

**PROPOSAL FOR A PROJECT TO REVISE STANDARDS THAT ADDRESS AUDIT EVIDENCE AND THE AUDITOR'S RESPONSES TO ASSESSED RISKS OF MATERIAL MISSTATEMENT – APPROVED**

This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the Stakeholder Advisory Council (SAC), which provides public interest input at the strategic level into the development of standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related 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.

**I. Subject**

1. This project proposal addresses the revisions of:
  - (a) International Standard on Auditing (ISA) 330, *The Auditor's Responses to Assessed Risks*;
  - (b) ISA 500, *Audit Evidence*; and
  - (c) ISA 520, *Analytical Procedures*.
2. The IAASB is responding to calls to modernize these standards to reflect how the rapidly evolving technological landscape is affecting the auditor's work in obtaining and evaluating audit evidence, and to calls for strengthening the auditor's work on internal controls by clarifying when tests of controls may be necessary, and addressing the rigor of audit procedures when testing controls. At an overarching level, the project proposal also reflects calls from stakeholders to more inclusively consider and concurrently address the 'reference framework' and 'performance' aspects of obtaining and evaluating audit evidence by designing and performing audit procedures.
3. The project proposal also addresses conforming and consequential amendments to other relevant ISAs based on the revisions to ISA 330, ISA 500 and ISA 520.

**II. Introduction**

4. The current business environment is experiencing rapid technological developments, which are affecting, among other matters, the nature, volume, and sources of information used by entities in their operations and by auditors as audit evidence. There has also been an increase in the availability and sophistication of technology used in audit engagements that impact the auditor's design and performance of procedures in obtaining and evaluating sufficient appropriate audit evidence.
5. In light of these developments, questions have been raised about the appropriate exercise of professional skepticism when making judgments about information intended to be used as audit evidence, and the sufficiency and appropriateness of the audit evidence obtained from procedures

performed. Regulators have also specifically raised concerns about the auditor's work effort relating to entities' internal controls.

#### *Audit Evidence Project*

6. In March 2019, the IAASB started its information gathering activities for a project to revise ISA 500, including targeted outreach with stakeholders.
7. These activities resulted in the approval, in December 2020, of a [project proposal](#) to revise ISA 500. Section II of that project proposal provided further background on the issues that were identified and an explanation of the information gathering activities performed. That project proposal included three key public interest issues:
  - (a) Responding to changes in the information that is being used by auditors, including the nature and source of the information.
  - (b) Modernizing and supporting a principles-based standard that recognizes the evolution in technology.
  - (c) Fostering the maintenance of professional skepticism when making judgments about information intended to be used as audit evidence, and obtaining sufficient appropriate audit evidence.
8. In determining the scope of that project proposal, the IAASB decided not to include proposed actions to enhance ISAs other than ISA 500, or actions that addressed the use of automated tools and techniques (ATT) in the design and performance of audit procedures.
9. In September 2022, the IAASB approved the [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs](#) (ED-500) and published it in October 2022 with a 180-day comment period. In total, 70 respondents commented on ED-500.
10. Respondents to ED-500 called for the proposed revisions to be more ambitious with respect to relevant audit evidence- and technology-related matters. In their view, the proposed revisions to ISA 500 alone were not sufficient to address all audit evidence-related matters across the ISAs. They also noted that technology-related matters should be more broadly addressed and urged the IAASB to consider revisions to other ISAs, such as ISA 330 and other targeted standards in the ISA 500-series.

#### *Strategy and Work Plan for 2024–2027*

11. In 2022, the IAASB also started information gathering activities for its Strategy and Work Plan for 2024–2027 (the “Strategy and Work Plan”). This resulted in approval of a [Consultation Paper](#) for the IAASB's Proposed Strategy and Work Plan for 2024–2027 (the “Consultation Paper”) in December 2022. The Consultation Paper was published in January 2023 with a 90-day comment period and in total 61 comment letters were received.
12. The Consultation Paper included the revision of ISA 330 as a possible new standard-setting project, intended to better align the requirements of ISA 330 with the changes made to ISA 315 (Revised

2019)<sup>1</sup> and proposed ISA 500 (Revised).<sup>2</sup> The project would also include modernizing ISA 330 as necessary, especially, in relation to technology.

13. Respondents to the Consultation Paper, particularly regulatory authorities, emphasized the need for concurrent revisions to ISA 500 and ISA 330 as both standards address aspects of the auditor obtaining sufficient appropriate audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.
14. In addition, these responses highlighted the following two reasons to revise ISA 330 and ISA 520:
  - (a) The continued, rapid evolution of technology and use by entities and auditors, combined with the continued increase in data available to auditors. Investor confidence in capital markets may be threatened if the auditing standards do not adequately address considerations relating to the use of technology in designing and performing audit procedures; and
  - (b) Ongoing deficiencies in the quality of audit engagements in the performance of tests of controls and of substantive analytical procedures (SAPs).
15. Based on the feedback on both ED-500 and the Consultation Paper, Board deliberations and ongoing outreach, the IAASB approved its [Strategy and Work Plan](#) in December 2023. The Strategy and Work Plan included pursuing an integrated approach to audit evidence and risk response, including a focus on technology and internal control.

#### *Project on Audit Evidence and Risk Response*

16. The Audit Evidence and Risk Response project would consider the following foundational aspects of an audit:
  - (a) The ‘reference framework’ aspects relating to judgments about the sufficiency and appropriateness of audit evidence in ISA 500; and
  - (b) The ‘performance’ aspects relating to the design and performance of audit procedures in ISA 330 and ISA 520.
17. The IAASB decided to include ISA 520 in the project because SAPs are a subset of substantive procedures addressed in ISA 330 and because of the impact of technology on performing these procedures.
18. The IAASB recognized that significant work had been performed on the ‘reference framework’ aspects of the project, including an in-depth analysis of technology-related issues identified in the project to revise ISA 500, and a series of recommendations for proposals that could potentially respond to those issues (also see the “Proposed Actions that Involve Revisions to ISA 500” in **Section V** of this project proposal).
19. However, the IAASB also recognized that limited work had been performed on the ‘performance’ aspects of the project. Therefore, in January 2024, the IAASB started information gathering activities to identify and understand issues related to the auditor’s responses to assessed risks of material misstatement, and to explore possible actions to address them.

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

<sup>2</sup> Proposed ISA 500 (Revised), *Audit Evidence*

20. A summary of the information gathering activities is included in the [Appendix](#).
21. The timeline of the activities performed in progressing the information gathering for the development of this project proposal is illustrated in the diagram below, which highlights the key milestones reached based on Board discussions from March 2019 to December 2024.



### Technology Position

22. In parallel with the development of this project proposal, the IAASB also undertook work to establish a [Technology Position](#) to address the impact of technology on the IAASB's standards. The IAASB's Technology Position sets out a framework composed of three components:<sup>3</sup>
- (a) A Technology Position Statement that details the IAASB's commitment to facilitate and, where appropriate, encourage the use of technology by firms and practitioners, and guiding actions to deliver on this commitment;
  - (b) A component for operationalizing the Technology Position Statement, which includes a gap analysis to identify potential standard-setting actions and other related activities; and
  - (c) A component for monitoring emerging technologies and adapting the IAASB's Technology Position.
23. The gap analysis performed to date identifies potential standard-setting actions and other related activities, and includes matters relating to ISA 330, ISA 500 and ISA 520. Those matters are consistent with the outcome of information gathering activities described in the Appendix, including

<sup>3</sup> The IAASB's Technology Position was cleared for adoption at the September 2024 IAASB meeting.

the in-depth analysis of technology-related issues referred to in paragraph 18 above, and have informed the development of this project proposal. It is expected that the IAASB's continued work to operationalize the Technology Position Statement and to monitor emerging technologies will further inform the development of the revisions to ISA 330, ISA 500 and ISA 520 throughout the project.

### **III. Project Objectives that Support the Public Interest**

24. Taking into account the information gathering performed, and an underlying focus on delivering standards that respond to stakeholders' needs, this project seeks to achieve the following objectives:
- (a) Enhance the application of professional judgment and professional skepticism exercised by auditors:
    - (i) When making judgments about information intended to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and
    - (ii) When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement.
  - (b) Promote consistent practice and auditor behaviors by facilitating effective responses to risks of material misstatement, including by strengthening auditors' work on internal controls.
  - (c) Facilitate, and where appropriate, encourage auditors' use of technology in obtaining audit evidence and evaluating its sufficiency and appropriateness.

### **IV. Stakeholders Impacted**

25. As described in the Public Interest Framework (PIF),<sup>4</sup> standard setting that is in the public interest requires a process that elicits views from all stakeholders, with a focus on assessing the merits of the various stakeholder views, irrespective of whether the views are a majority or a minority.
26. In order to address the public interest as contemplated by the PIF, the IAASB:
- (a) Considers all stakeholder input and identifies the different stakeholder interests that affect the overall objectives that will achieve the public interest;
  - (b) Appropriately weighs the input in terms of the public interest impact of the relative stakeholder interests; and
  - (c) Appropriately balances alternative outcomes in terms of the expected responsiveness to the public interest.
27. The PIF identifies broad stakeholder groups, such as users of financial statements, the profession, those in charge of adoption, implementation, and enforcement of standards, preparers, and others, whose varying perspectives and needs have been considered when determining project objectives that support the public interest. This project benefits from the input and recommendations of the SAC, which is composed of a diverse range of external stakeholders and it is anticipated to primarily serve

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<sup>4</sup> The PIF sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the PIF explains for whom standards are developed, clarifies whose interests need to be served, and includes a set of qualitative characteristics used to assess the public interest responsiveness of its standards. These are referred to herein as "the qualitative standard-setting characteristics."

users of financial statements, by reinforcing key principles and considerations that support the consistent performance of high-quality audits.

## V. Scope – Issues and Proposed Actions

28. The table below sets out the issues identified from the information gathering activities performed, which the IAASB is proposing to address with actions to revise ISA 330, ISA 500 and ISA 520. The proposed actions are intended to enable the IAASB to achieve its project objectives that support the public interest: those marked with an asterisk (\*) describe proposals that have been included in the “Proposed ISA 500 (Revised) Pre-finalization Holding Package” (see also paragraphs 32–34).

#	Issue	Proposed Actions <sup>5</sup>
<b>Objective A</b> Support the application of professional judgment and professional skepticism exercised by auditors:		
(i) When making judgments about information intended to be used as audit evidence, and evaluating whether sufficient appropriate audit evidence has been obtained; and (ii) When designing and implementing overall responses or designing and performing further audit procedures in response to assessed risks of material misstatement.		
<i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective A are <b>coherence</b>, <b>comprehensiveness</b>, <b>scalability</b>, ability to be <b>consistently applied and globally operable</b>.</i>		
1	The increase in volume and variety of sources of information available that could be used as audit evidence has contributed to an increased lack of consistency in how auditors make judgments about the sufficiency and appropriateness of audit evidence obtained from their audit procedures.	<p><b>ISA 500, ISA 330 and ISA 520</b></p> <p>Enhance the consistency of terms that are relevant to obtaining and evaluating the sufficiency and appropriateness of audit evidence, including those related to technology, across ISA 500, ISA 330 and ISA 520.</p> <p><b>ISA 500</b></p> <p>*Clarify the definitions of “appropriateness (of audit evidence)” and of “sufficiency (of audit evidence),” and the relationship of these terms with the notion of persuasiveness.</p> <p>Determine whether additional guidance is necessary to explain how the use of ATT affects the auditor’s evaluation of the sufficiency and appropriateness of audit evidence obtained.</p>

<sup>5</sup> Further insights obtained throughout the course of the project may indicate that certain of these standard-setting actions can be better addressed:

- In standards other than ISA 330, ISA 500 and ISA 520; or
- Through other activities that support the IAASB’s standards, such as non-authoritative materials in accordance with the [Framework for Activities](#).

#	Issue	Proposed Actions <sup>5</sup>
		<p>*Clarify whether the sufficiency and appropriateness of audit evidence is to be evaluated differently depending on the purpose for which it has been obtained, including whether it was obtained:</p> <ul style="list-style-type: none"> <li>From the auditor's risk assessment procedures or from further audit procedures.</li> <li>To evaluate the operating effectiveness of a control, or to detect a material misstatement.</li> </ul>
2	The increase in volume and variety of sources of information available that could be used as audit evidence has highlighted a lack of consistency in the attributes or criteria that auditors apply to make judgments about the relevance and reliability of information intended to be used as audit evidence.	<p><b>ISA 500</b></p> <p>*Develop a principles-based approach to considering and making judgments about information intended to be used as audit evidence, including application material that describes attributes that apply in the evaluation of the relevance and reliability of information intended to be used as audit evidence.</p> <p>Explore whether consequential amendments are appropriate to the application material in ISA 200<sup>6</sup> that indicates that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.</p> <p>*Clarify that the requirements to evaluate the relevance and reliability of information intended to be used as audit evidence apply regardless of the source of information.</p> <p>*Add application material to describe biases that may arise relating to different information sources (e.g., automation bias for information obtained through technological means).</p> <p>*Clarify the requirement relating to the evaluation of the 'appropriateness' of work prepared by a management's expert.</p> <p>*Clarify the application material relating to evaluating the relevance and reliability of information from external information sources.</p> <p>Consider the need for further application material to clarify how the purpose of an audit procedure influences the auditor's judgments about attributes of relevance and reliability of information.</p>
3	There have been concerns raised about the	<b>ISA 500</b>

<sup>6</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*



#	Issue	Proposed Actions <sup>5</sup>
	<p>appropriateness of professional skepticism exercised by auditors:</p> <ul style="list-style-type: none"> <li>When considering the relevance and reliability of information intended to be used as audit evidence;</li> <li>In designing and performing further audit procedures responsive to the assessed risks of material misstatement; and</li> <li>When evaluating and concluding on the sufficiency and appropriateness of audit evidence obtained.</li> </ul>	<p>*Clarify that a critical assessment of audit evidence includes designing and performing audit procedures in a manner that is unbiased and evaluating the relevance and reliability of information intended to be used as audit evidence.</p> <p>*Clarify requirements that apply when there is inconsistency in, or doubts over the reliability of, audit evidence.</p> <p>*Clarify the application material that applies if the auditor has doubts about the reliability of information intended to be used as audit evidence.</p> <p>*Develop application material to support auditors in evaluating the relevance and reliability of different sources of information intended to be used as audit evidence.</p> <p><b>ISA 330 and ISA 520</b></p> <p>Building on the application material in ISA 200 and ISA 220 (Revised),<sup>7</sup> enhance requirements or application material to support auditors' professional judgments about the appropriateness of procedures designed in response to assessed risks, and auditors' exercise of professional skepticism. This may include emphasizing the need to design and perform procedures in an unbiased manner, considering the relevance and reliability of information.</p>
4	<p>The stand-back requirement in ISA 330, which applies to all audit evidence, goes beyond the objective of ISA 330 that is only focused on obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatement. There also is insufficient clarity about how the various stand-back requirements across the ISAs work together.</p>	<p><b>General</b></p> <p>Determine how, and to what extent, to integrate and clarify the various subject matter-specific stand-back requirements across the ISAs to increase their effectiveness and be more distinctive.<sup>8</sup> This is also an opportunity to highlight the role of stand-back requirements in the auditor appropriately exercising professional judgment and professional skepticism.</p> <p><b>ISA 500</b></p> <p>*Develop introductory or application material that explains the relationship of ISA 500 with other ISAs, including the distinction between ISA 500 and ISA 330.</p>

<sup>7</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>8</sup> In March 2024, the Audit Evidence Task Force presented a possible model for stand-back requirements in the ISAs (see [Agenda Item 5](#) of the March 2024 IAASB meeting).



#	Issue	Proposed Actions <sup>5</sup>
		<p>Determine whether some requirements in ISA 500, relevant to the design and performance of audit procedures, are to be retained or relocated to another ISA.</p> <p><b>ISA 330</b></p> <p>Determine whether the stand-back requirement in paragraph 26 of ISA 330 needs to be clarified, retained, or relocated to another ISA (e.g., ISA 500 or ISA 700 (Revised)).<sup>9</sup></p>
<p><b>Objective B:</b></p> <p>Promote consistent practice and auditor behaviors by facilitating effective responses to risks of material misstatement, including by strengthening auditors' work on internal controls.</p>		
<p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective B are <b>scalability, relevance, comprehensiveness, implementability</b> and ability of being <b>consistently applied and globally operable, clarity and conciseness, and consistency</b>.</i></p>		
<p><b>Auditors' Work on Internal Controls</b></p>		
5	<p>There have been challenges with the appropriateness of auditor decisions about whether to design and perform tests of controls as part of a response to assessed risks, including the inconsistent identification of circumstances where substantive procedures alone are unable to provide sufficient appropriate audit evidence.</p>	<p><b>ISA 330</b></p> <p>Determine whether tests of controls as defined in ISA 330, can also separately fulfil other purposes, including evaluating the relevance and reliability of information intended to be used as audit evidence, in accordance with ISA 500.</p> <p>Explore<sup>10</sup> enhancements to the standards relating to the design of further audit procedures, to:</p> <ul style="list-style-type: none"> <li>• Determine whether the use of tests of controls is appropriate or needed in response to assessed risks of material misstatement, including: <ul style="list-style-type: none"> <li>○ Clarifying when the auditor is required to perform tests of controls.</li> <li>○ Modernizing application material to clarify the attributes of circumstances that indicate that substantive procedures alone may be unable to provide sufficient appropriate audit evidence.</li> </ul> </li> </ul>

<sup>9</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>10</sup> The term “explore” is used in this project proposal in relation to certain proposed actions where the IAASB’s intention is to consider a range of possible solutions to the issue described, to achieve the most appropriate resolution consistent with the project objectives.

#	Issue	Proposed Actions <sup>5</sup>
		<ul style="list-style-type: none"> <li>Encourage the auditor to consider the use of tests of controls to respond to assessed risks of material misstatements.</li> </ul>
6	There are recurring challenges with the effective design and performance of tests of controls.	<p><b>ISA 500 or ISA 330</b></p> <p>Develop further application material, examples, or other guidance to support auditors' evaluation of the relevance and reliability of information intended to be used as audit evidence about the operating effectiveness of controls.</p> <p><b>ISA 330</b></p> <p>Strengthen or clarify, as appropriate, requirements and application material that apply when designing and performing tests of controls, including those related to:</p> <ul style="list-style-type: none"> <li>Types of audit procedures<sup>11</sup> that can provide evidence about the operating effectiveness of a control.</li> <li>The requirement to obtain more persuasive audit evidence about the operating effectiveness of a control, the greater the reliance that the auditor places on the effectiveness of that control.</li> <li>The influence of different types of controls (direct or indirect controls; manual, automated, or those that depend on other information processing or general information technology (IT) controls) on the design of responses to risks of material misstatement.</li> <li>The requirement to determine whether to test the operating effectiveness of indirect controls, including specific clarifications about general IT controls.</li> <li>The use of audit evidence about the operating effectiveness of controls obtained during an interim period.</li> <li>The need to exercise professional skepticism in designing and performing tests of controls.</li> </ul>
7	There are inconsistencies in the application of requirements relating to the auditor's use of audit evidence about the	<p><b>ISA 330</b></p> <p>Determine whether the requirement that enables the auditor, in certain circumstances, to use audit evidence about the operating effectiveness of controls obtained in a previous audit as evidence</p>

<sup>11</sup> "Types of audit procedures" are addressed in Appendix 1 to the "Proposed ISA 500 (Revised) Pre-finalization Holding Package."

#	Issue	Proposed Actions <sup>5</sup>
	operating effectiveness of controls obtained in previous audits, which raise concerns about the sufficiency and appropriateness of the audit evidence for the current audit.	for the current period engagement remains appropriate, considering the enhanced requirements in ISA 315 (Revised 2019).
8	There have been recurring challenges with evaluating the outcome of tests of controls, including performing further procedures based on such outcomes.	<p><b>ISA 500</b></p> <p>Consider enhancing application material about the concepts of sufficiency and appropriateness of audit evidence, by relating them to the evidence obtained from the design and performance of tests of controls.</p> <p><b>ISA 330</b></p> <p>Clarify the impact on the auditor's work effort in responding to assessed risks of material misstatement, of:</p> <ul style="list-style-type: none"> <li>• Indirect controls (including general IT controls), supporting the operation of direct controls, not being designed, implemented, or operating effectively.</li> <li>• Deficiencies in the entity's control environment.</li> <li>• The operation of a control being inconsistently evidenced by an entity, resulting in challenges with evaluating its operating effectiveness.</li> </ul> <p>Clarify the requirements and application material relating to evaluating whether misstatements detected by substantive procedures indicate controls may not be operating effectively.</p> <p>Clarify application material relating to the impact of identified control deviations on further audit procedures.</p> <p>Strengthen the linkages between the outcome of tests of controls and the iterative nature of risk assessment procedures described in ISA 315 (Revised 2019).</p>
<b>Overarching Matters to Promote Consistent Practice and Auditor Behaviors</b>		
9	There have been challenges arising from an apparent lack of alignment of concepts and requirements	<p><b>ISA 330</b></p> <p>Clarify how the requirements of ISA 330 reflect or are linked to the work effort performed as part of the auditor's risk identification</p>

#	Issue	Proposed Actions <sup>5</sup>
	between ISA 315 (Revised 2019) and ISA 330.	and assessment under ISA 315 (Revised 2019), including the auditor's identification of risks arising from the entity's use of IT.  Improve the alignment of terms and concepts between these standards to increase the coherence of the suite of ISAs.
10	There have been difficulties with understanding the rationale for, and operationalizing the requirement in ISA 330, paragraph 18.	<b>ISA 330</b>  Explore a way forward with respect to paragraph 18 of ISA 330, taking into account the decisions made with respect to this paragraph when developing ISA 315 (Revised 2019). This may include alternative proposals to achieve the public interest objective of this requirement.  If determined that paragraph 18 of ISA 330 remains appropriate, clarify its intent and rationale.
11	Designing and performing effective SAPs to obtain audit evidence remains a challenging area in practice.	<b>ISA 520</b>  Clarify the principles behind the use of analytical procedures as substantive procedures, to support auditors with making judgments about the effectiveness of the design of SAPs, including: <ul style="list-style-type: none"> <li>• The level of precision of an expectation; and</li> <li>• The accepted amount of difference between expected and recorded amounts.</li> </ul> Develop a definition of SAP which clarifies how this differs from the defined term "analytical procedures."  Consider how to explicitly address biases that specifically arise in the design and performance of SAPs. This may include reordering requirements and enhancing relevant requirements and application material.  Clarify the requirement and application material, as appropriate, relating to evaluating the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed.
12	There is insufficient clarity about the expected audit documentation when using ATT in designing and performing audit procedures, as well as when designing	<b>ISA 330, ISA 500 or ISA 520</b>  Develop application material that establishes linkages to relevant requirements and guidance about the form, content and extent of

#	Issue	Proposed Actions <sup>5</sup>
	and performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).	<p>audit documentation in ISA 230<sup>12</sup> and other ISAs.</p> <p>Develop requirements or application material about the expected audit documentation:</p> <ul style="list-style-type: none"> <li>When using ATT in designing and performing audit procedures; and</li> <li>When designing and performing audit procedures for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).</li> </ul>
<p><b>Objective C</b></p> <p>Facilitate, and where appropriate, encourage auditors' use of technology in obtaining audit evidence and evaluating its sufficiency and appropriateness.</p> <p><i>The qualitative standard-setting characteristics of most relevance to the proposed actions relating to Objective C are <b>coherence, scalability, timeliness, relevance, implementability</b> and ability of being consistently applied and globally operable.</i></p>		
13	<p>The increased use of technology by entities and by auditors has highlighted the need for authoritative material relating to the auditor's use of technology in obtaining sufficient appropriate audit evidence, including requirements that:</p> <ul style="list-style-type: none"> <li>Address instances where the auditor cannot obtain sufficient appropriate audit evidence without using technology.</li> <li>Apply if the auditor uses technology in designing and performing audit procedures.</li> </ul>	<p><b>ISA 330, ISA 500 or ISA 520</b></p> <p>Consider replacing the term “automated tools and techniques” with a new term, developing a definition or description of the term, and describing what types of technologies are within the scope of that term.</p> <p>Explore introducing principles-based requirements or relevant application material relating to the use of technology in obtaining sufficient appropriate audit evidence, such that the standards remain fit-for-purpose. This may include:</p> <ul style="list-style-type: none"> <li>Exploring the need for a requirement or application material to determine whether to use ATT in designing and performing further audit procedures (related to the notion that there could be circumstances where the auditor may not be able to obtain sufficient appropriate audit evidence without using ATT).</li> <li>*Developing a conditional requirement or relevant application material, that applies if the auditor uses ATT to design and perform audit procedures.</li> </ul> <p>Develop application material that:</p>

<sup>12</sup> ISA 230, *Audit Documentation*

#	Issue	Proposed Actions <sup>5</sup>
		<ul style="list-style-type: none"> <li>Enables the auditor to apply the standard(s) in an evolving audit environment with the increasing use of technology.</li> <li>Highlights instances where the use of ATT may be appropriate.</li> </ul>
14	Questions have been raised about where audit procedures performed using ATT fit within the nature of audit procedures as described in the ISAs, which refers to its purpose (i.e., risk assessment procedures, tests of controls or substantive procedures) and its type (i.e., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). The use of sophisticated ATT by auditors have also magnified challenges with appropriately designing and performing audit procedures that are used for more than one purpose.	<p><b>ISA 330, ISA 500 or ISA 520</b></p> <p>Strengthen and clarify, as appropriate:</p> <ul style="list-style-type: none"> <li>The use of ATT within the constructs of risk assessment procedures and further audit procedures, including exploring where audit procedures performed using ATT fit within the nature of audit procedures described in the ISAs.</li> <li>Planning for and achieving each of the relevant purposes of the procedure, if the auditor uses audit evidence from an audit procedure performed for more than one purpose (i.e., multi-purpose procedures or dual-purpose tests).</li> </ul> <p>*Develop application material that more robustly addresses the nature of audit procedures, in particular, when using ATT.</p>
15	The increased use of technology in performing substantive procedures has highlighted a lack of clear distinction between a test of details and an SAP, and challenged whether such a distinction remains appropriate.	<p><b>ISA 330 and ISA 520</b></p> <p>Explore whether the distinction between a test of details and an SAP remains appropriate, including considering whether the use of technology to enhance the precision and scope of SAPs could provide sufficient appropriate audit evidence to respond to a significant risk.</p> <p>Consider developing a definition or description of the term “tests of details.”</p> <p>Develop application material that links to guidance in ISA 500 that addresses the level of detail of information relating to meeting the intended purpose(s) of the audit procedure.</p>

#	Issue	Proposed Actions <sup>5</sup>
16	There is insufficient clarity regarding the design and performance of audit procedures using ATT, including when selecting items for testing, and addressing outliers and exceptions identified.	<p><b>ISA 330, ISA 500 or ISA 520</b></p> <p>*Develop application material on selecting items for testing.</p> <p>Develop requirements or application material that apply when the auditor designs and performs tests of details and SAPs in accordance with ISA 330 and ISA 520, respectively, and identifies matters for further investigation (e.g., outliers and exceptions or inconsistent fluctuations or relationships). Such requirements or application material may include investigating whether the identified items individually or in the aggregate indicate:</p> <ul style="list-style-type: none"> <li>• Misstatements to be dealt with in accordance with ISA 450.<sup>13</sup></li> <li>• Deficiencies in the entity's internal control over financial reporting to be dealt with in accordance with ISA 265.<sup>14</sup></li> </ul> <p>*Develop application material clarifying the auditor's considerations in addressing outliers and exceptions identified, including whether the testing approach involves the use of manual or automated audit procedures that enables the auditor to interrogate all items in a population.</p>
17	The use of new or emerging technologies by management in their financial reporting processes or by auditors in performing audit procedures, introduces new or changing audit risks, which stakeholders view as not sufficiently addressed in the ISAs.	<p><b>ISA 500</b></p> <p>Develop application material that:</p> <ul style="list-style-type: none"> <li>• Provides examples of risks that may affect the relevance and reliability of information intended to be used as audit evidence; and</li> <li>• *Highlights the possible overreliance on information from certain sources.</li> </ul> <p><b>ISA 330</b></p> <p>Develop application material (recognizing the need to apply a principles-based approach in the standard) that explains that the use of new or emerging technologies by management in their financial reporting processes or by auditors in performing audit procedures introduces new or changing audit risks, and the nature of such risks.</p>

<sup>13</sup> ISA 450, *Evaluation of Misstatements Identified During the Audit*

<sup>14</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*



*Basis of Proposed Actions*

29. The proposed actions have been developed on the basis that they will result in revised standards that satisfy the qualitative standard-setting characteristics set out in the PIF, thereby supporting the consistent performance of quality engagements (see also **Section IV**). Any standard-setting project also reflects an appropriate balancing of the qualitative standard-setting characteristics in the context of what informed the project, and the nature and extent of the issues being addressed in the project.
30. In developing drafts of proposed revised standards, the IAASB will follow the [Complexity, Understandability, Scalability and Proportionality Drafting \(CUSP\) Principles and Guidelines](#). Among other matters, these principles and guidelines are designed to ensure the development of clear and concise standards, which appropriately take into account scalability and proportionality in assessing the standards' responsiveness to the public interest.
31. The proposed actions have also been developed through relevant input from a Focus Group of IAASB members, the Chair of the Audit Evidence Task Force, and through collaboration and coordination with the Technology Consultation Group and the Professional Skepticism Consultation Group, as well as the International Ethics Standards Board for Accountants (IESBA).

Proposed Actions that Involve Revisions to ISA 500

32. The IAASB resolved in March 2024 that the cumulative work of the Audit Evidence Task Force in 2023 and 2024, post public consultation on ED-500, together with the Board's further input at the March 2024 IAASB meeting, represents the "Proposed ISA 500 (Revised) Pre-finalization Holding Package." This Pre-finalization Holding Package encapsulates Board decisions on key aspects addressed in ED-500 as part of the IAASB's deliberations of proposals and options based on the feedback received on ED-500.
33. The inclusion of the proposed actions which are already included in the Pre-finalization Holding Package, in the table above, is intended to provide a comprehensive perspective about how the suite of actions to be taken across the three standards in scope of this project proposal will address the issues identified. They are not to be read as new proposed actions that would override decisions taken after careful deliberation by the IAASB and which are reflected in the Pre-finalization Holding Package.
34. These actions would be reconsidered only if new information arises in the course of the Audit Evidence and Risk Response project that indicates that those decisions may no longer be appropriate because they have:
  - (a) Implications for the achievement of a qualitative standard-setting characteristic; or
  - (b) Unintended consequences for the revisions to ISA 330, ISA 520, or for other standards.

*Non-Authoritative Guidance and Other Actions*

35. This project anticipates responding to the issues that have been identified through the standard-setting actions detailed in paragraph 28. However, as the project progresses, it may become apparent that some of the issues may be resolved through the development of non-authoritative guidance or materials which support the implementation of the IAASB's standards.

### Coordination Activities

36. In delivering on the project, there will be continued collaboration and coordination with specific groups on a timely basis, including:
- (a) The Technology Consultation Group, to inform proposed actions relating to technology and consider their alignment with the IAASB's Technology Position. There may also be collaboration and coordination in developing or facilitating the development of non-authoritative guidance on technology-related topics when a particular need is identified.
  - (b) The Professional Skepticism Consultation Group, to inform proposed actions designed to improve the exercise of professional skepticism in an audit engagement. There may also be collaboration and coordination in developing or facilitating the development of non-authoritative guidance on professional skepticism when a particular need is identified.
37. The Audit Evidence and Risk Response project will feature in the IAASB's general outreach program, as well as in project specific outreach to be undertaken by IAASB technical staff (the project team), senior staff, or Board members throughout the project cycle.
38. Additionally, the IAASB will monitor and consider the impact of relevant jurisdictional and national developments, including relevant standard-setting projects, and liaise with relevant parties as appropriate.

### International Ethics Standards Board for Accountants

39. The Audit Evidence and Risk Response project will also involve coordination and collaboration with the IESBA on the proposed changes to ISA 330, ISA 500 and ISA 520 to ensure continued alignment with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and coordinate on matters that may impact the work of each Board. The IAASB will also consider, as applicable, the technology-related revisions, and the revisions promoting the role and mindset expected of professional accountants,<sup>15</sup> in the IESBA Code and the results from ongoing or future IESBA workstreams.

## VI. Project Timeline, Project Priorities and Resources

### Project Timeline and Project Priorities

40. The project will commence in accordance with the current Due Process and Working Procedures.<sup>16</sup> However, the project will prospectively adopt the proposed Due Process and PIF Operating Procedures which operationalize the PIF, when they are approved and implemented.

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<sup>15</sup> See the [Final Pronouncement: Technology-related Revisions to the Code](#) and the [Final Pronouncement: Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#).

<sup>16</sup> As required by the IAASB's [Terms of Reference](#), this is the [Due Process and Working Procedures](#) as approved by the PIOB and that the IAASB must adhere to in developing its International Standards.

41. The IAASB proposes the following timetable,<sup>17</sup> noting that specific project milestones and outputs may change as the project develops:

Timeline	Proposed Activities and Deliverables
January 2025 – December 2025	<ul style="list-style-type: none"> <li>Develop an exposure draft of proposed ISA 330 (Revised), proposed ISA 500 (Revised)<sup>18</sup> and proposed ISA 520 (Revised), including IAASB deliberations of issues, proposals and relevant discussion of the exposure draft.</li> <li>Obtain input from the SAC on any public interest issues requiring significant decisions.</li> <li>Perform outreach activities with stakeholders on proposals as the exposure drafts are developed.</li> </ul>
December 2025	<ul style="list-style-type: none"> <li>Approve the exposure draft of proposed ISA 330 (Revised), proposed ISA 500 (Revised) and proposed ISA 520 (Revised), with proposed conforming and consequential amendments to other ISAs, and an Explanatory Memorandum.</li> </ul>
January 2026 – May 2026	<ul style="list-style-type: none"> <li>Publish the approved exposure draft for a 120-day comment period.</li> <li>Perform outreach activities with stakeholders on proposals.</li> <li>Close the comment period for responses to the exposure draft.</li> </ul>
June 2026 – March 2027	<ul style="list-style-type: none"> <li>Analyze comments and deliberate responses to the exposure draft and resulting proposed changes to ISA 330 (Revised), ISA 500 (Revised) and ISA 520 (Revised).</li> <li>Obtain input from the SAC on any public interest issues requiring significant decisions.</li> <li>Perform outreach with stakeholders on key issues as the final pronouncements are developed.</li> </ul>

<sup>17</sup> As noted in the Strategy and Work Plan, the IAASB may, at any stage, determine that the full package of 'reference framework' and 'performance' aspects are sufficiently clear. In that case, a decision may be taken to progress certain elements in advance of others. Timelines may thus differ; for example, proposed ISA 500 (Revised) could be finalized before proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks* and proposed ISA 520 (Revised), *Analytical Procedures*.

<sup>18</sup> As set out in the introduction, a draft of proposed ISA 500 (Revised) was previously exposed. Paragraphs 23 and A40–A42 of the IAASB's current Due Process and Working Procedures address the matter of re-exposure, including that the Board will be advised, after an exposed proposed IAASB standard has been approved, whether the standard needs to be re-exposed in full or in part. Therefore, the Board may decide that a re-exposure of proposed ISA 500 (Revised) is not needed in the circumstances.

Timeline	Proposed Activities and Deliverables
March 2027	<ul style="list-style-type: none"> <li>Approve final pronouncements of ISA 330 (Revised), ISA 500 (Revised) and ISA 520 (Revised), with conforming and consequential amendments to other ISAs.</li> </ul>
June / July 2027	<ul style="list-style-type: none"> <li>PIOB certification.</li> <li>Publish final revised standards and basis for conclusions after PIOB certification.</li> </ul>

### *Project Resources*

42. The project will be led by the project team. One or two Board members will be assigned to the project to provide strategic and technical advice to the project team. The project team may reach out for technical input or views on balancing of stakeholder interests or the qualitative standard-setting characteristics to any IAASB members or others, as appropriate, with relevant experience and subject-matter expertise throughout the project. In addition, external experts or specialists may be consulted to address targeted issues where specific expertise is required, including as it relates to technology. Throughout the project, other resources may also be engaged to contribute to other actions necessary, for example, for communications with stakeholders.
43. In addition, the IAASB will:
- (a) Allocate sufficient Board plenary time to deliberate significant matters;
  - (b) Allocate sufficient time to consult with the SAC, as appropriate, to discuss public interest issues requiring significant decisions; and
  - (c) Allocate sufficient time to consult with the PIOB on its public interest issues relevant to the project.

## **VII. Project Output and Impact**

44. The expected output of the project is the approval and issuance of the following three proposed revised standards, which meet the qualitative standard-setting characteristics in the public interest, based on the criteria described in paragraph 29, with conforming and consequential amendments to other ISAs as applicable:
- (a) Proposed ISA 500 (Revised);
  - (b) Proposed ISA 330 (Revised); and
  - (c) Proposed ISA 520 (Revised).
45. Supporting non-authoritative materials, including implementation materials and activities, such as fact sheets, explanatory flow charts or illustrative examples, questions-and-answers, webinars and presentations, may also be issued as part of the project. The need for any such materials, and their specific nature and timing, will be determined as the project goes on.

46. The IAASB will evaluate the impact of the project by asking specific questions, as part of the explanatory memorandum accompanying the exposure draft, about whether the revisions will achieve the intended qualitative standard-setting characteristics and project objectives.
47. Additionally, following the implementation of the revised standards, the IAASB will determine whether to perform a post-implementation review to assess whether the revised standards are being consistently understood, and implemented in a manner that supports the achievement of the project objectives.
48. Such a post implementation review may involve:
  - (a) Engagement with those responsible for monitoring and enforcing the application of the ISAs, to determine whether there is an increase in use of tests of controls and technology, and an increase in confidence in their application, in the years subsequent to the implementation of the standards.
  - (b) Issuing surveys to firms, audit practitioners to evaluate whether they report an increase in the confidence of auditors in testing controls and using technology appropriately when performing audit engagements.

### Sources of Information for this Project Proposal

1. This project proposal has been built on and incorporates the information gathering activities, results from the public consultation on ED-500 and feedback from targeted outreach activities that were undertaken in developing the “Proposed ISA 500 (Revised) Pre-finalization Holding Package.”
2. The project objectives and the scope of the project have been determined based on further information gathering activities performed, following the Framework for Activities, with a view to:
  - (a) Identify and understand practical challenges and concerns with extant standards;
  - (b) Research and understand how they are being addressed in practice while the extant standards apply;
  - (c) Further understand the underlying factors causing these challenges; and
  - (d) Determine whether a standard-setting project to concurrently revise three standards relating to the auditor's approach to obtain sufficient appropriate audit evidence that provides a basis for the auditor's opinion, may contribute to resolving these challenges.
3. Further activities performed in developing this project proposal are summarized as follows:
  - (a) Analysis of stakeholder feedback on prior IAASB consultation papers and exposure drafts (and of the associated board papers incorporating staff and task force analysis of responses), including:
    - (i) [Exposure Draft of Proposed ISA 315 \(Revised\), Identifying and Assessing the Risks of Material Misstatement, and Proposed Consequential and Conforming Amendments to Other ISAs.](#)
    - (ii) [Exposure Draft of Proposed ISA 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs.](#)
    - (iii) [Consultation Paper](#) for the IAASB's Proposed Strategy and Work Plan for 2024–2027.
    - (iv) [Survey Consultation](#) on the IAASB's Work Plan for 2022–2023.
  - (b) Targeted stakeholder outreach with the following groups:
    - (i) Jurisdictional and National Auditing Standards Setters (NSS).
    - (ii) The Forum of Firms.
    - (iii) The International Federation of Accountants' Small and Medium Practices Advisory Group.
    - (iv) International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure.
    - (v) International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group.

- (vi) Committee of European Auditing Oversight Bodies' (CEAOB) Standards and Inspections Subgroups.
- (c) Reviews of relevant consultation papers, exposure drafts and final standards issued by other standard-setting bodies, including:
  - (i) United States (U.S.) Public Company Accounting Oversight Board (PCAOB) Release No. 2023-004, [Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form](#).
  - (ii) U.S. PCAOB Release No. 2024-006, [Proposed Auditing Standard – Designing and Performing Substantive Analytical Procedures and Amendments to Other PCAOB Standards](#).
  - (iii) U.S. PCAOB Release No. 2024-007, [Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form](#).
  - (iv) Statement on Auditing Standards 142, [Audit Evidence](#) issued by the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board
  - (v) [Global Internal Audit Standards](#), issued by the International Internal Audit Standards Board.
- (d) Reviews of recent inspection reports, including:
  - (i) IFIAR, [Survey of Inspection Findings 2023 and 2022](#).
  - (ii) CEOAB, [Annual Report, 2022 and 2023](#).
  - (iii) Accounting and Corporate Regulatory Authority – Singapore, [Audit Regulatory Report 2023 \(November 2023\)](#)
  - (iv) Audit Oversight Board of the Securities Commission – Malaysia, [Audit Oversight Board Annual Inspection Report 2023 \(2024\)](#)
  - (v) Capital Market Authority – Saudi Arabia, [The Most Prominent Observations of the Supervision on Registered Accounting Firms for the Years 2020 and 2021 \(April 2023\)](#)
  - (vi) Certified Public Accountants and Auditing Oversight Board – Japan, [Case Report from Audit Firm Inspection Results - Program Year 2023 \(July 2023\)](#)
  - (vii) Canadian Public Accountability Board (CPAB), [2022 Annual Inspections Results \(March 2023\)](#) and [2023 Interim Inspections Results \(October 2023\)](#).
  - (viii) Financial Reporting Council – United Kingdom, [Tier 1 Firms Reports \(July 2024 and 2023\)](#) and [Tier 2 and Tier 3 Audit Firms – Audit Quality Inspection and Supervision, December 2023](#).
  - (ix) Independent Regulatory Board for Auditors, [2023, Public Inspections Report on Audit Quality](#).



- (x) National Financial Reporting Authority – India, [2022 Inspection Report \(December 2023\)](#).
- (xi) AICPA, [Annual Report on Oversight](#) - April 22, 2024.
- (e) Reviews of non-authoritative guidance and other materials issued by the IAASB, including:
  - (i) [Frequently Asked Questions on Investigating Exceptions and Relevance of Performance Materiality When Using Automated Tools and Techniques](#).
  - (ii) [Frequently Asked Questions on Audit Planning When Using Automated Tools and Techniques](#).
  - (iii) [Frequently Asked Questions on the Use of Automated Tools and Techniques When Identifying and Assessing Risks of Material Misstatement in Accordance with ISA 315 \(Revised 2019\)](#).
  - (iv) [Frequently Asked Questions on the Use of Automated Tools and Techniques in Performing Audit Procedures](#).
  - (v) [Audit Documentation When Using Automated Tools and Techniques](#).
  - (vi) [The Risk of Overreliance on Technology from the Use of Automated Tools and Techniques and from Information Produced by an Entity's Systems](#).
  - (vii) The [feedback statement](#) from the request for input from 2017 into the growing use of technology in an audit, with a focus on data analytics.
  - (viii) The [Basis for Conclusions](#) of ISA 315 (Revised 2019).
- (f) Reviews of non-authoritative guidance and other materials issued by other standard-setting bodies<sup>19</sup> on relevant topics, including:
  - (i) CPAB Exchange, [Technology in the Audit](#).
  - (ii) U.S. PCAOB Spotlight, [Staff Update on Outreach Activities Related to the Integration of Generative Artificial Intelligence in Audits and Financial Reporting](#).
  - (iii) U.S. PCAOB Spotlight, [Inspection Observations Related to Public Company Audits Involving Crypto Assets](#).
  - (iv) U.S. PCAOB Spotlight, [Audits Involving Cryptoassets – Information for Auditors and Audit Committees](#).
  - (v) U.S. PCAOB Spotlight, [Data and Technology Research Project Update](#).
  - (vi) Institute of Chartered Accountants of India, [Guidance Note on Audit of Internal Financial Controls Over Financial Reporting](#).
- (g) Reviews of other publications issued by professional accountancy organizations, including:

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<sup>19</sup> Responses to a Request for Input received from NSS members were also reviewed, and were instrumental in identifying relevant materials for consideration as part of the information gathering activities. Items identified herein are not an exhaustive list of all materials read.

- (i) Implementation Tool for Auditors from Chartered Professional Accountants of Canada, [Designing and Performing Tests of Relevant Controls](#).
- (ii) Resources issued by the Institute of Chartered Accountants of England and Wales on professional skepticism, including [Scepticism: The Practitioners' Take](#).
- (h) Engagement with the International Association for Accounting Education and Research, including:
  - (i) Obtaining a summary of relevant academic literature identified by experienced researchers in the field, which summarized research about analytical procedures, the use of technology by auditors, and internal controls.
  - (ii) Collaborating in the design and performance of a research study involving interviews with auditors from across several jurisdictions.
- (i) Reviews of a selection of further academic literature relevant to the subject matter.