Responses to ED–315¹
Comments on ‘Documentation’
NVivo Report 8A
(FOR REFERENCE)

01. Basel

Documentation

We acknowledge that the IAASB has expanded the specific requirements in ED-315 on documentation. However, ED-315 should contain an explicit requirement for the documentation of the auditor’s application of professional skepticism in paragraph 54 (“Documentation”) rather than relying on the reference to overall documentation requirements in accordance with ISA 230.

04. IAASA

The ED introduces the concept of a spectrum of risk. This is defined, but not mentioned elsewhere in the requirements. We would support adding a requirement in the standard for the auditor to assess where each risk belongs in the spectrum of risks with appropriate documentation of this assessment.

06. IFIAR

We are supportive of the Board’s introduction of the concept of a spectrum of risks. To support the application of this concept, we would suggest adding a requirement in the standard (and corresponding application guidance) to assess where each risk belongs in the spectrum of risks with appropriate documentation of this assessment.

08. IRBA

- The IAASB should consider additional documentation requirements in paragraph 54 of ED-315 for the auditor to document what factors the auditor considered to conclude that an entity is “smaller and less complex” or “larger and less complex”, etc.

- We recommend that the IAASB consider additional application material to explain how an auditor obtaining “sufficient appropriate audit evidence through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement” per paragraph 17 of ED-315 demonstrates or encourages professional scepticism. It is also not clear whether this requires the auditor to document on the audit file that the auditor obtained “sufficient appropriate audit evidence through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement”, similar to an audit conclusion. The lack of preparation of sufficient audit documentation remains a key inspection finding in South Africa.

¹ Exposure Draft International Standard on Auditing 315, Identifying and Assessing Risks of Material Misstatement
Stand-back

- We support the proposed stand-back requirement in paragraph 52 of ED-315 and its supporting application material as it is important for the auditor to ensure that conclusions that material classes of transactions, account balances and disclosures are “Not Significant” are correct.

- We recommend that the documentation requirements in paragraph 54 of ED-315 also include the requirement for the auditor to document the auditor’s considerations with respect to paragraph 52 of ED-315, especially paragraph 52(b) of ED-315.

11. Australian A&A Standards Board

In addition, paragraphs 54 and A15, A18 and A32 – 33 could be enhanced by including:

- Risk considerations or documentation requirements specific to the use of predictive analytics or analytic tools that incorporate machine learning or artificial intelligence (AI) by both entities and auditors, particularly the nature of what is considered “audit evidence”.

- Documentation requirements for analytic procedures to allow for re-performance where machine learning is used by an entity and/or the auditor.

- Consideration of the requirements in relation to General Information Technology Controls testing and database control assurance required when using automated tools as part of risk assessment.

- Documentation requirements on the appropriateness and reliability of external data sets (being data sets external to the entity’s sphere of control).

’Sufficient appropriate audit evidence’

The AUASB is supportive of the principle of obtaining an appropriate base of evidence for risk assessment. However we do not support using the term “sufficient appropriate audit evidence” in paragraph 17 of the ED. This term is commonly associated with drawing conclusions on the evidence collected on the financial statements as a whole, and not during the risk identification and assessment phase. We consider the use of this term in ED 315 is inconsistent with the current definition of audit evidence in ISA 200. We encourage the IAASB to consider if paragraph 17 is appropriate, and the impact this has on ISA 200. If retained in the standard, we also recommend that further guidance is required to explain how this term is to be interpreted in the circumstances of ED 315, and what are the associated documentation requirements.

‘Inherent risk factors’

Finally, whilst paragraph A245 states that “the auditor is not required to document every inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level”, some stakeholders were still concerned that the introduction of the inherent risk factors still creates an unnecessary documentation burden for practitioners.

Documentation:

Stakeholders raised overall concerns about the level of documentation that may be required to evidence compliance with ED 315. To assist auditors the AUASB recommend that the IAASB issue non-authoritative guidance outlining the documentation requirements including for a less complex entity.
14. Hong Kong Institute of CPAs

*Reference 1:*

In general, the proposed requirements and application material have been appropriately enhanced and clarified in relation to the auditor's understanding of each component of the entity's system of internal control and identification of controls relevant to the audit. We welcome the scalability consideration, for instance, paragraph A90 highlights that the nature, timing and extent of procedures to understand the entity's system of internal control will vary from entity to entity and may depend on factors such as size and complexity of the entity.

A key consideration will be how much understanding (thus expected level of documentation) is needed for auditors to illustrate their 'thought process' in risk identification and assessment, given that the extent of understanding of the entity's system of internal control varies depending on factors in A90.

*Reference 2:*

Risk of material misstatement is a function of inherent risk and control risk. Assessing separately the inherent and control risks would require auditor's in-depth understanding of the entity and relevant internal controls.

As part of the scalability application, paragraph A90 highlights that the nature, timing and extent of procedures to understand the entity's system of internal control will vary from entity to entity and may depend on factors such as size and complexity of the entity. Consequently, the separate assessments may result in substantial increase in work and documentation in case of a small and less complex entity.

*Reference 3:*

In addition, paragraph 52 and the application material do not provide adequate documentation requirements on the stand-back provision to demonstrate auditor's thought process in concluding the risk assessment. We recommend that the documentation requirements or application material is expanded to address the nature and extent of documentation required in relation to the stand back provision.

17. Malaysian Institute of Accountants

Providing greater clarity around the significant judgements that should be documented together with what is envisioned as "key aspects" of the auditors' understanding would assist in the scalability of documentation.

21. Altaf Noor Ali Chartered Accountants

A summary of our recommendations is as follows-

- ... Pay special attention in developing guidance on documentation requirements. This is the weakest link in the training of auditors of SMPs. Encourage member organizations to be more responsible. (Q2)

22. BDO International

*Reference 1:*

We also think that further clarification around the extent of documentation required to demonstrate our understanding of controls and assessments of design and implementation (if required) in smaller non-
complex entities with ineffective or non-existent controls would be beneficial. For example, if the auditor has determined that a fully substantive approach to the audit will be taken, guidance on the minimum documentation to satisfy the requirements around controls, specifically those in paragraphs 38, 39 and 42, would be helpful. Excessive documentation on something with little impact on the audit is a threat to audit quality as

Reference 2:

We note that the current documentation requirements (paragraph 54) outline the various risk identification and assessment requirements that require documentation but paragraph 52 is not explicitly referred to within this section. We also note that part (b) of paragraph 52 of the stand-back requirement uses the words ‘...evaluate whether the auditor’s conclusion remains appropriate.’ This gives rise to a question about whether the auditor is therefore required to document the nature, extent and results of such an evaluation. In order to provide clarity to auditors and regulators, it would be helpful for the IAASB to clarify in paragraph 54 whether the expectation regarding documentation extends to the paragraph 52 requirement or not.

26. EY Global Limited

Yes, we support the concepts and definitions of inherent risk factors, as set out in paragraph A5. We believe the use of inherent risk factors creates a framework for identifying inherent and significant risks. However, we do have concerns about how the auditor’s thought-process is expected to be documented, particularly for inherent risks assessed at the lower end of the spectrum of inherent risk. We are also concerned about how formally this framework is expected to be applied and documented, i.e., is the expectation that each factor needs to be documented for each identified inherent risk? We believe that it would be helpful to clarify that formal documentation is not required of how each inherent risk factor has been considered.

27. Grant Thornton International

The application material focuses heavily on the description or further elaboration of what these inherent risk factors represent. Whilst we agree a more condensed version of this would be necessary to assist auditors in understanding the inherent risk factors, we would also recommend that the application material clarify that the inherent risk factors are a tool to assist auditors in their risk assessment and the categorization of risk factors is neither required to be performed nor documented. This would avoid the impression that the classification of inherent risk factors is an exercise in and of itself. We also note, in paragraph A245 of ED 315, relating to the documentation of the identified risks of material misstatement, the term "higher level" of professional judgment is used. This is not a defined term, and we recommend that this be clarified.

30. PwC International

Reference 1:

Overarching comments:

In addition to the broad matters outlined above, there are a number of other aspects of the proposed ED that we believe would benefit from further consideration, including:

- ...

- The clarity of expected documentation requirements arising from the ED taken as a whole when viewed in the context of ISA 230.
Reference 2:

Documentation

We are concerned at the overall documentation expectations resulting from the changes to the various requirements. For example, it remains unclear how the auditor would be expected to document consideration of both inherent risk factors and relevant assertions. We believe this may give rise to a complicated “matrix” risk assessment. While the statement made in paragraph A245 that the auditor does not need to document how every inherent risk factor was taken into account is helpful, we do not believe a single sentence of application material is sufficient to avoid inconsistent interpretation. We recommend the Board provide greater clarity around the expectations for documentation arising from the revised requirements. While limited changes have been made to the actual documentation requirement, it has been stated through the recent webinars that the significant judgements to be documented should be viewed in light of ISA 230. Relying on ISA 230 alone is, in our view, not helpful given the significant changes to requirements that have been made. For example, it is unclear whether the “position on the spectrum” is expected to be a significant judgement—especially where the risk is ultimately not deemed to be a significant risk. The scope of significant judgements is also being debated across a number of the IAASB’s ongoing projects. In light of those ongoing discussions, we believe the Board needs to give further consideration to appropriate application material explaining this term, in the context of judgements made in identifying and assessing risks of material misstatement, in finalizing the ISA.

Reference 3:

Further to our comments in response to question 1, a number of the teams that participated in our field-testing either raised questions about what was expected to be documented or stated that they believed the documentation that would be needed, in particular for the revised risk assessment requirements, would be extensive, onerous and not scalable to smaller entities. Providing greater clarity around the nature of the significant judgements that the Board believes may be documented together with what is envisaged by “key aspects” of the auditor’s understanding would more directly assist understanding the scalability of documentation.

Lastly, related to the above, implementation materials that provide better “signposts” and examples of the nature and extent of the understanding of the system of internal control that is required, for example for smaller entities with less sophisticated IT systems and informal documentation around the system of internal control (e.g., the entity’s risk assessment process), would also be useful.

Reference 4:

SCOTABD and relevant assertions:

Linked to our comment on question 1, we are also concerned at the implications for documentation resulting from the relationship between these definitions and the requirement to assess inherent risk, taking into account the inherent risk factors, for all SCOTABD, which we believe will result in a complex documentation exercise by risk factor and assertion.

Reference 5:

FS level risk

We fully support the need to consider how pervasive risks might increase the risk at the assertion level for a particular financial statement item. However, we find the articulation of the requirements addressing the relationship between risks at the financial statement level and risks at the assertion level to be unclear. We
agree that the auditor *takes into account* the potential effect of financial statement level risks when thinking about risks at the assertion level. However, it is unclear how the auditor is supposed to determine “the degree to which” financial statement level risks affect the assessment of risks of material misstatement at the assertion level - how is this to be measured and what are the consequences of varying degrees? The application material does not address this aspect of the requirement. This same concern also applies to paragraph 48(b). Furthermore, the requirement to “determine” an effect also implies a quantifiable judgement, which we believe is unrealistic and creates an onerous and impractical documentation expectation. We also question the intent of the requirement in paragraph 47(a), given the almost identical requirement in paragraph 48(b).

31. RSM International

We also see a lack of clarity on what is intended by obtaining “sufficient appropriate audit evidence” during risk assessment procedures. Is it simply reinforcing that all risk-assessments have to be documented and grounded in facts? Is it just a clarification regarding the importance of documentation? Or is it introducing a requirement for unspecified new procedures?

38. ACCA-CAANZ

*Reference 1:*

ISA 315 is a pivotal standard in establishing the work effort of the auditor throughout the audit and therefore it is critically important to get it right. To be sufficiently scalable, it is necessary to restructure the standard and to rewrite it in simpler language, and we appreciate that this will require significant effort. We would also anticipate the final standard to be supplemented by an implementation support process at the level accorded to the more critical and complex projects. Examples of implementation support could include what documentation might look like for a smaller practice and flowcharts to assist practitioners’ understanding of the standard.

*Reference 2:*

The requirements and application material require the auditor to assess inherent risk by reference to likelihood and magnitude. However, a ‘spectrum’ indicates a single dimension. The IAASB does not explain how it intends practitioners to resolve the two dimensions of likelihood and magnitude into a single scale of inherent risk. Accordingly, we anticipate that practitioners will adopt a range of approaches to determine a spectrum, leading to inconsistent identification and assessment of risk.

Further guidance on the documentation requirements in relation to likelihood and magnitude assessments and how are these linked to the spectrum of inherent risk would be helpful.

39. Accountancy Europe

We agree that auditor’s *understanding* of each component of the entity’s system of internal control is a prerequisite of assessing control risk during the risk identification and assessment process.

However, from a scalability standpoint, we do not consider that assessing the design and implementation of controls is always necessary to understand each component of the entity’s internal control system, particularly for entities in a simple and low-risk environment (small or less complex entities) for which a full substantive audit approach will be adopted.
Requiring such work at best prevents the auditor’s resources being applied to more valuable aspects of the audit and at worse results in significant audit documentation which is of little value and could obfuscate the real audit issues. While an understanding of at least the overarching internal control systems has to feed into the risk assessment process, a detailed documentation or testing may not be appropriate (i.e. where the auditor understands enough to know that the controls are not sufficient/satisfactory for further relevance in the audit). Auditors should not be required to perform unnecessary work that would make the audit ineffective in terms of cost benefits in the smaller entities market.

43. CPA Australia

Overall CPA Australia supports the proposed auditing standard ISA 315 *Identifying and Assessing the Risks of Material Misstatement* as we consider that it will contribute to more effective risk assessment in practice, which is critical in underpinning quality audits. However, the complexity and length of the standard will inhibit scalability and may necessitate excessive documentation to justify why requirements may not be applicable for small or less complex entities. Structural enhancements may alleviate this problem to some extent, such as placing the minimum requirement for audits of smaller, less complex entities first and building on those base requirements for audits of larger and more complex entities. The meaning of the requirements could in many instances be stated more directly using plain English and the linkages between requirements expressed more directly.

Given the way that this standard is structured, the auditor will need to consider all of the 38 paragraphs of requirements and 247 application paragraphs, in order to then assess the extent to which those apply to the entity that they are auditing. This means that auditors of smaller or less complex entities may have a significant amount of documentation to justify why requirements may not be relevant, rather than focusing on evidence to support their opinion. In an environment where audit regulators and professional bodies review audit engagements against the auditing standards this may create an unreasonable regulatory burden and documentation, particularly for audits of small entities.

44. EFAA

Further guidance, including examples and illustrations, will be necessary to help ensure consistent and scalable application. While this is onerous the IAASB is best place to produce its own examples and this also removes duplication of effort by national standard-setters and professional accountancy organizations. Examples will be especially useful for: the nature and extent of work on the design and implementation of controls in substantive audits; evaluating where a risk should be placed on the spectrum of risk; and documentation of these and understanding of the business model, the control environment, the entity’s risk assessment process and its process to monitor controls. Smaller entities may not have complete documentation of policies and procedures making up their internal control system. We fear the potential work effort and related documentation proving excessive.

45. Finnish Association of Authorised Public Accountants

From the scalability standpoint, we do not consider that assessing the design and implementation of controls is always necessary in order to understand each component of the entity’s internal control system, particularly for smaller entities for which a full substantive audit approach will usually be adopted. Requiring such work, at best prevents the auditor’s resources being applied to more valuable aspects of the audit and at worst results in significant audit documentation which is of little value and could obfuscate the real audit
issues. At least, a detailed documentation or testing should not be required. Auditors should not be required to perform unnecessary work that would make the audit ineffective in terms of cost benefits in small entities.

49. Instituto dos Auditores Independentes do Brazil

We believe that a requirement for a stand-back procedure is not necessary because the risk assessment is an iterative process for which revisions are usually expected and performed during the course of the audit. Considering this, no changes are needed in paragraph 18 of ISA 330. If the requirement remains appropriate in IAASB’s view, it is not clear what additional documentation should be prepared to demonstrate that.

51. Institute of Chartered Accountants in England and Wales

Reference 1:

It is right that the ISA recognises more clearly the fact that risk assessment is an iterative process. However, documenting such processes clearly and efficiently can be a challenge. From a file review perspective, risk assessment procedures are often not documented or documented poorly. This, combined with an increasing emphasis among regulators on consistency, and on documentation of the application of judgement and professional scepticism, means that IAASB, NSS and audit regulators will need to work together to agree on what a good quality risk assessment looks like, particularly in smaller audits.

Specifically, more guidance and examples are needed for smaller and less complex audits in the areas of:

- the nature and extent of work on the design and implementation of controls in primarily substantive audits (paragraphs 39-42) and on IT systems, control components and system generated reports more generally;
- evaluating where a risk lies on the spectrum of risk;
- documentation, particularly in terms of the two points above, and in terms of understanding the business model, the control environment (paragraphs 27 and 28), the entity’s risk assessment process (paragraphs 29-31) and its process to monitor controls (paragraphs 31-34).

Reference 2:

The additional guidance relating to determining financial statement level risk needs more work. The reference in proposed paragraph 47 to ‘the degree to which’ such a risk may affect risk at the assertion level is somewhat circular, as well as being problematic in other respects. It is not clear, for example, how auditors can assess ‘the degree to which’ a common financial statement level risk – going concern – affects risks at the assertion level. Doubts about the going concern status of an entity affect valuation and disclosure at the assertion level but these are assertions per se, not risks at the assertion level. Documentation of this assessment is likely to be subjective and inconsistent.

54. Institute of Chartered Accountants of Scotland

Paragraph 52 of the ED demonstrates the subtle change in the direction of travel on the part of the regulator and standard setter. It now places more reliance on the need for evidence and documentation as to how the auditor has reached his/her conclusion and satisfied himself/herself that nothing has been overlooked as opposed to a matter for the auditor’s professional judgement which will be based on all the facts and information available at the time.
a) We agree that the auditor’s understanding of each component of the entity’s system of internal control, if it is relevant to financial reporting, is a prerequisite of assessing control risk during the risk identification and assessment process.

b) However, from a scalability perspective, we do not consider that understanding and documenting all components of the entity’s internal control system or assessing the design and implementation of controls, is required for entities in a simple and low-risk environment for which a full substantive audit approach will be adopted. Requiring such work could prevent the auditor’s resources being applied to more valuable aspects of the audit and potentially result in significant audit documentation which is of little value and could obscure the real audit issues.

59. Malaysian Institute of CPAs

Overall, the proposals made relating to the auditor’s understanding of the entity’s system of internal control, as set out in Para 25-44, do assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks or material misstatement. The usefulness of the guidance materials could be enhanced if examples of the nature and extent of the understanding of the system of internal control for smaller entities with less sophisticated IT systems and informal documentation around the system of internal control can be provided.

62. SAICA

Reference 1:
Specific guidance requested, includes:

- Clarification around the level of work and documentation required in respect of how the tool/ technique functions or how it produces information to be used as audit evidence. Again, probably something to be addressed as part of the Audit Evidence Project.

Reference 2:

- With reference to the “sufficient appropriate audit evidence”-revision in paragraph 17 of the ED-ISA 315, 70% (93/132) of the survey respondents answered “Yes” in terms of supporting that the purpose of risk assessment procedures is to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement and, therefore, that it is appropriate to include this as part of the requirement. There were however comments made that the standard should not be too prescriptive and that it remains difficult to demonstrate in an audit file how professional skepticism was applied (some respondents requested guidance on the extent of documentation required).

- A related matter which we were not able to interrogate adequately owing to time constraints, but which we believe the IAASB should be aware of, is whether so-called ‘negative’ documentation is required, or alternatively would be called for when, for example, an audit file is subject to inspection. For example, documented evidence why an assertion about a class of transaction, account balance or disclosure is not a relevant assertion.

- A related matter that came up in some of the comments from survey respondents and in additional discussions that SAICA had, is about the documentation requirements with regard to the auditor’s determination of SCOTABD and their relevant assertions (paragraph 45). Although paragraph 45 is included in the range of paragraphs referred to in paragraph 54(d) as part of the documentation
requirements, the suggestion is that this should also include paragraph 52, since the stand-back provision is intended to address some of the concerns relating to a “less than adequate” risk identification and assessment process. Lastly, a question was raised about the level of documented evidence required in relation to those assertions that have not been determined to be relevant assertions (again, the notion of ‘negative’ documentations –Also refer to our comments in relation to question 4, above).

Reference 3:

Additional questions regarding documentation

- The SAICA survey also included two additional questions regarding the documentation requirements in ED-ISA 315, paragraph 54.
- A vast majority [76% (74/98)] of survey respondents predominantly agree that it is unnecessary for more detailed documentation requirements to be included in the standard due to the overall documentation requirements in ISA 230.
- Furthermore, 75% (72/96) of the survey respondents predominantly support the inclusion in paragraphs 54(c) and (d), respectively, of additional documentation requirements in respect of controls identified to be relevant to the audit and the rationale for significant judgements made in identifying and assessing risks of material misstatement.
- Even though the survey respondents agreed as indicated in the above two paragraphs, the comments relating to clarifying the level of documentation in some of the previous questions should also be considered.

63. SMPC

Reference 1:

In summary, the key issues we have identified are as follows:

- Concern that the length, complexity and over-engineering of some of the proposals will mean that risk assessments will involve increasingly detailed work including documentation, which may not necessarily improve audit quality, but which would make audits inefficient from a cost/ benefit perspective for smaller and less complex entities.

Reference 2:

The development of further guidance, examples and illustrations will be needed to ensure consistency of application internationally. Now is the time for IAASB to consider producing its own examples as it finalizes the standard, rather than leaving this to national standard-setters and professional accountancy organizations. Examples are particularly necessary for:

- The nature and extent of work on the design and implementation of controls in substantive audits.
- Evaluating where a risk should be placed on the spectrum of risk.
- Documentation of the above and understanding of the business model, the control environment, the entity’s risk assessment process and its process to monitor controls.

The SMPC supports the acknowledgement that not all entities will have complete formal documentation of policies and procedures making up their internal control system. We agree that it may be appropriate to
recognize the role of actions and decisions. However, IAASB needs to consider further how consistency may be achieved in this context. We are concerned about the potential work effort and related documentation being potentially excessive. This is because the definition of controls includes “such statements may be documented…”, which could be implied to be mandatory and always applicable. Instead, the application material could be used to explain this.

Reference 3:
We agree that the proposals encourage exercise of professional skepticism throughout the risk identification and assessment process, but IAASB should take care in making claims about the power of IAASB standards to change auditor behavior in this respect. We do not believe that the new requirement for ‘sufficient, appropriate audit evidence’ (para. 17) is helpful in this context to support the identification and assessment of risks of material misstatement at the financial statement and assertion levels. The term is borrowed from requirements concerning the qualitative characteristics of audit evidence more generally and the need to obtain ‘evidence about evidence’ is more circular than iterative. More importantly, it will likely encourage regulators to encourage auditors to expend unnecessary time and effort documenting why they have not done something. We suggest that additional consideration is also given to what the IAASB and audit regulators will expect to see in terms of the documentation of professional skepticism, as this remains a challenge for practitioners, SMPs or otherwise.

Reference 4:
We have concerns about the introduction of the ‘inherent risk factors’ to help identify risks of material misstatement and assess inherent risk because of the degree of overlap between them and the associated documentation requirements. We believe these may be better expressed in application material and in developing implementation support, it would be helpful to explain the nature and extent of the required documentation, including ‘implied’ controls.

In order to assist practical application, it would be helpful to clarify under ‘Uncertainty’ in A5 that “best available” is relative to the audit i.e. the best available to the auditor.

Reference 5:
Do you support the additional guidance in relation to the auditor’s assessment of risks of material misstatement at the financial statement level, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

We are concerned that the complexity and inconsistent use of terminology will lead to considerable confusion. Furthermore, documentation of this assessment of risks of material misstatement at the financial statement level will be highly subjective and lead to inconsistencies in practice.

70. S Dianne Azoor Hughes
The use of the term ‘sufficient appropriate audit evidence’ in the context of risk assessment procedures requires more guidance. Currently auditors document the risk assessment procedures that have been carried out.

• Does a requirement for ‘sufficient appropriate audit evidence’ indicate that something beyond documentation of risk assessment procedures is needed?