether Management's plans are feasible in the circumstances; and~~
- ~~(c) Management has both the intent and ability to carry out specific courses of action.~~
- ~~(e) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:~~
 - ~~(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and~~
 - ~~(ii) Determining whether there is adequate support for the assumptions underlying the forecast.~~
- ~~(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.~~

[Moved to EEM under paragraph 8.5.9]

If management's plans for future actions include the use of significant assumptions or data, when evaluating management's plans, the auditor may consider the procedures in paragraph 7.4.17. adapted as appropriate.

7.4.4A If management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, the auditor shall obtain audit evidence about the intent and ability of those parties to maintain or provide the necessary financial support.

Continued support by owner-managers is often important to a less complex entity's ability to continue as a going concern. Where an LCE is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding. **[Moved from EEM under paragraph 7.4.1]**

7.4.5. ~~If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform additional audit procedures as necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.~~

Management Override of Controls

7.4.6. The auditor shall design and perform audit procedures to:

- (a) Test the appropriateness of ~~manual and automated~~ journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including:
 - (i) Making inquiries of individuals involved in the financial reporting process about their knowledge of inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
 - (iA) Obtaining audit evidence about the completeness of the population of journal entries and other adjustments made throughout the period;
 - (ii) Selecting journal entries and other adjustments made at the end of a reporting period; and
 - (iii) Considering the need to test journal entries and other adjustments made throughout the period.
- (b) Review accounting estimates for indicators of possible management biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing the review, the auditor shall:
 - (0A) Consider the audit evidence obtained from the retrospective review performed in accordance with paragraph 6.2.4A; and
 - (i) ~~Evaluate whether the judgments and decisions made by management indicate a possible bias on the part of the entity's management, even if they are individually reasonable, that may represent a risk of material misstatement due to fraud. If so, the auditor shall~~If indicators of possible bias are identified, reevaluate the accounting estimates taken as a whole; and
 - (ii) **[Moved to paragraph 6.2.4A]**
- (c) For significant unusual transactions outside the normal course of business for the entity or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and information from other sources obtained during the audit, evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.
- (d) Respond to the identified risks of management override of controls to the extent not already addressed by (a) to (c).

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and therefore a significant risk.

Material misstatements of financial statements due to fraud often involves the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries in the general ledger and other adjustments. This may occur throughout the year or at period end, ~~or both~~, or by management making adjustments to amounts reported in the financial statements that are not reflected in journal entries, such as through reclassifications.

Failing to obtain audit evidence about the completeness of the population of journal entries may limit the effectiveness of the audit procedures in responding to the risks of management override of controls associated with fraudulent journal entries and other adjustments.

Automated Tools and Techniques

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

...

Accounting Estimates

...

Testing How Management Made the Accounting Estimate

7.4.17. When testing how management made the accounting estimate, the auditor's further audit procedures shall address whether:

- (a) The method selected is appropriate;
- (b) The significant assumptions and data are consistent and appropriate, and their integrity maintained in applying the method;
- (c) Changes from prior periods in the method, significant assumptions and data are appropriate;
- (d) Management has the intent to carry out specific courses of actions;
- (e) The judgments made in selecting the method, significant assumptions and data, give rise to indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature;
- (f) The data is relevant and reliable in the circumstances; and
- (g) Calculations are mathematically accurate and whether judgements have been applied consistently.

Method, Significant Assumptions and Data

Relevant considerations for the auditor regarding the appropriateness of the method, significant assumptions and data in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- *Management's rationale for the selection of the method, assumption and data;*
- *Whether the method, assumption and data are appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates;*
- *Whether a change from prior periods in selecting a method, assumption or data is based on new circumstances or new information. When it is not, the change may not be reasonable nor*

in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate may give rise to material misstatements of the financial statements or may be an indicator of possible management bias.

- *When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences.*
- *Whether the significant assumptions are inconsistent with each other and with those used in other accounting estimates.*

Automated Tools and Techniques (ATT)

ATT may be used when testing significant assumptions or data used. For example, ATT may be used when evaluating the reliability of data or evaluating management's significant assumptions by performing sensitivity analysis to understand how outcomes are affected by changes in input variables, such as discount or growth rates.

7.4.18. The auditor's further audit procedures shall address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand estimation uncertainty and address estimation uncertainty by selecting appropriate point estimates and developing related disclosures. When management has not undertaken appropriate steps, the auditor shall:

- (a) Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures related to the estimation uncertainty; and
- (b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range.

When the applicable financial reporting framework does not specify how to select a point estimate from among reasonably possible outcomes or does not require specific disclosures, the exercise of judgment by management is an important consideration for the auditor regarding the appropriateness of the point estimate selected and the related disclosures.

Matters that may be relevant for the auditor regarding management's disclosures about estimation uncertainty include the requirements of the applicable financial reporting framework, which may require disclosures:

- *That describe the amount as an accounting estimate and explain the nature and limitations of the process for making it; and*
- *About material accounting policy information related to accounting estimates, which may include significant or critical management judgments as well as significant forward-looking assumptions or other sources of estimation uncertainty.*

...

Litigation and Claims

...

7.4.24. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by this standard, seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.⁶

7.4.25. The auditor shall modify the opinion in the auditor's report,⁷ if:

- (a) Management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and
- (b) The auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures.

...

Responding to Identified Fraud or Suspected Fraud

The Following Requirements are Conditional and Apply if the Auditor Identifies Fraud or Suspected Fraud

7.4.27A. If the auditor identifies fraud or suspected fraud, the auditor shall obtain an understanding of the matter(s) in order to determine the effect on the audit engagement. In doing so, the auditor shall:

- (a) Make inquiries about the matter(s) with the appropriate level of management and, when appropriate, with those charged with governance; and
- (b) If the entity has a process to investigate the matter(s) or has implemented remedial actions to respond to the matter(s), evaluate whether they are appropriate in the circumstances.

7.4.27B. Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential, the engagement partner shall:

- (a) Determine whether:
 - (i) To perform additional procedures to identify and assess risks to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud;
 - (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud; and
 - (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations.
- (b) If applicable, consider the impact on prior period audits.

⁶ For the effect on the auditor's report see Part 9, paragraph 9.5.14.

⁷ For the effect on the auditor's report see Part 9, paragraph 9.5.16.

When fraud or suspected fraud is identified, the auditor may involve individuals with specialized skills or knowledge, such as an individual with forensic skills. Forensic skills may combine accounting, auditing and investigative skills.

The understanding obtained about the fraud or suspected fraud impacts the engagement partner's determination of whether and how to adjust the overall audit strategy, especially in circumstances when information comes to the engagement partner's attention that differs significantly from the information available when the overall audit strategy was originally established.

7.5. Accumulation of Misstatements

7.5.1. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of nature, size or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

7.5.2. The auditor shall request management to correct all misstatements accumulated during the audit.

7.5.3. If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

~~7.5.4. If the auditor identifies a misstatement during the audit, the auditor shall evaluate whether the misstatement is indicative of fraud. If there is such an indication, the auditor shall determine the implications on other aspects of the audit, including on the identified and assessed risks of material misstatement and the reliability of management representations.~~

[Moved to EEM under paragraph 7.5.5]

~~7.5.5. If the auditor identifies a misstatement due to that may be the result of fraud, and suspects that management is involved, the auditor shall:~~

~~(a) Reevaluate the risks of material misstatement due to fraud and the auditor's responses thereto. Determine whether the identified misstatement is material by considering the nature of the qualitative or quantitative circumstances giving rise to the misstatement; or~~

~~(aA) Determine whether control deficiencies exist;~~

~~(aB) Determine the implications of the misstatement in relation to other aspects of the audit; and~~

~~(b) Consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering~~ Reconsider the reliability of management's representations and audit evidence previously obtained.

Even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material depending on:

- Who instigated or perpetrated the fraud – a fraud perpetrated by senior management, or a public official is ordinarily considered qualitatively material irrespective of the amount involved.
- Why the fraud was perpetrated – misstatements may have been made intentionally by management to manage earnings.

The implications of an identified misstatement due to ~~or suspected~~ fraud for the reliability of information intended to be used as audit evidence depends on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of information previously obtained and intended to be used as audit evidence ~~previously obtained~~ may be called into question, ~~as since~~ there may be doubts about the completeness and truthfulness of representations made and about the ~~authenticity~~ ~~genuineness~~ of accounting records and documentation. There may also be a possibility of collusion involving employees, management or third parties.

Since fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud. [Moved from EEM under paragraph 7.5.4]

Considerations Specific to Public Sector Entities

In the public sector, misstatements may have been made intentionally by management to achieve a surplus when a deficit is prohibited by legislation or to misreport expenses incurred to avoid breaching statutory limits.

7.5.6. The auditor shall determine whether the scope, timing and direction of the audit needs to be revised if:

- (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; and
- (b) The aggregate of misstatements accumulated during the audit approaches materiality.

7.6. Specific Communication Requirements

...

Specific Communications in Relation to Fraud

7.6.3A. If the auditor ~~has identified~~ identifies fraud or suspected fraud or ~~has obtained information that indicates that fraud may exist~~, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. [Moved from paragraph 1.8.7]

If the auditor identifies fraud or suspected fraud, it is important that the matter be brought to the attention of management as soon as practicable, even if the matter may be considered clearly inconsequential.

Considerations Specific to Public Sector Entities

In the public sector, requirements for reporting fraud, whether or not discovered through the audit process, may be subject to specific provisions of the audit mandate or related law, regulation or other authority. [Moved from EEM under paragraph 1.8.7]

7.6.3B. Unless prohibited by law or regulation, the auditor shall communicate with those charged with governance, on a timely basis, if the auditor has identified fraud or ~~suspected~~ fraud involving:

- (a) Management, unless those charged with governance are involved in managing the entity;
- (b) Employees who have significant roles in the entity's system of internal control; or
- (c) Others, ~~except for matters that are clearly inconsequential where the fraud results in a material misstatement in the financial statements.~~ [Moved from paragraph 1.8.8]

7.6.3C. If the auditor ~~identifies suspected~~ fraud involving management, the auditor shall communicate the suspected fraud ~~discuss~~ with those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. [Moved from paragraph 1.8.9]

7.7. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

7.7.1. The auditor shall include the following in the audit documentation:

- (a) The overall responses to the assessed risks of material misstatement at the financial statement level;
- (b) The linkage between the procedures performed and the assessed risks at the assertion level;
- (c) The results of the audit procedures, including the conclusions where these are not otherwise clear;
- (d) The results of audit procedures ~~designed~~ performed to address the risk of management override of controls, ~~the significant professional judgments made, and the conclusions reached;~~
- (e) All misstatements accumulated during the audit and whether they have been corrected; and
- (f) If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the conclusions reached about relying on such controls that were tested in a previous audit.
- (g) Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached.
- (h) ~~The auditor shall include in the audit documentation~~ Communications about matters related to fraud or suspected fraud made to management, those charged with governance, regulators, regulatory and enforcement authorities, and others, including how management, and where applicable, those charged with governance have responded to the matters. [Moved from paragraph 1.9.1]

~~7.7.2. Where the assessed risk of material misstatement is due to fraud, the auditor's documentation shall include the specific fraud response.~~

7.7.3. Where the auditor has identified or suspected non-compliance with laws and regulations, the auditor shall document:

- (a) The results of discussion with management, and where appropriate, those charged with governance and others; including how the matter has been responded to; and
- (b) The audit procedures performed, the significant professional judgments made, and the conclusions reached thereon.

7.7.4. In respect of accounting estimates, the auditor shall document significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

7.7.4A. In respect of going concern, the auditor shall include in the audit documentation significant professional judgments made relating to the auditor's conclusions on:

- (a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- (b) Whether or not a material uncertainty exists.

8. Concluding

...

8.3. Analytical Procedures that Assist When Forming an Overall Conclusion

- 8.3.1. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, and to identify any indications of a previously unrecognized ~~identified~~ risk of material misstatement due to fraud.

Automated Tools and Techniques

The auditor may use ATT to identify unusual or inconsistent transaction posting patterns in order to determine if there is a previously unrecognized risk of material misstatement due to fraud.

- 8.3.2. The auditor shall investigate fluctuations or relationships that are inconsistent with other relevant information obtained during the course of the audit, by inquiring of management and performing other audit procedures as necessary in the circumstances.

...

8.5. The Auditor's Evaluations and Other Activities to Support the Auditor's Conclusion

Evaluations Required

- 8.5.1. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate whether the assessments of the risks of material misstatement due to fraud or error at the financial statement and assertion levels remain appropriate.

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 planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. In such circumstances, the auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.

The auditor may also consider whether such information changes the auditor's determination about the appropriateness of use of the ISA for LCE for the audit, which may necessitate a modification to the terms of engagement.

...

Concluding

- 8.5.5. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to be corroborative or contradictory.
- 8.5.6. If the auditor has not obtained sufficient appropriate audit evidence as to a relevant assertion, the auditor shall attempt to obtain additional audit evidence. If the auditor is unable to obtain sufficient

appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.⁸

8.5.7. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.⁹ In doing so, the auditor shall:

- (a) Evaluate whether the judgments and decisions made by management in making its assessment of the entity's ability to continue as a going concern, even if they are individually reasonable, are indicators of possible management bias and, if so, evaluate the implications for the audit; and
- (b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

8.5.8. The auditor shall conclude, based on the audit evidence obtained, whether in the auditor's professional judgment, a material uncertainty exists related to events or conditions that, ~~individually or collectively,~~ may cast significant doubt on the entity's ability to continue as a going concern.⁴⁰

When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor's conclusion is dependent on the auditor's evaluation of management's plans for future actions.

Plans for future actions may include, for example, that management realizes assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity's ability to continue as a going concern. In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant.

8.5.8A. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions, including, as applicable, when significant judgments are made by management in concluding that there is no material uncertainty. [Moved from paragraph 8.5.10]

When significant judgments are made by management in concluding that there is no material uncertainty, the auditor may determine, depending on the facts and circumstances, that additional disclosures are necessary for the financial statements to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks), as appropriate.

⁸ For the effect on the auditor's report see Part 9, paragraph 9.5.27.

⁹ For the effect on the auditor's report see Part 9, paragraph 9.5.17.

⁴⁰ For the effect on the auditor's report see Part 9, paragraph 9.5.18.

8.5.9. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:¹¹

- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans for future actions to address to deal with these events or conditions; and
- (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

~~In such cases, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern".~~

When A material uncertainty exists, ~~when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate adequate~~ disclosure of the nature and implications of the uncertainty is, for a fair presentation framework, necessary for the fair presentation of the financial statements or, for a compliance framework, necessary for the financial statements not to be misleading. [Moved from EEM under paragraph 7.4.4]

8.5.10. [Moved to paragraph 8.5.8A]

8.5.11. If the auditor ~~confirms~~determines that, ~~or is unable to conclude whether,~~ the financial statements are materially misstated ~~as a result of~~due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial statements are materially misstated due to fraud, the auditor shall:

- (a) ~~evaluate~~Determine the implications ~~on~~for the audit and the auditor's opinion on the financial statements in accordance with Part 9; and
- (b) If appropriate, obtain advice from legal counsel. ~~including on the assessed risks of material misstatement and the auditor's report.~~

8.6. Written Representations

Written representations are necessary information that the auditor requests in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. However, although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

8.6.1. The auditor shall obtain written representations from management who have appropriate knowledge of the matters concerned and responsibility for the financial statements, and where appropriate those charged with governance, about the following matters:

¹¹ If adequately disclosed in accordance with paragraph 8.5.9, for the effect on the auditor's report see Part 9, paragraph 9.6.6. In such case, a "Material Uncertainty Related to Going Concern" section is used instead of a "Going Concern" section. If adequate disclosures are not made, for the effect on the auditor's report see Part 9, paragraphs 9.5.18. and 9.5.19.

PROPOSED ISA FOR LCE (REVISED)

- (a) That they have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation. The responsibilities shall be described in the same way in the representation as described in the terms of engagement;
- (b) That they have provided the auditor with all relevant information and access as agreed in the terms of the audit engagement;
- (c) That all transactions are recorded and are reflected in the financial statements;
- (d) With respect to fraud:
 - (i) That they acknowledge their responsibility for the design, implementation and maintenance of controls to prevent and detect fraud and have appropriately fulfilled those responsibilities;
- ~~(e)~~ ~~(ii)~~ That they have disclosed to the auditor the result of its assessment of the risk that the financial statements may be materially misstated because of fraud;
- ~~(f)~~ ~~(iii)~~ That their knowledge of fraud, or suspected fraud, ~~or including~~ allegations of fraud ~~or suspected fraud~~ has been disclosed to the auditor;
- (g) With respect to related parties:
 - (i) That they have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware;
 - ~~(h)~~ ~~(ii)~~ That they have appropriately accounted for and disclosed related party relationships and transactions in accordance with the requirements of the financial reporting framework;
- (i) That all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor;
- (j) That all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework;
- (k) With respect to accounting estimates, whether the methods, significant assumptions and data used in making the accounting estimates and disclosures are appropriate to achieve recognition, measurement or disclosure is in accordance with the applicable financial reporting framework;
- (l) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed;
- (m) ~~With respect to going concern, if a material uncertainty exists, information about their plans for future actions and the feasibility of these plans;~~
 - (i) Whether the use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

- (ii) That the assessment of going concern reflects all events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that they are aware of, and all such events or conditions, if any, have been disclosed to the auditor;
- (iii) That matters relevant to going concern have been adequately disclosed in the financial statements, including, when applicable, significant judgments made by management in concluding that there is no material uncertainty;
- (iv) If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, management's plans for future actions and whether such plans mitigate the effects of the identified events or conditions, the feasibility of these plans and whether management has the intent to carry out specific courses of action and has the ability to do so.
- (n) Regarding any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information; and
- (o) Other representations the auditor determines necessary to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, including where necessary to support oral representations.

...

8.8. Specific Communication Requirements

...

8.8.3. Unless all those charged with governance are involved in managing the entity, the auditor shall communicate on a timely basis with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
- (bA) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the auditor's evaluation of management's plans for future actions;
- (c) The adequacy of related disclosures in the financial statements, including disclosures that describe the significant judgments made by management and the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions; and
- (cA) When applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and
- (d) ~~Where applicable, the~~ The implications for the audit or the auditor's report.

8.9. Specific Documentation Requirements

In addition to the general documentation requirements in Part 2.4 which apply throughout the audit engagement, specific matters to be documented relevant to this Part are described below.

8.9.1. The auditor shall include the following in the audit documentation:

PROPOSED ISA FOR LCE (REVISED)

- (a) All misstatements accumulated during the audit and whether they have been corrected, and the auditor's conclusion as to whether the uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion; ~~and~~
- (b) The nature and scope of, and conclusions from, consultations undertaken during the audit, including how such conclusions were implemented; and
- (c) Significant professional judgments made relating to the auditor's determination of the adequacy of management's disclosures in the financial statements related to going concern.

...

9. Forming an Opinion and Reporting

...

9.4. Auditor's Report

9.4.1. The auditor shall report in accordance with the specified format and content below unless:

- (a) Amendment to the auditor's report is required for compliance with a specific layout or wording of the auditor's report required by law or regulation of a jurisdiction. When the layout or wording of the auditor's report is prescribed by law or regulation, the auditor's report shall refer to this ISA for LCE only if the elements of the specified format and content illustrated below are included;
- (b) The auditor is required to conduct the audit in accordance with the auditing standard of a specific jurisdiction for less complex entities (the "national LCE auditing standard") that prescribes a layout or wording of the auditor's report different from that required by the ISA for LCE and has additionally complied with the ISA for LCE in the conduct of the audit. If this is the case, the auditor's report may refer to the ISA for LCE in addition to the national LCE auditing standard only if the auditor's report includes the elements of the specified format and content illustrated below; or
- (c) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 9.5.) or amend the auditor's report (according to Parts 9.6–9.8.).

INDEPENDENT AUDITOR'S REPORT

To the [Shareholders of ABC Company or Other Appropriate Addressee]¹²

Opinion

We have audited¹³ the financial statements of [ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (replace these report names with the appropriate titles)].¹⁴

¹² Matters reflected in the specified format and content of the auditor's report in square brackets (e.g. []) are to be tailored accordingly.

¹³ When disclaiming an opinion, the statement which indicates that the financial statements have been audited is amended to state that the auditor was engaged to audit the financial statements.

¹⁴ Identify the entity whose financial statements have been audited; identify each financial statement and its date and period, and refer to the notes and significant accounting policies or use another appropriate description in accordance with the applicable financial reporting framework.

In our opinion, the accompanying financial statements [“present fairly, in all material respects” or “give a true and fair view of”]¹⁵ the financial position of the [Entity] as at [December 31, 20X1], and [of] its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].¹⁶

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.¹⁷ We are independent of the [Entity] in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.¹⁸

Going Concern

No Material Uncertainty Related to Going Concern^{19 20}

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the [Entity’s] ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are not a guarantee as to the [Entity’s] ability to continue as a going concern.

¹⁵ See also 9.4.2 below. When the financial statements are prepared in accordance with a compliance framework, the opinion and description of the auditor’s responsibilities refer instead to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

¹⁶ Identify the jurisdiction of origin of the financial reporting framework if it is not International Financial Reporting Standards or International Public Sector Accounting Standards as issued by the International Public Sector Accounting Standards Board.

¹⁷ When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor’s report.

¹⁸ When the auditor expresses a qualified or adverse opinion, the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion is amended to include the word “qualified” or “adverse”, as appropriate. When the auditor disclaims an opinion on the financial statements, this statement is not included in the auditor’s report.

¹⁹ This additional sub-title may be useful to enhance intended users’ understanding about the nature of the matters addressed in the Going Concern section of the auditor’s report.

²⁰ If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, and when significant judgments are made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor may decide to include:

(i) A reference to the related disclosure(s) in the financial statements, if any; and

(ii) Describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.

Responsibilities of [Management] for the Financial Statements²¹

[Management] is responsible for the preparation [and fair presentation] of the financial statements in accordance with [applicable financial reporting framework],²² and for such internal control as [*management*] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [management] is responsible for assessing the [Entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [management] either intends to liquidate the [Entity] or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements^{23 24}

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [Entity's] ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [Entity] to cease to continue as a going concern.
- [Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.]²⁵

We communicate with [management, and where appropriate, those charged with governance] regarding, among other matters, the planned scope and timing of the audit and significant audit findings that we identify during our audit, including any:

- ~~Significant deficiencies in internal control;~~
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our judgment, relevant to the responsibilities of [management, and where appropriate, those charged with governance] that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

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

[Auditor Address: name the location in the jurisdiction where the auditor practices]

[Date: No earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that (i) All the statements and disclosures that comprise the financial statements have been prepared; and (ii) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.]

...

9.5. Modifications to the Opinion

Tables A to C below set out the requirements for which a modified opinion is to be used in different situations, and the form and content of a modified opinion.

9.5.1. The auditor shall modify the opinion in the auditor's report according to Tables A–C below when:

²¹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²² Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

²³ The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of appendix or description shall be included within the auditor's report. When the auditor disclaims an opinion on the financial statements, the description of the auditor's responsibilities only includes the matters required by paragraph 9.5.33.

²⁴ When Part 10 applies, further describe the auditor's responsibilities in a group audit engagement by stating that:

- (i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements;
- (ii) The auditor is responsible for the direction, supervision and review of the audit work performed for purposes of the group audit; and
- (iii) The auditor remains solely responsible for the auditor's opinion.

²⁵ Relevant when the financial statements are prepared in accordance with a fair presentation framework.

PROPOSED ISA FOR LCE (REVISED)

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

9.5.2. When the auditor modifies the audit opinion, the auditor shall:

- (a) Amend the heading “Basis for Opinion” to “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion” as set out in Tables A–C; and
- (b) Within the basis for opinion section, include a description of the matter giving rise to the modification.

...

Table C below sets out specific circumstances when the auditor’s opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A). Table C is not an exhaustive list of all circumstances when the auditor’s opinion is to be modified.

TABLE C				
Specific Circumstances When the Auditor’s Opinion is to be Modified	Para Ref	Qualified	Adverse	Disclaimer
...				
<i>Going Concern</i>				
9.5.17. The financial statements have been prepared using the going concern basis of accounting but, in the auditor’s professional judgment, management’s use of the going concern basis of accounting in the preparation of the financial statements is inappropriate. 9.5.17A. In this circumstance, unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor’s report.	~~7.4.1.~~ 8.5.7.		✓	
9.5.18. Adequate disclosures are not made about a material uncertainty in the financial statements.	~~7.4.4~~ 8.5.98	✓	✓	

PROPOSED ISA FOR LCE (REVISED)

9.5.19. In this circumstance: (a) ~~The Basis for a Qualified (or a Adverse) Opinion~~ section shall state that “a material uncertainty exists ~~that may cast significant doubt on the entity’s ability to continue as a going concern~~ and that the financial statements do not adequately disclose this matter.” (b) <u>The auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern”.</u> <u>The separate section draws attention to the Basis for Qualified (Adverse) Opinion section of the auditor’s report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements.</u> <u>The section shall state that:</u> (i) <u>In the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and</u> (ii) <u>The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.</u>				

PROPOSED ISA FOR LCE (REVISED)

TABLE C Specific Circumstances When the Auditor's Opinion is to be Modified	Para Ref	Qualified	Adverse	Disclaimer
9.5.20. When evaluating management's assessment of the entity's ability to continue as a going concern, the period is less than twelve months from the date of <u>approval of the financial statements</u>, and management does not make or extend its assessment, leading to the auditor being unable to obtain sufficient appropriate audit evidence. <u>9.5.20A. When the auditor disclaims an opinion on the financial statements, unless required by law or regulation, the auditor shall not include separate sections on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report.</u>	7.4.1A2.	✓		✓
...				

Other Matters Relating to Modifications

...

9.5.33. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:

- (a) a Amend the Auditor's Responsibilities for the Audit of the Financial Statements section of the report under paragraph 9.4.1 to include only the following:
- (i)a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with the ISA for LCE and to issue an auditor's report;
 - (ii)b) A statement that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
 - (iii)e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- (b) State in the Basis for Disclaimer of Opinion section that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to

events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

...

9.6. Other Paragraphs in the Auditor's Report

...

Emphasis of Matter Paragraphs

9.6.1. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements, and the auditor would not be required to modify the opinion as a result of that matter, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasized.

Examples of where Emphasis of Matter paragraphs may be needed include:

- *When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.*
- *When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).*

The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

- *A modified opinion when required by the circumstances of a specific audit engagement;*
- *Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or*
- *Reporting when a material uncertainty exists ~~related to~~ events or conditions that may cast significant doubt on an entity's ability to continue as a going concern or in the circumstances contemplated in footnote 20 (see paragraph 9.4.1).*

...

Content of Other Paragraphs in the Audit Report

9.6.3. When the auditor includes an Emphasis of Matter, Other Matter paragraph or a material uncertainty related to going concern in the auditor's report, the auditor shall include the paragraph or section according to Table D below:

PROPOSED ISA FOR LCE (REVISED)

TABLE D			
Paragraph or Section	Location	Heading shall include	Content shall include
9.6.4. Emphasis of Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Emphasis of Matter"	A clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. A reference only to information presented or disclosed in the financial statements. An indication that the auditor's opinion is not modified in respect of the matter emphasized.
9.6.5. Other Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Other Matter"	As appropriate in the circumstances.
9.6.6. Material Uncertainty Related to Going Concern <u>section paragraph – For unmodified opinion</u>	A separate section of the auditor's report	"Material Uncertainty Related to Going Concern"	~~Draw attention to the note in the financial statements that discloses the matters related to the material uncertainty.~~ <u>Include a reference to the related disclosure(s) in the financial statements.</u> State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern, ~~and~~ <u>State that:</u> <u>(a) The auditor's opinion is not modified in respect of the matter;</u> <u>(b) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and</u> <u>(c) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as</u>

PROPOSED ISA FOR LCE (REVISED)

TABLE D Paragraph or Section	Location	Heading shall include	Content shall include
			<u>to the entity's ability to continue as a going concern.</u>

9.6.7. When facts become known to the auditor after the financial statements have been issued and if management amends the financial statements, the auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph drawing users' attention to the reason for the amendment and referring to the earlier report provided by the auditor.

...

10. Audits of Group Financial Statements

...

10.5. Identifying and Assessing the Risks of Material Misstatement

10.5.1. In applying Part 6, based on the understanding obtained in paragraph 10.4.1. the auditor shall identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

In applying Part 6, the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- *Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.*
- *Whether any fraud risk factors or indicators of management bias exist in the consolidation process.*
- *How those charged with governance of the group monitor group management's processes for identifying and responding to the fraud risks of fraud in the group, and the controls group management has established to mitigate these risks.*
- *Responses of those charged with governance of the group, and group management to the auditor's inquiry about whether they have knowledge of any fraud or actual, suspected fraud, including allegations of or alleged fraud affecting a component or the group.*

...

10.7. Specific Communication Requirements

10.7.1. The auditor shall communicate the following matters with those charged with governance:

- (a) An overview of the work to be performed at the components of the group.
- (b) Fraud or suspected fraud involving:
 - (i) ~~g~~Group management, or component management;_i
 - (ii) ~~e~~Employees who have significant roles in the group's system of internal control;_i or
 - (iii) ~~o~~Others, except for matters that are clearly inconsequential ~~when the fraud resulted in a material misstatement of the group financial statements.~~

...

APPENDIX 1

Glossary of Terms

This glossary lists the terms that are defined for the purpose of the ISA for LCE. The definitions assist in the consistent application and interpretation of this standard, and are not intended to override definitions that may be established for other purposes, whether in law or regulation or otherwise. Unless otherwise indicated, the definitions carry the same meanings throughout this standard. In addition, this glossary includes descriptions of other terms found in the ISA for LCE to assist in common and consistent interpretation and translation (such other terms are identified by an asterisk “*”).

...

Fraud risk factors—Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action.

...

Material uncertainty (related to going concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. “May cast significant doubt” is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management’s plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future.

...

Publicly traded entity—An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

...

APPENDIX 2

Illustrative Engagement Letter

The following is an illustrative engagement letter for an audit of general purpose financial statements prepared in accordance with [applicable financial reporting framework]. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISA for LCE. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 4.4.2).

To the appropriate representative of management or those charged with governance of ABC Company:²⁶

[The objective and scope of the audit]

You²⁷ have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[The responsibilities of the auditor]

We will conduct our audit in accordance with the ISA for LCE. The ISA for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

²⁶ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction.

²⁷ Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude and report on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISA for LCE.

[The responsibilities of management and identification of the applicable financial reporting framework]²⁸

Our audit will be conducted on the basis that [management, and where appropriate, those charged with governance]²⁹ acknowledge and understand that they have responsibility:

- (a) For the preparation [and fair presentation] of the financial statements in accordance with [applicable financial reporting framework];³⁰
- (b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:
 - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management] for the purpose of the audit, such as a going concern assessment that covers a period of at least twelve months from the date of approval of the financial statements; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

²⁸ For purposes of this illustrative engagement letter, it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 4.2.1(b) of this standard are therefore used)

²⁹ Use terminology as appropriate in the circumstances.

³⁰ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework]"

PROPOSED ISA FOR LCE (REVISED)

As part of our audit process, we will request from [management, and where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information.]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

APPENDIX 3A**Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern**

The following are examples of identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. These examples are not all-inclusive.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Recurring negative cash flows from operations or inability to generate cash flows from operations indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Inability to pay creditors on due dates.
- Non-compliance or marginal ability to meet debt repayment or other debt covenant requirements or comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain additional debt or equity financing.
- Exposure to liquidity risk as a result of the maturity mismatch of financial assets and liabilities.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key personnel and management without replacement.
- Significant declines in customer demand.
- Loss of a major market, significant customer(s), franchise, license, or principal supplier(s).
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Significant or sustained business interruption due to a cyber attack (e.g., denial of access to information or inability to provide service).
- Pending litigation and contingent liabilities arising that may, if successful, result in claims that the entity is unlikely to be able to satisfy.

PROPOSED ISA FOR LCE (REVISED)

- Changes in law or regulation or government policy expected to adversely affect the entity.
- Significant exposures to volatile markets, such as exchange rates, interest rates or commodities.
- Uninsured or underinsured catastrophes or business interruption losses when they occur (e.g., an earthquake).
- Changes in the environment such as war, civil unrest, outbreaks of disease expected to adversely affect the entity or physical risks related to climate change (e.g., extreme flooding).

APPENDIX 4

Fraud Risk Factors

The fraud risk factors set out below are examples of factors that may be faced by auditors during an audit of less complex entities. Examples are separately presented for the two types of fraud – fraudulent financial reporting and misappropriation of assets.

The risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different sizes or with different ownership characteristics or circumstances. Also, the order of the examples risk factors provided is not intended to reflect their relative importance or frequency of occurrence.

Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting

The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.

Incentives/Pressures

Financial stability or profitability is threatened by economic, industry, geopolitical, or entity operating conditions, such as (or as indicated by):

- Significant declines in customer demand or increasing business failures in the industry or overall economy.
- High degree of competition or market saturation, accompanied by declining margins.
- Operating losses causing the threat of bankruptcy or foreclosure.
- Recurring negative cash flows from operations or an inability to generate cash flows from operations.
- Pandemics or wars triggering major disruptions in the entity's operations, financial distress and severe cashflow shortages.
- Economic sanctions imposed by governments and international organizations against a jurisdiction.

Pressure exists for management to meet the requirements or expectations of third parties due to pressure to:

- ~~Pressure to r~~Renew, or obtain additional, financing, or to meet debt repayment or debt covenant requirements and therefore to overstate performance or position in order to demonstrate profitability and long-term viability.
- ~~Pressure to u~~Understate revenue in order to reduce tax liabilities.
- Qualify for government assistance.

Considerations Specific to Public Sector Entities

- Public sector entities subject to statutory limits on their spending may result in inaccurate reporting of expenditure incurred.

Opportunities

Opportunities to engage in fraudulent financial reporting that can arise from the following:

- Related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
- The domination of management by a single person or small group (in a non owner-managed business) without compensating controls.
- The system of internal control is deficient as a result of the following:
 - Limited segregation of duties or anti-fraud controls (e.g., fraud hotlines)
 - Inadequate involvement of management in operations or other activities that may help management to prevent or detect misstatements in accounting information, or to identify controls that are not operating as intended.
 - Inadequate controls due to changes in the current environment, for example, increased data security risks.
 - Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control.

Considerations Specific to Public Sector Entities

- The nature of certain revenue transactions (e.g., taxes and grants) may provide a greater opportunity to manipulate the timing or amount of revenue recognized in the current period. [Moved from examples of Risk Factors Relating to Misstatements Arising from Misappropriation of Assets]

Attitudes/Rationalizations

- Management and those charged with governance have not created a culture of honesty and ethical behavior. For example, Peer-communication, implementation, support, or enforcement of the entity's values or ethical standards by management are not effective, or the communication of inappropriate values or ethical standards.
- The owner manager or management demonstrates an unusually high tolerance to risk or displays an unusually high standard of lifestyle, a pattern of significant personal financial issues, or frequently engages in high-risk activities.
- The owner-manager makes no distinction between personal and business transactions.
- Dispute between shareholders in a closely held entity.
- Recurring attempts by management or owners to justify marginal or inappropriate accounting on the basis of materiality or to help the entity survive.
- The relationship between management and the current or predecessor auditor is strained by disputes, unreasonable demands on the auditor, restrictions on access to people or information, or domineering management behavior.

Risk Factors ~~Arising from~~ Relating to Misstatements Arising from Misappropriation of Assets

Some of the risk factors related to misstatements arising from fraudulent financial reporting may also be present when misstatements arising from misappropriation of assets occur, which often is a common fraud in less complex entities. For example, deficiencies in internal control may be present when misstatements due to either fraudulent financial reporting or misappropriation of assets exist. The following are examples of risk factors related to misstatements arising from misappropriation of assets.

Incentives/Pressures

- ...

Opportunities

Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation:

- ...

Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks.
- Inadequate system of authorization and approval of transactions (for example, in purchasing).
- Inadequate record keeping or physical safeguards over cash, inventory, or fixed assets.
- Lack of mandatory vacations for employees performing key control functions.
- Inadequate management understanding of information technology.

[Moved to examples of Risk Factors Relating to Misstatements Arising from Fraudulent Financial Reporting]

Attitudes/Rationalizations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets.
- Disregard for internal control by overriding existing controls or failing to take appropriate remedial action on known misappropriations, including petty theft.
- Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the employee.
- Rationalizing misappropriations committed during severe economic downturns by intending to pay back the entity when circumstances return to normal.

APPENDIX 7

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by Part 8.6 of the ISA for LCE. It is assumed in this illustration that no events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly the requirement in paragraph 8.6.1(m)(iv) to obtain a written representation relating to going concern is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with [applicable financial reporting framework].

We confirm that:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with [applicable financial reporting framework]; in particular the financial statements are fairly presented (or give a true and fair view) in accordance therewith.
- In relation to Going Concern:
 - Our use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
 - Our assessment of ABC Company's ability to continue as a going concern reflects all events or conditions that may cast significant doubt on ABC Company's ability to continue as a going concern that we are aware of. We have not identified any such events or conditions.
 - Matters relevant to going concern have been adequately disclosed in the financial statements.
- We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud and have appropriately fulfilled those responsibilities.
- The methods, the data, and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [applicable financial reporting framework].
- All events subsequent to the date of the financial statements and for which [applicable financial reporting framework] require adjustment or disclosure have been adjusted or disclosed.

PROPOSED ISA FOR LCE (REVISED)

- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
- Any actual or possible litigation and claims whose effects should be considered when preparing the financial statements are accounted for and disclosed in accordance with the applicable financial reporting framework.
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to any fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to ~~allegations of fraud, or suspected fraud,~~ including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with law or regulation whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- [Any other matters that the auditor may consider necessary.]

 Management

 Management

International Standards on Auditing, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Assurance Engagements, International Standards on Review 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.

The IAASB®, the International Foundation for Ethics and Audit™ (IFEATM) and the International Federation of Accountants® (IFAC®) do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © July 2026 by the International Federation of Accountants (IFAC). All rights reserved.

Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "Copyright © July 2026 by the International Federation of Accountants® or IFAC®. All rights reserved. Used with permission of IFAC. Permission is granted to make non-commercial copies of this work to achieve maximum exposure and feedback." Written permission is required to translate this document or to reproduce or translate the final version of this standard.

The 'International Auditing and Assurance Standards Board', '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', 'IAASB', 'ISA', 'ISA for LCE', 'ISRE', 'ISSA', 'ISAE', 'ISRS', 'ISQM', 'IAPN', and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries. The 'International Foundation for Ethics and Audit' and 'IFEATM' are trademarks of IFEA, or registered trademarks and service marks of IFEA in the US and other countries.

For copyright, trademark, and permissions information, please visit [Permissions](#) or contact Permissions@ifac.org.



IAASB™

International Auditing and Assurance Standards Board
AN IFEA BOARD

COPYRIGHT OF:



International
Federation
of Accountants®

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

This Agenda Item includes Proposed ISA 330 (Revised) as approved by the Board on June 18, 2026, in mark-up from **Agenda Item 2–F.1**.

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. A2)
 - (c) Tests of details – The application of audit procedures to obtain audit evidence about each item selected for testing. (Ref: Para. A3–A4)

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. A5–A8)

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

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

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. A9–A13; A64–A69)
7. In designing the further audit procedures to be performed, the auditor shall: (Ref: Para. A14–A22)
 - (a) Take into account the reasons for the assessment of inherent risk and of control risk at the assertion level;
 - (b) Plan to perform substantive procedures, tests of controls, or a combination of both; and (Ref: Para. A9)
 - (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. A23–A26)

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. A27)

Substantive Procedures

Designing and Performing Substantive Procedures

- 8A. 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 11. (Ref: Para. A27A–A27F)

Substantive Procedures Responsive to Significant Risks

- 8B. 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. A27G)

External Confirmation Procedures

- 8C. The auditor shall consider whether to perform external confirmation procedures when designing substantive procedures. (Ref: Para. A27H–A27K)

Timing of Substantive Procedures

- 8D. 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. A27L–A27O)
 - (a) Substantive procedures combined with tests of controls; or
 - (b) If the auditor determines that it is sufficient, further substantive procedures only.

- 8E. 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. A27P)

Tests of Controls

Designing and Performing Tests of Controls

- 9. 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. A28–A34)
- 10. 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. A34)
- 11. 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 assessed 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. A35)

Nature and Extent of Tests of Controls

- 12. 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. A36–A45)
 - (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

- 13. Subject to paragraphs 14–16, 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. A46–A47)

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

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

Controls Addressing Significant Risks

14. 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. A48)

Tests of Controls Alone

15. 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. A48)

Using Audit Evidence Obtained During an Interim Period

16. 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. A49–A50)

Using Audit Evidence Obtained in Previous Audits

17. 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. A48, A51)
- (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. A52)
 - (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. A53)
 - (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. A54)
18. 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

⁵ ISA 315 (Revised 2019), paragraph A196

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 reliability of that audit evidence, through inquiry combined with observation or inspection, to confirm the understanding of those controls; and (Ref: Para. A55)

- (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. A56)
- (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. A57–A58)
 - (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

19. 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. A59–A60)

Results of Tests of Controls

20. 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. A61)
 - (b) Determine whether: (Ref: Para. A62–A63)
 - (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.
21. 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. A80)

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

Audit Procedures Related to the Financial Statement Closing Process

28. The auditor shall: (Ref: Para. A81)
- (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. A82)

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. A83–A84)
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. A85)
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;

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

- (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. A86)
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

~~Substantive Procedures (Ref: Para. 4(a))~~

~~A1.~~

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

A2. 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))

- A3. 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.

⁹ ISA 315 (Revised 2019), paragraph 34

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

- 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.

A4. 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 ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.¹¹

Overall Responses (Ref: Para. 5)

A5. 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.

A6. 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:

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

- 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.
- A7. 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).
- A8. 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)

- A9. 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 9);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 11 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.

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

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

- A10. 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 to the assessed risks.
- A11. The timing of an audit procedure refers to when it is performed, or to the period or date to which the audit evidence applies.
- A12. 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.
- A13. 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

A14. 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.

- A15. 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 9(a). This may be the case, for example, for classes of transactions of reasonably uniform, non-complex

¹⁹ Proposed ISA 500 (Revised), paragraph A16

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

characteristics that are routinely processed and controlled by the entity's information system.

- A16. 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 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

- A17. 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.

- A18. 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.

- A19. 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.

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

- 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 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

- A20. 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.
- A21. 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 21(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).

²² ISA 530, *Audit Sampling*

Considerations specific to public sector entities

- A22. 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))

- A23. 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.

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.

- A24. 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.
- A25. 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.

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

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

²⁵ ISA 315 (Revised 2019), paragraph A158

A26. 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)

A27. 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 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, 8A)

A27A. 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 8B).
- Performing tests of details, alone or in combination with tests of controls, may provide sufficient appropriate audit evidence at the assertion level.

A27B. 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)²⁸ establishes requirements and provides guidance on performing substantive analytical procedures and on the application of analytical procedures during an audit.

A27C. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures.²⁹ When designing and performing further audit procedures, the auditor may design and perform analytical procedures that are not substantive analytical procedures,³⁰ 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.

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

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 520 (Revised), *Analytical Procedures*

²⁹ Proposed ISA 500 (Revised), Appendix 1

³⁰ Proposed ISA 520 (Revised), paragraphs 6(b) and 8

A27D. 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.

A27E. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size.³¹ 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 A80).

A27F. The results from substantive procedures may identify exceptions³² or inconsistencies³³ 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. 8B)

A27G. Paragraph 8B 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.

³¹ ISA 530, paragraph 7

³² ISA 505, *External Confirmations*, paragraphs 6(e) and 14

³³ Proposed ISA 500 (Revised), paragraph 17 and Proposed ISA 520, paragraphs 8(d) and 10

Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 8C)

A27H. 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.
- 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.

A27I. 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.

A27J. 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.

A27K. 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. 8D–8E)

A27L. 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. 8E)

A27M. 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.

A27Ma. 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.

A27N. 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.

A27O. 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. 26)

A27P. 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. 9)

A28. 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.³⁴ 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 21 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.

³⁴ ISA 315 (Revised 2019), paragraph A226

A29. 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.

A30. 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).³⁵ 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.³⁶

• A31. 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.³⁷

However, as described in ISA 315 (Revised 2019), the evidence obtained from evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to test their operating effectiveness.³⁸

When Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence (Ref: Para. 9(b))

A32. 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.³⁹ In such cases, paragraph 9(b) 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.

³⁵ ISA 315 (Revised 2019), paragraph 26

³⁶ Proposed ISA 500 (Revised), paragraph 10

³⁷ ISA 315 (Revised 2019), paragraph A19

³⁸ ISA 315 (Revised 2019), paragraph A180

³⁹ ISA 315 (Revised 2019), paragraph 33

- 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.
- 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.

A33. ISA 315 (Revised 2019)⁴⁰ and ISA 540 (Revised)⁴¹ 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. 10–11)

A34. 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.

A34A. 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.

⁴⁰ ISA 315 (Revised 2019), paragraph A224

⁴¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A87–A89

A35. As described in ISA 200, effective internal controls generally reduce but do not eliminate the risk of material misstatement.⁴² However, in some circumstances, based on an evaluation of the design, and determination of implementation, of controls in accordance with ISA 315 (Revised 2019),⁴³ 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 A29):

- 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 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.

⁴² ISA 200, paragraph A43

⁴³ ISA 315 (Revised 2019), paragraph 26

Nature and Extent of Tests of Controls (Ref: Para. 12)

Controls to be Tested

A36. In designing and performing tests of controls, the controls to be tested may include a combination of direct and indirect controls.⁴⁴ 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.⁴⁵

Indirect Controls, including General IT Controls

A37. 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.⁴⁶ 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 12 in such circumstances are therefore performed to obtain audit evidence about the operating effectiveness of both the direct and indirect controls.

A38. 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.⁴⁷ 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
- 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.

A39. 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).⁴⁸ Such procedures may address determining whether:

⁴⁴ ISA 315 (Revised 2019), paragraph A228

⁴⁵ ISA 315 (Revised 2019), paragraph A5

⁴⁶ ISA 315 (Revised 2019), paragraph A228

⁴⁷ ISA 315 (Revised 2019), paragraph A166

⁴⁸ ISA 315 (Revised 2019), paragraph 26(c)(i)

- 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).

- A40. 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).⁴⁹ The auditor may consider that the audit evidence obtained from those procedures may also be used as audit evidence that contributes to achieving the purpose of the procedures required by paragraph 9.

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

- A41. As described in ISA 315 (Revised 2019), inquiry alone is not sufficient for obtaining audit evidence about the design and implementation of identified controls.⁵⁰ 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.
- A42. 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.

⁴⁹ Proposed ISA 500 (Revised), paragraph 13

⁵⁰ ISA 315 (Revised 2019), paragraph A177

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.⁵¹
- 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).

A42A. 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

A43. 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.

⁵¹ ISA 315 (Revised 2019), paragraph A180

- 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 530⁵² contains further guidance on the extent of testing.

- A44. 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 A39.
- A45. 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 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. 13)

- A46. As explained in paragraph A11, 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.
- A47. 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

⁵² ISA 530, Appendix 2

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. 14–15, 17)

A48. In the circumstances described in paragraphs 14 and 15, 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. 16(b))

A49. 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.

A50. 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. 17)

A51. 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.⁵³

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

⁵³ Proposed ISA 500 (Revised), paragraph A7

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.

- A52. 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.⁵⁴ 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.
- A53. 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.
- A54. 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.
 - 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. 18)

- A55. In accordance with ISA 315 (Revised 2019),⁵⁵ 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.

⁵⁴ ISA 315 (Revised 2019), paragraph A180

⁵⁵ ISA 315 (Revised 2019), paragraph 26

- A56. 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. 18(b))

- A57. 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 18(a));
- Are not controls that address a significant risk (see paragraph 14); 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 15).

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 18(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.

- A58. 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.

Evaluating the Operating Effectiveness of Controls (Ref: Para. 19)

- A59. 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 265⁵⁶ 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.
- A60. Factors that may be relevant in making the evaluation required by paragraph 19, include:
- The nature of identified misstatements and the specific circumstances in which they occurred.

⁵⁶ ISA 265, paragraph 5

- 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. 20)

- A61. 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 265⁵⁷ 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 20(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.
- A62. 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 20(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.
- A63. 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 20(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.
 - 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 A39).

Selecting Items for Testing (Ref: Para. 27)

- A80. 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

⁵⁷ ISA 265, paragraphs 7, A1-A11.

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.⁵⁸

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

A81. 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)

A82. 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)

A83. 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.
- 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.⁵⁹

A84. 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.

⁵⁸ Proposed ISA 500 (Revised), Appendix 2

⁵⁹ ISA 315 (Revised 2019), paragraph 37

A85. 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 A23, 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)

A86. 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.

Agenda Item

2–G.2

Proposed ISA 500 (Revised), *Audit Evidence*

[APPROVED VERSION]

This Agenda Item includes Proposed ISA 500 (Revised) as approved by the Board on June 18, 2026, in mark-up from **Agenda Item 2–G.1**.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence. (Ref: Para. A1–A4)
2. ISA 200¹ deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.²
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs address the audit evidence to be obtained for specific matters, which complement the requirements of this ISA (see Appendix 1). For example:
 - (a) ISA 315 (Revised 2019)³ deals with audit evidence obtained from risk assessment procedures.
 - (b) Proposed ISA 330 (Revised)⁴ deals with audit evidence obtained from further audit procedures in responding to the assessed risks of material misstatement.
 - (c) ISA 700 (Revised)⁵ deals with, among other matters, the auditor's overall responsibility to conclude whether sufficient appropriate audit evidence has been obtained.

Professional Judgment and Professional Skepticism

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.⁶ This ISA further emphasizes maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence by, for example, designing and performing audit procedures in a manner that is not biased and evaluating the relevance and reliability of information intended to be used as audit evidence. (Ref: Para. A5)

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

² ISA 200, paragraph 17

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

⁴ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

⁵ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁶ ISA 200, paragraphs 15–16

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

5. As explained in ISA 200,⁷ maintaining professional skepticism includes being alert to, for example, audit evidence that is inconsistent with other audit evidence obtained and information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, maintaining professional skepticism includes not ignoring information that calls into question the reliability of other information intended to be used as audit evidence.

Effective Date

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

Objective

7. The objective of the auditor is to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence.

Definitions

8. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A8, A10–A12)
 - (b) Audit evidence – Information, after applying audit procedures, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. (Ref: Para. A6–A7)
 - (c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
 - (d) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A9–A12)

Requirements

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

9. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref: Para. A13–A18)
 - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref: Para. A19–A22)
 - (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose(s) of those audit procedures. (Ref: Para. A23–A25)
10. If the auditor uses an audit procedure for more than one purpose, the auditor shall evaluate whether the audit evidence obtained meets each intended purpose of the audit procedures. (Ref: Para. A26)

⁷ ISA 200, paragraph A21

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Information Intended to Be Used as Audit Evidence

Evaluating the Relevance and Reliability of Information Intended to Be Used as Audit Evidence

11. When designing and performing audit procedures in accordance with paragraph 9, the auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref: Para. A27–A28, A34–A40, A60)
 - (a) The source of the information; and (Ref: Para. A29–A33)
 - (b) The attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. (Ref: Para. A28, A41–A53)
12. If information intended to be used as audit evidence is information produced by the entity, in complying with the requirement in paragraph 11, the auditor shall evaluate, to the extent necessary, the accuracy and completeness of the information to meet the intended purpose(s) of the audit procedures. (Ref: Para. A33A, ~~A44–A44A~~, A60)

Evaluating the Reliability of Information Intended to Be Used as Audit Evidence

13. To the extent not already addressed when performing the audit procedures in accordance with paragraph 9, the auditor's evaluation of the reliability of the information intended to be used as audit evidence in accordance with paragraphs 11–12 shall include: (Ref: Para. A27–A28, A54, A60)
 - (a) Identifying controls that address the reliability of such information, evaluating their design, determining whether they have been implemented, and testing their operating effectiveness; or (Ref: Para. A55–A57)
 - (b) Performing other audit procedures to evaluate the reliability of such information. (Ref: Para. A58–A59)

Information Intended to be Used as Audit Evidence Prepared by a Management's Expert

14. If information intended to be used as audit evidence has been prepared by a management's expert, as part of the auditor's evaluation in accordance with paragraph 11, the auditor shall: (Ref: Para. A61–A62)
 - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A63–A67)
 - (b) Obtain an understanding of the work performed by that expert; (Ref: Para. A68–A69)
 - (c) Obtain an understanding of how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A70–A72)
 - (i) How management has considered the appropriateness of the information prepared by that expert; and
 - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications; and
 - (d) Evaluate the appropriateness of the work of the management's expert as audit evidence for the relevant assertion. (Ref: Para. A73)

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Doubts About the Relevance or Reliability of Information Intended to be Used as Audit Evidence

15. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref: Para. A74–A77)
 - (a) Determine whether modifications or additions to audit procedures can be made to resolve the doubts about the relevance of the information; or
 - (b) Determine what modifications or additions to audit procedures are necessary to resolve the doubts about the reliability of the information.
16. If the doubts about the relevance or reliability of information in accordance with paragraph 15 cannot be resolved, the auditor shall consider the effect, if any, on other aspects of the audit, including whether such doubts indicate a risk of material misstatement due to fraud. (Ref: Para. A78)

Inconsistencies in Audit Evidence

17. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall: (Ref: Para. A79–A83)
 - (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
 - (b) Consider the effect, if any, on other aspects of the audit.

Application and Other Explanatory Material

Relevance and Reliability of Information Intended to be Used as Audit Evidence (Ref: Para. 1)

- A1. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information may result in audit evidence that is necessary to support the conclusions that form the basis for the auditor's opinion and report.⁸ However, such information can become audit evidence only after audit procedures are applied to it, including evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as "information intended to be used as audit evidence."
- A2. The quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, paragraph 11 requires the auditor to evaluate the relevance and reliability of the information intended to be used as audit evidence.

Relevance

- A3. The relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose(s) of the audit procedures, including, when appropriate, the assertion being tested.

⁸ ISA 200, paragraph A31

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Reliability

- A4. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Attributes that may be considered by the auditor in evaluating the reliability of information intended to be used as audit evidence:</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The information has been generated by or provided by a source authorized to do so, and the information has not been altered in a manner that makes it inadequate for the audit.
Absence of Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence and capability to generate the information to a required standard, and the source can be trusted.

Professional Judgment and Professional Skepticism (Ref: Para. 4)

- A5. Relevant ethical requirements, such as the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), also may establish requirements for the role, mindset and behavioral characteristics expected of all professional accountants.⁹ In an audit of financial statements, professional skepticism and the fundamental principles of ethics are interrelated concepts and the compliance with the fundamental principles, individually and collectively, support the auditor to exercise professional skepticism.¹⁰

Definitions

Audit Evidence (Ref: Para. 8(b))

- A6. The audit procedures applied to the information intended to be used as audit evidence may vary from simple to extensive procedures and the evaluation of the relevance and reliability of the information may be performed as an integral part of, or concurrently with, such audit procedures. The audit procedures applied to the information intended to be used as audit evidence may also include:
- Audit procedures on certain aspects of the information, such as comparing information to its original source. For example, comparing the interest rate on a loan that is based on the prime rate

⁹ See, for example, paragraphs R120.5–120.5 A3 of the IESBA Code.

¹⁰ See, for example, paragraphs 120.16 A1–120.16 A2 of the IESBA Code.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

established by a central bank of a jurisdiction to published information from the central bank.

- Audit procedures to corroborate the absence of certain conditions. For example, reviewing whether sale returns occurred after the year end for a product when corroborating management's assertions related to a recorded warranty provision.

A7. Audit evidence is cumulative in nature and may comprise evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is primarily obtained from audit procedures performed during the course of the current audit. Audit evidence obtained from previous audits may also provide information for the current audit, provided the auditor has performed audit procedures to evaluate whether such information from the previous audit remains relevant and reliable for the current audit.¹¹

Appropriateness of Audit Evidence (Ref: Para. 8(a))

A8. The appropriateness of audit evidence refers to the quality of audit evidence. The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.

Sufficiency of Audit Evidence (Ref: Para. 8(d))

A9. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less audit evidence may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing different types of audit procedures or by seeking audit evidence from different sources. Obtaining more audit evidence, however, does not compensate for its poor quality.

Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence (Ref: Para. 8(a), 8(d))

A10. The sufficiency and appropriateness of audit evidence are interrelated¹² and together they affect the persuasiveness of audit evidence, in light of the assessed risks of material misstatement and relevant assertions. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide higher quality audit evidence. If the audit evidence is of higher quality, the auditor may determine that the audit evidence is sufficient to provide persuasive audit evidence to support the conclusions that form the basis for the auditor's opinion. Alternatively, when audit evidence is of lower quality, the auditor may determine that additional audit evidence is needed to obtain persuasive audit evidence to provide support for the auditor's conclusions. However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.

A11. Certain ISAs provide requirements or guidance about circumstances when more persuasive audit evidence is or may be required. For example:

¹¹ See, for example, ISA 315 (Revised 2019), paragraphs 16, A39–A41 and Proposed ISA 330 (Revised), paragraphs 17–18, A51–A58, A75.

¹² ISA 200, paragraph A32

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- In designing further audit procedures, Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk. It also requires the auditor to 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.¹³
- A revision of the risk assessment in accordance with ISA 315 (Revised 2019),¹⁴ including whether any instances of fraud or error were identified, may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.

A12. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, may include the following:

- The relevance and reliability of the information intended to be used as audit evidence, including the auditor's consideration of the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures.
- Whether the information is from a single source or multiple sources.
- Whether there are inconsistencies between multiple pieces of audit evidence.
- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied.

Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence.

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

Designing and Performing Audit Procedures (Ref: Para. 9)

A13. The auditor obtains audit evidence by designing and performing audit procedures. The auditor's procedures to obtain sufficient appropriate audit evidence include audit procedures designed and performed when planning and performing an audit engagement in accordance with the ISAs, including:

- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019) or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
- Further audit procedures performed in accordance with Proposed ISA 330 (Revised) or other ISAs that expand on how Proposed ISA 330 (Revised) applies to a specific topic; and

¹³ Proposed ISA 330 (Revised), paragraphs 7(c) and 10

¹⁴ ISA 315 (Revised 2019), paragraph 37

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- Other audit procedures that are required to be carried out to comply with the ISAs, including evaluating the relevance and reliability of information intended to be used as audit evidence in accordance with this ISA.

Technological Tools

A14. The auditor may perform audit procedures manually or by using technological tools, individually or in combination with each other, to obtain audit evidence. In some circumstances, the use of a technological tool may be more effective or may provide more persuasive audit evidence, or may be necessary because it may not be possible or practicable to perform an audit procedure manually.

Examples:

The use of technological tools may:

- Be more effective in analyzing, processing, organizing, structuring or presenting large volumes of information.
- Enable the auditor to obtain a more granular or deeper understanding about the characteristics or composition of a population of transactions.
- Provide more persuasive audit evidence by assisting the auditor in applying an audit procedure to an entire population of items or manage sampling risk¹⁵ more effectively.
- Assist the auditor to critically assess audit evidence from multiple sources within and outside the entity.

A15. Appendix 3 provides considerations for using technological tools when designing and performing audit procedures to obtain audit evidence. ISA 220 (Revised)¹⁶ provides examples of technological tools that facilitate the design or performance of audit procedures in obtaining audit evidence. Other ISAs may:

- Describe circumstances when an audit procedure may be performed effectively by using a technological tool. For example, ISA 240 (Revised) explains that the use of technological tools may enable more extensive testing of digital information to respond to the assessed risks of material misstatement due to fraud at the assertion level.¹⁷
- Provide considerations specific to technological tools that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019)¹⁸ explains that technological tools may also be used to:
 - Perform risk assessment procedures on large volumes of data.
 - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

¹⁵ ISA 530, *Audit Sampling*, paragraph 7

¹⁶ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A64A

¹⁷ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A129

¹⁸ ISA 315 (Revised 2019), paragraphs A21 and A35

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

The Nature of Audit Procedures

A16. The nature of an audit procedure is characterized by its purpose (e.g., to identify and assess risks of material misstatement, to detect material misstatements at the assertion level or to obtain audit evidence about the operating effectiveness of controls) and its type (e.g., inspection, observation, inquiry, confirmation, recalculation, reperformance or analytical procedure). The auditor achieves the purpose of an audit procedure by performing one or more types of audit procedures.

Example:

- In responding to the assessed risk of material misstatement in relation to the occurrence of expenses, the auditor may perform a test of details (i.e., a substantive procedure for the purpose of detecting material misstatements at the assertion level) by matching a sample of recorded expense transactions to approved purchase orders, invoices received, goods received and payments made to vendors.

A17. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. The same type of audit procedure may be applied to achieve different purposes. Appendix 1 describes some of the types of audit procedures and includes illustrative examples.

A18. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

- Inquiry only of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
- Observation provides audit evidence about the performance of a procedure or control. However, observation is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the procedure or control is performed.

Designing and Performing Audit Procedures in a Manner That Is Not Biased (Ref: Para. 9(a))

A19. ISA 220 (Revised)¹⁹ explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

¹⁹ ISA 220 (Revised), paragraph A36

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on such assertions (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is evaluated (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing undue weight or reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). See also Appendix 3.

A20. Designing and performing audit procedures in an unbiased manner involves:

- For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks or the auditor's expectations about the risks of material misstatement, or toward excluding audit evidence that may contradict the existence of risks of material misstatement or the auditor's expectations.
- For further audit procedures and other audit procedures in accordance with the ISAs, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate management's assertions or toward excluding audit evidence that may contradict such assertions.

A21. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion.

A22. The auditor is not required to perform an exhaustive search to identify all possible sources of information intended to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.²⁰

Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 9(b))

A23. Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the intended purpose(s) of the audit procedures. An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk²¹ may not be reduced to an acceptably low level.

A24. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the

²⁰ ISA 315 (Revised 2019), paragraphs 19–26

²¹ ISA 200, paragraphs A47–A49

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

A25. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches (i.e., means) to identify and select items for testing. Appendix 2 describes such approaches to select items for testing and provides illustrative examples.

An Audit Procedure Used for More than One Purpose (Ref: Para. 10)

A26. The auditor may design and perform an audit procedure that achieves more than one purpose. When doing so, the auditor is required to comply with the requirements of the relevant ISAs that deal with the design and performance of such audit procedures, including the requirements of this ISA, ISA 315 (Revised 2019), Proposed ISA 330 (Revised), and any other relevant ISAs. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with Proposed ISA 330 (Revised) concurrently with risk assessment procedures, when it is efficient to do so.²²

Example:

- The auditor may inspect a sales order to determine it has been approved by an appropriate individual as part of achieving the purpose of a test of controls, and to obtain substantive evidence of quantity and value of the item sold to achieve the purpose of a test of details.
- The auditor may use a technological tool to match approved purchase orders to invoices received and payments made to new vendors as a test of details to respond to an assessed risk of material misstatement associated with the occurrence of expenses. In doing so, the auditor may identify a new risk due to unusually high volume of payments made to new vendors.

Information Intended to Be Used as Audit Evidence

Evaluating the Relevance and Reliability of Information (Ref: Para. 11, 13)

A27. The auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence is an iterative process that involves professional judgment and is influenced by the intended purpose(s) of the audit procedures (see paragraph 9) and the auditor's consideration of the source of the information and the attributes of reliability that are of significance in the circumstances to meet

²² ISA 315 (Revised 2019), paragraph A19

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

the intended purpose(s) of those audit procedures (see paragraph 11). The evaluation of the relevance and reliability of the information intended to be used as audit evidence may be:

- An integral part of the design and performance of the auditor's audit procedures in accordance with paragraph 9; or
- A separate evaluation performed in accordance with paragraph 13.

Attributes of Reliability that are of Significance in the Circumstances (Ref: Para. 11, 11(b), 13)

A28. Considering which attributes of reliability are of significance in the circumstances to meet the intended purpose(s) of the audit procedures is a matter of professional judgment. Significance can be described as the relative importance of a matter and is judged by the auditor in the context in which the matter is being considered. Although all the attributes of reliability apply to the information intended to be used as audit evidence, their significance in the circumstances may vary. Therefore, it is unnecessary for the auditor to evaluate all the attributes of reliability in carrying out the requirements in paragraphs 11 and 13 (e.g., by using a checklist). When making judgments about the attributes of reliability and their significance, the auditor may consider the following factors:

- The nature and source of the information.
- The controls over the preparation and maintenance of the information, including when the reliability of the information intended to be used as audit evidence depends on the continued operating effectiveness of controls that support the integrity of information, including general IT controls.
- How the information has been obtained by the auditor and in what form, for example, whether the information was obtained directly or indirectly by the auditor.
- If the information is intended to be used by the auditor in performing further audit procedures, the nature of the assessed risks of material misstatement, including the reasons for the assessment, and the relevant assertions.
- Whether the information appears to corroborate or contradict management's assertions.
- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
- The implications of actual or suspected fraud identified during the audit.

Sources of Information (Ref: Para. 11(a))

A29. Information intended to be used as audit evidence may come from internal sources, external sources or a combination of internal and external sources.

- Internal sources, such as the entity's accounting records,²³ management or other sources internal to the entity (see also paragraph A33A).
- External sources, such as:
 - An external individual or organization that provides information suitable for use by a broad range of users and that the entity uses in preparing the financial statements, or

²³ ISA 315 (Revised 2019) paragraph 12(a)A

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

the auditor intends to use as audit evidence when such information is suitable for use by a broad range of users. Such sources are referred to as an “external information source.” A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free or makes it available to a wide range of users in return for payment of a fee. The auditor’s determination of whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, is a matter of professional judgment, taking into account the ability of management to influence the external information source.

Examples:

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Foreign exchange rates and interest rates.
- Prices and pricing related data, including company share prices.
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates or census data.
- Credit history data.
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- An external party, for example, a bank, external legal counsel, suppliers, customers or other individuals or organizations the entity interacts with or that provide entity-specific information to the auditor or the entity.
- An auditor’s expert.²⁴
- A service organization.²⁵

A30. In some cases, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users. In other cases, it is information prepared by a management’s expert (see paragraphs A61–A73). An external individual or organization cannot, in respect of any particular set of information, be at the same time an external information source and a management’s expert, or service organization or auditor’s expert.

A31. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

²⁴ ISA 620, *Using the Work of an Auditor’s Expert*

²⁵ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Example:

In performing substantive analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

- An internal information source, such as information generated from the entity's information system that relates to the details of the rental properties and their location; and
- An external information source, such as information available on a real estate website that relates to average real estate rental prices for the area where the properties are located.

A32. The source and form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence. The source of the information may also affect the auditor's professional judgment regarding relevance and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information (see paragraphs A43 and A54). It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence (see paragraphs 15 and 17).

Examples:

- If the source of the information is subject to the influence of management or a related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information (see paragraphs A45–A51).
- If the information comes from a highly reputable external information source with proven expertise in the subject matter or with a legislative mandate (e.g., a central bank of the jurisdiction), or an external source that is subject to regulatory oversight (e.g., a recognized stock exchange), the auditor's work effort in evaluating the reliability of the information may not be as extensive as for a less known source (see paragraphs A52–A53).
- If the information is provided by management, such as system-generated inventory valuation report, the auditor's work effort to evaluate the reliability of such information may require testing controls over the preparation of the report or performing other audit procedures to obtain audit evidence about the accuracy and completeness of the information (see paragraphs 12, 13 and A44).

A33. When the information intended to be used as audit evidence has been obtained by management from an external information source for use in preparing the financial statements, obtaining an understanding of why management selected the source and how management considered the relevance and reliability of the information may help to inform the auditor's evaluation of the relevance and reliability of that information.

Information Produced by the Entity (Ref: Para. 12)

A33A. Information produced by the entity includes information from the entity's accounting records, from management or from other sources internal to the entity, such as:

- Information generated internally from the entity's information systems that relates to transactions and other events or conditions initiated or captured, processed and recorded or

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

incorporated in the entity's accounting records.

- Outputs generated by the entity's information system that has processed or incorporated external information.

Examples:

- Trial balances, subledgers or listings of transactions.
- System-generated reports, custom reports from report writers and spreadsheets used for cost allocations or computations.
- Budgets, forecasts and minutes of meetings.
- Reconciliations and marketing information (e.g., sales data used as an assumption for warranty provisions).
- Outputs generated by the entity's information system that processed or incorporated data obtained from, for example, the entity's customers, suppliers, banks, consultants, legal counsel or external information sources.
- Responses by management to inquiries from the auditor.
- Information from a management's expert.

Form, Availability, Accessibility and Understandability of Information (Ref: Para. 11)

A34. The form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor's evaluation of the relevance and reliability of the information.

A35. Information intended to be used as audit evidence may come in different forms, including:

- Oral information, for example, obtained through a verbal response to an inquiry.
- Visual information, for example, obtained through physical or remote observation.
- Information in written form, for example, obtained through a written confirmation.
- Digital information, which includes:
 - Documents in digital form (e.g., an electronic confirmation), and
 - Data generated and stored in an IT system or obtained digitally from a source outside of the entity (e.g., electronic purchase orders submitted by customers stored in the entity's IT system).

Such digital information may be manually captured, converted into a digital form, or electronically generated (e.g., an electronic data interface between the entity and a service organization).

A36. Appendix 4 provides further explanation about the form, availability, accessibility and understandability of the information intended to be used as audit evidence and provides illustrative examples.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence (Ref: Para. 11)

- A37. In explaining the inherent limitations of an audit, ISA 200 notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.²⁶ In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. ISA 705 (Revised)²⁷ explains circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).²⁸
- A38. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.

Relevance (Ref: Para. 11)

- A39. As explained in paragraph A3, the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose(s) of the audit procedures, including, when appropriate, the assertion being tested.
- A40. In evaluating the relevance of information, the degree to which the information relates to meeting the purpose(s) of the audit procedures may also be a consideration. Other factors that may affect the relevance of information intended to be used as audit evidence include:
- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates. Information may be relevant to multiple classes of transactions, account balances or disclosures. Some information may be relevant for certain financial statement assertions but not others.

²⁶ ISA 200, paragraph A53

²⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8–A9

²⁸ ISA 705 (Revised), paragraphs 7(b) and 9.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Examples:

- A summary of accounts receivable collected after the end of the period may be relevant to testing the existence and valuation of accounts receivable, and occurrence and accuracy of revenue, but not necessarily relevant to testing the completeness of accounts receivable and revenue.
- Inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion for a financial instrument at a certain point in time but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.

Example:

- Information used as audit evidence in the prior audit may not be relevant to the current audit due to changes in the circumstances to which the audit evidence relates.

- The level of detail of the information needed to meet the intended purpose(s) of the audit procedures.

Examples:

- Information used by management to monitor the entity's operations (e.g., interim operating results) may be relevant for purposes of risk assessment procedures. On the other hand, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not be appropriate for use by the auditor in performing substantive procedures.
- The level of aggregation of the information may affect the effectiveness of an audit procedure. For example, disaggregated sales information for residential properties by geographical location and property type may provide more relevant information when testing the valuation assertion of loans measured based on fair value of the collateral.

Attributes of Reliability (Ref: Para. 11(b) and 12)

- A41. Paragraph A4 explains that the reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information and sets out attributes of reliability of information, which include accuracy, completeness, authenticity, absence of bias and credibility. In evaluating whether the information intended to be used as audit evidence is reliable, the auditor may consider one or more attributes to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures.
- A43. As explained in paragraph A32, the source of the information affects the auditor's professional judgment regarding the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. For information obtained from a source external to the entity, the auditor may not consider accuracy and completeness to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures. For example, the auditor

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

may consider that other attributes of reliability, such as authenticity, absence of bias and credibility of the source providing the information to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures. However, For example, when information produced by the entity ~~that is used in performing audit procedures, the auditor may consider~~ accuracy and completeness are presumed to be of significance in the circumstances when evaluating the reliability of the information. This may be the case when testing a population (e.g., payments) for a certain characteristic (e.g. authorization), and it is necessary for the population of items selected for testing to be accurate and complete for the audit procedure to be effective. ~~For information obtained from a source external to the entity, the auditor may not consider accuracy and completeness to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures. For example, the auditor may consider that other attributes of reliability, such as authenticity, absence of bias and credibility of the source providing the information to be of significance in the circumstances to meet the intended purpose(s) of the audit procedures.~~

Accuracy and Completeness

- A44. The auditor uses professional judgment in considering whether accuracy and completeness are of significance in the circumstances, and, if so, whether the information is sufficiently accurate and complete such that any potential inaccuracies or omissions would not undermine the intended purpose(s) of the procedures. The following are examples where accuracy and completeness are of significance in the circumstances.

Examples ~~where accuracy and completeness are of significance in the circumstances:~~

- If a population of journal entries is not complete, this will limit the effectiveness of the audit procedures in responding to the risk of management override of controls associated with fraudulent journal entries and other adjustments.
- The auditor may use a technological tool to analyze an entire population of transactions to facilitate the identification and assessment of risks of material misstatement. If the population of transactions is not accurate and complete, the auditor may not have an appropriate basis for the identification and assessment of the risks of material misstatement.

- A44A. For information produced by the entity, the attributes of accuracy and completeness are presumed to be of significance. However, the extent of the auditor's evaluation as required by paragraph 12 may vary depending on the circumstances and the intended purpose(s) of the audit procedures.

Example:

The auditor obtains from the entity a list of sales returns for a products. The auditor inspects the list and determines there is a large volume of sales returns after year end. Based on the auditor's inspection of the list, the auditor may evaluate that the information produced by the entity is sufficiently relevant and reliable to support the auditor's assessment that there is a risk of material misstatement of the warranty provision.

Authenticity

- A45. There may be instances when the auditor considers that the authenticity of information, including records or documents, is of significance to meet the intended purpose(s) of the audit procedures.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Examples:

- Management's plans for future actions may be dependent on a single refinancing contract with a third party to mitigate the effects of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.²⁹ In evaluating management's plans for future actions, the auditor may consider that the authenticity of the refinancing contract provided by management is of significance in the circumstances to obtain audit evidence about the intent of such parties to provide the necessary financial support. In accordance with paragraph 13, the auditor may consider it necessary to confirm the terms of the refinancing contract directly with the third party in accordance with ISA 505.³⁰
- Management's assertion about the valuation of works of art in a museum collection may be supported by certificates of authenticity. The auditor may consider the authenticity of such certificates of significance in the circumstances when obtaining audit evidence about the valuation assertion. In accordance with paragraph 13, the auditor may consider it necessary to engage an auditor's expert to evaluate management's certificate.
- When an auditor uses the prevailing national interest rate published on the official website of a central bank to audit a discount rate assumption, the likelihood that the information on the official, public website is not authentic is remote. In such cases, the auditor may consider, as contemplated by paragraph 13, that authenticity has been addressed as an integral part of the procedures to audit the discount rate assumption.

A46. Whether, and the degree to which, the authenticity of information is of significance in the circumstances to meet the intended purpose(s) of the audit procedures is a matter of professional judgment. In making such judgment, the auditor may consider matters such as the following:

- Whether the source of the information lacks objectivity or otherwise may have intention to alter the information.
- Whether the information is obtained indirectly (e.g., photocopies or scanned documents) when originals are expected to be available.
- Whether significant deficiencies exist in the entity's information processing controls.
- Whether there are unusual or last-minute changes to documents, transactions or accounting records without adequate explanation.
- Whether the form and content of the document appear unusual (e.g., questionable signatures or non-standard formatting).

A47. The potential for inappropriate alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively or when it is more difficult to establish proof of origin and authority of the source.

A48. Audit procedures to evaluate the reliability of information when authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures may include:

²⁹ ISA 570 (Revised 2024), *Going Concern*

³⁰ ISA 505, *External Confirmations*, paragraph 7

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- Testing controls for authorizing and approval of the information.
- Testing access controls that prevent unauthorized access to the information system.
- Obtaining an understanding of authenticity features used to secure digital documents (e.g., encryption techniques to provide proof of original or unmodified documents such as digital signatures).
- Inquiring with the individual or organization providing the information.
- Confirming directly with a third party in accordance with ISA 505.

A49. It is not necessary for the auditor to consider the authenticity of every individual record or document encountered in an audit. However, certain conditions may cause the auditor to investigate further whether the information has been intentionally altered or if a record or document may not be authentic or whether terms in a document have been modified in a way that would render it inadequate for the purposes of the audit but not disclosed to the auditor (e.g., unusual document styles and formats, missing authorizations or approvals, serial numbers used out of sequence or duplicated or unusual terms of trade). ISA 240 (Revised) deals with circumstances in which the auditor has reason to believe that a record or document may not be authentic, or that a record or document may have been modified but not disclosed to the auditor.³¹ However, irrespective of the auditor's consideration of the authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.³²

Absence of Bias

A50. The susceptibility to management bias, whether intentional or unintentional, may be greater for certain types of information, for example, when there is a higher degree of estimation uncertainty, complexity and subjectivity involved in making an accounting estimate or when making judgments about uncertain future events or conditions. On the other hand, information from certain external sources may be less susceptible to management bias when it is less likely for management to influence such information source. For example, information suitable for use by a broad range of users is less likely to be subject to influence by any particular user. However, the auditor may still need to consider whether management's selection of an external source may be favorably biased toward corroborating management's assertions or whether an alternative source of information was available that may contradict the information used.

A51. When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud. ISA 240 (Revised) provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.

Credibility

A52. The auditor's consideration for the credibility of information may be influenced by past experience of the auditor with the reliability of the information provided by the source, and other factors such as the integrity and competence of the source, or whether the source is internal or external to the entity.

³¹ ISA 240 (Revised), paragraph 22

³² ISA 200, paragraph A52

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Credibility may be dependent on the reputation and authority of the source providing the information, including whether the information is generally accepted for use by a broad range of users and the source enables continued availability of standardized information (e.g., information from a central bank or government, such as an inflation rate).

- A53. In some circumstances, there may be only one provider of certain information. When this is the case, there may be evidence of general market acceptance by users of the reliability of information from the information source. If a source is not considered as credible, the auditor may determine that more extensive procedures are necessary and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain additional information from the external information source, when practical, is appropriate in order to be able to use the information as audit evidence.

Evaluating the Reliability of Information Intended to Be Used as Audit Evidence (Ref: Para. 13)

- A54. As explained in paragraph A27, the evaluation of the relevance and reliability of the information intended to be used as audit evidence may be an integral part of the design and performance of the auditor's procedures in accordance with paragraph 9, or a separate evaluation as required by paragraph 13. The nature, timing and extent of the auditor's evaluation of the reliability of information intended to be used as audit evidence is influenced by:

- The source of the information.

Example:

If the information is obtained from sources external to the entity (e.g., a third party), the auditor may not have the ability to test the controls over the information. In this case, the auditor may perform other audit procedures to evaluate the reliability of such information, such as performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.

- The form, availability, accessibility and understandability of information.

Example:

Information generated internally from the entity's information system may be available only at certain points in time. The auditor's evaluation may be performed at a point in time or the auditor may request retention of some information by management at points in time to facilitate their evaluation.

- The attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures.

Example:

If the auditor considers authenticity as an attribute of significance in the circumstances, the auditor may examine the information for indicators that the information has been altered in a manner that makes it inadequate for the audit. However, if the auditor considers that the attribute of credibility is of significance in the circumstances, the auditor may consider the competence and capability of

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

the source of the information.

- The relative importance of the information to meet the intended purpose(s) of the audit procedures.

Example:

If the information to be used as audit evidence represents a single, high-value contract, the auditor may consider the authenticity of such information to be of significance in the circumstances to meet the intended purpose(s) of an audit procedure, and may confirm the terms of the contract directly with the external party.

Testing Controls that Address the Reliability of Information (Ref: Para. 13(a))

A55. The controls that address the reliability of the information intended to be used as audit evidence may include controls over financial reporting, operational and non-financial information. Some of these may be the same controls the auditor is required to understand, and evaluate the design and implementation of, as part of understanding the control activities component in accordance with ISA 315 (Revised 2019).³³ Proposed ISA 330 (Revised) establishes requirements and provides guidance on designing and performing tests of controls to obtain audit evidence about their operating effectiveness in addressing risks of material misstatement at the assertion level.³⁴ Such requirements and guidance may be adapted as necessary to design and perform tests of controls for evaluating the reliability of the information intended to be used as audit evidence. The testing of controls that address the reliability of the information may also be performed as part of or concurrently with the testing of the operating effectiveness of controls that address risks of material misstatement at the assertion level.

Examples:

- An entity's information system may include general IT controls to safeguard and maintain the integrity of the financial information. Based on the auditor's testing of the operating effectiveness of those controls the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when information is extracted for financial reporting purposes.
- An entity may have designed and implemented controls related to the inputs, processing and generation of a system-generated trade receivables aging report. The auditor may plan to test the operating effectiveness of those controls when responding to the risk of material misstatement at the assertion level for the allowance for doubtful accounts. The evidence of the operating effectiveness of those controls may also contribute to the auditor's evaluation of the accuracy and completeness of the information to be used in the substantive testing of the allowance of doubtful accounts receivable. In addition, the auditor may plan to test the operating effectiveness of general IT controls that address risks related to inappropriate or unauthorized program changes to, or data changes in the report.

³³ ISA 315 (Revised 2019), paragraph 26

³⁴ Proposed ISA 330 (Revised), paragraphs 9–21

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

- An entity may have designed and implemented controls over the accuracy and completeness of the information generated by a human resources information system. When evaluating the reliability of non-financial information from the human resources information system for use in a substantive analytical procedure relating to payroll expense, the auditor may plan to test the operating effectiveness of those controls.

A56. The auditor's decision to identify controls that address the reliability of information intended to be used as audit evidence, evaluate their design, determine whether they have been implemented, and test their operating effectiveness is a matter of professional judgment and may be affected by matters such as:

- Whether the controls have been evaluated as part of the auditor's identification and assessment of risks of material misstatement in accordance with ISA 315 (Revised 2019) and tested in accordance with Proposed ISA 330 (Revised).
- The extent to which the reliability of the information intended to be used as audit evidence depends on the continued operating effectiveness of those controls.
- Whether testing controls is an effective and efficient means for obtaining audit evidence about the reliability of information intended to be used as audit evidence.
- The level and complexity of automation in processing business transactions, system-generated reports used in the processing of information and interfaces used in the processing of information.
- The complexity of the nature of the IT systems processing or storing information.
- Whether the controls appropriately address risks related to volume and complexity of information in digital form being processed by the information system, including how information is input into the system (e.g., whether data is automatically interfaced from other systems such as sub-ledgers or online sales systems), and whether accounting records or other information are stored in digital form and the location of the stored data.
- Whether the controls appropriately address risks related to the use of advanced technologies by management in the financial reporting process to prepare and maintain the information.

A57. If the reliability of the information depends on the continued operating effectiveness of controls, the auditor may not be able to use the information as audit evidence, if:

- The auditor cannot obtain audit evidence that such controls operate effectively;
- There are no alternative controls that address the reliability of the information; or
- The reliability of the information cannot be established by performing other procedures.

In such circumstances, the auditor may need to evaluate the implications for the audit.

Other Audit Procedures to Evaluate the Reliability of Information (Ref: Para. 13(b))

A58. As contemplated by paragraph 13(b), the auditor may perform procedures other than testing the operating effectiveness of controls to evaluate the reliability of information. However, as the complexity of the IT environment and technology used to produce information increases, it may

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

become less likely that the auditor is able to evaluate the reliability of information without testing the operating effectiveness of controls.

Examples:

- In an audit of a smaller or less complex entity, when using a system-generated trade receivables aging report the auditor may determine that it is not efficient or practicable to test the operating effectiveness of controls. In such circumstances, the auditor may, in accordance with paragraph 13(b), obtain audit evidence about the reliability of the information in the report through performing other audit procedures, such as testing a sample of inputs to, and outputs from the report to supporting documentation such as a sales invoice, shipping documents and actual payments received, and reconciling the totals in the report to the general ledger.
- In contrast, a larger or more complex entity may rely on IT to a great extent and the volume of transactions may be significant. The IT application performs certain automated controls to process the transactions and generate reports, and the auditor has identified these controls as addressing the reliability of the information generated internally from the entity's information system. Because the continued effective operation of these application controls depends on the reliability of the underlying IT environment, the auditor may also consider the relevant general IT controls that support the application controls. The auditor may, in accordance with paragraph 13(a), test the operating effectiveness of the application controls together with the relevant general IT controls to obtain evidence about the reliability of the information.

A59. Audit evidence from performing audit procedures in accordance with other ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence. For example, the auditor may obtain audit evidence from:

- The acceptance or continuance of client relationships and the audit engagement.³⁵
- The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls and substantive procedures to respond to the assessed risks of material misstatement at the assertion level performed in accordance with Proposed ISA 330 (Revised).
- Audit procedures performed when using an auditor's expert in accordance with ISA 620.
- Audit procedures performed in accordance with ISA 402 when a user entity uses the services of one or more service organizations.

Documentation (Ref: Para. 11–13)

A60. ISA 230³⁶ establishes requirements and provides guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance

³⁵ ISA 315 (Revised 2019), paragraph 15

³⁶ ISA 230, *Audit Documentation*, paragraphs 8–11

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

and reliability of information intended to be used as audit evidence.. Other ISAs may include documentation requirements that may address the auditor's consideration of the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)).³⁷ However, this ISA does not require the auditor to document the consideration of each attribute of reliability of the information.

Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 14)

- A61. Management may employ or engage experts in fields other than accounting or auditing (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.
- A62. As explained in paragraph A30, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 14 applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 14(a))

- A63. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 11(b) requires the auditor to consider the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. When such information is prepared by a management's expert:
- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
 - The objectivity of that expert may inform the auditor's consideration of the attribute of absence of bias. Bias in the information intended to be used as audit evidence affects the degree to

³⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the judgments of the management's expert. Reviewing the terms and conditions of the engagement performed by the management's expert may assist the auditor to understand the respective roles and responsibilities of management and that expert and may inform the auditor's consideration of the attribute of absence of bias.

Competence and capabilities

A64. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect the auditor's evaluation of whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A65. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence the auditor's evaluation of whether the management's expert has the appropriate capabilities may include geographic location and the availability of time and resources.

Objectivity

A66. A broad range of circumstances may influence the judgments of the management's expert, which may threaten the management's expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Such threats may be addressed by eliminating the circumstances that create them, or reduced to an acceptable level by applying safeguards. The existence of certain conditions, policies or procedures established by the management's expert's profession, law or regulation (e.g., educational, training and experience requirements), or by the management's expert's work environment (e.g., quality management policies or procedures) may impact the evaluation of the level of the threats.

A67. In some cases, it may not be possible to eliminate circumstances that create threats to a management's expert's objectivity or apply safeguards to reduce threats to an acceptable level. For

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

example, the threats to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity. However, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 14(b))

A68. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:
 - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
 - The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

A69. The auditor may decide to involve an auditor's expert³⁸ to assist in understanding the work performed, including the information prepared by the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 14(c))

A70. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.
- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and

³⁸ ISA 620, paragraph 7

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

- A71. The auditor's understanding of how information prepared by a management's expert has been used by management in the preparation of the financial statements may help the auditor understand whether the expert's findings or conclusions have been appropriately reflected in the financial statements. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect circumstances unique to the entity. Understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable in accordance with paragraph 11. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.
- A72. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. For example, the control deficiency may be due to management not assessing whether the information is appropriate for their intended purpose. ISA 265³⁹ deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 14(d))

- A73. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:
- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence and whether they have been appropriately reflected in the financial statements;
 - If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
 - If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance or Reliability of Information (Ref: Para. 15–16)

- A74. As explained in ISA 200,⁴⁰ in cases of doubt about the reliability of the information or if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document may have been modified but not disclosed to the auditor, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.
- A75. The auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence. For example, if the auditor has doubts

³⁹ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

⁴⁰ ISA 200, paragraph A24

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

about the reliability of the response to a confirmation request, the auditor may be able to resolve such doubts by contacting the confirming party to verify the source and contents of the response.⁴¹ In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.

- A76. Paragraph A40 explains that the relevance of information intended to be used as audit evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the auditor identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as audit evidence.
- A77. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence may include:
- An inability to evaluate the attributes of reliability that are of significance in the circumstances, such as whether the information is authentic.
 - Misstatements identified during the audit.
 - Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control.
 - When audit procedures performed on a population result in a higher rate of deviation than expected.
 - When information intended to be used as audit evidence is inconsistent with other information or audit evidence.
- A78. ISA 580⁴² establishes requirements and provides guidance for circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of fraud. ISA 240 (Revised) deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

Inconsistencies in Audit Evidence (Ref: Para. 17)

- A79. Other ISAs include requirements and guidance when there are inconsistencies in the information intended to be used as audit evidence that may be relevant when applying the requirement in paragraph 17. For example:
- ISA 315 (Revised 2019) requires the auditor to revise the identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based such identification or assessment.⁴³
 - ISA 230 addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to

⁴¹ ISA 505, *External Confirmations*, paragraph A14

⁴² ISA 580, *Written Representations*, paragraphs 16–18

⁴³ ISA 315 (Revised 2019), paragraph 37

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

document how the auditor addressed the inconsistency.⁴⁴

- Proposed ISA 520 (Revised)⁴⁵ establishes requirements and provides guidance when the results of analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information.

A80. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

Example:

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

A81. When audit evidence is inconsistent with other audit evidence, this may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others within or outside the entity are inconsistent, or if written representations are inconsistent with audit evidence obtained from another source. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 11–13. Paragraph 15 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the doubts and the effect on other aspects of the audit may vary.

A82. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the auditor may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items or items of audit interest. These items may indicate a possible misstatement in the financial statements that warrants further investigation. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers or cast doubt on the reliability of the information. Paragraphs 15 and 17 apply in such circumstances.

A83. The extent of the auditor's procedures to further investigate the inconsistencies with other audit evidence may depend on the intended purpose(s) of the audit procedures.

Examples:

- For risk assessment procedures, the auditor may perform inquiries to determine how the item may affect the population through the identification of a new risk of material misstatement or a revision of an assessed risk of material misstatement. However, as a risk assessment procedure is not intended to detect individual misstatements or deviations, the

⁴⁴ ISA 230, paragraph 11

⁴⁵ Proposed ISA 520 (Revised), *Analytical Procedures*, paragraphs 7 and 10

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

auditor may not need to investigate every unusual item in order to meet the purpose(s) of the procedures performed.

- For further audit procedures, such as tests of controls or substantive procedures, the inconsistencies further investigated by the auditor may determine whether a control deviation or a misstatement exists. For example, the auditor may perform further testing on a sample of items when there is a reasonable basis on which to draw conclusions about the entire population of exceptions. When the population of exceptions is not homogeneous, the auditor may consider whether the population of exceptions can be stratified into homogeneous sub-populations for the purposes of testing the exceptions⁴⁶ or if this is not possible perform further testing on all items of exceptions.

⁴⁶ ISA 530, paragraph A8

Appendix 1

(Ref: Para. 3, A17)

The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of Proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive; other types of procedures may be designed and performed by the auditor.

Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs address the audit evidence to be obtained for specific matters, for example:
 - ISA 315 (Revised 2019) deals with audit evidence related to risk assessment procedures.
 - Proposed ISA 330 (Revised) deals with audit evidence obtained from further audit procedures in responding to the assessed risks of material misstatement.
 - ISA 505 deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with Proposed ISA 330 (Revised) and this ISA.
 - Proposed ISA 520 (Revised) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility relating to the results of analytical procedures used as risk assessment procedures and to perform analytical procedures near the end of the audit.
 - ISA 540 (Revised) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements.
 - ISA 570 (Revised 2024) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
 - ISA 700 (Revised) deals with, among other matters, the auditor's overall responsibility to conclude whether sufficient appropriate audit evidence has been obtained.
2. The auditor obtains audit evidence by designing and performing audit procedures, including:
 - Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)⁴⁷ or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic.
 - Further audit procedures performed in accordance with Proposed ISA 330 (Revised), or other ISAs that expand on how Proposed ISA 330 (Revised) applies to a specific topic, which include:
 - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
 - Substantive procedures (e.g., tests of details of classes of transactions, account

⁴⁷ ISA 315 (Revised 2019), paragraphs 13–14

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

balances or disclosures or substantive analytical procedures).

- Other audit procedures as required by the ISAs.

Types of Audit Procedures

Inspection

3. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

Examples:

- To test a control, the auditor may inspect records, using manual or technological tools, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using technological tools, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

4. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value.
5. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

Observation

6. Observation consists of looking at a process or procedure being performed by others. Similar to inspection, observation may involve being physically present or using remote observation tools. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. ISA 501⁴⁸ establishes requirements and provides guidance on observation of the counting of inventory.

Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
 - Physical controls, such as the safeguarding of assets;
 - Management's procedures to monitor or capture the actual time worked of wage employees; or

⁴⁸ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501⁴⁹ requires the auditor to attend the entity's physical inventory counting to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or technological tools, individually or in combination with each other. Technological tools may include live video, screensharing or video footage from a remote observation tool (e.g., a drone).
 - As a test of control, the auditor may observe entity personnel performing the controls.
 - As a substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

Confirmation

7. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a direct response to the auditor on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

Examples:

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as cash, accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.
- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether "side agreements" have been entered into that may influence revenue recognition.

Recalculation

8. Recalculation consists of checking the mathematical accuracy of information. Recalculation may be performed manually or by using technological tools (e.g., to recalculate the gross margin for each product sold for an entity's product line).

Reperformance

9. Repperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

⁴⁹ ISA 501, paragraph 4

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Examples:

The auditor may:

- Develop an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Reperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

Analytical Procedures

10. Analytical procedures involve evaluations of financial information through analysis of plausible relationships among financial information, non-financial information, or both.⁵⁰
11. The auditor may perform analytical procedures for various purposes, including as:
 - Risk assessment procedures in accordance with ISA 315 (Revised 2019);⁵¹

Example:

The auditor may use technological tools to scan an entire population of transactions and identify those transactions meeting the auditor's criteria for a transaction being unusual that affects the design of further audit procedures to investigate such items. Analytical procedures also provide audit evidence that forms a basis for the identification and assessment of the risks of material misstatement about the items in the population not exhibiting characteristics of risks of material misstatement.

- Substantive analytical procedures designed and performed to detect material misstatements at the assertion level, or
 - Analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.
12. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected results. See Proposed ISA 520 (Revised) for further guidance.
 - 12A. When performing further audit procedures, analytical procedures may provide audit evidence. However, analytical procedures that are not substantive analytical procedures, when performed alone, do not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.

Inquiry

13. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may

⁵⁰ Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 6(a)

⁵¹ See ISA 315 (Revised 2019), paragraph 14(b) and Proposed ISA 520 (Revised), paragraph 7.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
 IAASB Main Agenda (June 2026)

provide audit evidence and may produce evidence of a misstatement. However, inquiry alone does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

14. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or is inconsistent with other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
15. Although audit evidence obtained through inquiry may need to be supplemented by performing other audit procedures, when making inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action and management's ability to pursue a specific course of action, may provide additional audit evidence to supplement the audit evidence obtained through inquiry.

Examples:

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.

16. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

Appendix 2

(Ref: Para. A25)

Selecting Items for Testing in Designing and Performing an Audit Procedure

This appendix describes various approaches (i.e., means) to selecting items for testing in designing and performing an audit procedure and provides illustrative examples.

Approaches to Selecting Items for Testing

1. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Such approaches may involve:

- Selecting all items;
- Selecting specific items; and
- Audit sampling.

The application of any one or a combination of these approaches may be appropriate depending on the circumstances. The auditor may also use technological tools to identify and select items for testing. When designing tests of controls or tests of details (of classes of transactions, account balances or disclosures), the auditor is required by Proposed ISA 330 (Revised) to determine means of selecting items for testing that are effective in meeting the intended purpose(s) of the audit procedures.⁵²

2. The appropriateness of an approach in selecting items for testing depends on a number of factors, such as:

- The intended purpose(s) of the audit procedures;
- How the audit procedure is designed;
- Whether the auditor is performing the audit procedure manually or using technological tools;
- The characteristics of the population being tested; and
- The persuasiveness of audit evidence that is needed in the circumstances.

Selecting all Items

3. The auditor may determine that it is possible to apply an audit procedure to an entire population of items. If the audit procedure has been designed appropriately, the application of the audit procedure to an entire population may result in more persuasive audit evidence related to the risk of material misstatement of an assertion.

Example:

The auditor may use technological tools to agree all sales invoices recorded in an online retailer's information system to independent, third-party shipping data provided by external carriers (e.g., automated tracking numbers and "delivered" status reports). By reconciling sales invoices, the

⁵² See Proposed ISA 330 (Revised), paragraph 27.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

auditor obtains more persuasive evidence to address the risk of material misstatement related to the occurrence of revenue than sampling because there is no sampling risk involved.

4. Applying an audit procedure to an entire population may be appropriate when, for example:
- The population constitutes a small number of large value items;
 - There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence; or
 - Technological tools are appropriate to be used to perform the audit procedure.

Selecting Specific Items

5. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:
- *High value items.* The auditor may decide to select specific items within a population because they are of high value.
 - *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
 - *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
 - *Items to obtain information.* The auditor may inspect items to obtain information about matters such as the nature of the entity or the nature of transactions.
6. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population.
7. When the auditor uses technological tools to analyze an entire population to identify items exhibiting specific characteristics of risk, the identification and subsequent testing of the unusual items or outliers provide audit evidence regarding those specific items. In such circumstances, the auditor cannot project the misstatements found in those unusual items or outliers to the rest of the population.
8. The auditor may use technological tools to identify and select specific items for testing. For example, ISA 315 (Revised 2019) explains that, when automated procedures are used to maintain the general ledger and prepare financial statements, non-standard journal entries may exist only in digital form and may therefore be more easily identified through the use of technological tools.⁵³

⁵³ ISA 315 (Revised 2019), paragraph A161

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Audit Sampling

9. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Selecting specific items from a population does not constitute statistical sampling. Audit sampling is addressed in ISA 530.

Appendix 3

(Ref: Para. A15, A19)

Considerations for Using Technological Tools When Designing and Performing Audit Procedures to Obtain Audit Evidence

This appendix highlights certain factors that may assist the auditor in identifying circumstances in which the use of technological tools may be appropriate when designing and performing audit procedures to meet their intended purpose(s). It also sets out considerations for the auditor when using technological tools to design and perform audit procedures, as part of the auditor's evaluation of relevance and reliability of information intended to be used as audit evidence.

This appendix does not mandate the use of technological tools, and the auditor's responsibilities and objectives under the ISAs remain the same regardless of whether audit procedures are designed and performed manually, by using technological tools, or a combination of both.

Identifying Circumstances When the Use of Technological Tools may be Appropriate

1. As explained in ISA 300,⁵⁴ when establishing the overall audit strategy, the auditor may consider the effect of information technology on the audit procedures, including the availability of data and the expected use of technological tools to be deployed for specific audit areas. In doing so, ISA 220 (Revised) requires that the engagement partner determine that sufficient and appropriate human, technological and intellectual resources to perform the engagement have been assigned or made available to the engagement team and provides other guidance relevant to the use of technological resources, that include technological tools on the audit engagement.⁵⁵
2. Whether to use technological tools when designing and performing audit procedures to obtain audit evidence is a matter of the auditor's professional judgment. The following table includes examples of factors that may be relevant in considering when the use of technological tools is appropriate.

Factor	Description
Nature of the Entity's IT Environment and Information	
The entity's use of technology	The nature, extent and complexity of the technologies used by the entity may affect the auditor's consideration of when the use of similar or complementary technological tools may be appropriate.
Degree of digitization	The extent to which transaction information is maintained in digital form within the entity's information systems may affect the auditor's consideration of when the use of technological tools may be appropriate to access, query or analyze information that may not otherwise be observable.

⁵⁴ ISA 300, *Planning an Audit of Financial Statements*, Appendix

⁵⁵ ISA 220 (Revised), paragraphs 25, A64–A68

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Factor	Description
Complexity of information	The complexity of information or its structure (e.g., number and variety of information sources or the interrelationship between data sets) may affect the auditor's consideration of when the use of technological tools may be appropriate to analyze, process, present or interpret the information.
Volume of information	The volume of information may affect the auditor's consideration of when the use of technological tools to analyze, process, present or interpret the information may be appropriate.
Interoperability of information	The extent to which the information is available in, or can be shared in, a format compatible for use in technological tools and the extent to which the tools can correctly interpret and use that information may affect the auditor's consideration of when the use of technological tools may be appropriate.
Audit Procedures and Audit Evidence	
The intended purpose(s) of the audit procedures	The purpose(s) of certain audit procedures (e.g., to identify risks of material misstatements by identifying unusual patterns or anomalies in a population of transactions) may be more effectively achieved using technological tools.
The nature of the class of transactions, account balance or disclosure and the persuasiveness of the audit evidence needed	More persuasive audit evidence may be obtained by performing audit procedures using technological tools, due to the nature of a class of transactions, account balance or disclosure (e.g., technological tools may be more effective in recalculating an entire account balance involving highly complex mathematical calculations).
Availability of Audit Firm Resources	
<i>(Relevant quality management policies or procedures of the firm may affect the consideration of factors such as these and other factors that may be relevant at the firm or engagement level) ⁵⁶</i>	
Availability of appropriate technology	Whether the firm has developed or has access to, and approved for use, technological tools relevant in the circumstances of the audit engagement.
Engagement team competence and expertise	Whether the engagement team members possess the knowledge, skills and experience to use technological tools and to interpret the results of the tools appropriately (e.g., understanding the suitability of

⁵⁶ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph A104

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Factor	Description
	the tools for the intended purpose, selecting appropriate parameters and identifying false positives).
Methodology and training support	Whether the use of technological tools is supported by the firm's audit methodology, training programs and access to subject matter experts, including whether the firm's methodology requires the use of particular technological tools in certain circumstances.
Laws or Regulations	
Data protection, security and privacy requirements	Applicable laws or regulations may affect the extent of the auditor's ability to access, transfer or store information using technological tools.

Using Technological Tools to Design and Perform Audit Procedures

3. To obtain sufficient appropriate audit evidence in accordance with paragraph 9 ~~of this ISA~~, the auditor focuses on designing and performing audit procedures that are appropriate in the circumstances to meet the intended purpose(s) of those audit procedures, regardless of whether audit procedures are performed manually, using technological tools, or a combination of both. The following table contains examples of intended purpose(s) of audit procedures and how the auditor may use technological tools when designing and performing such audit procedures.

Intended purpose(s) of audit procedures	Examples of how the auditor uses technological tools
Risk assessment procedures designed and performed for the purpose of identifying and assessing the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels	- Analyze a population of journal entries to identify unusual or unexpected trends, relationships and activities, such as the existence of manual journal entries within an automated sales process. - Gather information from multiple sources to assist the auditor in identifying risks of material misstatement. For example, aggregated news and social media analysis filtered for relevance that may indicate areas of audit risk, such as changes in operations, regulations or other new events and conditions.
Test of controls designed for the purpose of obtaining audit evidence about the operating effectiveness of controls	- Test the operating effectiveness of a control over approval of new user access by validating that access requests were approved by authorized personnel in the entity's IT system prior to providing user access. - Inspect the logic of an automated application control.

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Intended purpose(s) of audit procedures	Examples of how the auditor uses technological tools
Substantive procedures designed for the purpose of detecting material misstatements at the assertion level	• Perform external confirmation procedures using an electronic platform to obtain audit evidence regarding the terms of agreements, contracts or transactions between an entity and other parties. • Automate the comparison of recorded amounts selected for tests of details to underlying documentation, such as invoices.

4. The use of technological tools may assist the auditor in designing and performing audit procedures to meet more than one purpose, and they can also combine types of audit procedures together. In such circumstances it is relevant for the auditor to focus on the appropriateness of the audit procedure to meet its intended purpose(s) rather than the type of audit procedure performed.

Considerations When Using Technological Tools in Evaluating the Relevance and Reliability of Information

5. When the auditor uses technological tools to design and perform audit procedures, the auditor applies professional judgment in evaluating whether the results from using technological tools are relevant and reliable as required by paragraphs 11–13 ~~of this ISA~~. For example, an evaluation of the relevance and reliability of the results from using technological tools may be necessary when such results depend upon the appropriateness of the information used in the tools. In addition, the auditor may need to perform further investigation of the initial results from the use of technological tools, including when the initial results may include items exhibiting unusual characteristics that are inconsistent with the expectations of the auditor.
6. The following table includes examples of factors that the auditor may consider in making this evaluation. The table also explains the effects of each factor on the extent of the auditor's evaluation of the reliability of information. These factors, however, do not address matters related to the development, implementation, operation or maintenance of technological tools. For example, in some circumstances, it may be difficult to trace the results from using technological tools to the information used in the technological tools, or to replicate or verify the results of using the technological tools due to the operation of the tool. In such cases, the auditor may need to perform additional procedures or obtain corroborative audit evidence to evaluate the relevance and reliability of the information. Under ISQM 1, the firm is responsible for assigning or making available human, technological and intellectual resources to engagement teams, including technological tools. In doing so, the firm considers matters such as whether the technological tool operates as designed and achieves the purpose for which it is intended as well as the need to develop procedures that set out how the technological tool operates.⁵⁷

⁵⁷ ISQM, paragraphs 32, A99–A101

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Factor	Effect on the Extent of the Auditor's Evaluation of the Reliability of Information
Information used in the technological tool	
Volume	The greater the volume of information, the more extensive the auditor's evaluation may be.
Complexity	The higher the complexity of information, the more extensive the auditor's evaluation may be.
Subjectivity and structuredness	The more subjective or less structured the information (e.g., narratives or video files), the more extensive the auditor's evaluation may be.
Integrity	The higher the possibility that the integrity of information may not be adequately maintained during its collection, extraction or transfer from an identified source, the more extensive the auditor's evaluation may be.
Results from using the technological tool	
Understanding and interpreting the results	The more the results are subject to further interpretation or judgment, the more extensive the auditor's evaluation may be.
Consistency	The higher the degree of inconsistency with the auditor's expectations or other audit evidence available, the more extensive the auditor's evaluation may be.

Automation Bias

7. As explained in ISA 220 (Revised), the use of technological tools may give rise to a risk of unconscious biases, including automation bias, which may result in overreliance on the relevance and reliability of the output(s) of such tools.⁵⁸ An awareness of unconscious biases may help the auditor to design and perform audit procedures in an unbiased manner. The vulnerability to automation bias may be greater when the audit procedures performed using technological tools are complex, such as when they involve multiple inputs and multiple relationships between the inputs, or when there is reduced transparency about how the technological tools are generating the results.
8. Possible actions that the auditor may consider to mitigate the risk of automation bias when using technological tools include:
 - Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
 - Providing relevant training to members of the engagement team who use technological tools, including training on the capabilities and limitations of technological tools.

⁵⁸ ISA 220 (Revised), paragraph A36

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

- Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, as appropriate, to:
 - Understand the data inputs and processing steps, including calculations and modifications to data, used in the technological tools.
 - Interpret the results from applying the technological tools.

Appendix 4

(Ref: Para. A36)

Form, Availability, Accessibility and Understandability of Information Intended to be Used as Audit Evidence

This appendix provides further explanation about the form, availability, accessibility and understandability of information intended to be used as audit evidence and provides illustrative examples.

1. As explained in paragraph A34, the form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the auditor's evaluation of the relevance and reliability of the information.

Examples:

- The ability to extract information in a usable form stored in the entity's information system may affect whether the auditor can perform an audit procedure by using technological tools. For example, the auditor may need to consider if the format of the information extracted can be converted into a format compatible for the inputs to the technological tools, or whether there are any system limitations preventing extracting large volumes of data.
- The design of an audit procedure to inspect the physical condition of the entity's inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation tools.
- Screenshots from IT applications provided by management may not be sufficient if the auditor cannot determine when the screenshot was taken.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information to facilitate the performance of audit procedures. For example, the entity may overwrite log files after a certain period or the entity may use technology that adapts over time, such as machine learning technology, to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In these cases, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome or the information may not be relevant for the current audit period (e.g., the machine learning logic may no longer relate to the period being audited).
- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use technological tools that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

2. The auditor may receive information in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The auditor may have an expectation of the form in which information intended to be used as audit evidence will be received. Remaining alert for information that is received in a form different from the expected form may assist the auditor in mitigating unconscious biases that may impede the auditor's exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the auditor's evaluation of the reliability of that information.

Examples:

- Remaining alert for information that may be more suitable for the auditor's purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.
- Information that is received in a form different from the expected form may be indicative of conditions where information has been inappropriately altered and may affect the auditor's consideration of the attribute of authenticity of the information.

3. Information intended to be used as audit evidence may exist, but access to such information may be restricted. Such restrictions may be imposed by law or regulation, the source providing the information or by other circumstances.

Examples:

- Laws or regulations may prohibit transfer of certain information to another jurisdiction and the auditor may only be able to use such information by physically visiting the jurisdiction where the information is available.
- War, civil unrest or outbreaks of disease may present conditions where access to certain information to be used as audit evidence is restricted.
- Privacy or secrecy laws or regulations may prohibit the use of certain sensitive client information in some technological tools without proper consent or safeguards.

4. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)⁵⁹ provides examples of how restrictions may be overcome for an audit of group financial statements.
5. In some circumstances, specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence. Accordingly, the auditor may consider using an auditor's expert to assist in understanding or interpreting the information if the engagement team does not have the appropriate competence and capabilities to do so. Other resources may also be appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).⁶⁰

⁵⁹ ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs A35 and A180

⁶⁰ ISA 220 (Revised), paragraphs A60–A71

Proposed ISA 500 (Revised), *Audit Evidence* (Approved Version)
IAASB Main Agenda (June 2026)

Examples:

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence may include:

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction). In this case, the auditor may need a local tax lawyer or tax accountant to help interpret the information.
- The information may be included in a contract that contains complicated legal terminology. In this case, the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application used by the entity that is highly complex or the auditor may use a technological tool to perform an audit procedure. In this case, the auditor may use an IT expert to assist in understanding how the information is generated or in interpreting the results.
- The information may be in another language and may need to be translated. In this case, the auditor may use a translator to assist in understanding or interpreting the information.

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

This Agenda Item includes Proposed ISA 520 (Revised) as approved by the Board on June 18, 2026, in mark-up from **Agenda Item 2–H.1**.

Introduction**Scope of this ISA**

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

Effective Date

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

Objectives

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

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

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

³ Proposed ISA 330 (Revised), paragraphs 7(b) and 22

Definitions

6. For the purposes of the ISAs, the following terms have the meaning attributed below:
- (a) Analytical procedures – A type of audit procedure that involves an evaluation of financial information through analysis of plausible relationships among financial information, non-financial information, or both. (Ref: Para. A2–A5)
 - (b) Substantive analytical procedures – A substantive procedure that involves a comparison of a sufficiently precise expectation developed by the auditor, based on one or more plausible and predictable relationships among financial information, non-financial information, or both, to recorded amounts (or amounts derived from recorded amounts) to detect a material misstatement.

Requirements

Results of Analytical Procedures Performed as Risk Assessment Procedures

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

Substantive Analytical Procedures

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

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

⁵ Proposed ISA 330 (Revised), paragraphs 6–7 and 22

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

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

- (d) If the auditor identifies a difference that exceeds the amount determined in accordance with paragraph 8(c), investigate the difference to determine whether a misstatement exists. In doing so, the auditor shall: (Ref: Para. A21–A22)
- (i) Make inquiries of management, and as appropriate, others within or outside the entity and obtain audit evidence relevant to responses to such inquiries; and (Ref: Para. A23)
 - (ii) Perform other audit procedures as necessary in the circumstances. (Ref: Para. A24)

Analytical Procedures that Assist When Forming an Overall Conclusion

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

Application and Other Explanatory Material

~~Scope of this ISA (Ref: Para. 3)~~

~~A1.~~

Definitions

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

- A2. Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:
- Comparable information for prior periods.
 - Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
 - Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- A3. Analytical procedures also include consideration of relationships, for example:
- Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
 - Between financial information and relevant non-financial information, such as payroll costs and number of employees.

- A4. The application of planned analytical procedures is based on the expectation that one or more plausible relationships among information exist and continue in the absence of known conditions to the contrary. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.
- A4A. Proposed ISA 500 (Revised) provides a non-exhaustive list of types of audit procedures and explains that analytical procedures may provide audit evidence. However, analytical procedures that are not substantive analytical procedures, when performed alone, do not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.⁸
- A5. As explained in ISA 200,⁹ the application of professional skepticism by the auditor includes being alert to, for example, audit evidence that contradicts other audit evidence obtained and to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Designing and performing analytical procedures in an unbiased manner assists the auditor in identifying potentially contradictory information.

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

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

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

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

Example:

An auditor may perform analytical procedures by comparing current year revenue to prior periods and industry trends. If revenue has increased significantly while cost of sales or

⁸ Proposed ISA 500 (Revised), Appendix 1

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

¹⁰ ISA 315 (Revised 2019), paragraph A27

¹¹ ISA 315 (Revised 2019), paragraph 37

¹² ISA 315 (Revised 2019), paragraph 7

receivables remain unchanged, this may indicate that a risk of material misstatement in revenue recognition exists. To refine the auditor's initial expectations of the risks of material misstatement the auditor may conduct inquiries of management to understand the reasons for the significant or unusual fluctuations, inconsistencies or differences, such as changes in pricing strategy, customer mix or billing practices.

Substantive Analytical Procedures (Ref: Para. 8)

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

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

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

Examples:

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

¹³ Proposed ISA 330 (Revised), paragraph 8

information used to develop an expectation is evaluated as reliable.

Considerations Specific to Public Sector Entities

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

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

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

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

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

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

Example:

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

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

A14. Proposed ISA 500 (Revised)¹⁴ establishes requirements and provides guidance for evaluating

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

whether the information intended to be used as audit evidence is reliable, which includes evaluating the reliability of the information from which the auditor's expectation is developed. In making this evaluation, the auditor is required to consider:

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

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

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

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

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

Example:

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

A17. The auditor may inquire of management as to the availability and reliability of information needed to develop the auditor's expectation for use in the substantive analytical procedures, and the

¹⁵ Proposed ISA 330 (Revised), paragraphs 25–26

results of any analytical or similar procedures performed by the entity. It may be effective to use analytical information prepared by management, provided the auditor is satisfied that such information is evaluated as reliable.

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

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

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

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

Example:

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

- The degree to which information can be disaggregated.

Example:

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

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

Examples:

The auditor may consider whether:

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

¹⁶ Proposed ISA 500 (Revised), paragraphs 11 and A39–A40

industry trends affect financial or non-financial information.

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

Examples:

The auditor may use technological tools to analyze:

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

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

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

Example:

In testing an entity's product sales, the auditor may develop an expectation based on quantity

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

¹⁸ ISA 450, paragraph A21

¹⁹ ISA 315 (Revised 2019), paragraph 37

²⁰ Proposed ISA 500 (Revised), Appendix 1, paragraphs 13–16.

of products sold and the unit price. In doing so, the auditor may identify a difference from the recorded amount that exceeds the amount acceptable without further investigation. To investigate the difference, the auditor makes inquiries of management regarding the reasons for the difference, and inspects supporting documents, such as delivery reports provided by a third-party shipping company to corroborate the explanations provided by management .

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

Analytical Procedures that Assist When Forming an Overall Conclusion

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

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

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

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

²¹ ISA 315 (Revised 2019), paragraph 37

Agenda Item

2–E.2

Audit Evidence & Risk Response (AE&RR) – Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs

[APPROVED VERSION]

This Agenda Item includes the conforming and consequential amendments to Proposed ISA 330 (Revised),¹ Proposed ISA 500 (Revised)² and Proposed ISA 520 (Revised)³ as approved by the Board on June 18, 2026, in mark-up from **Agenda Item 2–E.1**.

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

Introduction

...

Application and Other Explanatory Material

...

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

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

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

- In a less complex firm, the technological resources may comprise a commercial IT application used by engagement teams, which has been purchased from a service provider. The IT processes that support the operation of the IT application may also be relevant, although they may be simple (e.g., processes for authorizing access to the IT application and processing updates to the IT application).

¹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

² Proposed ISA 500 (Revised), *Audit Evidence*

³ Proposed ISA 520 (Revised), *Analytical Procedures*

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- In a more complex firm, the technological resources may be more complex and may comprise:
 - Multiple IT applications, including custom-developed applications or applications developed by the firm's network, such as:
 - IT applications used by engagement teams (e.g., engagement software used to prepare and compile engagement documentation and automated technological audit tools).
 - IT applications developed and used by the firm to manage aspects of the system of quality management (e.g., IT applications to monitor independence or assign personnel to engagements).
 - The IT processes that support the operation of these IT applications, including the individuals responsible for managing the IT infrastructure and IT processes and the firm's processes for managing program changes to the IT applications.

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

Examples of technological tools:

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

...

ISQM 2, ENGAGEMENT QUALITY REVIEWS

Introduction

...

Application and Other Explanatory Material

...

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

...

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

Introduction

...

Definitions

...

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

- ~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~
- ~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

...

Application and Other Explanatory Material

...

Professional Skepticism (Ref: Para. 15)

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

- Audit evidence that is inconsistent with ~~contradicts~~ other audit evidence obtained.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

...

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

A24. ~~The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required~~ Proposed ISA 500 (Revised) requires the auditor to consider evaluate the reliability of information intended to be used as audit evidence,⁴ which includes procedures to address the authenticity of such information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures. Other than performing audit procedures in relation to authenticity when it is of significance in the circumstances⁵ and remaining alert throughout the audit for conditions or indications to the contrary,⁶ the auditor may consider information, including records or documents, to be authentic. However, in cases of doubt about the reliability of the information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document may have been falsified), modified but not disclosed to the auditor,⁷ the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.⁸

...

A31. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the current audit. It may, however, also include information obtained from other sources such as previous audits (provided that the auditor has evaluated that such information remains determined whether changes have occurred since the previous audit that may affect its relevance relevant and reliable to the current audit) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been

⁴ Proposed ISA 500 (Revised), Audit Evidence, paragraphs 11(b), A4, A27–A28 and A45–A49 7–9

⁵ Proposed ISA 500 (Revised), paragraph 13

⁶ ISA 240 (Revised), paragraph 20

⁷ ISA 240 (Revised), paragraph A35

⁸ ISA 240 (Revised), paragraph 2244; Proposed ISA 500 (Revised), paragraphs 15–1644; ISA 505, External Confirmations, paragraphs 10–11, and 16

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

prepared by an expert employed or engaged by the entity. Audit evidence comprises ~~both information evidence that supports and corroborates management's assertions, and any information evidence that contradicts such assertions. In addition, in some cases, the auditor may perform audit procedures to corroborate the absence of certain conditions (e.g., reviewing whether sale returns occurred after the year end for a product or service when corroborating management's assertions related to a recorded warranty provision).~~⁹ ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

...

A33. ~~The Appropriateness of audit evidence refers to is the measure of the quality of audit evidence. The quality of audit evidence depends on the; that is, its relevance and its reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.~~¹⁰ ~~in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.~~

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

...

A43. Control risk is a function of the effectiveness of the design, implementation and maintenance of controls by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of controls. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ISAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls ~~in determining the nature, timing and extent of substantive procedures to be performed.~~¹¹

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

⁹ Proposed ISA 500 (Revised), paragraph A6–A7

¹⁰ Proposed ISA 500 (Revised), paragraphs 8(a) and A8

¹¹ See Proposed ISA 330 (Revised), The Auditor's Responses to Assessed Risks, paragraphs 6–7, 9–21 and Proposed ISA 500 (Revised), paragraph 13

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

- A45. Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.¹²

...

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

....

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

- A73. The considerations specific to "~~automated technological tools and techniques~~" included in some ISAs (for example, ISA 315 (Revised 2019)) and Proposed ISA 500 (Revised) have been developed to explain how the auditor may apply certain requirements when using ~~automated technological tools and techniques in performing audit procedures~~ that facilitate the design or performance of audit procedures in obtaining audit evidence.

...

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

...

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

Introduction

...

¹² Proposed ISA 330 (Revised), paragraphs 6–7

Requirements

...

Engagement Resources

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

...

Application and Other Explanatory Material

...

- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the current audit.¹³ Audit procedures ~~comprise~~ include risk assessment procedures,¹⁴ ~~and further audit procedures.~~¹⁵ and other audit procedures that are required to be carried out to comply with the ISAs.¹⁶ ~~As explained in Proposed ISA 500 (Revised) describes different types of,~~ audit procedures, which include, for example, inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.¹⁷ ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.~~¹⁸

...

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

...

Professional Skepticism (Ref: Para. 7)

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

- ...

¹³ ISA 200, paragraph A31

¹⁴ ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

¹⁵ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

¹⁶ Proposed ISA 500 (Revised), paragraph A13

¹⁷ Proposed ISA 500 (Revised), Appendix 1 paragraphs A14–A25

¹⁸ ISA 520, *Analytical Procedures*

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

...

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

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

...

Engagement Resources (Ref: Para. 25–28)

...

Technological Resources

...

A64A. Technological resources that are used directly by engagement teams may serve multiple purposes in planning and performing the engagement. Technological resources include technological tools that facilitate the design or performance of audit procedures in obtaining audit evidence.¹⁹

Examples of technological tools:

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

A64B. In some circumstances, the entity may use complex or advanced technology to produce information relevant to the preparation of the financial statements. In such circumstances, the engagement

¹⁹ ISQM 1, paragraph A99A

partner may consider the entity's use of technology in determining whether sufficient and appropriate technological resources are assigned or made available to the engagement team. How the entity's use of technology affects the assigned resources of the auditor is a matter of professional judgment and is influenced by the nature and circumstances of the audit engagement.

Examples:

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

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

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

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

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

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

- Use and security of the ~~technological tool~~ IT application complies with the firm's policies or procedures.
- The ~~technological tool~~ IT application operates as intended.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- Personnel have the competence and capabilities required to use the technological tool ~~IT application~~.

...

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

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

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

...

ISA 230, AUDIT DOCUMENTATION

Introduction

...

Definitions

...

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

- (a) Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).
- (b) Audit file – One or more folders or other storage media, in physical or ~~electronic~~ digital form, containing the records that comprise the audit documentation for a specific engagement.
- (c) ...

...

Application and Other Explanatory Material

...

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

- Audit programs.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- Analyses.

...

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs

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

...

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

...

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

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements and the implications for the auditor's report. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs, in particular ISA 200,²⁰ ISA 220 (Revised),²¹ ISA 315 (Revised 2019),²² Proposed ISA 330 (Revised),²³ and ISA 701.²⁴ Accordingly, this ISA is intended to be applied in conjunction with other relevant ISAs.

...

Requirements

...

Responses to the Assessed Risks of Material Misstatement Due to Fraud

...

44. In accordance with Proposed ISA 330 (Revised),²⁵ the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A128)

²⁰ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

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

²² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

²³ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

²⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

²⁵ Proposed ISA 330 (Revised), paragraph 5

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

...

46. In accordance with Proposed ISA 330 (Revised),²⁶ the auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para. A129–A135)

...

53. In applying Proposed ISA 520 (Revised),²⁷ the auditor shall determine whether the results of analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para. A154–A155)

54. In applying Proposed ISA 330 (Revised),²⁸ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:

- (a) The assessments of the risks of material misstatement due to fraud remain appropriate; and
- (b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

...

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

- (a) Determine whether:
 - (i) To perform additional risk assessment procedures to provide an appropriate basis for the identification and assessment of the risks of material misstatement due to fraud in accordance with ISA 315 (Revised 2019);
 - (ii) To design and perform further audit procedures to appropriately respond to the risks of material misstatement due to fraud in accordance with Proposed ISA 330 (Revised); and
 - (iii) There are additional responsibilities for the auditor under law, regulation or relevant ethical requirements about the entity's non-compliance with laws or regulations in accordance with ISA 250 (Revised).

...

Application and Other Explanatory Material

...

- A9. The auditor may use ~~automated technological tools and techniques~~ to perform audit procedures related to identifying and assessing the risks of material misstatement due to fraud or when responding to assessed risks of material misstatement due to fraud. This may allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights or identify unusual trends, which enhances the ability of the auditor to exercise professional skepticism and

²⁶—ISA 330, paragraph 6

²⁷ Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 9

²⁸ Proposed ISA 330 (Revised), paragraphs 25–2630–32, A62–A64A83–A85

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

more effectively challenge management's assertions. The auditor may also use ~~automated technological tools and techniques~~ to perform audit procedures related to journal entry testing in a more efficient and effective manner. However, the use of ~~automated technological tools and techniques~~ does not replace the need to maintain professional skepticism and to exercise professional judgment throughout the audit.

...

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

...

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

Examples:

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

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

...

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

- A34. Proposed ISA 500 (Revised)²⁹ requires the auditor to ~~consider~~ evaluate the relevance and reliability of information intended to be used as audit evidence when designing and performing audit procedures. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information. Authenticity is an attribute of the reliability of information that the auditor may consider is of significance in the circumstances to meet the intended purpose(s) of the audit procedures.³⁰ In doing so, the auditor ~~may~~ considers whether the information has been generated by or provided by a source authorized to do so, and the information has not been altered in a manner that makes it inadequate unreliable for the audit.³¹ ~~the source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.~~
- A35. Audit procedures performed in accordance with Proposed ISA 500 (Revised), this or other ISAs, or information from other sources, may bring to the auditor's attention conditions that cause the auditor to believe that a record or document may not be authentic or that terms in a document have been modified but not disclosed to the auditor.³² The auditor is not, however, required to perform procedures that are specifically designed to identify conditions that indicate that a record or document

²⁹ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 711

³⁰ Proposed ISA 500 (Revised), paragraphs 11 and 13

³¹ Proposed ISA 500 (Revised), paragraph A4

³² ISA 200 (Revised), paragraph A24

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

may not be authentic or that terms in a document have been modified. Paragraph 22 applies if the auditor identifies such conditions during the course of the audit.

Examples:

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

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

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

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

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

...

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

Examples:

Forensic skills may include specialized skills or knowledge in:

- Identifying ...
- ...
- Gathering, analyzing, and evaluating information or data using ~~automated technological~~ tools and techniques to identify links, patterns, or trends that may be indicative of fraud or suspected fraud.
- Applying knowledge in fraud schemes, and techniques for interviews, information gathering and data analytics, in the detection of fraud.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- ...
- Analyzing financial and non-financial information by using ~~automated~~ technological tools and techniques to look for inconsistencies, unusual patterns, or anomalies that may indicate intentional management bias or that may be the result of management override of controls.

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

...

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

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

...

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

...

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

Example:

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

...

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

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

...

A126. Incorporating an element...

Example:

...

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

...

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

Examples:

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

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Examples:

Nature

- ...

Timing

- ...

Extent

- The auditor may use ~~automated~~ technological tools ~~and techniques~~ to perform more extensive testing of digital information. Such ~~automated techniques~~ technological tools may be used to test all items in a population, select specific items for testing that are responsive to risks of material misstatement due to fraud, or select items for testing when performing audit sampling. For example, the auditor may stratify the population based on specific characteristics to obtain more relevant audit evidence that is responsive to the risks of material misstatement due to fraud.

External Confirmation Procedures

A130. In applying Proposed ISA 330 (Revised),³³ external confirmation procedures may be considered useful when seeking audit evidence that is not biased towards corroborating or contradicting a relevant assertion in the financial statements, especially in instances where risks of material misstatement due to fraud have been identified related to the class of transactions, account balance or disclosure.

...

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

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

...

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

Examples:

- Risks of material misstatement that may be strongly linked to fraud schemes that can occur over a long period of time (e.g., complex related party transaction structures that may

³³ Proposed ISA 330 (Revised), paragraph 8C49

obscure their economic substance).

- Anomalies or outliers in the journal entry data throughout the period that may be detected from the use of ~~automated technological tools and techniques~~.

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

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

...

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

...

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

A154. Proposed ISA 520 (Revised) explains that the analytical procedures performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.³⁴ However, the auditor may perform the analytical procedures at a more granular level for certain higher risk classes of transactions, account balances, and disclosures to determine whether certain trends or relationships may indicate a previously unidentified risk of material misstatement due to fraud. Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud requires professional judgment. Unusual relationships involving year-end revenue and income are particularly relevant.

Examples:

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

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

³⁴ Proposed ISA 520 (Revised), paragraphs A25–A26

...

Written Representations (Ref: Para. 63)

A193. ISA 580 establishes requirements and provides guidance on obtaining appropriate representations from management and, where appropriate, those charged with governance in the audit. Although written representations are an important source of audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. In addition, since management are in a unique position to perpetrate fraud, it is important for the auditor to consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or to contradict the assertions in the financial statements, in drawing the conclusion required in accordance with ISA ~~330~~700 (Revised).³⁵

...

Appendix 2

(Ref: Para. A59, A127 and A135)

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

The following...

Consideration at the Assertion Level

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

The following are specific examples of responses:

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

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

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

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. ~~Automated~~ Technological tools and techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.

³⁵ ISA ~~330~~700 (Revised), paragraph 2611A

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- ...
- For those situations for which revenue transactions are ~~electronically~~ initiated, processed, and recorded in digital form, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.

- ...

Inventory Quantities

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

...

Appendix 3

(Ref: Para. A29)

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

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

...

Conflicting or missing evidence, including:

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

- ...

...

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

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

- ...

...

Appendix 4

(Ref: Para. A100, A104 and A143)

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

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

...

- ...
- Understanding of the entity's controls designed to prevent or detect fraud over journal entries³⁶ (see also paragraph 36 of this ISA) – for many entities, routine processing of transactions involves a combination of manual and automated controls. Similarly, the processing of journal entries and other adjustments may involve both manual and automated controls across one or multiple IT systems. Where IT is used in the financial reporting process, journal entries and other adjustments may exist only in electronic digital form.
 - The types of controls designed to prevent or detect fraud over journal entries may include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls.

...

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

Introduction

...

Application and Other Explanatory Material

...

The Auditor's Consideration of Compliance with Laws and Regulations

...

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

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

- Reading minutes;
- Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and

³⁶ ISA 315 (Revised 2019), paragraph 26

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- Performing ~~substantive~~ tests of details of classes of transactions, account balances or disclosures.

...

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

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. This ISA does not impose additional responsibilities on the auditor regarding obtaining an understanding of the entity's system of internal control and designing and performing tests of controls over and above the requirements of ISA 315 (Revised 2019)³⁷ and Proposed ISA 330 (Revised).³⁸ ISA 260 (Revised)³⁹ establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.

...

ISA 300, PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Introduction

...

Requirements

...

8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA 220 (Revised) and:
 - (a) Identify the characteristics of the engagement that define its scope;
 - (b) ...
 - (e) Ascertain the nature, timing and extent of human, technological and intellectual resources necessary to perform the engagement.⁴⁰ (Ref: Para. A9–A13)
9. The auditor shall develop an audit plan that shall include a description of:
 - (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A14)

³⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 12(c) and (m), and paragraphs 21 to 27.

³⁸ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

³⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁴⁰ ISA 220 (Revised), paragraph 25

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- (b) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised 2019).⁴¹
- (c) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under Proposed ISA 330 (Revised).⁴²
- (d) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A15-A17)

...

Appendix

(Ref: Para. 7–8, A9–A14)

Considerations in Establishing the Overall Audit Strategy

...

Characteristics of the Engagement

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

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

Introduction

...

- 5. ISA 200 explains that risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.⁴³ For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ISA. The degree to which inherent risk varies is referred to in this ISA as the ‘spectrum of inherent risk.’
- ...
- 7. The auditor’s risk identification and assessment process is iterative and dynamic. The auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement. In obtaining the understanding required by this ISA, initial expectations of risks may be developed, which may be further refined as the auditor progresses through the risk identification and assessment process. In addition, this ISA and Proposed ISA 330

⁴¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴² Proposed ISA 330 (Revised), *The Auditor’s Responses to Assessed Risks*

⁴³ ISA 200, paragraph A46 and Proposed ISA 330 (Revised), *The Auditor’s Responses to Assessed Risks*, paragraphs 6–7

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

(Revised) require the auditor to revise the risk assessments, and modify further overall responses and further audit procedures, based on audit evidence obtained from performing further audit procedures in accordance with Proposed ISA 330 (Revised), or if new information is obtained.

8. Proposed ISA 330 (Revised) requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.⁴⁴ Proposed ISA 330 (Revised) further explains that the auditor's assessment of the risks of material misstatement at the financial statement level, and the auditor's overall responses, are ~~is~~ affected by the auditor's understanding of the entity's system of internal control environment. Proposed ISA 330 (Revised) also requires the auditor to design and perform further audit procedures whose nature, timing and 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.⁴⁵

...

Definitions

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

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

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

...

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

...

Requirements

Risk Assessment Procedures and Related Activities

13. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (Ref: Para. A11–A18)
- (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
 - (b) The design of further audit procedures in accordance with Proposed ISA 330 (Revised).

...

⁴⁴ Proposed ISA 330 (Revised), paragraph 5

⁴⁵ Proposed ISA 330 (Revised), paragraphs 6–7

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

...

Control activities

26. The auditor shall obtain an understanding of the control activities component, through performing risk assessment procedures, by: (Ref: Para. A147–A157)	
(a) Identifying controls that address risks of material misstatement at the assertion level in the control activities component as follows: (i) Controls that address a risk that is determined to be a significant risk; (Ref: Para. A158–A159) (ii) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A160–A161) (iii) Controls for which the auditor plans to test <u>their</u> operating effectiveness ~~in determining the nature, timing and extent of substantive testing~~, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; and (Ref: Para. A162–A164) (iv) Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgment; (Ref: Para. A165) (b) Based on controls identified in (a), identifying the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT; (Ref: Para. A166–A172)	(c) For such IT applications and other aspects of the IT environment identified in (b), identifying: (Ref: Para. A173–A174) (i) The related risks arising from the use of IT; and (ii) The entity's general IT controls that address such risks; and (d) For each control identified in (a) or (c)(ii): (Ref: Para. A175–A181) (i) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (ii) Determining whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

...

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Identifying Risks of Material Misstatement

...

29. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A202–A204B)

...

Assessing Control Risk

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

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall ~~take into account~~ consider all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the ~~whether corroborative or contradictory~~ to assertions made by management. (Ref: Para. A230–A2312)

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

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's determination remains appropriate. (Ref: Para. A230C3, A232B–A233B5)

Revision of Risk Assessment

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

...

Documentation

38. In applying ISA 230, ~~the~~ the auditor shall include in the audit documentation:⁴⁶ (Ref: Para. A237–A241)
- (a) The discussion among the engagement team and the significant decisions reached;

⁴⁶ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6–A7 and Appendix

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- (b) Key elements of the auditor's understanding in accordance with paragraphs 19, 21, 22, 24 and 25;⁴⁷ the sources of information from which the auditor's understanding was obtained;⁴⁷ and the risk assessment procedures performed;
- (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with ~~the requirements in paragraph 26; and~~
- (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made; ~~and-~~
- (e) The basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. (Ref: Para. A238A)

...

Application and Other Explanatory Material

Definitions (Ref: Para. 12)

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

...

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

...

Sources of Audit Evidence (Ref: Para. 13)

A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence. In addition to information from other sources,⁴⁷ sources of information for risk assessment procedures may include:

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

⁴⁷ See paragraphs A37 and A38

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Regardless of the source of information, the auditor ~~considers~~ evaluates the relevance and reliability of the information intended to be used as audit evidence in accordance with Proposed ISA 500 (Revised).⁴⁸

- A19. Proposed ISA 500 (Revised)⁴⁹ explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in electronic digital form or only at certain points in time.⁵⁰ The auditor may perform substantive procedures or tests of controls, in accordance with Proposed ISA 330 (Revised), concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls. As required by Proposed ISA 500 (Revised), when the auditor uses an audit procedure for more than one purpose, the auditor evaluates whether the audit evidence obtained meets each intended purpose.⁵¹

...

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

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

...

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

Why Analytical Procedures Are Performed as a Risk Assessment Procedure

...

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

Types of Analytical Procedures

...

- A30. This ISA deals with the auditor's use of analytical procedures as risk assessment procedures as described in paragraphs A27–A29. Proposed ISA 520 (Revised)⁵² deals with the auditor's use of substantive analytical procedures as substantive procedures (“substantive analytical procedures”). It also deals with and the auditor's responsibility relating to the results of analytical procedures used as

⁴⁸ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 7.11

⁴⁹ Proposed ISA 500 (Revised), paragraphs A17–A17 and A21–A25 Appendix 1

⁵⁰ Proposed ISA 500 (Revised), paragraph A46A54

⁵¹ Proposed ISA 500 (Revised), paragraph 10

⁵² Proposed ISA 520 (Revised), *Analytical Procedures*

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

risk assessment procedures and to perform analytical procedures near the end of the audit.
~~Accordingly, analytical procedures performed as risk assessment procedures are not required to be performed in accordance with the requirements of ISA 520. However, the requirements and application material in ISA 520 may provide useful guidance to the auditor when performing analytical procedures as part of the risk assessment procedures.~~

~~Automated tools and techniques~~ Technological tools

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

Example:

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

...

~~Automated~~ Technological tools and techniques

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

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

...

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

...

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

- Developing expectations for use when performing substantive analytical procedures in accordance with Proposed ISA 520 (Revised); ⁵³
- Designing and performing further audit procedures to obtain sufficient appropriate audit evidence in accordance with Proposed ISA 330 (Revised); and
- Evaluating the sufficiency and appropriateness of audit evidence obtained (e.g., relating to assumptions or management's oral and written representations).

...

⁵³ Proposed ISA 520 (Revised), paragraph 85

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

Automated Technological tools and techniques

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

...

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

...

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

...

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

...

A98. Because these components are foundational to the entity's system of internal control, any deficiencies in their operation could have pervasive effects on the preparation of the financial statements. Therefore, the auditor's understanding and evaluations of these components affect the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level. Risks of material misstatement at the financial statement level affect the auditor's design of overall responses, including, as explained in Proposed ISA 330 (Revised), an influence on the nature, timing and extent of the auditor's further procedures.⁵⁴

...

A125. The auditor is required to identify specific controls in the control activities component, and evaluate the design and determine whether the controls have been implemented, as it assists the auditor's understanding about management's approach to addressing certain risks and therefore provides a

⁵⁴ Proposed ISA 330 (Revised), paragraphs A51–A83

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

basis for the design and performance of further audit procedures responsive to these risks as required by Proposed ISA 330 (Revised). The higher on the spectrum of inherent risk an inherent risk is assessed, the more persuasive the audit evidence needs to be. Even when the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding may ~~still affect~~ assist in the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

...

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

...

Scalability

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

...

Automated Technological tools and techniques

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

...

Control Activities (Ref: Para. 26)

Controls in the control activities component

...

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

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

- Controls which the auditor plans to test the operating effectiveness of ~~in determining the nature, timing and extent of substantive procedures~~. The evaluation of such controls provides the basis for the auditor's design of tests of controls ~~procedures~~ in accordance with Proposed ISA 330 (Revised). These controls also include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.
- Controls ~~include controls~~ that address significant risks and controls over journal entries. The auditor's identification and evaluation of such controls may also influence the auditor's understanding of the risks of material misstatement, including the identification of additional risks of material misstatement (see paragraph A95). This understanding also ~~provides the basis for~~ assists the auditor's design of the nature, timing and extent of substantive ~~audit~~ procedures that are responsive to the related assessed risks of material misstatement.
- Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgment.

...

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

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

...

A158. Regardless of whether the auditor plans to test the operating effectiveness of controls that address significant risks, the understanding obtained about management's approach to addressing those risks may ~~provide a basis for assist in~~ the design and performance of substantive procedures responsive to significant risks as required by Proposed ISA 330 (Revised).⁵⁵ Although risks relating to significant non-routine or judgmental matters are often less likely to be subject to routine controls, management may have other responses intended to deal with such risks. Accordingly, the auditor's understanding of whether the entity has designed and implemented controls for significant risks arising from non-routine or judgmental matters may include whether and how management responds to the risks. Such responses may include:

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

Example:

Where there are one-off events such as the receipt of a notice of a significant lawsuit, consideration of the entity's response may include such matters as whether it has been referred to appropriate experts (such as internal or external legal counsel), whether an assessment has been made of the

⁵⁵ Proposed ISA 330 (Revised), paragraph 2324

potential effect, and how it is proposed that the circumstances are to be disclosed in the financial statements.

...

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

A160. Controls that address risks of material misstatement at the assertion level that are expected to be identified for all audits are controls over journal entries, because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor's planned approach to further audit procedures.

Example:

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

Automated Technological tools and techniques

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

...

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

A162. The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with Proposed ISA 330 (Revised),⁵⁶ to design and perform tests of controls if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which that address such risks of material misstatement when substantive procedures alone cannot ~~do not~~ provide sufficient appropriate audit evidence at ~~the assertion level~~. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.

A163. In other cases, when the auditor plans to obtain audit evidence about test take into account the operating effectiveness of controls as part of the further audit procedures in determining the nature, timing and extent of substantive procedures in accordance with Proposed ISA 330 (Revised), such

⁵⁶ Proposed ISA 330 (Revised), paragraph 89

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

controls are also required to be identified.⁵⁷ ~~because ISA 330⁵⁸ requires the auditor to design and perform tests of those controls.~~

Examples:

The auditor may plan to test the operating effectiveness of controls:

- Over routine classes of transactions because such testing may be more effective or efficient for large volumes of homogenous transactions.
- Over the completeness and accuracy of information produced by the entity (e.g., controls over the preparation of system-generated reports), to ~~determine~~ evaluate the reliability of that information, when the auditor intends to take into account the operating effectiveness of those controls in designing and performing further audit procedures.
- Relating to operations and compliance objectives when they relate to data the auditor evaluates or uses in applying audit procedures.

...

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

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

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

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

Example:

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

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

Example:

When information intended to be used as audit evidence is information produced by the entity ~~to be used as audit evidence is produced by IT applications~~, the auditor may determine to test controls over system-generated reports, including identification and testing of the

⁵⁷ Proposed ISA 330 (Revised), paragraphs 6–7 and 9

⁵⁸ ISA 330, paragraph 8(a)

general IT controls that address risks of inappropriate or unauthorized program changes or direct data changes to the reports.

- ...
- The design of further audit procedures.

Example:

If information processing controls depend on general IT controls, the auditor may determine to test the operating effectiveness of the general IT controls, which will then require the design of tests of controls for such general IT controls. If, in the same circumstances, the auditor determines not to test the operating effectiveness of the general IT controls, or the general IT controls are expected to be ineffective, the auditor may perform audit procedures that address whether the related risks arising from the use of IT have occurred ~~may need to be addressed through the design of substantive procedures~~. However, the risks arising from the use of IT may not be able to be addressed when such risks relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. In such circumstances, the auditor may need to consider the implications for the audit opinion.

...

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

...

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

Scalability

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

Examples:

- ...
- ...
- When management is not relying on automated controls or general IT controls to process transactions or maintain the data, and the auditor has not identified any automated controls

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

or other information processing controls (or any that depend on general IT controls), the auditor may plan to ~~directly test any~~ evaluate the reliability of the information generated internally from the entity's information system produced by the entity involving IT by performing audit procedures other than test of controls, and may not identify any IT applications that are subject to risks arising from the use of IT.

• ...

...

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

A179. The auditor may conclude that a control, which is effectively designed and implemented, may be appropriate to test ~~in order to take its operating effectiveness into account in designing substantive procedures.~~ However, when a control is not designed or implemented effectively, there is no benefit in testing it. When the auditor plans to test a control, the information obtained about the extent to which the control addresses the identified risk(s) of material misstatement at the assertion level (i.e., the inherent risk) is an input to the auditor's control risk assessment at the assertion level.

A180. Evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to ~~test~~ obtain audit evidence about their operating effectiveness. However, for some automated controls, that are designed and implemented using technology that produce consistent output, the auditor may plan to test the operating effectiveness of ~~automated controls by identifying and testing the~~ general IT controls that provide for the consistent operation of ~~an such~~ automated controls instead of performing tests of operating effectiveness on the automated controls directly. Obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. Tests of the operating effectiveness of controls as part of the further audit procedures, including tests of indirect controls, are further described in Proposed ISA 330 (Revised).⁵⁹

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

Example:

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

A182. In performing the evaluations of each of the components of the entity's system of internal control,⁶⁰ the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying control deficiencies. If the auditor has identified one or more control deficiencies,

⁵⁹ Proposed ISA 330 (Revised), paragraphs 98–214

⁶⁰ Paragraphs 21(b), 22(b), 24(c), 25(c) and 26(d)

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with Proposed ISA 330 (Revised).

...

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

Why the Auditor Identifies and Assesses the Risks of Material Misstatement

...

A185. Information gathered by performing risk assessment procedures is used as audit evidence to provide the basis for the identification and assessment of the risks of material misstatement. For example, the audit evidence obtained when evaluating the design of identified controls and determining whether those controls have been implemented in the control activities component, is used as audit evidence to support the risk assessment. Such evidence also provides a basis for the auditor to design overall responses to address the assessed risks of material misstatement at the financial statement level, as well as designing and performing further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level, in accordance with Proposed ISA 330 (Revised).

...

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

...

A193. The auditor identifies risks of material misstatement at the financial statement level to determine whether the risks have a pervasive effect on the financial statements, and would therefore require an overall response in accordance with Proposed ISA 330 (Revised).⁶¹

...

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

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

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

Automated Technological Tools and Techniques

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

Examples:

- An entire population of transactions may be analyzed using ~~automated techniques~~ automated technological tools and techniques to understand their nature, source, size and volume. By applying ~~automated~~

⁶¹ Proposed ISA 330 (Revised), paragraph 5

~~techniques~~ technological tools, the auditor may, for example, identify that an account with a zero balance at period end was comprised of numerous offsetting transactions and journal entries occurring during the period, indicating that the account balance or class of transactions may be significant (e.g., a payroll clearing account). This same payroll clearing account may also identify expense reimbursements to management (and other employees), which could be a significant disclosure due to these payments being made to related parties.

- By analyzing the flows of an entire population of revenue transactions, the auditor may more easily identify a significant class of transactions that had not previously been identified.

Disclosures that May Be Significant

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

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

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

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

Example:

An entity has a share capital account balance that is material to its financial statements. The share capital consists solely of common shares issued upon the entity's incorporation many years ago, with no new share issuances, repurchases, or complex equity features (such as options, warrants,

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

or convertible instruments) occurring during the current period. The auditor has determined that the share capital account is not subject to inherent risk factors such as complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors. Therefore, the auditor has not identified a risk of material misstatement and the account balance and disclosure are not determined to be a significant class of transactions, account balance or disclosure.

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

...

Assessing Risks of Material Misstatement at the Assertion Level

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

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

Why the auditor assesses likelihood and magnitude of misstatement

...

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

...

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

- Controls that address significant risks are required to be identified in accordance with paragraph 26(a)(i), with a requirement to evaluate whether the control has been designed effectively and implemented in accordance with paragraph 26(d).
- Proposed ISA 330 (Revised) requires controls that address significant risks to be tested in the current period (when the auditor ~~intends plans to rely on~~ test the operating effectiveness of such controls) and substantive procedures to be planned and performed that are specifically responsive to the identified significant risk.⁶²
- Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk.⁶³
- ...

...

A222. Due to the nature of a risk of material misstatement, and the control activities that address that risk, in some circumstances the only way to obtain sufficient appropriate audit evidence is to test the operating effectiveness of controls. Accordingly, there is a requirement for the auditor to identify any

⁶² Proposed ISA 330 (Revised), paragraphs 1445 and 8B1

⁶³ Proposed ISA 330 (Revised), paragraph 7(c)(b)

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

such risks because of the implications for the design and performance of further audit procedures in accordance with Proposed ISA 330 (Revised) to address risks of material misstatement at the assertion level.

A223. Paragraph 26(a)(iii) also requires the identification of controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence because the auditor is required, in accordance with Proposed ISA 330 (Revised),⁶⁴ to design and perform tests of such controls.

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

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

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

Example:

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

...

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

⁶⁴ Proposed ISA 330 (Revised), paragraph 98

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

...

A229. When the auditor plans to test the operating effectiveness of an automated control, the auditor may also plan to test the operating effectiveness of the relevant general IT controls that support the continued functioning of that automated control to address the risks arising from the use of IT, and to provide a basis for the auditor's expectation that the automated control operated effectively throughout the period. When the auditor expects related general IT controls to be ineffective, this determination may affect the auditor's assessment of control risk at the assertion level ~~and the auditor's further audit procedures may need to include substantive procedures to address the applicable risks arising from the use of IT.~~ Further guidance about the procedures that the auditor may perform in these circumstances is provided in Proposed ISA 330 (Revised).⁶⁵

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

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

A230. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risks of material misstatement. This provides the basis for the auditor's design of the nature, timing and extent of further audit procedures responsive to the assessed risks of material misstatement, at the assertion level, in accordance with Proposed ISA 330 (Revised). Accordingly, the audit evidence obtained from the risk assessment procedures provides a basis for the identification and assessment of risks of material misstatement whether due to fraud or error, at the financial statement and assertion levels.

Professional Skepticism

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

The Evaluation of the Audit Evidence

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

- Information obtained during the auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement; and, when applicable, other engagements performed by the engagement partner for the entity in accordance with paragraphs 15–16.
- The results of the engagement team discussion in accordance with paragraphs 17–18.
- The auditor's understanding in accordance with paragraphs 19–20 of:
 - The entity's organizational structure, ownership and governance, and its business model;
 - Industry, regulatory and other external factors;

⁶⁵ Proposed ISA 500330 (Revised), paragraphs A37–A405

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- The measures used, internally and externally, to assess the entity's financial performance;
- The applicable financial reporting framework, and the entity's accounting policies and the reasons for any changes thereto, including whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework; and
- How inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so.

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

A231. Audit evidence from risk assessment procedures comprises both evidence that may support and corroborate the assertions made by management, and or evidence that may contradict such assertions.⁶⁶

Professional Skepticism

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

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

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

~~A233. As explained in ISA 320,⁶⁷ materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements.⁶⁸ For the purpose of this ISA and paragraph 18 of ISA 330, classes of transactions, account balances or disclosures are material if omitting, misstating or obscuring information about them could reasonably~~

⁶⁶ Proposed ISA 500 (Revised), paragraph A5A7

⁶⁷ ISA 320, paragraph A1

⁶⁸ ISA 320, paragraph 4

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

~~be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.~~

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

Example:

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

A235. ~~Audit procedures to address classes of transactions, account balances or disclosures that are material but are not determined to be significant are addressed in ISA 330.⁶⁹ When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph 20, the class of transactions, account balance or disclosure is also a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA 330.~~

A233B. Conversely, in applying the requirement in paragraph 36, the auditor may evaluate that the auditor's determination does not remain appropriate and that one or more material classes of transactions, account balances or disclosures, not previously determined as such, are significant classes of transactions, account balances or disclosures. The auditor may identify previously unrecognized complexity, subjectivity, change, uncertainty, susceptibility to misstatement due to management bias or other fraud risk factors which leads the auditor to identify a risk of material misstatement at the assertion level that had not been previously identified.

Examples:

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

Revision of Risk Assessment (Ref: Para. 37)

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

⁶⁹—ISA 330, paragraph 18

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Example:

The ~~auditor's~~ ~~entity's~~ risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures, the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor's risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. Paragraphs ~~19, 2046~~ and ~~2147A~~ of Proposed ISA 330 (Revised) provide further guidance about evaluating the operating effectiveness of controls and the results of tests of controls.

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

...

Documentation

...

A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts the assertions made by management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

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

A238A. The auditor uses professional judgment in documenting the basis for the auditor's determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. However, the auditor is

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

not required to prepare audit documentation at the assertion level for such classes of transactions, account balances or disclosures. ISA 230 requires audit documentation to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the basis for the auditor's significant judgments.⁷⁰

...

Appendix 3

(Ref: Para. 12(m), 21–26, A90–A181)

Understanding the Entity's System of Internal Control

...

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

...

Appendix 5

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

Considerations for Understanding Information Technology (IT)

...

Scalability

15. ...

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

...

ISA 320, MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

...

Application and Other Explanatory Material

⁷⁰ ISA 230, paragraph 8

Materiality and Audit Risk (Ref: Para. 5)

- A1. In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk. Materiality and audit risk are considered throughout the audit, in particular, when:
- (a) Identifying and assessing the risks of material misstatement;
 - (b) Determining the nature, timing and extent of further audit procedures;⁷¹ and
 - (c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

...

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

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315 (Revised 2019)⁷² and Proposed ISA 330 (Revised)⁷³ in obtaining an understanding of the user entity, including the entity's system of internal control relevant to the preparation of the financial statements, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

...

Responding to the Assessed Risks of Material Misstatement

15. In responding to assessed risks in accordance with Proposed ISA 330 (Revised), the user auditor shall:
- (a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and, if not,

⁷¹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

⁷² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁷³ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

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

...

Application and Other Explanatory Material

...

Responding to the Assessed Risks of Material Misstatement

...

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

...

Test of Controls

- A29. The user auditor is required by Proposed ISA 330 (Revised)⁷⁴ to design and perform tests of controls ~~to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls~~ in certain circumstances. In the context of a service organization, this requirement applies when the auditor plans to obtain audit evidence about the operating effectiveness of controls at the service organization in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, the auditor shall design and perform tests of controls.:

- (a) ~~The user auditor's assessment of risks of material misstatement includes an expectation that the controls at the service organization are operating effectively (that is, the user auditor intends to rely on the operating effectiveness of controls at the service organization in determining the nature, timing and extent of substantive procedures); or~~
- (b) ~~Substantive procedures alone, or in combination with tests of the operating effectiveness of controls at the user entity, cannot provide sufficient appropriate audit evidence at the assertion level.~~

...

- A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant the audit evidence from the test may be ~~the test may provide~~. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit

⁷⁴ Proposed ISA 330 (Revised), paragraph 98

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

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

- The significance of the assessed risks of material misstatement at the assertion level;
- The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel;
- The degree to which audit evidence about the operating effectiveness of those controls was obtained;
- The length of the remaining period;
- The extent to which the user auditor intends to reduce further substantive procedures based on the reliance on audit evidence obtained about the operating effectiveness of controls; and
- The effectiveness of the control environment and the user entity's process to monitor the system of internal control.

...

ISA 510, INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES

...

Appendix

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

Illustration 1:

...

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

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

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

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

Illustration 2

...

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

ISA 530, AUDIT SAMPLING

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.

2. This ISA complements Proposed ISA 500 (Revised),⁷⁵ which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of to obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence. Proposed ISA 500 (Revised) provides guidance on the various approaches (i.e., means) available to the auditor for selecting items for testing, of which audit sampling is one means.

...

Application and Other Explanatory Material

...

Sample Design, Size, and Selection of Items for Testing

Sample Design (Ref: Para. 6)

...

- A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the requirement of paragraph 129 of Proposed ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

...

Projecting Misstatements (Ref: Para. 14)

...

- A20. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. Proposed ISA 330 (Revised)⁷⁶ provides guidance when deviations from the expected operation of controls upon which the auditor intends to rely are detected.

...

Appendix 4

(Ref: Para. A13)

Sample Selection Methods

...

⁷⁵ Proposed ISA 500 (Revised), *Audit Evidence*

⁷⁶ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraphs A61–A63¹⁷

(e) Block selection...

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

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

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),⁷⁷ Proposed ISA 330 (Revised),⁷⁸ ISA 450,⁷⁹ Proposed ISA 500 (Revised)⁸⁰ and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.
- ...
5. This ISA refers to relevant requirements in ISA 315 (Revised 2019) and Proposed ISA 330 (Revised), and provides related guidance, to emphasize the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:
 - There are controls required to be identified by ISA 315 (Revised 2019), for which the auditor is required to evaluate their design and determine whether they have been implemented.
 - To test obtain audit evidence about the operating effectiveness of relevant controls.
 6. ISA 315 (Revised 2019) also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level. In assessing control risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on audit evidence about the operating effectiveness of controls. If the auditor does not plan to test the operating effectiveness of controls as part of the further audit procedures, ~~or does not intend to rely on the operating effectiveness of controls~~, the auditor's assessment of control risk is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A10)
 7. This ISA emphasizes that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to ~~the reasons for~~ the assessed risks of material misstatement at the assertion level, ~~taking into account the effect of one or more inherent risk factors~~ taking into account the reasons for the assessment of inherent risk and the auditor's assessment of control risk at the assertion level, for each significant class of transactions, account balance and disclosure.

⁷⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁷⁸ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

⁷⁹ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁸⁰ Proposed ISA 500 (Revised), *Audit Evidence*

...

Responses to the Assessed Risks of Material Misstatement

18. As required by Proposed ISA 330 (Revised),⁸¹ the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level,⁸² ~~considering: taking into account the reasons for the assessment given to those of inherent risks and of control risk at the assertion level.~~

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

- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);
- (b) Testing how management made the accounting estimate (see paragraphs 22–27); or
- (c) Developing an auditor's point estimate or range (see paragraphs 28–29).

The auditor's further audit procedures shall take into account that the higher the assessed inherent risk is on the spectrum of inherent risk of material misstatement, the more persuasive the audit evidence needs to be.⁸³ The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A81–A84)

19. As required by Proposed ISA 330 (Revised),⁸⁴ ~~the auditor shall design and perform tests if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, the auditor shall design and perform tests of controls. to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if:~~

- ~~(a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively; or~~
- ~~(b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.~~

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment ~~given to the risks of material misstatement of control risk~~. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence about the operating effectiveness of controls the greater the reliance the auditor places on ~~the effectiveness of a control~~ such evidence in responding to assessed risks of material misstatement at the assertion level.⁸⁵ (Ref: Para. A85–A89)

20. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to ~~rely on~~ test those controls. When

⁸¹ Proposed ISA 330 (Revised), paragraphs 6–1518 and 8A18

⁸² Proposed ISA 330 (Revised), paragraphs 6–7 and 8B24

⁸³ Proposed ISA 330 (Revised), paragraph 7(bc)

⁸⁴ Proposed ISA 330 (Revised), paragraph 98

⁸⁵ Proposed ISA 330 (Revised), paragraph 109

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.⁸⁶ (Ref: Para. A90)

...

Testing How Management Made the Accounting Estimate

...

Data

25. In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:
- (a) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate (Ref: Para. A95, A106);
 - (b) Whether judgments made in selecting the data give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the data is relevant and reliable in the circumstances;⁸⁷ and (Ref: Para. A107)
 - (d) Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms. (Ref: Para. A108)

...

Other Considerations Relating to Audit Evidence

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

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

...

Overall Evaluation Based on Audit Procedures Performed

33. In applying Proposed ISA 330 (Revised) to accounting estimates,⁸⁸ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)

⁸⁶ Proposed ISA 330 (Revised), paragraphs 4514 and 234

⁸⁷ Proposed ISA 500 (Revised), paragraphs 11 and 13

⁸⁸ Proposed ISA 330 (Revised), paragraphs 30–3225–26

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
 - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
 - (c) ~~Sufficient appropriate audit evidence has been obtained~~ The audit evidence obtained from the further audit procedures is sufficient and appropriate in responding to the assessed risks of material misstatement.
34. In making the evaluation required by paragraph 33(c), the auditor shall consider all audit evidence obtained from further audit procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions made by management in the financial statements. take into account all relevant audit evidence obtained, whether corroborative or contradictory.⁸⁹ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).⁹⁰

...

Documentation

39. The auditor shall include in the audit documentation:⁹¹ (Ref: Para. A149–A152)
- (a) Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;
 - (b) The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level,⁹² taking into account the reasons for the assessment of inherent risk and of control risk at the assertion level ~~taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks;~~
 - (c) The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;
 - (d) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph 32; and
 - (e) Significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

...

Application and Other Explanatory Material

...

⁸⁹ Proposed ISA 330 (Revised), paragraph 31 ~~ISA 500, paragraph 11~~

⁹⁰ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁹¹ ISA 230, *Audit Documentation*, paragraphs 8–11, A6–A7 and Appendix 40

⁹² Proposed ISA 330 (Revised), paragraph 28 ~~33(b)~~

Key Concepts of This ISA

...

Control Risk (Ref: Para. 6)

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

...

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

A31. The auditor may consider whether the following circumstances increase the likelihood that management needs to engage an expert:⁹³

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

...

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

...

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

...

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

⁹³ Proposed ISA 500 (Revised), paragraph 148

~~the effective operation~~ of controls. If control risk is assessed at less than maximum, the auditor ~~contemplates reliance on the effective operation~~ plans to test the operating effectiveness of controls.

...

Responses to the Assessed Risks of Material Misstatement

...

Obtaining Relevant and Reliable Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises ~~both information evidence~~ both information evidence that supports and corroborates management's assertions, and ~~any information evidence~~ any information evidence that contradicts such assertions.⁹⁴ Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

A83. Proposed ISA 330 (Revised) requires the auditor to plan to obtain more persuasive audit evidence the higher the auditor's assessment of the inherent risk is on the spectrum of inherent risk.⁹⁵ Therefore, the consideration of the nature or quantity of the audit evidence may be more important when inherent risks relating to an accounting estimate is assessed at the higher end of the spectrum of inherent risk.

Scalability

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

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

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

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

...

⁹⁴ Proposed ISA 500 (Revised), paragraphs ~~A6–A7A5~~

⁹⁵ Proposed ISA 330 (Revised), paragraphs 7(~~b~~c) and ~~A23–A26~~49

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

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

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

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

...

Significant Risks (Ref: Para. 20)

A90. When the auditor's further audit procedures in response to a significant risk consist only of substantive procedures, Proposed ISA 330 (Revised)⁹⁶ requires that those procedures include tests of details. Such tests of details may be designed and performed under each of the approaches described in paragraph 18 of this ISA based on the auditor's professional judgment in the circumstances. Examples of tests of details for significant risks related to accounting estimates include:

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

...

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

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

⁹⁶ Proposed ISA 330 (Revised), paragraph 8B4

accuracy and completeness of the information ~~intended purpose(s) of the audit procedures and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~⁹⁷

...

External Information Sources

A127. As explained in Proposed ISA 500 (Revised),⁹⁸ the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the relevance of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information ~~reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors.~~ For example:

- When market or industry data, prices, or pricing related data, are obtained from a single external information source, specializing in such information, the auditor may seek a price from an alternative independent source with which to compare.
- When market or industry data, prices, or pricing related data, are obtained from multiple independent external information sources and points to consensus across those sources, the auditor may need to obtain less evidence about the reliability of the data from an individual source.
- When information obtained from multiple information sources points to divergent market views the auditor may seek to understand the reasons for the diversity in views. The diversity may result from the use of different methods, assumptions, or data. For example, one source may be using current prices and another source using future prices. When the diversity relates to estimation uncertainty, the auditor is required by paragraph 26(b) to obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, the disclosures in the financial statements that describe the estimation uncertainty are reasonable. In such cases professional judgment is also important in considering information about the methods, assumptions or data applied.
- When information obtained from an external information source has been developed by that source using its own model(s), the auditor may consider that the credibility of the external information source is of significance in the circumstances when evaluating the reliability of the information. Paragraphs ~~A52–A53~~⁴³ of Proposed ISA 500 (Revised) provides relevant guidance.

...

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and

⁹⁷ Proposed ISA 500 (Revised), paragraphs 11–129

⁹⁸ Proposed ISA 500 (Revised), paragraph ~~A32, A43 and A54~~^{A35}

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph A44-A37 of Proposed ISA 500 (Revised) provides guidance for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an ~~with respect to restrictions placed by the~~ external information source ~~on the provision of supporting information.~~

...

Management's Expert

...

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

...

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

A137. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures.⁹⁹ In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.

...

Documentation (Ref: Para. 39)

A149. ISA 315 (Revised 2019)¹⁰⁰ and Proposed ISA 330 (Revised)¹⁰¹ provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in ISA 230. In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements of the auditor's understanding of the entity and its environment related to accounting estimates. In addition, the auditor's judgments about the assessed risks of material misstatement

⁹⁹ Proposed ISA 330 (Revised), paragraph A8362

¹⁰⁰ ISA 315 (Revised), paragraphs 38 and A237–A241

¹⁰¹ Proposed ISA 330 (Revised), paragraphs ~~3328~~ and A8665

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

A150. In documenting the linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level, in accordance with Proposed ISA 330 (Revised),¹⁰² this ISA requires that the auditor take into account the reasons for the assessment of inherent risk and of control risk, given to the risks of material misstatement at the assertion level. Those reasons may relate to one or more inherent risk factors or the auditor's assessment of control risk. However, the auditor is not required to document how every inherent risk factor was taken into account in identifying and assessing the risks of material misstatement in relation to each accounting estimate.

...

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

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

...

Appendix 1

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

Inherent Risk Factors

...

¹⁰² Proposed ISA 330 (Revised), paragraph 7

Complexity

...

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

- (a) When data is difficult to obtain or when it relates to transactions that are not generally accessible. Even when such data is accessible, for example through an external information source, it may be difficult to ~~consider~~ evaluate the relevance and reliability of the data, unless the external information source discloses adequate information about the underlying data sources it has used and about any data processing that has been performed.
- (b) When data reflecting an external information source's views about future conditions or events, which may be relevant in developing support for an assumption, is difficult to understand without transparency about the rationale and information taken into account in developing those views.
- (c) When certain types of data are inherently difficult to understand because they require an understanding of technically complex business or legal concepts, such as may be required to properly understand data that comprises the terms of legal agreements about transactions involving complex financial instruments or insurance products.

...

ISA 550, RELATED PARTIES

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how ISA 315 (Revised 2019),¹⁰³ Proposed ISA 330 (Revised),¹⁰⁴ and ISA 240 (Revised)¹⁰⁵ are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

...

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

20. As part of the Proposed ISA 330 (Revised) requirement that the auditor respond to assessed risks,¹⁰⁶ the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions. These audit procedures shall include those required by paragraphs 21–24. (Ref: Para. A31–A34)

...

¹⁰³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹⁰⁴ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

¹⁰⁵ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹⁰⁶ Proposed ISA 330 (Revised), paragraphs 5–76

Application and Other Explanatory Material

...

A31. The nature, timing and extent of the further audit procedures that the auditor may select to respond to the assessed risks of material misstatement associated with related party relationships and transactions depend upon the nature of those risks and the circumstances of the entity.¹⁰⁷

...

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive ~~audit~~ procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported ~~electronically in digital form~~ in an integrated system, the auditor may determine that it is not possible to design effective substantive ~~audit~~ procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the Proposed ISA 330 (Revised) requirement to design and perform tests of controls in responding to the assessed risks of material misstatement ~~obtain sufficient appropriate audit evidence as to the operating effectiveness of controls~~,¹⁰⁸ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

...

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

...

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

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

¹⁰⁷ Proposed ISA 330 (Revised) provides further guidance on considering the nature, timing and extent of further audit procedures. ISA 240 (Revised) establishes requirements and provides guidance on appropriate responses to assessed risks of material misstatement due to fraud.

¹⁰⁸ Proposed ISA 330 (Revised), paragraph 98

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- Verifying the terms and conditions of the newly identified related party transactions, and evaluating whether the transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

...

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

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

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

- Whether the transaction:
 - Is overly complex (for example, it may involve multiple related parties within a group).
 - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
 - Lacks an apparent logical business reason for its occurrence.
 - Involves previously unidentified related parties.
 - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.
- If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with Proposed ISA 500 (Revised),¹⁰⁹ to ~~consider~~ evaluate the reliability of management's explanations and representations on other significant matters.

...

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

...

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

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

...

¹⁰⁹ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 15–17¹⁴

ISA 570 (REVISED 2024), GOING CONCERN

Introduction

...

Application and Other Explanatory Material

...

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

Examples:

The auditor may use ~~automated technological tools and techniques~~ when:

- Performing analytical procedures to understand the trends of key financial ratios (e.g., the entity's key sources of earnings and their relationship to cash generation) or identify inconsistencies or unusual events.
- Applying predictive models to assess an entity's financial condition or to understand the impact of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (e.g., models for prediction of bankruptcy or insolvency).

...

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

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

- ...

Example:

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

...

A44. ~~When using information produced by the entity, Proposed ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence, by considering the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures. When information intended to be used as audit evidence is information produced by the entity, the auditor is required to evaluate, to the extent necessary, the accuracy and completeness of the information~~
~~the intended purpose(s) of the audit procedures, and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~¹¹⁰

¹¹⁰ Proposed ISA 500 (Revised), paragraphs 11–12

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

...

Scalability (Ref: Para. 19)

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

Examples:

Method

-
- ...

Significant Assumptions

- ...
- ...

Data

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

...

A61. In certain circumstances the auditor may consider requesting an external confirmation¹¹¹ of the existence and terms of borrowing facilities between the entity and external finance providers.

Examples:

Requesting an external confirmation may be appropriate when:

- Borrowing facilities are being renewed in the assessment period.
- There are limited financial resources available to the entity beyond those required to continue its operations.
- The entity is dependent on borrowing facilities shortly due for renewal, for example within twelve months from the date of approval of the financial statements.
- There is an indication that previous renewal of borrowing facilities was agreed with difficulty, or the lender has imposed additional conditions as a prerequisite for continued financing.

¹¹¹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraph 8C19

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- There is a significant deterioration in projected cash flows.
- The value of assets granted as security for borrowing is declining.
- The entity has breached the terms of borrowing covenants, or there are indications of potential breaches.

...

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

Intent (Ref: Para. 28)

A63. Where management's plans for future actions include financial support by third parties or related parties, including the entity's owner-manager, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such financial support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation from such parties to obtain sufficient appropriate audit evidence about their intent to provide the necessary financial support. Such written confirmation may be in paper form, or by ~~electronic~~ digital or other medium¹¹² and may include:

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

...

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

...

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

...

Appendix

(Ref: Para. A78, A81, A89, A91–A92)

Illustrations of Independent Auditor's Reports Related to Going Concern

...

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

...

¹¹² ISA 505, *External Confirmations*, paragraph 6(a)

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

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

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

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

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

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

[Auditor Address]

[Date]

...

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

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

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

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

[Auditor Address]

[Date]

...

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

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

ISA 580, WRITTEN REPRESENTATIONS

Introduction

...

Written Representations as Audit Evidence

3. Audit evidence is ~~the information, after applying audit procedures, that the auditor uses~~ used by the auditor in arriving at the to draw conclusions that form the basis for on which the auditor’s opinion and report is based.¹¹³ Written representations are necessary information that the auditor requires in connection with the audit of the entity’s financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

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

Introduction

Scope of this ISA

¹¹³ Proposed ISA 500 (Revised), *Audit Evidence*, paragraph 5(e)8(b)

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements (a group audit). This ISA deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular ISA 220 (Revised),¹¹⁴ ISA 230,¹¹⁵ ISA 300,¹¹⁶ ISA 315 (Revised 2019),¹¹⁷ and Proposed ISA 330 (Revised).¹¹⁸ (Ref: Para. A1–A2)

...

Involvement of Component Auditors

6. ISA 220 (Revised)¹¹⁹ requires the engagement partner to determine that sufficient and appropriate human, technological and intellectual resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors. Therefore, this ISA requires the group auditor to determine the nature, timing and extent of involvement of component auditors.

...

Responding to the Assessed Risks of Material Misstatement

37. In applying Proposed ISA 330 (Revised),¹²⁰ the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A124–A139)

...

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying Proposed ISA 330 (Revised),¹²¹ the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151–A155)

...

Application and Other Explanatory Material

...

- A41. If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may

¹¹⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹¹⁵ ISA 230, *Audit Documentation*

¹¹⁶ ISA 300, *Planning an Audit of Financial Statements*

¹¹⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹¹⁸ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

¹¹⁹ ISA 220 (Revised), paragraph 25

¹²⁰ Proposed ISA 330 (Revised), paragraphs 6–7

¹²¹ Proposed ISA 330 (Revised), paragraph 26³¹

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

be able to obtain information to be used as audit evidence regarding the entity's financial information, for example:

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

It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.¹²²

...

Automated Technological tools and techniques

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

...

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

...

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

...

A129. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may also include substantive analytical procedures in accordance with Proposed ISA 520 (Revised).¹²³ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values between the expectation developed by the group auditor

¹²² Proposed ISA 330 (Revised), paragraph 7(bc)

¹²³ Proposed ISA 520 (Revised), *Analytical Procedures*

and the recorded amounts (or amounts derived from recorded amounts) in performing the substantive analytical procedures. The use of ~~automated~~ technological tools ~~and techniques~~ may be helpful in these circumstances.

...

Operating Effectiveness of Controls

A137. The group auditor may ~~rely on~~ test the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components. Proposed ISA 330 (Revised)¹²⁴ requires the auditor to design and perform tests of controls if the auditor plans to obtain audit evidence about the operating effectiveness of controls in responding to assessed risks of material misstatement at the assertion level, including controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. ~~to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls.~~ Component auditors may be involved in designing and performing such tests of controls.

A138. ~~If the auditor identifies deviations from the expected operations of controls upon which the auditor intends to rely are detected,~~ Proposed ISA 330 (Revised)¹²⁵ requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:

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

...

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

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

...

A152. The evaluation required by paragraph 51 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. ~~The requirement in ISA 330¹²⁶ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.~~

¹²⁴ Proposed ISA 330 (Revised), paragraph 98

¹²⁵ Proposed ISA 330 (Revised), paragraphs ~~20–21~~¹⁷

¹²⁶ ~~ISA 330~~, paragraph 18

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

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

...

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

...

Appendix 1

(Ref: Para. A45)

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

...

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

[Auditor Address]

[Date]

...

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

...

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with Proposed ISA 330 (Revised).¹²⁷

...

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised). In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
 - (b) The review procedures shall include the external auditor checking back to the underlying ~~audit evidence~~ information for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

...

Application and Other Explanatory Material

...

- A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA, although they may perform controls that can be tested in accordance with Proposed ISA 330 (Revised). For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.

...

¹²⁷ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

ISA 620, USING THE WORK OF AN AUDITOR'S EXPERT

Introduction

Scope of this ISA

...

2. This ISA does not deal with:
- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);¹²⁸ or
 - (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in Proposed ISA 500 (Revised).¹²⁹

...

Application and Other Explanatory Material

...

- A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's expert may include:
- Whether management has used a management's expert in preparing the financial statements (see paragraph A9).
 - The nature and significance of the matter, including its complexity.
 - The risks of material misstatement in the matter.
 - The expected nature of procedures to respond to identified risks, including: the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.
- A9. When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:
- The nature, scope and objectives of the management's expert's work.
 - Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
 - The extent to which management can exercise control or influence over the work of the management's expert.
 - The management's expert's competence and capabilities.

¹²⁸ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A19

¹²⁹ Proposed ISA 500 (Revised), *Audit Evidence*, paragraphs A45–A5914, A61–A73

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

Proposed ISA 500 (Revised)¹³⁰ includes requirements and guidance regarding the effect evaluation of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

...

Requirements

...

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{131,132}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall ~~take into account~~ consider:
 - (a) The auditor's conclusion, in accordance with paragraph 11A, ISA 330, whether sufficient appropriate audit evidence has been obtained;¹³³
 - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹³⁴ and
 - (c) The evaluations required by paragraphs 12–15.
- 11A. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In doing so, the auditor shall consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A0–A0B)
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)

¹³⁰ Proposed ISA 500 (Revised), paragraph 148

¹³¹ ISA 200, paragraph 11

¹³² Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

¹³³ ~~ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26~~

¹³⁴ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

...

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
- (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

...

Application and Other Explanatory Material

Concluding on the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 11A)

A0. As explained in ISA 200, as the basis for the auditor's opinion, the ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.¹³⁵ Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.¹³⁶

A0A. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.¹³⁷ The auditor's professional judgment as to what constitutes sufficient appropriate audit evidence may be influenced by factors such as:

- Significance of the potential misstatement in the assertion and the likelihood of it having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Relevance and reliability of the information, including whether any doubts about relevance and reliability of information have been resolved and how inconsistencies with other audit evidence have been addressed.
- Persuasiveness of the audit evidence.

¹³⁵ ISA 200, paragraph 5

¹³⁶ ISA 200, paragraph 17

¹³⁷ ISA 200, paragraph A34

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- Understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

A0B. The auditor is required to use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to evaluate whether sufficient appropriate audit evidence has been obtained.¹³⁸ Other relevant ISAs also establish separate evaluations of the audit evidence obtained throughout the audit to support the auditor in concluding whether sufficient appropriate audit evidence has been obtained. Appendix 1 lists the other ISAs that contain separate evaluations of the audit evidence obtained.

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.

...

Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using ~~an electronic~~ a digital medium.

A19. ~~The Appendix 2 to this ISA~~ contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 21–49. With the exception of the Opinion and Basis for Opinion sections, this ISA does not establish requirements for ordering the elements of the auditor's report. However, this ISA requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in ~~the Appendix 2 to this ISA~~.

...

Responsibilities for the Financial Statements (Ref: Para. 33–34)

...

A49. ~~The Appendix 2 to this ISA~~ provides illustrations of how the requirement in paragraph 34(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in ~~the Appendix 2 to this ISA~~ may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

...

A51. The description of the auditor's responsibilities as required by paragraphs 37–40 ~~of this ISA~~ may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements. Illustration 2 in ~~the Appendix 2 to this ISA~~ includes an example of how this may be done.

...

¹³⁸ ISA 200, paragraph 21(b)

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- A53. ~~The Appendix 2 to this ISA~~ provides illustrations of how the requirement in paragraph 38(c), to provide a description of materiality, would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in ~~the Appendix 2 to this ISA~~ may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

...

Appendix 1

(Ref: Para. A0B)

Separate Evaluations of the Audit Evidence Obtained in Other ISAs

This appendix identifies paragraphs in other ISAs that contain requirements to evaluate the audit evidence obtained. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraph 54
- ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 35
- Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* – paragraph 31
- ISA 505, *External Confirmations* – paragraph 16
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 33(c)
- ISA 570 (Revised 2024), *Going Concern* – paragraph 30
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 51

...

Appendix 2

(Ref: Para. A19)

Illustrations of Independent Auditor's Reports on Financial Statements

...

ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

Scope of this ISA

...

Application and Other Explanatory Material

...

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

Matters that Required Significant Auditor Attention (Ref: Para. 9)

A12. The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to plan to obtain more persuasive audit evidence the higher the auditor's assessment of inherent risk on the spectrum of inherent risk.¹³⁹ ~~When obtaining more persuasive audit evidence~~ This may include ~~because of a higher assessment of risk, the auditor may increase~~ increasing the quantity of the evidence obtained, or obtaining evidence that is of higher quality ~~more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.~~¹⁴⁰

...

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~of~~ audit evidence obtained throughout the audit.

...

ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

Introduction

...

Appendix

(Ref: Para. A17–A18, A25)

Illustrations of Independent Auditor's Reports with Modifications to the Opinion

...

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

...

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

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

¹³⁹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*, paragraph 7(b)(c)

¹⁴⁰ Proposed ISA 330 (Revised), paragraphs A23–A26

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

...

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

...

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

...

Appendix 3

(Ref: Para. A17)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Appendix 4

(Ref: Para. A8)

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

[Auditor Address]

[Date]

...

ISA 710, COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

...

Appendix

(Ref: Para. A5, A7, A10)

Illustrations of Independent Auditors' Reports

Illustration 1 – Corresponding Figures

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

Illustration 2 – Corresponding Figures

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

[Auditor Address]

[Date]

...

Illustration 3 – Corresponding Figures

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

Illustration 4 – Comparative Financial Statements

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

...

ISA 720 (REVISED), THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

Application and Other Explanatory Material

Definitions

Annual Report (Ref: Para. 12(a))

...

- A4. An annual report may be made available to users in printed ~~form~~, or ~~electronically~~ digital form, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.

...

Obtaining the Other Information (Ref: Para. 13)

...

- A19. When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this ISA. The auditor has no responsibility under this ISA to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed ~~electronically~~ in digital form.

...

Appendix 2

(Ref: Para. 21-22, A53)

Illustrations of Independent Auditors' Reports Relating to Other Information

...

Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

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

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

[Auditor Address]

[Date]

...

Illustration 2 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Illustration 3 – An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

...

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

[Auditor Address]

[Date]

...

Illustration 4 – An auditor’s report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

Report on Other Legal and Regulatory Requirements

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

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

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

[Auditor Address]

[Date]

...

Illustration 5 – An auditor’s report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has concluded that a material misstatement of the other information exists.

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

[Auditor Address]

[Date]

...

Illustration 6 – An auditor’s report of any entity, whether listed or other than listed, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

[Auditor Address]

[Date]

...

Illustration 7 – An auditor’s report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and the adverse opinion on the consolidated financial statements also affects the other information.

...

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

[Auditor Address]

[Date]

...

**ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE
FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF
A FINANCIAL STATEMENT**

...

Application and Other Explanatory Material

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

...

- A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be ~~acquired~~ obtained in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need ~~further to obtain audit~~ evidence to supplement the information obtained ~~corroborate audit evidence acquired~~ from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised 2024) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

...

INTERNATIONAL AUDITING PRACTICE NOTE 1000, SPECIAL CONSIDERATIONS IN AUDITING FINANCIAL INSTRUMENTS

Introduction

...

2. The following International Standards on Auditing (ISAs) are particularly relevant to audits of financial instruments:
- (a) ISA 540¹⁴¹ deals with the auditor's responsibilities relating to auditing accounting estimates, including accounting estimates related to financial instruments measured at fair value;
 - (b) ISA 315 (Revised 2019)¹⁴² and Proposed ISA 330 (Revised)¹⁴³ deal with identifying and assessing risks of material misstatement and responding to those risks; and
 - (c) Proposed ISA 500 (Revised)¹⁴⁴ explains what constitutes audit evidence and deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of ~~to obtaining~~ sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence.

...

¹⁴¹ ISA 540, *Auditing Accounting Estimates and Related Disclosures*

¹⁴² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹⁴³ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

¹⁴⁴ Proposed ISA 500 (Revised), *Audit Evidence*

Planning Considerations

...

Using Those with Specialized Skills and Knowledge in the Audit

...

79. Accordingly, auditing financial instruments may require the involvement of one or more experts or specialists, for example, in the areas of:

- ...
- Evaluating information technology controls, especially in entities with a high volume of financial instruments. In such entities information technology may be highly complex, for example when significant information about those financial instruments is transmitted, processed, maintained or accessed ~~electronically~~ in digital form. In addition, it may include relevant services provided by a service organization.

...

Assessing and Responding to the Risks of Material Misstatement

...

Assessing the Risk of Material Misstatement

89. The auditor's assessment of the identified risks at the assertion level in accordance with ISA 315 (Revised 2019) includes evaluating the design and implementation of internal control. It provides a basis for considering the appropriate audit approach for designing and performing further audit procedures in accordance with Proposed ISA 330 (Revised), including both substantive procedures and tests of controls. The approach taken is influenced by the auditor's understanding of internal control relevant to the audit, including the strength of the control environment and any risk management function, the size and complexity of the entity's operations and whether the auditor's assessment of the risks of material misstatement include an expectation that controls are operating effectively.

...

Factors to Consider in Determining Whether, and to What Extent, to Test the Operating Effectiveness of Controls

91. An expectation that controls are operating effectively may be more common when dealing with a financial institution with well-established controls, and therefore controls testing may be an effective means of obtaining audit evidence. When an entity has a trading function, substantive tests alone may not provide sufficient appropriate audit evidence due to the volume of contracts and the different systems used. ~~Tests of controls, however, will not be sufficient on their own as the auditor is required by ISA 330 to design and perform substantive procedures for each material class of transactions, account balance and disclosure.~~¹⁴⁵

...

¹⁴⁵ ISA 330, paragraph 18

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

95. In reaching a decision on the nature, timing and extent of testing of controls, the auditor may consider factors such as:

- The nature, frequency and volume of financial instrument transactions;
- ...
- The issues the controls are intended to address, for example, controls related to the exercise of judgments compared with controls over supporting data. Substantive procedures tests are more likely to be effective than relying on testing the operating effectiveness of controls related to the exercise of judgment;
- ...

...

Substantive Procedures

96. Designing substantive procedures includes consideration of:

- The use of analytical procedures¹⁴⁶—While analytical procedures undertaken by the auditor can be effective as risk assessment procedures to provide the auditor with information about an entity's business, they may ~~be less~~not be effective as substantive procedures when performed alone. This is because the complex interplay of the drivers of the valuation often mask any unusual trends that might arise.
- Non-routine transactions—Many financial transactions are negotiated contracts between an entity and its counterparty (often known as “over the counter” or OTC.) To the extent that financial instrument transactions are not routine and outside an entity's normal activities, a substantive audit approach may be the most effective means of achieving the planned audit objectives. In instances where financial instrument transactions are not undertaken routinely, the auditor's responses to assessed risk, including designing and performing audit procedures, have regard to the entity's possible lack of experience in this area.
- Availability of evidence—For example, when the entity uses a third-party pricing source, evidence concerning the relevant financial statement assertions may not be available from the entity.
- Procedures performed in other audit areas—Procedures performed in other financial statement areas may provide evidence about the completeness of financial instrument transactions. These procedures may include tests of subsequent cash receipts and payments, and the search for unrecorded liabilities.
- Selection of items for testing—In some cases, the financial instrument portfolio will comprise instruments with varying complexity and risk. In such cases, judgmental sampling may be useful.

...

¹⁴⁶ ISA 315 (Revised 2019), paragraph 14(b), requires the auditor to apply analytical procedures as risk assessment procedures to assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Proposed ISA 520 (Revised), *Analytical Procedures*, paragraph 96, requires the auditor to use analytical procedures in forming an overall conclusion on the financial statements. Analytical procedures may also be applied at other stages of the audit.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

~~Dual Purpose Tests~~ An Audit Procedure Used for More than One Purpose

98. Although the purpose of a test of controls is different from the purpose of a test of details, it may be efficient to perform both at the same time by, for example:

- Performing a test of controls and a test of details on the same transaction (for example, testing whether a signed contract has been maintained and whether the details of the financial instrument have been appropriately captured in a summary sheet; or
- Testing controls when testing management's process of making valuation estimates.

*Timing of the Auditor's Procedures*¹⁴⁷

...

Procedures Relating to Completeness, Accuracy, Existence, Occurrence and Rights and Obligations

...

104. Procedures that may provide audit evidence to support the completeness, accuracy, and existence assertions include:

- External confirmation¹⁴⁸ of bank accounts, trades, and custodian statements. This can be done by direct confirmation with the counterparty (including the use of bank confirmations), where a reply is sent to the auditor directly. Alternatively, this information may be obtained from the counterparty's systems through a data feed. Where this is done, controls to prevent tampering with the computer systems through which the information is transmitted may be considered by the auditor in evaluating the reliability of the evidence from the confirmation. If confirmations are not received, the auditor may be able to obtain evidence by reviewing contracts and testing relevant controls. External confirmations, however, often do not provide adequate audit evidence with respect to the valuation assertion though they may assist in identifying any side agreements.

...

Significant Risks

...

111. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of Proposed ISA 330 (Revised), ISA 540 requires the auditor to evaluate the following:

- (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed measurement uncertainty in making the accounting estimate;

¹⁴⁷ Paragraphs 44–162 and 252–263 of Proposed ISA 330 (Revised) establish requirements when the auditor performs procedures at an interim period and explains how such audit evidence can be used.

¹⁴⁸ ISA 505, *External Confirmations*, deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of Proposed ISA 330 (Revised) and Proposed ISA 500 (Revised), *Audit Evidence*. See also the Staff Audit Practice Alert, *Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements*, issued in November 2009.

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
 IAASB Main Agenda (June 2026)

- (b) Whether the significant assumptions used by management are reasonable; and
- (c) Where relevant to the reasonableness of the significant assumptions used by management, or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

...

Developing an Audit Approach

114. In testing how management values the financial instrument and in responding to the assessed risks of material misstatement in accordance with ISA 540, the auditor undertakes one or more of the following procedures, taking account of the nature of the accounting estimates:
- (a) Test how management made the accounting estimate and the data on which it is based (including valuation techniques used by the entity in its valuations).
 - (b) ~~Test~~ Obtain audit evidence about the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
 - (c) Develop a point estimate or a range to evaluate management's point estimate.
 - (d) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.

Many auditors find that a combination of testing how management valued the financial instrument, and the data on which it is based, and ~~testing~~ obtaining audit evidence about the operating effectiveness of controls, will be an effective and efficient audit approach. While subsequent events may provide some evidence about the valuation of financial instruments, other factors may need to be taken into account to address any changes in market conditions subsequent to the balance sheet date. If the auditor is unable to test how management made the estimate, the auditor may choose to develop a point estimate or range.

...

Audit Considerations When a Management's Expert Is Used by the Entity

...

134. Paragraph 8 14 of Proposed ISA 500 (Revised) contains requirements for the auditor when evaluating evidence from an expert engaged by management. The extent of the auditor's procedures in relation to a management's expert and that expert's work depend on the significance of the expert's work for the auditor's purposes. Evaluating the appropriateness of management's expert's work assists the auditor in assessing whether the prices or valuations supplied by a management's expert provide sufficient appropriate audit evidence to support the valuations. Examples of procedures the auditor may perform include:
- Evaluating the competence, capabilities and objectivity of management's expert for example: their relationship with the entity; their reputation and standing in the market; their experience with the particular types of instruments; and their understanding of the relevant financial reporting framework applicable to the valuations;

Proposed Conforming and Consequential Amendments to ISQMs and Other ISAs (Approved Version)
IAASB Main Agenda (June 2026)

- Obtaining an understanding of the work of the management's expert, for example by assessing the appropriateness of the valuation technique(s) used and the key market variables and assumptions used in the valuation technique(s);
- Obtaining an understanding of how the information prepared by that expert has been used by management in the preparation of the financial statements, for example, by considering the appropriateness of the information prepared by that expert, and understanding the modifications made by management to the information prepared by that expert, and the reasons for such modifications;
- Evaluating the appropriateness of that expert's work as audit evidence. At this point, the focus is on the appropriateness of the expert's work at the level of the individual financial instrument. For a sample of the relevant instruments, it may be appropriate to develop an estimate independently (see paragraphs 136 to 137 on developing a point estimate or range), using different data and assumptions, then compare that estimate to that of the management's expert; and
- Other procedures may include:
 - Modeling different assumptions to derive assumptions in another model, then considering the reasonableness of those derived assumptions.
 - Comparing management's point estimates with the auditor's point estimates to determine if management's estimates are consistently higher or lower.

...

Appendix

(Ref: Para. A14)

Examples of Controls Relating to Financial Instruments

...

Use of Service Organizations

10. Entities may also use service organizations (for example asset managers) to initiate the purchase or sale of financial instruments, to maintain records of transactions for the entity or to value financial instruments. Some entities may be dependent on these service organizations to provide the basis of reporting for the financial instruments held. However, if management does not have an understanding about the controls in place at a service organization, the auditor may not be able to obtain sufficient appropriate audit evidence ~~to rely on~~ about the operating effectiveness of controls at that service organization. See ISA 402, which establishes requirements for the auditor to obtain sufficient appropriate audit evidence when an entity uses the services of one or more service organizations.

...

Subject: Interim review engagements

Introduction

1. This paper summarises the feedback received on ED-2410 through the various outreach activities described in the summary paper.
2. Our outreach activities included interactions with the following stakeholder groups:
 - Practitioner
 - Methodology software provider
 - Intended user
 - Preparer/director
 - Member body
 - Academic
3. Our outreach was directed at the following specific areas of ED-2410, as described in the Board papers for the June 2026 NZAuASB meeting.
 - Materiality
 - Obtaining an understanding
 - Group engagements
 - Going concern
 - Work effort
 - Reporting
 - Fraud and non-compliance with laws and regulations (NOCLAR)
4. For each of the specific areas discussed, this paper provides a brief summary of the proposal in ED-2410, summarises what we heard from stakeholders and describes how the feedback is reflected in the draft submission.
5. To meet our obligations under the Regulatory Standards Act 2025 we also sought feedback on benefits and costs.

Summary of feedback

Approaching an interim review engagement

6. **What ED-2410 proposes:** ED-2410 includes a single requirement for the auditor to obtain an understanding of the entity and its environment, including internal control relevant to preparation of the interim financial information, and to update that understanding for the interim period. Application material explains how the auditor leverages knowledge from the annual audit and prior interim reviews for recurring engagements. When the interim review is the first engagement for the audit client, application material sets expectations for additional understanding and procedures, i.e., in performing the interim review engagement, the auditor needs an “audit-level” understanding, even in a first-time engagement. (ED-2410, paragraphs 43 and A72-A79)
7. **What we heard:** Supportive.

8. Stakeholders supported a single, principles-based requirement for obtaining an understanding that applies to both first-time and continuing engagements. Feedback indicated that, for recurring engagements, auditors would ordinarily leverage their existing knowledge of the entity and that the proposed requirements are not expected to represent a significant change in practice.
9. The key implementation issue relates to first-time engagements. Stakeholders noted that it is not uncommon for a newly appointed auditor's first engagement with an entity to be the interim review. In those circumstances, the auditor still needs to obtain the required level of knowledge, and stakeholders accepted that the auditor would need to do more than in a recurring engagement.
10. One stakeholder suggested that it may be useful to more clearly articulate the effort required of a practitioner undertaking an interim review as the first engagement of a new audit appointment compared with that required for a practitioner who has previously performed an audit of the entity's financial statements.
11. Stakeholder observations were supported by academic research. Christensen, Newton and Wilkins (2021)¹ found that performing more work during the interim period can improve the auditor's understanding of the entity, facilitate earlier identification of internal control deficiencies, and support more timely financial reporting. Similarly, Grosse, Ma and Scott (2018)² found that partner rotations occurring before the interim review are associated with higher audit fees than rotations occurring later in the audit cycle, suggesting that the interim review plays an important role in enabling a newly appointed engagement partner to develop an understanding of the entity and establish a foundation for the year-end audit.

How the feedback is reflected in the draft submission (question 7)

12. While there was agreement that the core requirement applies to recurring auditors and newly appointed auditors, outreach highlighted a tension in the proposed approach. ED-2410 expects a newly appointed auditor to obtain an audit-level understanding of the entity but does not require the identification and assessment of risks of material misstatement. Feedback from stakeholders, supported by academic research, suggests that newly appointed auditors often perform audit procedures during the interim period, either before or concurrent with the interim review engagement, to obtain the level of understanding necessary to effectively perform the interim review.
13. Taken together, the outreach feedback and academic research suggest that obtaining an appropriate understanding in a first-time engagement may require additional procedures beyond those typically performed in a recurring interim review engagement. These findings support the view that greater clarity regarding the expected work effort in first-time engagements may assist in promoting greater consistency in practice.
14. Staff's view is that the application material is not clear about the extent of work expected when a newly appointed auditor performs an interim review before completing an audit of the entity. The submission focuses on the practical implications of first-time engagements and recommends that the IAASB clarify the expected work effort in these circumstances to promote consistency in practice.

¹ Christensen, B.E., Newton, N.J. and Wilkins, M.S. (2021), Archival Evidence on the Audit Process: Determinants and Consequences of Interim Effort*. *Contemp Account Res*, 38: 942-973. <https://doi.org/10.1111/1911-3846.12633>

² Grosse M, Ma N, Scott T. Interim reviews and the association between partner rotations and audit fees. *Int J. Audit*. 2018; 22: 214–229. <https://doi.org/10.1111/ijau.12116>

Materiality

15. **What ED-2410 proposes:** ED-2410 requires the auditor to determine materiality for the interim review engagement and apply it in designing review procedures and evaluating results. Application material explains that materiality is to be determined by reference to the interim financial information and describes the importance of considering qualitative and quantitative factors, and the auditor's perception of the information needs of users. (ED-2410, paragraphs 41–42 and A66–A71)
16. **What we heard:** Broadly supportive, with practical concerns.
17. Stakeholders were generally supportive of the proposal to require the auditor to determine materiality for an interim review. Feedback indicated that determining materiality supports the evaluation of material misstatements and is broadly consistent with current practice. Stakeholders also supported the principles-based application material.
18. Stakeholders, mainly from the practitioner group, consistently noted that applying materiality in an interim review is challenging in practice. The main implementation issue is that an item may be material to the half-year period but not material in the context of the annual financial statements. Practitioner stakeholders noted that materiality judgements are more difficult in reviews because the engagement typically is limited to enquiry and analytical review procedures. However, there was broad support for retaining flexibility and avoiding prescriptive requirements or application material.
19. Only one participant, from the practitioner stakeholder group, raised the concern that an explicit materiality determination could increase audit firm compliance costs.

How the feedback is reflected in the draft submission (question 8)

20. Staff considered whether the implementation challenges identified warranted a recommendation for additional guidance. However, stakeholders consistently cautioned against a more prescriptive approach. Staff therefore concluded that the feedback supports the IAASB's principles-based approach and does not indicate a need for further requirements or application material. The submission reflects this view by supporting the proposal while highlighting the importance of retaining flexibility in its application.

Group engagements

21. **What ED-2410 proposes:** ED-2410 includes requirements and application material related to the following aspects of group interim review engagements:
 - For the engagement partner to take responsibility for determining whether sufficient and appropriate resources are assigned, including component auditors.
 - For the group auditor to determine the nature, timing and extent of involvement of component auditors.
 - If component auditors are involved, for the group auditor to communicate with the component auditors about the work to be performed, and expected communications about that work.
 - For the auditor to agree group interim financial information to the underlying consolidation schedules.
 - For the group engagement partner to take overall responsibility for confirming that component auditors have complied with relevant ethical requirements.
22. **What we heard:** Supportive.

23. Stakeholders were comfortable with the proposed application of ED-2410 to group interim review engagements. Feedback supported a light-touch approach and recognised that auditor judgement is needed in deciding whether and how to involve component auditors.
24. A stakeholder questioned the intent of the wording in some of the application material. The use of the phrase “and often will” in relation to the group engagement partner determining whether component auditors are to be involved could be interpreted to mean “should be in most cases” and result in unnecessary work effort. Also, more clarification of what it is meant by the component auditor being asked to “provide information” is required. This stakeholder also questioned whether there should be an explicit documentation requirement for group interim engagements.

How the feedback is reflected in the draft submission (question 9)

25. The draft submission expresses overall support for the proposals and does not recommend substantive changes to the requirements. Editorial changes are suggested to the application material.
26. A specific documentation requirement relating to group interim review engagements was not suggested. ED-2410 includes several general requirements related to the form, content and extent of engagement documentation.

Fraud and NOCLAR

27. **What ED-2410 proposes:** ED-2410 strengthens requirements by specifying responses when fraud or suspected fraud or NOCLAR comes to the auditor’s attention during the interim review engagement. The proposals require the auditor to go beyond enquiries in those circumstances to obtain an understanding of the matter (including management’s investigation and remedial action) and to obtain further information to evaluate whether the matter may have a material effect on the interim financial information. When a matter relates to fraud or suspected fraud, the auditor’s evaluation is limited to matters that are more than clearly inconsequential. (ED-2410, paragraphs 52–57 and A99–A106).
28. **What we heard:** Supportive.
29. Stakeholders were supportive of the fraud and NOCLAR proposals.
30. Practitioner feedback included support for elevating the extant enquiries from application material to requirements, and considered the proposals consistent with practice where auditors do more when matters come to their attention.

How the feedback is reflected in the draft submission (question 11)

31. The submission supports the proposals while using the opportunity to highlight continuing implementation challenges and encourage further coordination between the IAASB and IESBA. This reflects staff’s view that the principal challenge lies in the operability of the broader NOCLAR framework rather than the specific requirements proposed in ED-2410.

Going concern

Work effort

32. **What ED-2410 proposes (work effort):** ED-2410 strengthens and clarifies the auditor’s responsibilities for going concern in an interim review engagement. It anchors the auditor’s work to management’s going concern assessment, requires the auditor to enquire about changes and new events or conditions, and requires additional procedures when events or conditions

indicating potential going concern issues are identified, including evaluating the adequacy of related disclosures. (ED-2410, paragraphs 58–65 and A107–A114)

33. **What we heard:** Broadly supportive.
34. Stakeholders broadly supported the proposed work effort relating to going concern. Feedback emphasised that, in an interim review, the work effort should continue to be primarily based on enquiry and analytical procedures with the auditor performing other procedures when events or conditions exist or have changed since the previous audit or review. One stakeholder suggested that greater clarity in the application material around the appropriate work effort in relation to management's assessment of going concern may be helpful.
35. Practitioner stakeholders indicated that management often undertakes a very limited or an informal going concern assessment at interim, but the proposed standard may require more formal documentation of those considerations. They also noted that auditors already communicate going concern matters to management and those charged with governance, although in most cases there are no issues to report.

How the feedback is reflected in the draft submission (question 12)

36. Stakeholders broadly supported the proposed work effort relating to going concern and considered the proposals to be consistent with the nature of a limited assurance engagement. Feedback also reinforced the importance of maintaining an approach centred on enquiry and analytical procedures, while requiring other procedures when events or conditions exist. The extent of work effort is a matter of professional judgement based on the facts and circumstances. Accordingly, the submission expresses support for the proposals.

Reporting

37. **What ED-2410 proposes (reporting):** ED-2410 introduces required statements in the interim review report addressing (a) management's use of the going concern basis and (b) whether a material uncertainty related to going concern exists, and prescribes different reporting outcomes for common scenarios. This includes a new "Going Concern" section in the report in scenarios where no material uncertainty exists, and a "Material Uncertainty Related to Going Concern" section when one exists, aligning closely with the revised going concern reporting requirements for annual audits. (ED-241, paragraphs 108–114 and A173–A176)
38. **What we heard:** Broadly supportive.
39. There were mixed views about the inclusion of going concern section in the interim review report. Some stakeholders supported including going concern statements in the auditor's interim review report, noting that consistent reporting would be helpful to users, particularly where the prior-year audit report included a material uncertainty related to going concern or where circumstances have changed since the previous reporting period. Practitioner stakeholders also considered that explicitly referring to management's judgements and assessment aligns with the revised going concern auditing standard.
40. Other stakeholders questioned the value of reporting in circumstances where no material uncertainty has been identified or where management has not made significant judgements in reaching its going concern conclusion. These stakeholders were concerned that additional reporting could contribute to user confusion and widen, rather than narrow, the expectation gap.
41. Stakeholders also commented on the clarity of the proposed wording. One stakeholder noted that the double-negative construction used in the going concern statements may be difficult for users to understand. Another suggested that simplification of the going concern statements,

potentially based on a single statement addressing going concern, may be easier for users to interpret. They also suggested that the structure of the statements in the material uncertainty section is potentially confusing.

42. The stakeholder feedback was broadly consistent with academic and other research. Gross and Scott (2022)³ found that going concern conclusions included in interim review reports provide information that is relevant to investors, are associated with significant market reactions, and are predictive of subsequent annual going concern opinions. These findings suggest that interim review reporting can provide timely and decision-useful information about an entity's financial viability before completion of the annual audit. In addition, recent CA ANZ⁴ research on auditor reporting in Australia and New Zealand highlights the continued prevalence of material uncertainty related to going concern disclosures and underscores the importance users place on transparent communication about an entity's ability to continue as a going concern. Together, these findings support the view that explicit going concern reporting can enhance transparency and provide meaningful information to users of financial statements.
43. A broader user-understanding issue was also raised. Some stakeholders considered that users do not clearly distinguish between an audit and a review engagement and may not fully understand the different levels of assurance provided. In their view, this reflects a broader assurance framework issue rather than a reporting issue specific to ED-2410.

How the feedback is reflected in the draft submission (question 13)

44. Staff considered both perspectives but concluded that the benefits of consistency and transparency outweigh the concerns raised. Consequently, the submission supports the proposed reporting model.
45. Staff agrees that the going concern statements can be streamlined to remove unnecessary duplication and to align the conclusions that the going concern basis is appropriate and that no material uncertainty exists with the lead in, in the context of the review, and in forming the conclusion thereon. We make this recommendation in the submission.
46. Staff considered the structure of the statements in the material uncertainty section and noted that the order of the statements is consistent with the order in the revised auditing standard. The statement that “the auditor’s interim review report is not modified in respect of this matter” is directly related to the disclosure in the interim financial information. Accordingly, we do not suggest any changes to the order of the statements in the material uncertainty section.
47. The broader user-understanding concern is raised in our response to question 16, other matters?where we recommend that the IAASB develop supporting educational material that clearly explains the differences between audit and review engagements.

Benefits and costs

48. Staff described the following expected benefits and costs of the adopting ED-2410:

Benefits:

- Clear and consistent global baseline for interim review engagements, enhancing comparability and confidence for users of interim financial information.

³ Matthew Grosse, Tom Scott; Disclosure of Interim Review Reports: Do Interim Going Concern Conclusions Have Information Content?. AUDITING: A Journal of Practice.™. Theory 1 August 2022; <https://doi.org/10.2308/AJPT-19-041>

⁴ [Insights into 2025 auditors' reports: A focus on going concern | CA ANZ](#)

- International.alignment.may lower costs for firms that operate internationally or across Australia and New Zealand. Using a common baseline reduces the need for multiple methodologies, training streams and bespoke local interpretations.
- Robust.requirements that are clearer and strengthened in key public-interest areas such as going concern and fraud are expected to improve consistency and quality in practice.
- Enhanced.transparency should result in more transparent and useful interim review reports.
- Strengthening.the.link.with.the.audit supports a more coherent assurance framework across the reporting cycle.

Costs:

- Time.and.resource.investment Adoption is expected to involve additional costs for practitioners, particularly in higher-risk areas such as in the consideration of going concern and fraud-related matters, where strengthened requirements may require increased work effort and professional judgement.
- One.off.costs Firms will need to update methodologies, templates, and systems, and provide training. These costs may have a disproportionate impact on firms that perform interim review engagements infrequently.

49. **What we heard:** Broadly supportive

50. Stakeholders supported the staff assessment of benefits and costs. Feedback indicated that the proposals are generally consistent with current practice and are not expected to result in significant changes to procedures.

51. The main expected cost relates to updating methodologies, templates and related firm materials. Practitioners do not expect significant incremental costs from changes in engagement procedures.

52. Stakeholders considered the broader public-interest benefits associated with improved consistency and clarity in interim review engagements, particularly in relation to going concern reporting and user understanding. However, they also noted that user understanding of limited assurance remains a broader assurance framework issue that the IAASB may need to address beyond this project.