

Responses to ED-315¹
Comments on ‘Understandability’
NVivo Report 2A
(FOR REFERENCE)

01. Basel Committee on Banking Supervision

The flowcharts are particularly helpful in navigating through the requirements of the standard. One area where flowcharts may have benefit is to address the scalability issue. In particular, flowcharts may help auditors to navigate through the standard when complex risk areas are encountered during the course of an audit as well as in much simpler situations. In this sense, we would also encourage the IAASB to develop flowcharts that address complex risk areas. The section entitled “Key Concepts” provides a useful introduction and overview.

02. Committee of European Auditing Oversight Body

Introductory comments:

Flow of the standard, key concepts, definitions and link with other standards

Overall, we have some concerns about the flow and understandability of the standard: The increased number of concepts and definitions used in the standard creates sometimes difficulties to follow the steps to be taken and action required.

We suggest that the “definition” section is reviewed to ensure that all concepts are clearly linked with the requirements of the standard. For example – the “spectrum of inherent risks” is mentioned in the definition section to explain what a “significant risk” is (in paragraph 16.k), but does not appear throughout the rest of the standard. We would expect a further requirement in the standard for the auditor to assess where the identified risks are in this spectrum, for the purpose of determining “significant risks” (mentioned in paragraph 49).

Comments of flowcharts:

We believe the flow charts are useful to aid the understanding of the standard, which seems to be difficult at a first read (see also our comment, paragraph 5 of this letter). However, we are unclear as to the authority of the accompanying flowchart(s), compared to the content of the requirements. We have the following issues the IAASB should revisit regarding the flowcharts:

- the placement of ‘risks for which substantive procedures alone are insufficient’;
- the placement of the ‘assessment of materiality’.

04. IAASA

Introductory comments:

Overall, we have some concerns about the flow and understandability of the standard. We note the IAASB’s Clarity Project, which sets an intention to be understandable and clear, to set objectives and establish the auditors’ obligations in relation to that objective. Some specific examples are provided below.

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

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.

The ED also introduces the concept of inherent risk factors; however this is not prominent in the core requirements. We would support an additional requirement for the auditor to identify the inherent risk factors (as opposed to taking the inherent risk factors into account). Such a requirement would be consistent with paragraph 24 of ISA 240.

We note that revision of ISA 330 is not part of the IAASB work plan. We believe it is vital that ISA 330 is reviewed in light of amendments to ISA 315 given the linkages between the two standards. We note that conforming amendments are proposed but do not feel these sufficiently address new concepts including 'spectrum of risk' and 'inherent risk factors'.

Comments on flowcharts

We believe that the risks for which substantive procedures alone are insufficient should be located below the significant risk and other risk of material misstatement to avoid any interpretation that this represents a third type of risk.

We suggest that materiality should be assessed after the audit procedures in paragraphs 23-44 but before the audit procedures required in paragraph 45 onwards, given that the auditor will need to know the materiality in order to determine the magnitude of the inherent risk.

05. IAIS

Introductory comments

Considering the significance of changes made to ISA 315 in the ED, the IAIS believes that it is important to review ISA 330 with the objective to take into account all the changes introduced in proposed ISA 315 as well as the current developments in the auditing techniques.

07. IOSCO

Introductory comments

We do not believe the limited changes proposed to ISA 330 are sufficient to address the significant changes to ISA 315 (Revised) and would encourage the Board to consider revising ISA 330 and whether a revised ISA 330 should be issued at the same time as ISA 315 (Revised)

08. IRBA

General comments to question 1:

ED-315 has been appropriately restructured, clarified and modernized to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement.

Question 1(a):

ED-315's proposed changes help with the understandability of the risk identification and assessment process. The flowcharts are helpful in understanding the flow of the standard and the decision trees are useful. However, the IAASB should consider emphasizing that the flowcharts do not encompass all the

requirements in the standard but rather give a high-level overview of the standard. To that end, it should be highlighted that the flowcharts are not a substitute for reading the standard.

09. UK Financial Reporting Council

Overall the proposed changes help with the understandability of the risk identification and assessment process. The flowcharts are helpful in providing a visual depiction as to how ED-315 should be applied and in illustrating the iterative nature of ED-315. On finalizing the standard, we recommend that the IAASB include the flowcharts in the Basis for Conclusions document, or alternatively a supplementary 'staff guidance' document.

10. AASB of ICAI

The proposed changes help with the understandability of the risk identification and assessment process and promote a more robust process for the identification and assessment of the risks of material misstatement.

However, the length of the standard is a concern.

The flowcharts given along with ED 315 are helpful in understanding flow of the standard. We suggest that flowcharts should be included in application material of the Standard.

11. Australian A&A Standards Board

Introductory comments:

Whilst the AUASB considers that ED 315 improves the clarification of the risk identification and assessment process when compared to the extant version of ISA 315, there are a number of matters which we consider need to be addressed by the IAASB in order to ensure auditors apply the identification and assessment of risks of material misstatement consistently and effectively.

Whilst the majority of the feedback we received on ED 315 supported the overall themes and key concepts in the proposed standard, stakeholders we engaged with when exposing ED 315 across Australia provided consistent feedback that the standard was overly complex and detailed. We acknowledge ISA 315 is at the heart of an audit and needs to contain many elements which means it will never be a simple auditing standard, however the AUASB considers that the current length and complexity of the proposed standard means practitioners may find it difficult to understand and interpret. Additionally this may impact the proposed standard's scalability to audits of entities across different market segments and industries, and in particular audits of small and medium entities. This issue was particularly raised as a challenge for auditors from smaller and medium sized firms who may not have global networks or dedicated technical staff to develop bespoke methodologies or programs that may assist the effective implementation of the revised standard.

Question 1(a):

The AUASB appreciates that ED 315 includes a more granular and robust process for the identification and assessment of the risk of material misstatement. However, in its current format we believe practitioners will find ED 315 overly complex and difficult to understand, which may act as a barrier to its effective and consistent application. Whilst we appreciate that risk identification and assessment is a multifaceted and

iterative process, we consider that the ED's structure, and the introduction of a number of new concepts and definitions, has made the standard more complex than it needs to be. Specifically:

- ED 315 requires the identification of the risks of material misstatement based on inherent risk without consideration of controls, and the assessment of risks of material misstatement based on the inherent risk and control risk. It is not sufficiently clear how controls including the understanding obtained over the system of internal control, impact the identification of risks of material misstatement. Refer question 5(a) for further comments.
- We consider that the terminology used in ED 315 to identify risks could be simplified by just requiring an initial identification of inherent risk and control risk, and then combining these into a defined assessment of risk of material misstatement. The current use of a singular term "risks of material misstatement" both before and after the separate assessment of inherent risk and control risk was identified as being confusing for many of our stakeholders. Refer question 6(a) for further comments.
- ED 315 does not provide enough detail on how inherent risk and control risk interact when assessing the risks of material misstatement. Refer question 6(a) for further comments.
- The introduction of the following new definitions and concepts, or the distinction between concepts, add complexity to the standard:
 - o Significant classes of transactions, account balance or disclosure versus material classes of transactions, account balances or disclosures – refer question 6(d).
 - o New definitions of significant classes of transactions, account balances and disclosures and relevant assertions and the use of the terms "a reasonable possibility" and "more than remote", and how to apply this definition is unclear – refer question 6(d).
 - o Requiring the consideration of inherent risk factors when identifying and assessing risks of material misstatement – refer question 6(b).
 - o The requirement to consider the "likelihood and magnitude" when assessing the risks of material misstatement, as opposed to the "likelihood or magnitude" when identifying significant risks – refer question 6(e).
 - o The spectrum of inherent risk i.e. how to assess where on the spectrum a risk resides – refer question 6(e).
- The increased length of ED 315 is also a potential barrier to its understandability and consistent application. We consider the IAASB should reassess whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.

The flowcharts provided are definitely helpful and beneficial in understanding ED 315. However, feedback from some of our stakeholders indicated they found it difficult to understand the standard without the flowcharts. This in itself provides evidence of its complexity. The AUASB supports the flowcharts being included as appendices to the final standard, and additionally suggest they could be further enhanced to better present and emphasize the iterative and non-linear processes contained within the proposed standard.

12. Canadian AASB

General response to question 1:

Generally, we agree that ED-315 is appropriately restructured, clarified and modernized. One example that we believe modernizes the standard is the use of flowcharts. Stakeholders indicated the flowcharts helped them navigate through the materials which some saw as long and complex. Even though some stakeholders had concerns with the length of the standard overall, we believe it is appropriate given that it sets the foundation for a complex topic.

Question 1(a):

In part. While we support that many of the changes proposed in ED-315 will improve the understandability of the risk identification and assessment process, there are certain areas that we believe should be improved. See our responses to questions 5 and 6 for more details on areas for improvement.

We support the use of flowcharts and all stakeholders requested that they be made part of the final standard. We believe the flowcharts are a fundamental tool in helping auditors understand this complex standard. Participants of the field testing indicated they would use the flowcharts as a continuing guide as they work through the risk identification and assessment phase of the audit. Stakeholders also found the graphic on page 20 of the explanatory memorandum very useful and believe it should be made part of the final standard.

As discussed in the response to Q2 below, our stakeholders still found it difficult to determine what was required when the entity has a simple IT environment. We suggest the IAASB consider creating a companion piece to the flowchart “The Auditor’s Understanding of the IT Environment and the Identification of General IT Controls Relevant to the Audit” to show what would be expected in an audit where the entity uses commercial software in a simple IT environment and does not have access to make any program changes.

We suggest that the flowchart entitled “ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement” be amended to include a solid line instead of a dotted line between the identification of risks of material misstatement at the financial statement level (paragraph 45(a)) and the assessment of inherent risk (paragraph 48). This is because paragraph 48(b) requires the auditor to take into account how the risks of material misstatement at the financial statement level affect the assessment of inherent risk at the assertion level.

13. CNCC-CSOEC

Although the ED-315 brings helpful clarifications in many areas to the risk identification and assessment process, we consider that the ED includes unnecessary complex and lengthy developments. For example, the ED includes 37 versus 26 requirement paragraphs and 243 versus 155 application and other explanatory material paragraphs in the extant standard.

Moreover, we believe that the standard includes confusing or inconsistent notions with the use, for example, of the concept of “entities that are both smaller and non-complex”, the attributes of “material” and “significant” and their juxtaposition, e.g. not significant but which are material, for classes of transactions, accounts balances and disclosures. Moreover certain definitions are missing, e.g. the notion of “class of transaction”, “account balances”, disclosures” is not defined whereas the term “significant class of transactions” is defined in paragraph (16j).

We note that understanding the risk identification and assessment process appears difficult without the use of flowcharts. These provide visual representations of how the standard should be applied. We consider that the fact that the standard cannot be readily understood without the flowcharts is indicative of undue complexity of the standard. We therefore recommend the IAASB to shorten and simplify the text of the standard to enhance its understandability.

Concerning the separate assessment of inherent risk and control risk, we consider it would be useful to clarify the following:

- The assessment of the risk of material misstatement cannot be higher than the assessment of the inherent risk at the assertion level;
- the assessed risk of material misstatement at the assertion level corresponds to the assessed inherent risk less the assessed control risk.

The flowchart developed in page 20 of the explanatory memorandum indicates: assessed risks of material misstatement at assertion level = IR x CR. This may be confusing.

14. Hong Kong Institute of CPAs

The introductory paragraphs help to set the scene and explain key concepts.

The flowcharts are extremely useful in providing readers a summary of the risk assessment process and should be included as part of the final standard. They enable readers to understand the flow and how the requirements interact.

15. IDW

Introductory comments (extract):

We have become increasingly concerned about some developments in the standard setting process at the IAASB and our responses to the questions posed in the Explanatory Memorandum reflect those concerns. We recall that the original audit risk project (which started as a project among major standard setters) commenced in the mid-1990s and was completed around 2004; further refinement took place through the Clarity Project by the end of 2008. This represents a time period of about nine years followed by another four years. The fact-finding for the current project effectively commenced in March 2016, but the project itself commenced its work shortly after September 2016 and has already issued an exposure draft with fundamental changes in mid-2018. We recognize that the world is becoming faster-paced, but we also believe that the prime indicator of robust standards is their ability to stand the test of time despite the faster pace of disruptive change. To draft such robust standards, more time, rather than haste, is needed.

Question 1(a):

As our response to question 6 indicates, we believe that the description of the risk identification and assessment process has become more difficult to understand – partly through the design of the definitions and the use of terminology. While the flow charts are helpful, the fact that three complicated flow charts are needed to describe the process demonstrates that the process – or at least its description through the subtleties of the terminology used – has become too complicated. We are convinced that outside a small group of experts in standard setting and large network methodologies, few practicing auditors – especially not those SMPs that audit financial statements of small and less complex entities – will be able to understand and apply the standard as drafted.

The fact that the description of the process seeks to depict how requirements interact and are iterative in nature appears to be a part of the problem. It would be better to describe a non-interactive and non-iterative process in the requirements for the main process, describe the required iterations at one point in the requirements, and describe the interactions in the application material, rather than to seek to depict the interactivity and require the iterations within the requirements for the main process itself. Furthermore, the fact that no less than 247 application material paragraphs (not to mention the appendices) are required to help auditors understand the process is a clear indication that the process or its description thereof, or both, have been over engineered – particularly for audits of financial statements of small and less complex entities.

16. Japanese Institute of Certified Public Accountants

Identification and assessment of the risks of material misstatement is a foundation for the risk-based audit, and therefore ISA 315 is an important standard in ISAs. We broadly support the direction of the proposed changes, including the introduction of new concepts, as we find that those promote a more consistent and robust process of the identification and assessment of the risks of material misstatement.

Notwithstanding our overall support, we are concerned about the length and complexity of ED-315 as these may hinder the understandability of the conceptual flow of the proposed risk assessment process. Additionally, it is not clear what substantial changes were made to the extant ISA 315. Therefore, we believe overall structure of the standard should be reconsidered to enhance the understandability and applicability of the standard (refer to our comment on “Identifying controls relevant to the audit”, question 5) below).

Although we find that the flowcharts are helpful to enhance the understandability of the standard, the standard should be as concise as possible. Therefore, we propose to publish the flowcharts as implementation support tools, separately from ISA 315 (Revised), with an explanation of the major changes from the extant ISA 315.

17. Malaysian Institute of Accountants

The ED-315 is an improvement from the existing standard in terms of the overall flow and understandability of the standard. The flowcharts are helpful in illustrating the iterative nature of the standard and how the various sections of ED-315 interconnect. We would recommend the flowcharts to be included in the final standard.

18. Nederlandse Beroepsorganisatie van Accountants

Complexity and understandability:

We consider the ED to be very elaborate, complex and difficult to understand. It is hard to comprehend and fully understand the whole process and not getting lost in the details. A lot of new concepts are introduced and the relationships between them are not always clear. We recommend to improve the understandability and readability of the ISA by further aligning the concepts and the clarification thereof. Furthermore we recommend to keep it simple. Simplifying the standard could be done by rethinking whether all paragraphs are necessary (especially the application material) and how the material can be presented best (e.g. by providing illustrative figures).

We are reluctant whether the risk identification and assessment process has become more understandable. A lot of new concepts are introduced which are not always elaborated and the relationships between them

are not always clear. We wonder what the status of the key concepts is which are de-scribed in the introduction and not in the requirements.

If we had to explain a risk based audit of financial statements in an elevator pitch we would explain that in an audit:

- The auditor gathers information to understand the entity and the environment in which it operates and the applicable financial reporting framework and based on that knowledge identify risks that could materially misstate the financial statements;
- The auditor tries to understand and evaluate what the client has done to identify those risks and to mitigate them by getting an understanding of the internal control framework and testing the effectiveness thereof where relevant; and
- The auditor performs substantive procedures to mitigate the risk of material misstatement to an acceptable level of audit risk.

These three bullets are reflected in the audit risk model. The first bullet leads to the inherent risk, the second bullet reflects the control risk and the third bullet reflects the detection risk. Combining inherent risk and control risk leads to the risk of material misstatement.

According to the flowchart: 'ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement' after getting an understanding of the entity and its environment, the applicable financial reporting and the entity's system of internal control the auditor starts with identifying risks of material misstatement. We would say that according to the theory of the audit risk model this is not possible. The risk is that the auditor with this combined identification assumes that controls are effective without testing them and thus does not gather sufficient and appropriate audit evidence for related (inherent) risks.

We therefore suggest to change the flow of the process in the standard so that after gathering the understanding the auditor first identifies relevant inherent risks of material misstatement. These inherent risks may influence the financial statements as a whole or might influence relevant assertions at classes of transactions, account balances or disclosures.

Given the fact that with regard to identified risk at the financial statement level testing of effectiveness controls is not included in the process, inherent risks at that level equal the risk of material misstatement.

The iterative nature is not so clear because the ED and the flowcharts are quite complex. Furthermore, the ISA is very elaborate and shows a lot of repetition and duplication (e.g. paragraphs 19-21 relate to the same subject matter, namely using audit evidence obtained in previous or other engagements). There are also a lot of references to other ISAs and paragraphs that are mentioned in other ISAs. This makes it difficult to navigate through the ED and fully comprehend the ED.

19. National Board of Accountants (Tanzania)

ED-315 is appropriately structured, clarified and modernized to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement.

Our suggestions:

Methods:

With respect to the method, we recommend that the auditor's further audit procedures should also address whether the source from which the method has been obtained is a reliable source.

Significant assumptions:

With respect to significant assumptions, we recommend that the auditor's further audit should also address whether the significant assumptions provide an appropriate reflection of the internal and external situations and conditions existing or expected to be existing.

Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty:

We recommend that the auditor's further audit procedures should also address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to analyze the magnitude of discrepancies due to estimation uncertainty.

20. NZ Auditing and Assurance Standards Board

Yes. The NZAuASB believes that the restructure and re-arrangements of the requirements and application material in the proposed standard help with the understandability of the risk identification and assessment process.

The NZAuASB appreciates that risk identification and assessment is a complex and iterative process which is not easy to present in a linear standard form. The three flowcharts are useful to enhance a better high-level understanding of the standard and the flow of the risk assessment.

Notwithstanding the above, the NZAuASB considers that the significant increased length of the proposed standard may be a barrier to understanding it. Including the flowcharts as part of the standard would be helpful in this regard.

21. Altaf Noor Ali Chartered Accountants

A1(a): No. Re-structure ED-315 to make it easier for the auditor to get down to what is relevant to one's interest at the earliest. Consolidate guidance for smaller entities separately in one place. Similarly, consolidate guidance for auditors of public-sector entities in one place.

Simplify and redraw flowcharts, there is too much text there; include simplified flow-charts as an appendix.

The feature of cross-referencing of contents makes the document understandable. Thanks! Even better, if the soft copy contains electronic link to access the referenced content instantly, and make it back to the point to proceed further.

ED-315 is not a stand-alone documents. References to other ISA makes its overall understanding challenging.

22. BDO International

We believe that most of the standard has been appropriately structured and clarified and that the revisions are responsive to some of the practice issues identified, inspection findings, and responses from various stakeholders.

Notwithstanding the efforts of the IAASB to improve and clarify ED-315, there is a danger that the volume of content – at nearly 300 paragraphs spanning 80 pages – has the potential to make this ISA practically

unwieldy and confusing for users. There is also an implicit risk that by being so prescriptive, this ISA has moved away from being a principles-based set of requirements, to one that tries to define a step by step audit methodology.

We note that the flowcharts reflect the iterative nature of the standard and are representative of the requirements. However, the complexity of the flowcharts illustrates very clearly the complexity of the requirements and that the standard may not be practical, particularly for smaller non-complex entities.

In addition, in the Understanding Internal Control flowchart, we believe that the step to identify controls relevant to the audit comes too early in the process when the flowchart is used in a linear manner by practitioners. It is currently in the section to obtain an understanding the entity's system of internal control, which is prior to the step of identifying risks in the corresponding risk assessment flowchart. Given that the definition of controls relevant to the audit includes controls over significant risks, it doesn't make sense to identify controls relevant to the audit before risks are identified, let alone assessed as significant. We suggest that the step to identify controls relevant to the audit be moved after the step to identify risks. Further, this flowchart does not address whether the entity's control environment and/or risk assessment process affect the risk of material misstatement. We believe there is also a need for some clarification in the linkage between the risk assessment flowchart and the obtaining an understanding of the entity's system of internal control flowchart.

A general comment on the flowcharts is that they do not distinguish between actions / decisions and objects / outputs. Most flowcharts use different shapes to represent actions / decisions so that the flow of the process is more obvious. For example, we note that in the risk assessment flowchart, the section on identifying risks results in several outputs. We suggest that different shapes be used to distinguish actions from outputs.

24. Crowe International

The proposed changes help with the understandability of the risk identification and assessment process. The process is clearer and is likely to be enhanced through the modernization of the language, definitions and approach.

The flowcharts are helpful.

25. Deloitte

DTTL agrees that the proposed changes help with the understandability of the risk identification and assessment process. However, due to the length and complexity of the proposed standard, DTTL believes that the flowcharts are helpful to the understanding of the requirements within the proposed standard. While there are some comments on the flowcharts included in this letter, DTTL recommends that the flowcharts be released as non-authoritative guidance (which then allows for further refinement and updating, as needed in the future).

26. EY Global Limited

The introduction of flowcharts to illustrate the concepts within ED-ISA 315 is very helpful in demonstrating the iterative nature of the requirements. We would support including these within the final standard as an enabler to understanding.

Yes, we believe that the proposed changes help to make the risk identification and assessment process more understandable.

Although ISAs have generally not contained flowcharts in the past, we support the inclusion of such enablers within the standard. The inclusion of the flowcharts may also help to simplify or eliminate wording from the application material, for example, the paragraphs that mention the iterative nature of the audit and contain multiple cross references to requirements (i.e., paragraphs A12, A141, A202 and A216).

However, if the IAASB decides against this, we support publishing the flowcharts separately as non-authoritative guidance.

In terms of the flowcharts, we have a small number of specific observations:

- A color key would enhance the usefulness of the flowcharts, presuming the colors are intended to have a meaning.
- The Auditor's Understanding of the IT Environment and the Identification of General IT Controls Relevant to the Audit flowchart – we did not understand the difference in activities between the leftmost column, with only the one shape in it, and the second column, that seems to show the steps to do the activity in the leftmost column.

27. Grant Thornton International

Extract from introductory comments:

We are of the view that the proposed amendments are unlikely to lead to significant positive change in behaviors, and when considered in conjunction with the flowcharts, would lead auditors down a path that is reminiscent of adhering to an audit methodology, rather than a principles-based standard that can be universally adopted. Consequently, we believe that audit quality may be negatively impacted.

Question 1(a)

Although a step forward, we do not believe that the proposed changes to extant ISA 315 (Revised) have achieved the overall goal of its clarification. We are of the view that the changes proposed appear more reflective of an audit methodology rather than a principles-based standard.

The proposed standard consists of 54 requirements with 274 paragraphs of application material and 4 appendices to explain those requirements. Furthermore, 3 flowcharts have been developed to guide the auditor through the standard. This, in and of itself, creates challenges for auditors in understanding the proposed requirements, obscures the keys aspects of those requirements and, as a consequence, may result in issues with their implementation and with meeting the overall objective of improving audit quality.

Further, even recognizing that risk assessment is an iterative process, the order in which some of the requirements are presented does not appear to be a logical sequence. For example, paragraph 45 requires the auditor to assess the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures. This is followed by paragraph 46, which then requires the auditor to determine the significance of the class of transactions, account balance and disclosures and their related assertions based on that assessment. As such, the proposals would appear to be requiring the auditor to first assess inherent risk and then decide to which significant class of transactions, account balance or disclosure the inherent risk assessment relates. This process may be better understood if the proposals included a requirement to make a determination of the significant classes

of transactions, account balances and disclosures, in conjunction with identifying and assessing inherent risks. Further, the proposals could clarify that as the engagement team continues with its risk assessment procedures, this determination may be modified.

We are of the view that the flowcharts are integral to understanding the proposals in ED 315. However, similar to the standard, the flowcharts are overly complex and would benefit from simplification. We are also concerned by the need to rely on such guidance to facilitate comprehension of the standard instead of being a useful supplement to the proposed standard.

28. KPMG IFRG Limited

In general, we believe ED-315 has provided clarification regarding many aspects of the process for the identification and assessment of the risks of material misstatement, in comparison to the extant standard. We believe the flowcharts provide a helpful summary of the requirements and therefore we recommend that the flowcharts are ultimately included as part of the standard.

We note that this is a highly complex standard, with much of this complexity residing in the fact that an auditor executes the required procedures in an iterative, or dynamic fashion. In considering the ED, much of our understanding of the amendments is informed by the EM, which provides helpful explanations regarding the Board's deliberations and the rationale for certain conclusions reached, as well as setting out more detail as to how certain requirements are intended to be applied. Accordingly, we suggest that much of this material be included in the final standard to support the aim of achieving consistent application of the standard.

We note our concerns as to the understandability of certain aspects of the ED in our overarching comments, and in the responses to specific questions set out in this appendix. In particular, we consider that the standard would benefit from improved clarity in respect of the "understanding" obtained regarding each of the components of the entity's system of internal control, as we describe at question 5, and how this understanding helps the auditor to identify and assess the risks of material misstatement. Accordingly, we recommend that the IAASB provide more detailed application guidance in this area, with illustrative examples.

In relation to the above, we also recommend that the IAASB clarify that an auditor is not required to evaluate the design and implementation of controls that are not considered to be relevant to the audit.

29. MNP LLP

Yes. Overall, the proposed changes provide clarity of the risk identification and assessment process. We found the flowcharts very helpful in understanding the intended flow of the requirements in ED-315. However, we recommend that ED-315 be revised to provide further clarity on the extent of work required by auditors to evaluate or obtain evidence to support the requirements in 315. At this time, we are unsure whether the standard of evidence or evaluation for ED-315 is the same as that required in ISA 500 *Audit Evidence*.

30. PwC International

Overall Comments to question 1

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.

Flowcharts

We conducted field-testing as part of the formulation of our response, the approach to which is set out in Appendix 5 of this letter. As part of this, we had two different groups - with some teams receiving the flowcharts and others not. The comments we received from our field-testing suggested that the flowcharts were helpful to aid understanding of the standard, with teams noting the flowchart relating to General IT Controls as particularly helpful.

We are, however, concerned that the flowcharts are proving necessary to facilitate understanding of the standard, in particular the risk assessment requirements. It is important that any standard issued by the Board is able to stand alone, and that the requirements be understandable without any additional guidance documents such as these flowcharts proving necessary. We welcome the inclusion of the flowcharts in the materials issued for exposure. They may also serve as useful supplementary implementation support materials – as long as the standard itself is clear and understandable in its own right. Acknowledging that many stakeholders like visual representations, we have illustrated an alternative flowchart based on our suggestions for how the risk assessment requirements could be restructured. We do not believe, however, that the flowchart is necessary to understand the suggestions we propose in Appendix 2.

Introductory paragraphs

Feedback from our field-testing exercise was that engagement teams found this section to be useful. Consequently, we support retaining an introductory section that explains the thought process and key concepts used in the risk assessment process, having addressed the concerns we describe related to the current complexity of proposed concepts, which would enable the explanation of the key concepts to be simplified and made more succinct. Clearer mapping or cross-referencing from this section to the relevant requirements of the standard would also be useful.

While the overall length of this introductory section needs to be carefully managed, we would also recommend that this section could do more to draw out two specific points that would reinforce the scalability of the standard. First, consistent with one of our key themes, we think the standard could better explain the required extent of understanding of the system of internal control necessary to support each of the assessments of inherent risk and control risk. Our suggested structure for the requirements would allow this point to be made clearly in the introductory section. Secondly, we believe the introductory section could highlight the role of IT and why this is of increasing importance in today's audit environment. This could specifically draw out a key scalability message by highlighting that in smaller entities the sophistication of an entity's use of IT (and overall control environment) and related documentation may be less. This would help avoid implications, from reading and applying the requirements and application material, that a certain level of IT structure and auditor work effort thereon is required, or indeed possible, in all audits.

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.

31. RSM International

Question 1a:

- We welcome the clarifications in the Exposure Draft, particularly of some of the existing principles which currently cause a certain amount of confusion, although we do believe that some of these concepts could be further refined as set out in our responses below.

- The flowcharts are helpful, however there is a danger that they take a more significant role due to the complexity of the standard as a whole.
- We believe that the overall length and complexity of the proposals should be addressed. There is a risk that the proposals are interpreted inconsistently due to this size and complexity.
- The inherent risk factors could also be simplified and clarified.

32. Office of the Auditor-General of Alberta

The proposed changes have limited benefit to increase the understandability of the risk assessment process and overall may hinder the risk identification process. The fundamental audit risk model is robust. But it seems to have been unnecessarily complicated with a tremendous amount of guidance as well as subtle and intricate definitions. One example is the concepts of inherent risk, significant risk and control risk. Inherent risk is the risk before consideration of related controls. We understand the necessity of theoretically distinguishing inherent risk from control risk. But the proposal does not incorporate the fact that many components, such as payroll, accounts payable and cash, may have inherent risk assessed with some consideration of controls in order to operate an efficient audit. If you do not consider controls with these components, the auditor would have no other defensible conclusion, based on the ED, but to assess these components as significant risks. No controls in payroll would mean anyone could pay anyone. No controls in accounts payable or cash would likely result in material outgoing payments for which nothing was received, or missing cash. Yet most auditors would reasonably consider payroll, accounts payable and cash to not be significant risks.

The need for flowcharts is an indication that the standard is too long and complicated.

The ED seems to set out a conceptual framework for auditing, or at least there are hints of a conceptual framework underling the standard. There is the basic audit risk model. There are concepts of what an entity is, what it does, what control is, and what risk is. We propose that the Board should consider elaborating these more fully into a clearly articulated conceptual framework for the audit standards.

33. Office of the Auditor-General of Canada

Yes, we find the proposed standard has been appropriately modernized and important improvements to clarity have been achieved. Proposed changes and resulting flowcharts are helpful in understanding the risk identification and assessment process.

Further improvements to the understandability of the proposed standard could be made. Specifically, requirements to identify relevant assertions (which are those assertions where the likelihood of material misstatement is more than remote) appear to unnecessarily complicate the basic risk assessment process. An alternative approach would define relevant assertions as assertions related to classes of transactions, account balances or disclosure that are quantitatively or qualitatively material. This approach would, in our view, simplify the standard and result in more consistent understanding of the requirements and application in practice.

We would caution against including “policies” within the definition of controls in the context of this standard as policies are statements of what should or should not be done, but are not actions to achieve control objectives. It is unlikely a policy could be concluded to be a control relevant to the audit.

34. Auditor-General Montreal

The notion of control risk not taken into account in the definition of risk of material misstatement

Paragraph 4 is not consistent with paragraph 3.

In paragraph 3, it says that the risk of material misstatement consists of two components: inherent risk and control risk.

In paragraph 4, it says that the « [...] *identification of risks of material misstatement at the assertion level is performed before consideration of any controls. The auditor does so based on a preliminary assessment of inherent risk that involved identifying those risks for which there is a reasonable possibility of material misstatement.* » The notion of control risk is not taken into account, while this notion is at the heart of the definition of a risk of material misstatement.

Risk of material misstatement based solely on the assertions, rather than on the assertions for a specific class of transactions

According to us, the wording of the seventh phrase in paragraph 4 isn't clear. When reading, we understand that the assessment of the risk of material misstatement is performed only at the assertion level. It can't be so.

The assessment of the risk of material misstatement has to be performed considering the assertion and the significant class of transactions, significant balance account or significant disclosures, as indicated in paragraph 16h).

35. US Government Accountability Office

Generally, we support the changes to the standard that increase the understanding of the process for identifying and assessing risks, including the flowcharts that help to illustrate the flow of the process. However, we believe that the standard could benefit from further clarifying the order of the steps in the risk identification and assessment process to increase the understandability and to promote consistent and robust implementation of the standard. While the proposed standard discusses the iterative and dynamic nature of the risk identification and assessment process, in our view, auditors may find the process confusing, which may lead to continued practice issues.

For example, we suggest that the IAASB clarify that the auditor identifies and assesses inherent risk and control risk at the assertion level before assessing risks of material misstatement at the assertion level. The introductory phrase "for identified risks of material misstatement" in paragraphs 48 and 50 implies that the auditor identifies risks of material misstatement before assessing inherent risk and control risk. However, in our view, auditors assess inherent risk and control risk in order to identify risks of material misstatement at the assertion level.

Also, in certain instances, the proposed standard requires the auditor to assess risks of material misstatement before completing the process for obtaining an understanding of the entity and the environment. For example, paragraph 39(b) requires the auditor to obtain an understanding of the control activities component by evaluating the design and implementation of controls that address significant risks. Also, paragraph 35(c) requires the auditor to obtain an understanding of the information system as it relates to preparing disclosures and to accounting estimates relating to significant classes of transactions, account balances, and disclosures. However, an auditor cannot identify significant risks and significant classes of

transactions, account balances, and disclosures until the auditor has assessed inherent risk and risk of material misstatement at the assertion level.

We have noted that paragraph 9 of the proposed standard states that the auditor “develops initial expectations about potential risks of material misstatements and potential significant classes of transactions, account balances, and disclosures.” However, it is not clear how and when the auditor should use these initial expectations in applying the requirements. Also, while application guidance in the proposed standard explains the interaction of assessing risk and obtaining an understanding of the entity’s system of internal control, in our view, the IAASB should enhance the requirements in the standard to make this interaction more clear.

36. Swedish National Audit Office

Generally, we are very supportive to the changes proposed including the inclusion of flowcharts, although we find that the flowcharts need some clarifications when it comes to IT related audit.

37. Wales Audit Office

Introductory comments:

As the Auditor General for Wales has always required his audits to be carried out in accordance with ISAs, we also welcome the enhanced guidance for public sector entities.

However, we consider that the draft Standard remains complex in its choice of language, its length (at over 80 pages) and its construction (with the vast majority of the proposed Standard being application material). While the development of the supporting flowcharts is helpful, the need for them serves to underline the complexity of the proposed Standard.

Question 1:

While the development of the supporting flowcharts is helpful, the need for them serves to underline the complexity of the proposed Standard.

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.

We believe that the flowcharts were very helpful in understanding the flow of the standard and in our opinion they should be incorporated as appendices. However, the fact that there is a need for three separate flowcharts and lengthy introductory paragraphs to help with the understanding of the flow of the standard should be considered a warning sign regarding the complexity of the structure and language used. While there is potentially a place for flowcharts in standard-setting, we do not think they are a substitute for clear drafting and well-structured standards.

39. Accountancy Europe

Introductory comments (extracts):

The revised standard is difficult to understand and needs a considerable amount of tightening up from a drafting point of view. It is crucial that this project is given sufficient time to eliminate the unnecessarily lengthy, repetitive and complex constructions, to satisfactorily clarify areas of potential confusion and to better address the issues of scalability. Such issues, if not addressed, will generate problems in the translation process, but most worryingly will result in inconsistent application.

Visual guidance is of personal preference, some find this visualization useful, others are annoyed by flipping between the standard and the non-authoritative flowchart. However, in this instance, the use of flowcharts is necessary to navigate the complexity of the standard; this indicates a weakness in the written content.

On a similar note, the introductory paragraphs are helpful to set the scene and to put the standard into context, but it is regrettable that these paragraphs are needed to understand the standard. The standard ought to be standalone and its understanding should not be conditional to the introductory paragraphs. As proposed, these paragraphs are a must-read to understand the depth of ISA 315 requirements.

The standard introduces a number of confusing requirements and concepts, such as the requirement to assess the likelihood *and* magnitude of a possible misstatement in the context of assessing the inherent risks or the concept of 'entities that are *both* smaller and less complex'. It is not clear whether the conditions embedded in these concepts have to be met cumulatively or not, therefore these aspects require clarifications.

Regarding the related concepts of assessing the likelihood of occurrence and magnitude of a possible misstatement when assessing inherent risks, the standard should make it clear that the auditor applies professional judgement in the individual circumstances when determining whether to place an inherent risk closer to the upper end of the 'spectrum of inherent risk'. While we understand the demand for more detail, it should not be done at the expense of a robust principles-based standard that allows the use of professional judgement. ED-315 is very prescriptive and detailed and seems to go into the direction of a methodology in prescribing specific approaches, rather than a principle based international auditing standard.

Question 1(a):

The process of identifying and assessing the risks of material misstatement relevant to the audit is the cornerstone for planning and carrying out effective audits. Although the ED-315 brings helpful clarifications in many areas related to the risk identification and assessment process, such as the introduction of the spectrum of inherent risk or the requirement to assess separately the inherent and control risk at the assertion level, the standard includes unnecessary complex and lengthy constructions, repetitions and inconsistency in terms used.

Some examples of confusing or inconsistent notions in the standard are included in our responses below - e.g. response to Question 2: the notion of 'entities that are both smaller and non-complex', and response to Question 6.d): inconsistently using the attributes 'significant' or 'material' for classes of transactions, account balances and disclosures, or the introduction of the construction 'more than remote' in the definition of relevant assertions.

We note that the standard introduces PCAOB terminology that is confusing, and potentially introduces a lower threshold than the current one for audit procedures performed in accordance with ISAs 315 and 330 without explaining the need to import such terms. While the concept of 'reasonable possibility' might appear useful in plain English to explain the level of likelihood that should be taken into account when identifying relevant assertions and risks of material misstatement, another term should be used, as currently combined with the wording 'more than remote', it is confusing in an ISA environment.

To support consistent application, the required depth of risk identification needs better clarification. The requirements in ED-315 are insufficiently clear, but as a whole ED ISA 315 requires risk identification (i) not only at financial statement level and for inherent risk (which is defined at the assertion level) – both of which are in line with extant ISA 315; (ii) but also at a level below assertion level (so-called "drill down").

This can be derived from *paragraph 62* of the Explanatory Memorandum. Indeed, the newly proposed stand back refers to the need for consideration of whether there could be "one or more risks of material misstatement at the assertion level" and the statement in *paragraph A9* "there **will be** one or more risks of material misstatement that relate to a (i.e. every) relevant assertion" means that such drill down is necessary.

We appreciate that a drill down may be appropriate for complex entity audits. However, this drill down is excessive in a small/less complex entity environment, fostering a checklist mentality rather than professional judgement. If retained, the increased costs associated therewith would be detrimental to this segment of the audit market.

Understanding the risk identification and assessment process as outlined in ED-315 is too difficult without the use of flowcharts that provide visual representations of how ISA 315 should be applied. Some users have a preference to visual flowcharts, whilst others do not. However, the mere fact that the text cannot be readily understood without them is indicative of undue complexity. The IAASB needs to shorten and simplify the text before deciding on the merit of including supporting flowcharts.

40. AICPA

We do support the inclusion of flow charts, however, we note that the need for such charts may be an indication that the standard as written is difficult to understand and adopt.

Paragraph 4 — This paragraph contains the following statement: “...The identification of risks of material misstatement at the assertion level is performed before consideration of any controls...” Because the definition of the term “risk of material misstatement” in paragraph 13 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance International Standards on Auditing*, includes both inherent risk and control risk, we do not believe that this statement is technically accurate and could cause some confusion at the outset of an auditor’s reading of the standard. We recommend this paragraph refer to inherent risk rather than the broader risk of material misstatement.

Also, we believe the statement “The auditor does so based on a **preliminary** [emphasis added] assessment of inherent risk that involves identifying those risks for which there is a reasonable possibility of material misstatement” may create a question as to whether the auditor would be required to document two separate assessments of inherent risk, the preliminary assessment of inherent risk and then the final assessment of inherent risk. We understand the intent of the IAASB in paragraph 4 is to introduce the iterative nature of the risk assessment process and to emphasize that the auditor initially obtains an understanding of the entity and its environment, including internal control, and that this understanding can evolve as the auditor conducts the audit. We suggest the focus of the paragraph be changed from making a preliminary assessment to gaining an initial understanding of the entity and its environment, including internal control, to enable the auditor to provide an appropriate basis for identifying the classes of transactions, account balances and disclosures to be expected in the entity’s financial statements.

To reduce the risk of misunderstanding the extent to which the iterative nature of the process requires documentation of changes to the identification and evaluation of risks of material misstatement, we recommend paragraph 54(d) clarify that the documentation required by that sub-paragraph is limited to the final determination of identified and assessed risks of material misstatement.

42. Chartered Institute of Public Finance & Accountancy

In CIPFA’s view, the main body of the standard is overlong and the level of detail is too great.

As a result the proposed changes do not improve understandability. This is despite the fact that important and helpful content has been added, and many specific matters have been clarified and modernized.

We agree that ISA 315 should discuss control risk given that this is a key matter which is relevant to auditor assessments of risks of material misstatement. The current drafting approach in ISAs is that this is mainly addressed in ISA 200 with some reinforcement in ISA 330 and ISA 530. Mentioning this in ISA 315, and providing more explanation than the current ISAs is in principle helpful.

It is also logical for ISA 315 to provide more discussion of IT controls.

Some of the drafting in ED-315 represents a real improvement in explaining how auditors understand audited entity processes and systems, make preliminary assessments of risks, and follow up with possibly repeated cycles of more focused consideration of systems, and consequent reconsideration and assessment of risk.

However, the proposed revised ISA increases the amount of technical detail in the main body of the standard, so that it is longer and more complex. There is additional material which seeks to make the standard more understandable, but this does not altogether succeed.

The flowcharts are helpful in understanding the flow of the standard, and indeed some readers may find them essential to obtaining a proper understanding. The flowcharts do also reinforce the message that the requirements of risk assessment are iterative in nature.

While the text in the main body of the standard is presented in a logical order which reflects principled thinking on how risk assessment contributes to achieving the objectives of the audit, this is not as apparent as it should be. The increased amount of detail in the requirements means that they read more like a checklist in an audit methodology, setting out what needs to be done without always being clear why this is necessary.

43. CPA Australia

Introductory comments:

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.

We also note that some of the concepts introduced are confusing and may result in different interpretations, such as the definition of relevant assertions and significant risk, so would benefit from further clarification.

Question 1(a):

Whilst the requirements and application material in this ED are much more extensive than the extant standard, they do provide assistance in articulating what should be considered. However, we suggest that it would be helpful to state in the introduction or in the objective of the standard that the purpose of the risk assessment is to identify:

- risks of material misstatement at the financial statement level,
- significant risks,
- other assessed risks of material misstatement; and
- risks of material misstatement for which substantive procedures alone do not provide sufficient appropriate audit evidence

on which to base the audit response in ISA 330.

This is clear from the risk assessment flowchart, but is not easily understood from the requirements, partially because the standard is so voluminous.

We suggest that the section on identifying risk of material misstatement (ROMM) and assessing ROMM at the financial statement and assertion levels for inherent risk, paragraphs 45-49, should be placed before the evaluation of design and implementation of the entity's internal controls in paragraph 36, as controls

design and implementation cannot be assessed without an understanding of the ROMM and controls relevant to the audit can only be determined based on assessed risks. Although the risk assessment process is iterative, as stated in paragraph 4 the identification of ROMM at the assertion level occurs before consideration of controls. This is logical as controls to address ROMM cannot be evaluated without first identifying the relevant assertions and the ROMM which they seek to address. The auditor may then identify specific controls that address the identified risks of material misstatement and for which the auditor intends to test operating effectiveness.

The flowcharts are beneficial, if not essential, in understanding how the standard flows and how the requirements interact and we recommend their publication along with the standard or as part of guidance material. We suggest that the risk assessment flowchart requires an amendment in relation to the stand back requirement. We consider that this step should only feed back into "identified risk of material misstatement at the assertion level" and not directly into the responses to ROMM. It would not be possible to respond to any matters identified by the stand back without assessing the inherent and control risks. In addition to the flowcharts, we note that the diagram in paragraph 52 of the explanatory memorandum is useful in depicting the assessments of inherent risk and control risk and should be included in the standard.

44. EFAA

We believe that the flowcharts are key to helping auditors understand and navigate the standard. That the use of flowcharts of itself suggests that the standard is excessively complex and insufficiently clear. Flowcharts should not be a substitute for clear text. We also question whether the footnotes to the flowcharts adequately depicts the iterative nature of the risk assessment process.

ED-315 is convoluted and there is much unnecessary duplication for example, paras 19-21 relate to the same subject matter and there are many references to other ISAs and paragraphs that repeat what are in other ISAs. This makes it difficult to navigate ED-315.

45. Finnish Association of Authorised Public Accountants

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.

The circular approach of the standard makes it hard to follow the process of understanding, identifying, determining, assessing and evaluating in an unambiguous way. All audits and risk assessment procedures are iterative in nature, but it does not mean that the standard should be circular in its requirements. A standard should be written so clearly that it can easily be followed as a process from the beginning to the end without having to flip between paragraphs or additional flowcharts. This is extremely important e.g. when designing and using audit software.

One of the flowcharts demonstrates how the risks of material misstatements (RoMMs) should be identified (a) at FS level and assertion level before determining the significant COTABDs (b). And only after that, inherent risk factors as well as likelihood and magnitude are assessed (c). The COTABD is defined to be

an item for which there is one or more relevant assertions. It is not clear what affects the identification of RoMMs (a) if the assessment of inherent risk is not done until later in the process.

On the whole, the standard should be understandable without flowcharts, even though they are helpful. Reference to flowcharts cannot be an appropriate substitute for clear standards.

The same applies to the introductory paragraphs, which are also helpful but should not be necessary.

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

We believe that yes, the proposed changes help with the understanding of the risk identification and assessment process. Flow diagrams are also considered useful, with them you can visualize in a more practical and integral way the flow of the exhibited.

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 (South America)

We understand that the proposals regarding the new structure, clarification and modernization of ED-315 are oriented to promote a more consistent and solid process for the identification and evaluation of the risks of material errors that the current Revised ISA 315, valid since December 15, 2013

Yes, they are helpful. We understand that the improvement that is intended to be introduced helps in a very positive way to broaden and facilitate the comprehensibility of the process, not only to identify and assess the risk, but also to understand its impact on the financial statements and its possible effects on

the opinion of the independent auditor The form of presentation, the description and the explanatory materials are useful to understand the interdependence of the required requirements and their repetitive nature in the text of the standard, which is corresponding to the same nature of the risks in the different facets of the business process .

49. Instituto dos Auditores Independentes do Brazil

The overall requirements seem reasonable as it provides a more robust framework to perform the risk assessment of an entity. Our concern is that the complexity of the standard may result in a poor understanding of the requirements by auditors, and the quality of risk assessment may not improve due to the confusion caused by the standard. Without the flowcharts, it would be very difficult to understand the changes in the requirements fully. Thus, they should be included as appendices in the standard.

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.

The concept of a spectrum of risk and the new definition of a significant risk are, in principle, improvements, but practice within firms varies. Many firms believe that they already have the former in place in the form of discrete classifications of risk as ‘high, medium or low’, or ‘significant, normal (ie, material) and no risk’, for example. Some firms do not permit a ‘no risk’ classification, and some are moving to a sliding scale. Others again distinguish only between significant risks and other risks. We are concerned that firms will seek to justify the status quo with reference to these proposals, which will result in no change in behaviour and the perpetuation of the different approaches described. Is this really what IAASB intends? The stated objective of these revisions is to improve the quality of risk assessment and to encourage greater consistency. The number and nature of risks identified as significant varies, as does the nature and extent of the work performed on them. While on the face of it, the concept of a spectrum seems sensible, the proposals may have no impact at all. Auditors and audit regulators will need to engage in a more meaningful discussion regarding the application of judgement in this area. Inconsistencies in existing approaches, compounded by novel approaches to the proposed requirements, may actually increase inconsistency in the eyes of audit regulators who should also be aware that a different set of significant risks may be identified using the

new definition. The proposals are not clear about whether likelihood, magnitude or both are required for a risk to be assessed as toward the upper end of the spectrum. All IAASB says in the Explanatory Memorandum is that low likelihood but high magnitude risks have not been excluded. We suggest that IAASB make it clear in the application material that this category is potentially very wide and that significant risks in this category are likely to be rare. We have no good quality examples of low likelihood, high magnitude risks that should be assessed as significant *without* taking account of controls.

Risk assessments will involve more work, both initially and on an on-going basis, as well as the re-direction of some existing work, but not all of that work will necessarily improve audit quality. Our outreach indicates that some believe that the proposed new requirement for 'sufficient, appropriate evidence' to support the risk assessment is unnecessary, circular, and will result in auditors expending resources on documenting why they have not done something, at the expense of dealing more carefully with the facts supporting the risk assessment. Others think it should be distinguished from the extant requirement relating to audit evidence more generally, by using a construction such as 'appropriate evidence to support', or 'a reasonable basis for', the risk assessment.

The circularity referred to above arises from the fact that 'sufficiency' of audit evidence as currently defined is related to obtaining evidence to support the audit opinion. To use the term again in the context of risk assessment is circular. If this requirement is retained, more guidance is needed on its relationship with the extant requirement to obtain audit evidence to support the audit opinion.

Data analytics can provide a wealth of information that can be used for different purposes. What is not clear is whether the proposed requirement for risk assessments to be supported by sufficient, appropriate evidence means that where data analytics is used to identify unusual items, and no such items are identified, it would constitute audit evidence to support an unmodified audit opinion as well as evidence to support the risk assessment.

The sufficiency of and appropriateness of evidence to support the risk assessment is also relevant to IAASB's upcoming audit evidence project and IAASB should consider removing this proposal pending the outcome of that project. A conforming amendment can be made to ISA 315 at a later stage if necessary.

With regard to the flowcharts, we note in our major points above that they are currently the key to understanding the requirements. If a concerted effort is made to rationalize the proposals as suggested above, it may not be necessary to include the flowcharts in the final standard. It would be unfortunate if this standard, of all standards, became known as the one that made little sense without a non-authoritative diagram.

It is right that the ISA recognizes 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 skepticism, 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.

It is also right to require auditors to have a thorough understanding of the entity's business model. While this may divert some auditors from the financial statements and encourage them to head down 'rabbit holes', it is clear that many corporate failures over the years have been accompanied by a lack of understanding of excessively complex business models. The last significant revision of ISA 315 in 2003 took place against the backdrop of the collapse of Enron and the demise of Arthur Andersen (although the

project commenced before these events). One criticism of auditing practice at the time was a perceived overemphasis on the need for auditors to view the business through the eyes of management (i.e., a lack of independence). Auditors need to be independent, but they also need to understand how management sees the business.

52. Institute of Chartered Accountants (Ghana)

ISA is voluminous standard with quite a number of different concepts contained within. It is also one of the most important standards as it addresses the heart of the performance of an audit. The proposed changes are numerous all in an attempt to improve the conduct of an audit as well as the understandability of this standard. One of the most important of these is the flowcharts. It is important for users of this standard to not be overwhelmed by the amount of detail that is contained within (not see the forest from the trees) yet still be able to appreciate the detailed and very helpful changes that have been incorporated in this standard.

With the flowcharts one is able to see the big picture and where one is at each stage of the process. This flowchart also has references to key paragraphs in the standard and so it serves as a quick reference point to hone in on particular technical details within the process. The flow charts help auditors to understand how the standard will have to be implemented. The proposed changes help auditors to understand the client's business process model deeply and also identify the risk inherent in the application of the client's applicable financial reporting framework.

53. Institute of Chartered Accountants of Pakistan

We acknowledge that the proposed revisions in ISA 315 will help in improved understanding of risk assessment, leading to a more robust and comprehensive risk assessment process.

We note that the inclusion of introductory paragraphs, which provide summary of flow of auditor's risk assessment process and the overall structure of the standard, are helpful in reading and increasing the understandability of the standard. Similarly, the flowcharts are also helpful and we note that these should be included in the final standard. However, to avoid confusion it would be useful to describe the status of introductory paragraphs (i.e. are they authoritative?). Further, we would like to highlight that the flowcharts could be further enhanced to more clearly explain what is inherently an iterative process in a more imaginable and understandable manner.

54. Institute of Chartered Accountants of Scotland

As stated in the general comments section, the iterative process of ISA 315 and the performance of the risk assessment does not lend itself easily to a linear standard as the Explanatory Memorandum has acknowledged. The three flowcharts that have been produced to accompany the standard are intended to improve the understanding and the flow of ED-315. We are not against the use of flowcharts as a rule, however, in this case we do not believe that they are particularly helpful in assisting with the navigation or understanding of the standard due to the undue complexity of ED-315 that would justify their inclusion. We strongly believe that flowcharts should not be required as an alternative to reading the full standard. As such, we would suggest that greater effort is devoted to the improvement and simplification of ED-315 and the need for flowcharts should be considered at a later stage in the revision of the standard.

55. Institute of Chartered Accountants (Zimbabwe)

Yes. The consideration of IT and data analytics assists in ensuring that the risk assessment process is robust and up to date with trends emerging in the market currently. This enhances the basis upon which auditors design and perform audit procedures that are responsive to the risks of material misstatement, leading to the attainment of sufficient appropriate audit evidence.

The flowcharts are useful in the understanding of the risk identification and assessment process. The risk identification and assessment processes are iterative in nature from the gathering process and analyzing of information.

57. Institute of Public Accountants>

While the proposed changes to ISA 315 are improvements to the existing standard, the IPA has a number of concerns:

- While the IPA supports the separate consideration of inherent and control risk, the guidance provided in this area is relatively light given the importance of the assessment on the overall audit approach
- The overlap/interrelationship of inherent risk and control environment considerations is not adequately addressed
- There is insufficient emphasis of knowledge of the business and the environment in which it operates
- While there is extensive information provided in understanding the client's system of internal control, not the same emphasis is given to understanding the client's transaction systems
- The IPA supports the inclusion of the flowcharts in ISA 315 but notes the status of the flowcharts is unclear. Do they represent application guidance and if so how are they to be presented in the final standard?

58. Institute of Singapore Chartered Accountants

We support the overall direction of the proposed revisions made to ISA 315. We believe that the IAASB has focused revisions in the right areas, including enhancements to drive consistent and effective identification and assessment of risks of material misstatement, embedding scalability considerations, modernizing the standard, and emphasizing on professional skepticism.

The introductory paragraphs in ED-315, together with the flowcharts, provide a good summary of the flow of the auditor's risk assessment process, thereby providing overall context for the structure of the standard. We recommend that the flowcharts, which currently accompany the Explanatory Memorandum, be included either together with the introductory summary or as an Appendix to the standard. We believe that diagrammatic representations will help enhance the auditor's understanding of the risk assessment process.

We also suggest that Appendix 1 of the Explanatory Memorandum be included as part of the standard so that auditors can quickly reference to the relevant paragraphs of interest.

However, overall, the standard may be too lengthy, and the sentences within certain paragraphs are also too long, which make it difficult to read and understand. While we appreciate that the application and

explanatory materials are meant to give further guidance on how the requirements can be applied, voluminous guidance may instead have negative impact on the readers. The IAASB may wish to consider the following suggestions:

- Use of shorter and more concise sentences.
- Use of acronyms. Many of the terms used are long and mentioned throughout the standard. For example, “COTABD” can be used in place of “classes of transactions, account balances and disclosures”, and “RoMM” can be used in place of “risks of material misstatements”.
- Review and remove application material that may not be important or are better placed and illustrated through case studies in a separate publication.
- In addition, to promote greater understanding and consistent application, we suggest that the IAASB consider developing separate staff publications covering the practical implementation aspects. For example, case studies could be used to demonstrate the application of paragraph A16 of ED-315, as to the nature and extent of the required understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control. This enables auditors to better appreciate the extent of understanding required, especially where the audited entity is smaller and less complex.

59. Malaysian Institute of CPAs

Question 1(a):

Flowcharts, by their nature, do communicate effectively in most, if not all, cases and it is no different for ED-315. Hence, MICPA finds the three (3) flowcharts very helpful and the IAASB should consider incorporating those charts in the final standard by way of appendices perhaps. However, the issuance of the flow charts and the need to include them to improve the understandability of the standard is itself indicative that the standard is complex.

Extract from question 2:

However, there is a concern whether the detailed requirements may imply a rigid approach to the application of the framework as it is not clear in the standard where the auditor could do less and under which circumstances doing less is appropriate.

60. New York state society of CPAs

The proposed changes in the exposure draft are clear and will allow auditors to better understand the identification of risks in the risk assessment process and the correlation of different risks. The discussion of potential risks and applicable controls identified in Section 3D provides a good example of what an auditor should be aware of in their risk assessment process.

61. PAFA

PAFA is of the view that the proposed changes and the accompanying flowcharts will augment the risk identification and assessment process. This is based on the belief that the clarification will serve to guide the auditor better in terms of where to direct their focus in their identification and assessment process.

62. SAICA

A vast majority [86% (86/100)] of survey respondents predominantly agree that the proposed changes will help with the understandability of the risk identification and assessment process. 19 respondents indicated that they “strongly agree” in this regard (‘6’), with the other 67 respondents indicating ‘4’ and ‘5’ on the identified scale of 1 to 6. The feedback on this overall question should also be weighted and considered, taking into account the responses to the other questions that address more detailed aspects of ED-ISA 315.

80% (78/97) of the survey respondents indicated that the flowcharts are helpful (4, 5 or 6 on the identified scale of 1 to 6). One respondent recommended that the flowcharts should be used for other ISAs that are under revision as this helps to illustrate the bigger picture and show what the key considerations are.

The SAICA survey included an additional general question in order to ascertain the level of support for how the requirements have been restructured to elevate the importance of understanding the applicable financial reporting framework applied in the context of the nature and circumstances of the entity and its environment (ED-ISA 315, paragraph 23). 78% (98/126) of the survey respondents predominantly support this change. There was a comment that this may result in a more focused audit approach as more important factors influencing an audit is highlighted. Another respondent requested that the importance of analytical review as part of risk assessment should be emphasized and how it links to the understanding of the financial reporting framework.

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

Introductory comments:

We have serious concerns that without considerable amendment, the ED would lead to inefficiencies (detrimental in terms of the cost/ benefit considerations of entities subject to audit) and inconsistent application (detrimental to the achievement of high-quality audits). Given this, our concern is that the ED would not result in the IAASB achieving its public interest goals, as it could lead to further reductions in the audit market, when governments perceive a need to relieve SMEs of the (increasing) burden of audit by raising audit thresholds.

The revision introduces new, closely interrelated and as yet untested terms, concepts and definitions including inherent risk factors, relevant assertions, a spectrum of risk, and a great deal of granular material on IT issues. Terminology has been inappropriately imported from the PCAOB’s standards and many other aspects are over-engineered for the SME environment. Cumulatively, this may trigger, if not mitigated, a rejection of the standard in terms of its suitability for SME audits and further calls for different standards for SME audits compared to listed/ PIE audits. We understand that SMPs are not alone in concerns regarding unnecessary complexity and that larger firms also have similar concerns.

The proposals as they stand are methodologically complex. This will foster a tick box mentality to risk assessment for less complex entities, potentially resulting in the auditor being “unable to see the wood for the trees” and diverting resources from achieving the desired audit quality. We therefore urge the IAASB to find a way to reduce this complexity before finalizing the standard.

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.
- A failure to make the audit approach sufficiently scalable, including new features compared to extant ISA 315 (Revised). The “drill down” in risk identification below the assertion level, whilst appropriate for more complex audits, is excessive for many smaller and less complex entity audits and may ultimately be a significant contributory factor impacting the acceptability of ISAs beyond the complex entity audit market.
- Concern as to whether the proposed introduction of PCAOB terminology and its incompatibility with established ISA terms (ISA 200 - reduction of risk to an “acceptably low level” versus “more than remote likelihood”) is appropriate for worldwide application. The impact on the work effort is likely to be excessive for audits of small and less complex entities and in our opinion, the compatibility with fundamental terms in extant ISAs has not been sufficiently explored.

Question 1(a):

We are very concerned that without the three flowcharts, which are not intended to form part of the final standard, it is very difficult to understand and navigate the standard. This of itself, demonstrates the need for further clarification as described elsewhere in this response prior to finalization. Reference to flowcharts cannot be an appropriate substitute for clear standards. The proposed changes will, without doubt, involve more work and it is essential that for smaller audits to continue being conducted under the IAASB standards, they must be able to demonstrably improve audit quality, instead of adding cost disproportionate to the benefits.

64. Wirtschaftsprüfer

We welcome the revision of ISA 315 in order to address concerns and challenges – especially from SMPs – regarding the effective and efficient application of the standard.

However we are concerned that the extent and complexity of the revised draft might negatively affect understandability and coherent application of ISA 315. The need to create three pages of flow charts – which are not intended to form part of the final standard – demonstrates this complexity.

Overall the flow charts appear to be clear and well structured. But navigating the standard without the flow chart seems challenging. However, we question whether the simple use of footnotes in the flow charts adequately depicts the iterative nature of the risk assessment process, especially in relation to newly imposed/extended requirements (for example, obtaining an understanding of the entity’s system of internal control requires the auditor to identify controls relevant to the audit, especially those controls that address risks that are identified as a significant risk (ISA 315. 39 (b)). The identification of significant risks according to ISA 315.49 takes place several steps later, than jump back to ISA 315.42 to evaluate the control’s design).

65. Chartered Accountants Academy (Zimbabwe)

Yes, the proposed changes set out the risk assessment procedures that form the foundation for an audit of financial statements. The consideration of information technology and data analytics assists in ensuring that the risk assessment process is now robust and up to date with trends emerging in the market currently. The standard contains essential enhancements to the auditor's risk assessment process with the objective of establishing more robust requirements and appropriately detailed guidance to drive auditors to perform consistent and effective identification and assessment of the risks of material misstatement. This enhances the basis upon which auditors design and perform audit procedures that are responsive to the risks of material misstatement, leading to the attainment of sufficient appropriate audit evidence.

The flowcharts are useful in the understanding of the risk identification and assessment process as they clearly elaborate how the steps interact from how risks are identified and the related responses. The risk identification and assessment processes are iterative in nature from the gathering process and analyzing of information.

66. FocusRoi Inc.

Overall, we believe this revised standard is a great step forward. The flowcharts are very useful except for our one major comment relating to understanding internal control which is outlined below.

Para 25 of the ED states:

"The auditor shall perform risk assessment procedures to obtain an understanding of the entity's system of internal control relevant to financial reporting, by understanding each of the components of internal control"

The standard as a whole and the overall flow chart seems to imply that internal control is an end in itself, rather than management's response to mitigate specific risks. Risk comes before control. If a control exists without a risk to mitigate, it is totally redundant.

We believe that the increased emphasis on understanding and evaluating internal control, is useful guidance, but overkill for a small audit that is unlikely to ever assess control risk at less than the maximum. However, the guidance provided would be very useful if the auditor was required to opine separately on internal control. But that is not the case in this standard.

The overview flow chart provided with the exposure draft seems to imply that understanding internal control is a separate activity that could run in parallel to the risks being identified through understanding the entity. We believe it would be more helpful to indicate that the assessment of both risk and control are closely intertwined and should be performed one after the other. This is explained below.

The so called "top down and risk-based approach" that came out of the US requirements to report separately on internal control made a lot of sense and saved enormous amounts of time in practice. However, it appears to us that some of that learning may not have been incorporated in this revised standard. The "top down risk-based approach" replaced the inefficient, time consuming and costly 'bottom up' approach.

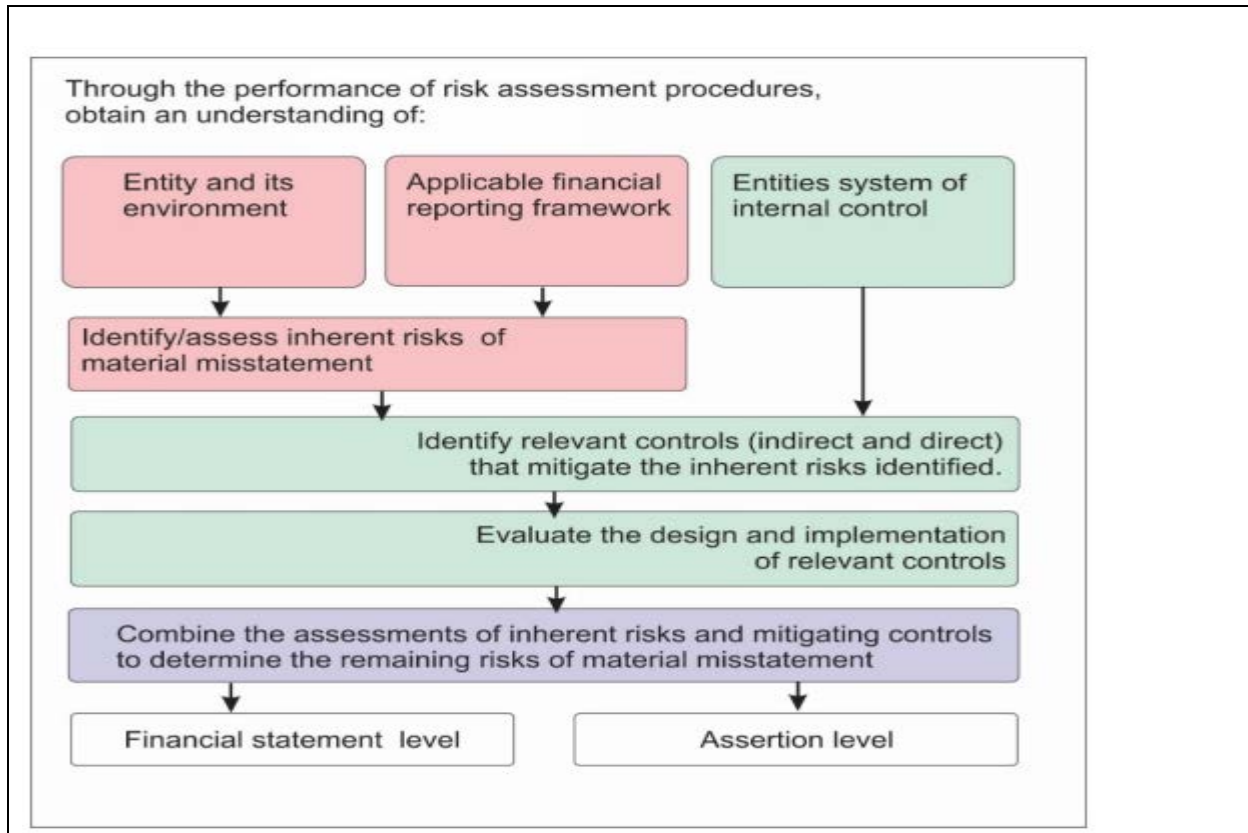
In the "bottom up" approach auditors started their work by producing elaborate (and often unreadable) flow charts to document all existing controls (relevant or not). A walk through was then performed to ensure all

the identified controls (relevant or not) actually existed and were in operation. The final step was to then to match the identified controls (relevant or not) on the flow charts to possible inherent risks.

The “top down” approach starts by first identifying and assessing the inherent risks of misstatement and then (secondly) inquiring what management controls exist to mitigate these risks. Controls that are not relevant would never be documented or assessed at all. ED 315 seems to incorporate elements of both the top down and bottom up approaches to assessing risk and control. If this is intentional, we believe we are missing a great opportunity as a profession to make auditing more effective and efficient in general.

We recommend that the standard specifically state that risk comes before control. We believe this would go a long way in answering virtually all of the questions/concerns posed by practitioners, which are outlined in paragraph 30 of the exposure draft.

If the inherent risk assessment was performed **before** identifying the relevant controls the overview flow chart would be revised as follows.



Some of the practical benefits of a “top down” approach are:

- Only relevant controls (i.e., those that specifically treat the risks identified) need be documented.
- Documentation that matches risks and controls is a lot easier to update each year than flow charts and system narratives.
- Significant weaknesses in internal controls can be readily identified.
- Only well-designed and relevant internal controls need be evaluated for control implementation. Cradle-to-grave walkthroughs are no longer required.

67. Lynessa Dias

The flowcharts are helpful in understanding the flow of the audit process. The first flowchart to identify and assess the risks of material misstatement is useful and diagrammatically presents at a high level the critical processes and objectives of the audit approach. In the second flowchart, the five components of the system of internal controls to understand the entity's risk profile, are aimed at evaluating entity controls to mitigate inherent risk and assess control risk. Accordingly, the first two flowcharts are connected, although this relationship is not drawn out in the diagram presented. Inherent risks are dependent on the nature of business operations and accordingly there can be no generic flowchart to depict such risks. However, based on generally accepted accounting practices, a basic flowchart for risks at the financial statement level could assist in understanding the risk of material misstatements from assertions at that level.

70. S Dianne Azoor Hughes

No significant matters arising

72. American Accounting Association

We believe the proposed enhancements substantially achieve the Board's intent, however we have one overarching concern. As proposed, ISA 315 will be comprised of an Introduction, Specific Requirements, AEM, Appendices, and what appear to be separate Flowcharts. In preparing our responses to the questions posed by the Board, we individually had difficulty locating all applicable discussions and materials. Although accountability and knowledge have jointly been found to moderate the negative impacts of task complexity on auditors' performance (Tan and Kao 1999; Tan, Bu-Peow Ng, and Wai-Yeong Mak 2002), to the extent possible, steps should be taken to reduce the volume and complexity of ISA 315. Our Question-specific Commentary provides a few suggestions to achieve this objective.