Responses to ED–315
Comments on Whether Revisions Promote a More Robust Risk Assessment Process and Whether Public Interest Issues are Addressed
NVivo Report 1A
(FOR REFERENCE)

08. IRBA

The revisions should promote a more robust process for the identification and assessment of the risks of material misstatement. However, there are areas in ED-315 that may require additional application material to ensure clarity of understanding as well as consistent application by auditors to ensure focused risk assessments. The areas, discussed in detail in our comments to the questions that follow, that may require additional application material are:

- Scalability;
- Professional skepticism;
- Definition of significant risk;
- Controls relevant to the audit;
- Risks of material misstatement at the financial statement level; and
- Consequential amendments to the application material to paragraph 18 of ISA 330.

We support the granular requirements that have been incorporated into ED-315. The revisions appropriately address the public interest issues outlined in paragraphs 6-28 of the explanatory memorandum to ED-315. Improvements in audit quality through enhancing the risk identification and assessment process will ultimately address the public interest issues in ISA 315.

09. UK Financial Reporting Council

We believe the revisions have the potential to deliver significant improvements to the identification and assessment of the risks of material misstatement informed by a more thorough understanding of the entity, its environment and its internal control. We agree that the revisions appropriately address the public interest issues outlined in paragraphs 6-28 of the explanatory memorandum.

11. Australian A&A Standards Board

The AUASB agrees that ED 315 provides a more granular and robust process for the identification and assessment of the risks of material misstatement, however for the reasons included in 1(a) above we are concerned it will not result in a more consistent risk identification and assessment process. Also, we consider the following public interest issues need to be further addressed to enhance the applicability and understanding of the proposed standard to all practitioners:

- We do not consider ED 315 to be sufficiently scalable - refer question 2 for further comments.
- The public sector considerations could be further enhanced -refer to appendix 2 for details.
- Further consideration of how automated tools and techniques may be used during the risk assessment process – refer question 3 for further comments.

1 Exposure Draft International Standard on Auditing 315, Identifying and Assessing Risks of Material Misstatement
12. Canadian AASB

Yes, we agree that the proposals will promote a more robust risk assessment process compared to the extant ISA 315. The proposals address the areas in the extant standard that we previously identified are causing confusion for auditors in performing audits.

The public interest considerations outlined in the explanatory memorandum include the complexity of the standard, scalability, modernization, professional skepticism, and the linkage to the auditor's considerations of fraud. Each of these considerations is covered by a separate question and our response is included in Q1, Q2, Q3, Q4, Q5(c) and Q6(b).

15. IDW

We believe that the question posed as to a more robust process falls short of what needs to be asked. The question that needs to be asked is whether the revisions will lead to an increase in work effort that is worth the increase in the depth of risk assessment and hence increase in assurance obtained. As we note in our responses to questions 5, 6 and 9 (b), we have concluded that the interplay between the definitions and requirements will lead to a work effort that would not be worth the increased assurance obtained: consequently, we are not convinced that the public interest would be served in relation to these matters – particularly for the audits of financial statements of small and less complex entities. In particular, we believe that the scalability as a public interest issue has not been adequately considered.

We do wish to acknowledge that the draft has provided many useful revisions, such as the introduction of the inherent risk factors, the clarification of the meaning of a significant risk and how it is determined, the auditor's consideration of the components of internal control, and the consideration of IT in risk assessment, that represent improvements and that will assist auditors in undertaking more consistent and more robust audits. It is unfortunate that these improvements are overshadowed by the other weaknesses in the draft that we address in our comments.

17. Malaysian Institute of Accountants

The revision would emphasise the need for a robust identification and assessment of risks of material misstatement and should address the relevant public concerns. Enhancements to the auditor's consideration of information technology as part of the risk assessment process are particularly relevant given today's business environment where information technology has a major impact on businesses.

18. Nederlandse Beroepsorganisatie van Accountants

The ED is unnecessarily complex. We recommend to make the concepts and the relationships between them clear, describe the concepts in the requirements and clearly visualize them by providing some illustrative figures. We also recommend to avoid duplication and repetition, delete references to other ISAs where possible and reconsider how the ED could be simplified.

The public interest issues are dealt with in following questions. In general, we have the impression that the issues are discussed, but not really solved by adding some paragraphs. The issues require more than that.

20. NZ Auditing and Assurance Standards Board

Yes. The NZAuASB agrees that the proposed standard is likely to promote a more robust process for the identification of risks of material misstatement.
The restructure and re-arrangements of the requirements and application material is a significant improvement over the extant ISA 315.

- Introduction of the inherent risk factors is another useful addition that will be helpful to auditors in how to identify and assess inherent risk.
- The proposed approach in addressing the use of automated tools and techniques and data analytics in application and other explanatory material section of the standard is very timely and relevant, given the wide range of techniques being used which are constantly evolving.
- Revisions in relation to Information Technology (IT) and how an auditor should consider IT as part of the risk assessment is particularly appropriate.

The NZAuASB also believes that the proposed standard is overall successful in addressing the public interest issues outlined in paragraphs 6-28 of ED-315, other than scalability, which we discuss further in our response to question 2.

21. Altaf Noor Ali Chartered Accountants

Yes. We applaud the effort of the Board and the Task Force in making it so.

22. BDO International

ED-315 has the potential to result in a more robust risk identification and assessment process, if users are not overwhelmed by the complexity of the requirements and the length of the application guidance. We do agree that a number of the changes should help address the public interest issues, for example, the guidance on understanding IT and the modernisation of the standard to allow for automated tools and techniques. We also agree with the guidance added on professional skepticism at relevant points in the standard.

Regarding identification of potential risks of material misstatement, ED-315 is not clear on the auditor’s responsibility regarding the identification and assessment of business risks identified by the entity that may result in a potential risk of material misstatement. We believe that ED-315 should provide clearer direction to the auditor regarding their responsibility to consider business risks that could impact the financial statements when identifying potential risks of material misstatement. This concept exists in ISA 200 paragraph A40 but it should be emphasized in ED-315 as well.

24. Crowe International

The risk identification and assessment process should be improved.

The public interest issues are addressed.

25. Deloitte

DTTL is supportive of the changes made to the proposed standard, with the exceptions noted within this letter. DTTL believes that with consideration of the feedback included within this comment letter, the proposed standard will provide a more robust identification and assessment of risks.

26. EY Global Limited

Yes.
27. Grant Thornton International

We are of the view that the revisions will go some way to addressing the public interest issues outlined in paragraphs 6-28 of the Explanatory Memorandum, but we do not believe that they will fully address all of those issues. In particular, we would highlight our concerns about the scalability of these proposals as an area where the public interest has not been fully addressed.

We do not believe that the proposed revisions to ISA 315 (Revised) will promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. Specifically:

- The length and complexity of the proposals will increase the risk that the requirements and associated guidance will be inconsistently interpreted and applied in practice.
- The need for flowcharts and 12 paragraphs of introduction to the proposed standard both add to the complexity of the standard and further emphasizes its complexity because such explanatory material was considered necessary to understand the proposal.
- The need to rely on guidance, such as extensive application material, appendices to the proposed standard and flowcharts, to understand the iterative nature of the risk assessment process impairs the clarity of the proposed standard.
- Certain sections of the requirements have made the proposed standard less scalable than extant, for example:
  - the required extent of the understanding and evaluation of the information system and related controls.
  - the lack of perceived benefit to the auditor from assessing the design and implementation of controls. For example, it is not clear how understanding the design and implementation of controls affects the procedures performed by the auditor, as control risk will still be assessed at maximum (unless tests of operating effectiveness are performed) and inherent risk is assessed without regard to controls.
  - the definition of significant risk suggests that a risk that has a high magnitude of potential misstatement but a low likelihood of occurrence (and vice versa) could now become a significant risk and, as such, could inappropriately extend the population of significant risks on engagements.
  - the inference that there will be a significant risk (other than those required by ISA 240) on practically every engagement.
  - the lack of explicit signposting throughout the standard for considerations relating to smaller entities.

28. KPMG IFRG Limited

We are supportive of the overall direction of the changes proposed to ISA 315 (Revised) and we believe that, in general, the changes are helpful in addressing the public interest issues identified.

In particular, we welcome the improvements and clarifications to the auditor’s “understanding” of the entity’s system of internal control as we consider that an improved understanding is critical to driving a more robust identification and assessment of the risks of material misstatement. We refer to our suggestions for further clarification in respect of the auditor’s “understanding”, as we describe in our overarching comments and also in our response to question 5.
In connection with this “understanding”, we believe the increased emphasis on risk identification and assessment as a fundamental part of the audit, on which the auditor’s responses are premised, through the inclusion at paragraph 17 of the requirement for the auditor “to obtain sufficient appropriate audit evidence as a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels”, to be an important enhancement (although we note certain concerns with the terminology used, as we set out in our response to question 4). We believe this will help to establish a clearer link between the understanding of the entity’s system of internal control obtained, the risks of material misstatement identified and assessed, and the auditor’s responses, by requiring the auditor to specifically consider whether he/she has obtained sufficient understanding to identify and assess the risks of material misstatement at the financial statement and the assertion level. As a result, we believe this will support a more robust process for the identification and assessment of the risks of material misstatement, and drive greater consistency in performance.

We also consider the changes to the standard regarding the identification and assessment of the risks of material misstatement will help to drive a more robust risk assessment. In particular, we welcome the separate assessments of inherent and control risk at the assertion level, the introduction of the spectrum of inherent risk, the revised definition of significant risks, and the additional concepts of significant classes of transactions, account balances and disclosures, and their relevant assertions. Please see our response to question 6 for further details.

With respect to the auditor’s considerations relating to fraud, we are supportive of the enhancements made to ED-315 in this area, in particular, the addition of specific reference to ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, including reference in the introductory paragraphs.

However, we highlight that the references to fraud risks are dispersed throughout the ED, and this fragmentation may result in incomplete or inconsistent consideration of fraud risks. Therefore, we recommend that the IAASB consider clearer delineation of the requirements in respect of fraud risk between ISA 315 and ISA 240, with clarification that ISA 315 is intended to emphasise elements of ISA 240 that are applicable to risk identification and assessment, but that ISA 240 is required to be applied in its entirety.

### 29. MNP LLP

Yes, we think the revisions are likely to result in a more robust identification and assessment of the risks of material misstatement. Overall, we think that the revisions will address the public interest issues. With that said, we’ve provided our thoughts on a few of the public interest issues in the paragraphs that follow.

For the most part, we think that ED-315 has been sufficiently modernized for an evolving business environment. In today’s world it is becoming more and more common for companies to implement fully automated components of their business processes. We therefore recommend expanding the application material that supports paragraph 51. More specifically, we recommend that the standard provide guidance to address the impact on the audit approach when it is determined that the controls relating to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence are not effective (i.e., the controls are not designed or implemented appropriately). We believe that such added guidance would help to improve consistent application of the requirements by auditors dealing with this scenario.

### 30. PwC International

No, for the reasons that we describe below, we are concerned that the restructured ED-315 will not result
in a more consistent or more robust process for the identification and assessment of the risks of material misstatement.

ISA 315 forms the foundation of the risk-based approach to all audits. As a result, it is critical that the standard drives an informed, consistent and effective approach to risk assessment through clear and robust requirements. Those requirements should be capable of application to audits of all sizes and complexities and reflect that a range of appropriate methodologies can be applied to achieve the intended outcomes. In our view, the proposals do not fully achieve these objectives.

We support the IAASB's original objectives in revising ISA 315, but we do not believe that the proposed revisions, as currently drafted, fully achieve those aims. We agree that there are aspects of the current standard that warrant clarification. Regulatory inspections and responses to the IAASB’s Post-Implementation Review of the Clarity ISAs have indicated that certain extant concepts, including the spectrum of risk, controls relevant to the audit, and the definition of significant risk, are not being understood or implemented in a consistent manner. We also support the need to update the ISA to better reflect the evolving use of technology, both with respect to how entities’ use of increasingly sophisticated IT systems, including cloud-based technology, impacts the audit, as well as the evolving use of technology by the auditor in conducting the audit. We also support, within that context, the increased focus on general information technology controls (GITCs). Aspects of the proposed ED are useful in addressing these topics; however we believe there is a need to focus further on whether the standard will remain fit for purpose, given the pace of technological change.

We note the acknowledgement by the Board that there was no intent to change the extant risk assessment model. However, in our view, the ED represents, in certain aspects, quite a fundamental revision of the risk assessment model. We believe the clarification of key concepts that would strengthen the extant ISA and support consistent application in performing robust high-quality audits can be achieved without such extensive revision of the model.

We are concerned about the extent and clarity of the proposed changes to the risk assessment requirements. We believe the specific thought process that has been built into the risk assessment requirements is convoluted and therefore confusing, with a concern that this may lead to increasing, rather than reducing, the current inconsistency in practice. Further, we believe it is important to allow flexibility in how the auditor achieves the intended outcome, as different firms’ methodologies that exist today and that will continue to evolve over time may lead to the same outcomes, albeit in a different way.

The proposed model appears to be drawing on concepts included within the PCAOB risk assessment model. However, the role of some of the concepts in the PCAOB risk assessment model is to clarify the scope of work needed to have an appropriate basis for the auditor’s opinion on the design and operating effectiveness of the entity’s internal control over financial reporting. This is not directly comparable with, nor is this relevant to, an ISA audit to form an opinion on the entity’s financial statements. Consequently, we do not believe these changes are helpful.

The complexity of the proposed requirements in the ED, and lack of clarity of some of the concepts, together with the overall length of the standard, also, in our view, raises questions as to whether it can be applied effectively and efficiently to smaller and less complex audits. Given the foundational nature of this standard, if scalability is not successfully addressed this poses a further risk to adoption by jurisdictions and of national standard setters seeking alternative solutions to the ISAs. We comment further on scalability in our response to question 2.

Changing the fundamentals of the risk assessment model could also have a significant cost impact,
including with respect to the effect on many firms’ methodologies and supporting technologies, with little clear benefit.

We aim to support the IAASB in addressing the above concerns through highlighting areas where we see challenges in implementation and then proposing solutions. Our assessment of the ED, which includes the findings from our field-testing, has led us to conclude that the following key aspects would benefit from further consideration:

- New and revised definitions and concepts that we do not feel clarify the risk assessment process, but in fact introduce a level of complexity that increases the risk of inconsistent understanding and application of the requirements – which is counter to the intended objectives in revising the standard. In particular:
  - The extent of the understanding of the system of internal control that is appropriate to support the auditor’s inherent risk assessment and, when the auditor plans to obtain evidence from controls, what further understanding of internal control is needed;
  - The definition of a new concept of “inherent risk factors” and how those factors are proposed to be used, which is complex and different to how external and company-specific factors are applied in the PCAOB risk assessment standard and also different to how they are used in the very recently approved revision of ISA 540. We also believe fraud risk factors are best addressed in ISA 240 and that inclusion of susceptibility to misstatement due to bias or fraud as a discrete risk factor in ISA 315 may lead to confusion;
  - The interaction of the proposed definitions of “relevant assertion” and “significant classes of transactions, account balances and disclosures” and their relationship with the risk assessment requirements, which we believe adds unnecessary complexity;
  - The articulation of the concept of “control risk”, in support of the proposed requirement to separately assess control risk, which continues to often be misunderstood; and
  - The revised definition of “significant risk”, which we believe results in items potentially falling within its scope that typically may not be considered significant risks.

- How the requirements have been restructured, including how they refer to “identified risks of material misstatement” for which the auditor then assesses inherent and control risk. In our view, this leads to a perception that the proposed ISA requires a preliminary assessment, or separate identification of, potential risks of material misstatement, which is confusing in light of the IAASB’s objective of promoting a stronger focus on the separate assessment of inherent and control risk. The approach seems forced and unduly restrictive;

- The proposed ISA 315 stand-back for “material classes of transactions, account balances and disclosures”, which we do not consider necessary given the stand-back in ISA 330;

- The use of the broad concept of “sufficient appropriate audit evidence” as the measure of the nature and extent of risk assessment procedures to be performed as the basis for the auditor’s risk assessment, without providing the necessary context for that judgement; and

- The clarity of expected documentation requirements arising from the ED taken as a whole when viewed in the context of ISA 230.

Our concerns on the various matters described above, together with our recommendations for addressing them, are further explained in our responses to the remaining questions below.
Our recommendations for appropriate changes that address the project scope

Given our concerns about the proposed revisions, we felt it was important to invest the time to articulate alternative suggestions that would address our concerns while achieving the objectives behind the revision of ISA 315.

Appendix 2 sets out our vision of what we believe to be a more helpful approach and structure for the requirements of the standard. In developing this approach, our thinking has been framed with the following objectives in mind:

- Building a logical and intuitive structure that appropriately incorporates new concepts that bring clarity around, and thereby drive consistency in, the auditor’s work effort;
- Directly addressing concerns over scalability by making clear the extent of the understanding of the entity’s system of internal control relevant to financial reporting that is appropriate to support the auditor’s assessment of inherent risks, and the further understanding that is needed when planning to obtain audit evidence from testing controls; and
- Clarifying existing concepts identified as being misunderstood in practice or applied inconsistently, based on the ISA post-implementation review.

Our suggestions more directly link what the auditor needs to understand regarding the entity’s system of internal control to support separately the assessments of inherent risk and control risk. We believe more explicitly setting out the required understanding of internal control to support each of these assessments presents an opportunity to deliver the much called for clarity for audits of smaller and less complex entities regarding the nature and extent of understanding that, as a minimum, is needed when the auditor does not intend to obtain audit evidence from evaluating the design, and testing the operating effectiveness, of controls. We would be happy to work with the Board’s Task Force to explain our thinking and further develop this approach if this is considered appropriate.

31. RSM International

Question 1b

- We appreciate the intention to provide a more robust risk assessment process. However, while there is language within the Application and Introductory paragraphs of the ED that notes the auditor’s risk assessment process is iterative and dynamic, we are concerned that this language may be overlooked or overshadowed by the language in the Requirements paragraphs which seems to imply that there is a prescribed order and approach that should be followed. This may, therefore, impact on the robustness of the process which itself depends on auditors re-evaluating their risk assessments in the light of new information that they may gather. We recommend expanding upon the intended flexibility of the process in the Introductory section and re-evaluating the specific language used in the Requirements paragraphs.

- With regards to addressing public interest issues we note that it is specifically mentioned in the Explanatory Memorandum but our view is that the link between ED-315 and addressing public interest issues could be more explicitly referred to in the final ISA itself.

32. Office of the Auditor-General of Alberta

We are unsure whether the process will be more robust. It will be more complicated, less intuitive, and may result in unintended consequences. An example of this is paragraph A153. After the second bullet is an
“or.” This may be a typographical error, in which the “or” should be after the third bullet. Or it may be intended that the auditor selects between the first two bullets and the last two bullets. Or it allows the auditor to select which steps to make and makes the important walk-through step of “selecting transaction and tracing them through the applicable process in the information system” optional. We would encourage the Board to consider all four procedures requirements and the listing should state “and” after bullet three.

We feel some important aspects of risk assessment in existing ISA315 could be retained. For example, the control environment in existing ISA315.14 (A78) includes important aspects such as communication and enforcement of integrity and ethical values, commitment to competence, participation by those charged with governance, management’s philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resource policies and practices. These should remain in the standard; without consideration of these various factors it is difficult for the auditor to be able to make the evaluations required in paragraph 28. In our view these are “entity-level controls” and are analogous to general IT controls, but for the entire entity.

We also suggest that paragraph A198 include walkthroughs. We consider the current 315.13 which states, “When obtaining an understanding of controls that are relevant to the audit, the auditor shall . . . [perform] procedures in addition to inquiry of the entity’s personnel” is more robust and requires the completion of a walkthrough. We are not aware of any procedure(s) more effective and efficient to assess the implementation of a control than a walkthrough. As previously stated, we encourage the Board to make walkthroughs a requirement as part of the implementation assessment. This would be a significant step for the public interest, as it would eliminate the practice by some auditors of rotating walkthroughs and create a more consistent risk assessment.

33. Office of the Auditor-General of Canada

Yes, we believe the revisions to the standard will promote a more robust process for the identification and assessment of the risks of material misstatement addressing the public interest issues outlined in paragraphs 6-28.

35. US Government Accountability Office

As noted above, we believe that the standard could benefit from further clarifying the following:

- the order of the steps in obtaining an understanding of the entity and its environment and identifying and assessing risks of material misstatement (see response to question 1(a));
- the interdependency of the components of internal control on the design, implementation, and operating effectiveness of controls (see response to question 5(a)); and
- the identification of controls relevant to the audit (see response to question 5(b)).

We also suggest that the IAASB consider adding additional application guidance illustrating examples of risks that could lead to misstatement in specific assertions. For example, the guidance could note that for the occurrence assertion, there is a risk that unauthorized transactions are entered and not detected. In our view, there are generally multiple risks or sources of misstatement related to each assertion, and identifying and considering each of them is important to the completeness of the auditor’s risk assessment.

Also, as a more specific point, we suggest that the IAASB consider deleting the following sentence in paragraph A16: “The depth of the overall understanding that is required by the auditor is less than that possessed by management in managing the entity.” In certain instances, the auditor may have a better
understanding than management. For example, the auditor may have a better understanding of the regulatory or economic environment.

36. Swedish National Audit Office

We also believe that the revisions suggested will promote a more robust and transparent risk assessment process.

38. ACCA-CAANZ

We believe that ED-315 restructuring is heading in the right direction, particularly in modernizing and updating the ISA for an evolving business environment taking into consideration the technological advances. ED-315 recognizes that auditors are continuously increasing the use of automated tools and techniques such as data analytics.

We are supportive of the broad methodology that underpins ED-315 as it expands on the concepts first introduced in ISA 540 (Revised), such as the inherent risk factors and the separate determination of inherent and control risk.

However, the complexity of the language used throughout the standard, together with its structure, makes it extremely difficult for readers to follow. Because ED-315 introduces many new concepts and its methodology is changed substantially compared to extant, it is very important that the standard uses plain language and a simple structure to ensure that those concepts are understood by practitioners and applied consistently and in the manner intended. As a consequence of the complex language and structure, we do not believe that the revisions will promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. We stress that our response is based on the language and structure of the proposals, rather than the methodology. However, the effort required to address the language and structure should not be underestimated.

39. Accountancy Europe

The key concepts underpinning the risk identification and assessment model seem to fundamentally change the risk assessment process despite the IAASB’s intention not to do so as outlined in the Explanatory Memorandum to ED-315 (paragraph 8).

While we understand the demand for more detail, we think that this has been done at the expense of a robust principles-based standard that allowed for the use of professional judgement. The ED-315 is very prescriptive and detailed and seems to go into the direction of a methodology in prescribing specific approaches. We recommend that the IAASB stands back and reconsiders which material should be within the principles-based standard and which material, whilst still valuable to users, should be included in guidance that resides outside of the standard.

In its effort to address the issues raised by the audit regulatory and oversight bodies related to inconsistent auditor risk assessment, the IAASB first needs to understand what consistency means from this perspective. A standard cannot and should not aim to restrain auditor judgement, since it is the application of many years of professional experience applied to the specific facts and circumstances which drives such judgement.

This focused approach on consistency in outcome should also be taken forward in the revision of ISA 500 to drive consistency in obtaining and assessing audit evidence, rather than to drive consistency in exercising professional judgment.
42. Chartered Institute of Public Finance & Accountancy

The revisions may promote a more robust process for identification and assessment of relevant risks, if they are properly understood. However, as drafted, ED-315 may have the opposite effect for some readers of the standard.

The main way in which we can see improvement occurring is if a more understandable version of the (technically good) content is developed by technical units in audit firms, public sector audit institutions, audit training providers and caseware providers. This seems inappropriate – we consider that the ISA should be self-standing.

A possible consequence is that the main benefits of the revised standard might apply only to larger audit firms or audit institutions, and perhaps also to auditors of more complex entities. However, we should be clear that we think that the drafting of the standard is currently not optimal, even for these auditors.

43. CPA Australia

Yes, we consider that the greater detail and explanation of the risk assessment, understanding the entity and internal control, whilst challenging for small or less complex audits, will be beneficial for many audits especially medium to large entities with some level of complexity and will promote a more robust process.

We acknowledge that the ED has sought to address the public interest issues raised in the explanatory memorandum, which we support, and this is has been achieved to a large extent in the ED, although the iterative nature of a risk assessment, scalability and data analytics continue to be challenges, which would benefit from further consideration as to how they could be addressed most effectively.

44. EFAA

While modernizing the standard to reflect changes in technology and the business environment is crucial, we are concerned that the standard has become overly complex. We fear the requirements and application material are insufficiently principles-based and, in their undermining the cost-effectiveness and efficiency of the audit of smaller and less-complex entities, we believe the revisions fail to address the public interest issues cited.

Understandability will be improved by clearer and more succinct descriptions of the concepts underpinning the requirements and illustrating them by way of figures. We also recommend eliminating duplication and repetition by removing references to other ISAs where possible.

In addition to our general observations above as to suitability for audits of SMEs we see scope for further improvements that will improve scalability. We welcome the requirements of paras 24 and 31(a) for the auditor to ‘evaluate’ whether the entity’s accounting policies are, and the nature of the entity’s risk assessment process is, respectively appropriate to the entity’s individual circumstances as this encourages the exercise of professional judgement, duly taking account of the auditor’s understanding, in the light of the individual circumstances of the entity, including its size and complexity and any other relevant factors.

We suggest, however, that ‘evaluate’ be softened by modifying to ‘consider’ and that a similar ‘appropriateness consideration’ be more widely employed beyond these two matters, for example, to the design of controls (para. 26) and control activities (para. 38)). Such a focus on the appropriateness for the specific entity would promote scalability.
45. Finnish Association

The revised standard is difficult to understand and follow through. Therefore, the consistency in adoption between auditors will most likely not be promoted even though the changes would probably increase the robustness of the risk assessment process. The use of terminology can also cause inconsistency and difficulties in understanding. In our opinion, the standard should not include so many ‘different levels’ of same term - e.g. likelihood, ‘reasonable possibility’, ‘more than remote’ and ‘(acceptably) low level’ - especially from the translation point of view.

46. Fed of Prof Council of Economic Sciences (Argentina)

We believe that the reviews will promote a more robust process for the identification and assessment of the risks of material misstatement and will adequately address the public interest issues detailed in the document.

47. FSR Danske Revisorer

In our opinion the proposed changes to ED-315 will not create a more understandable and robust process for the identification and assessment of the risks of material misstatement.

From our perspective, it is imperative that the standard creates a consistent and effective approach to risk assessment through clear and robust requirements that are based on the audit of small and less complex entities, while at the same time being capable of being scaled to large complex audits.

The new definitions and concepts in ED-315 do not, as we read and understand them, clarify the risk assessment process, but in fact introduce a level of complexity that increases the risk of inconsistent understanding and application of the requirements. This is for example, illustrated by the fact that it is not possible to read and understand ISA 315 ED without using the flowcharts as guidance. Furthermore, the standard has more than 80 pages that, in general, are applicable to almost any audit. In our view, this complexity is especially driven by the sections dealing with "Obtaining an understanding of the Entity's System of Internal Control", paragraphs 25-44, and "Identifying and Assessing the Risk of Material Misstatement", paragraphs 45-53.

The section covering "Obtaining an understanding of the Entity's System of Internal Control" is overly complex because each of the components of internal control need to be assessed, as well as the judgment and extent of test of design and implementation of controls involved.

The section covering "Assessing the Risk of Material Misstatement" is overly complex because risks have to be identified at the assertion level and financial statement level, and linked to the “relevant assertion” and "significant classes of transactions, account balances and disclosures". This is further supported by the inclusion of control risk in the risk assessment process, which creates an unclear basis for the audit responses that need to be designed to address the risk of material misstatements.

48. Interamerican accounting association

Yes, we understand that the proposed amendments as revisions of the standard will trigger a strengthening process for the identification and evaluation of significant risks and we believe that such improvement proposals address in a determined manner, in accordance with the purposes and purposes of the IAASB. Also encourages a strong and consistent profession, the public interest issues cited in the Explanatory Memorandum to ED-315 (Revised), such reviews will allow to clarify and substantively improve the identification and evaluation of the risks of material error and would lead to a significant
improvement in the quality of the audit of financial statements.

49. Instituto dos Auditores Independentes do Brazil

Yes. However, due to the reasons mentioned in ‘a’ above, our concern is that the changes might cause inconsistencies in the risk assessment process.

51. Institute of Chartered Accountants in England and Wales

Improvements we support, albeit with some reservations, include the introduction of a spectrum of risk, the updated definition of a significant risk – despite the lack of clarity about whether likelihood, magnitude or both are intended – the differentiation between direct and indirect control components and clarification regarding which controls are relevant to the audit. We also support the references to IT issues in the context of off-the-shelf packages to which entities do not have the source code.

We are less convinced by the inherent risk factors which overlap considerably, and by some of the definitions. We note in our major points above that we are unable to construe the equation of a ‘reasonable possibility’ of a material misstatement with one that is ‘more than remote’ as anything other than an attempt to make an unnecessary and wholly inappropriate link between ISA 315 and the FASB definitions used in PCAOB requirements relating to the integrated audit of internal controls over financial reporting.

Our main reservations about issues (a) to (c) noted above relate to the overall length and unnecessary complexity of these proposals, which in many respects read more like a large firm methodology than an auditing standard. The definitions of assertions, relevant assertions and significant classes of transactions, account balances and disclosures, and the interaction between these definitions seem unnecessarily convoluted. Absent further guidance from IAASB, there is a significant risk that the proposals will be interpreted inconsistently across jurisdictions and firms. This is a public interest issue.

52. Institute of Chartered Accountants (Ghana)

Yes, the revisions will promote a more robust process for the identification and assessment of the risk of material misstatement. This is because the revisions are made with public interest in the forefront and thus we believe it will drive the performance of a quality audit. Quality audit in the form of improved identification and assessment of risk of material misstatements. With the introduction of the flowchart which will provide a visual representation of how the entire standard is to be applied, we believe the proposed changes will promote a more robust approach in assessing the risk identification.

Some of the public interest issues addressed through the changes include;

• Complexity and iterative nature of the standard – introductory paragraphs summarizing and providing overall context/structure of standard as well as the 3 flowcharts providing visual representation of entire standard supporting this;

• Scalability issues are also addressed as the application material has consideration of smaller or less complex entities contrasted with larger or more complex entities;

• Data analytics – in response to increasing use of automated tools & techniques when performing risk assessment a DAWG was set up and they determined that the focus should be on gathering sufficient audit evidence and not on prescribing how the evidence is obtained. Nevertheless the standard touches on how using data analytics can enhance the understanding of risk factors;
• IT – recent developments indicate that it is increasingly important to understand the IT environment with focus on financial reporting. So significant changes have been made to enhance the understanding of the entity’s use of IT in business and system of internal controls have been made to the standard. This is introduced in a principles based manner;

• Independence and professional skepticism are touched on in various paragraphs throughout the standard. Appendix 1 summarizes all the areas that are touched on;

• Fraud – the introduction of inherent risk factors in identifying and assessing the susceptibility of assertions to misstatement is in the standard. A link to the consideration of the susceptibility of misstatement due to fraud has been made in the standard.

Appendix 1 provides a summary of all the particular paragraphs/references to where the public interest items have been addressed.

53. Institute of Chartered Accountants of Pakistan

We also agree that the proposed revisions will promote more robust process for the identification and assessment of the risks of material misstatement. The proposed revisions address specific challenges and issues like understanding entity’s system of internal control, IT related risks arising from use of automated tool and techniques, determining audit, inherent, control and significant risks and related risk of fraud and introduction of new definitions and concepts and its linkage with ISA 200, ISA 540 (revised) and ISA 330. We also agree that any public interest issues are well addressed.

54. Institute of Chartered Accountants of Scotland

We do not believe that the revisions provide a more robust process for the identification and assessment of the risks of material misstatement as we consider that they remove the need and ability for the auditor to exercise professional judgement as part of a principles-based approach and as such ED-315 has become much more prescriptive in nature.

55. Institute of Chartered Accountants (Zimbabwe)

Yes.

The issues have been addressed due to its scalability considerations. The proposed revisions to enhance the specific considerations relevant to audits of public sector entities will go a long way in addressing and protecting public interests.

57. Institute of Public Accountants

While the IPA believes the proposed revisions are generally an improvement, in our response to other questions the IPA has concerns with the detail of some of the changes and believes the guidance is insufficient to address deep-seated deficiencies in auditor’s assessment and response to risk.

59. Malaysian Institute of CPAs

With more elaboration and clarification, MICPA believes the revisions should be able to promote a more robust process for the identification and assessment of the risks of material misstatement.
60. New York state society of CPAs

The revisions noted in the exposure draft will promote a more robust process as they address scalability and “...recognizes that the auditor’s ability to serve the public interest includes the ability to apply the standard to the audits of financial statements for all entities, ranging from small, simple, non-complex entities to large complex, multinational entities” (paragraph 13). However, the extant standards do not address the evolving business environment and changes in economic, technological and regulatory changes over the years. We support the changes as to the modernization of the standards, which will provide a more relevant and robust risk identification and assessment process. Nevertheless, the risk identification and assessment process should provide for more frequent updates of the standards, since changes in technologies and impacts on global economies are accelerating.

Standards are generally neutral as to identifying specific applications, since technology changes so rapidly. Specifying how auditors should adjust their risk assessments to take into account exciting new technologies of the day is appealing; we suggest, however, that the Board adopt a more principles-based approach. This is because it is possible that the guidance relating to the most “new” technologies may become outdated by the time the standard is finalized and may never be implemented in the manner the Board intends. For example, we suggest that the standard explain that when new technologies are implemented that affect financial transactions and audit procedures, auditors should understand and document the following risks, for instance:

- Developer bias
- Inferences developed with inaccurate and incomplete information
- Automated decision making with invalid inferences
- Computer code and services that have misleading names are not what they purport to be, and may have fatal flaws that are not widely known and that result in irreversible material financial consequences.

61. PAFA

It is PAFA’s view that the revisions will indeed promote a more robust risk identification and assessment process which will in turn uphold public interest through improved audit quality.

62. SAICA

The SAICA survey included this question at the end, as a general question requiring the survey respondents to reflect on ED-ISA 315 overall. 87% (84/97) of the survey respondents predominantly agree that ED-ISA 315 promotes a more consistent and robust process for the identification and assessment of the risks of material misstatement, with 25 selecting “4”, 40 selecting “5” and 19 selecting “6”, on the identified scale of 1 to 6. Again, this feedback should be weighted and considered, taking into account the responses to the other questions that address more detailed aspects of ED-ISA 315.

SAICA agrees with the views of its members in question 1, but we have included suggestions under the detailed questions that follow to further improve on the structure and flow, and some aspects of the risk identification and assessment process.
63. SMPC

The work undertaken to update and modernize the standard in relation to information technology is vital given the fast-paced and evolving business environment. We remain concerned whether the requirements and application material are sufficiently principles-based to effectively address concerns on complexity and scalability.

Besides our comments elsewhere as to the need for the IAASB to ensure the final version of this standard is fit for purpose for all segments of the audit market worldwide, we see room for further improvements. Specifically, we support the requirements of paras 24 and 31(a) for the auditor to evaluate (although this may be an inappropriate term in this context, given the IAASB’s glossary definition – “consider” might be more appropriate) whether the entity’s accounting policies are, and the nature of the entity’s risk assessment process is, respectively appropriate to the entity’s individual circumstances. Such an “appropriateness evaluation/consideration” involves the auditor exercising professional judgement, duly taking account of the auditor’s understanding, in the light of the individual circumstances of the entity, including its size and complexity and any other relevant factors.

In our view, a similar “appropriateness consideration” would be appropriate beyond these two matters (e.g., regarding the design of controls (para. 26), the appropriateness of the foundation for other components of the system of internal control (para. 28(b)) and of information system controls (para. 36) as well as of control activities (para. 38)). The IAASB might draw upon ISA 620.08 and use a similar construct in this regard. Focusing on the appropriateness for the specific entity would foster scalability and potentially enhance audit quality as it would also facilitate the auditor identifying and focusing attention on any key control deficiencies within the entity, thus, supporting the requirement of proposed para. 43 (a) for the auditor to determine whether deficiencies have been identified.

65. Chartered Accountants Academy (Zimbabwe)

The issues of public interest have been addressed more adequately than in the current ISA 315 as the ED-315 is proposing to include in the application material scalability considerations. There has been proposed revisions to enhance the specific considerations relevant to audits of public sector entities and this will go a long way in addressing and protecting public interests. Even auditors of smaller and less complex entities have been considered in scalability.

ED-315 also introduces a new concept of inherent risk factors intended to provide a link to the auditor’s consideration of susceptibility of misstatement due to fraud. There is emphasis on professional skepticism throughout the rest of the audit.

66. FocusRoi Inc.

The revisions are helpful but do not go far enough. At a time when the focus of regulators is to improve the quality of auditing, we believe that the revised ISA 315 would have been a great opportunity to include additional practical guidance on how to perform effective risk assessment procedures.

For example, there is no additional guidance provided to practitioners on how to identify and assess risks that could affect the future viability of the entity. The guidance is ISA 570 and ISA 240 is simply not enough.

In our experience, practitioners can readily identify and access the effects of risks that impact specific financial statement areas, but often fail to consider the sources of such risks and possible other implications. Risk sources can often affect many FS areas from both a historical and future perspective. For example, most auditors will identify the effect of a risk that could lead to the need for a provision for
doubtful accounts. But they may fail to consider whether the source of the risk (such as a downturn in the economy) also effects other financial statement areas or even the future viability of the entity itself. Auditors should be encouraged to first identify the sources of risk and its future implications as well as the effects on the current year end balances and the income statement.

70. S Dianne Azoor Hughes (Australia)

No significant matters arising