

Responses to ED-315¹
Comments on 'SCOTABD² and Relevant Assertions'
NVivo Report 6A
(FOR REFERENCE)

07. IOSCO

Relevant Assertions

We agree with the Board's decision to introduce the concept of "relevant assertions" to focus auditors on those assertions for which there is a reasonable possibility of a misstatement that is material, either individually or in combination with other misstatements. Further, we agree with the Board's decision to use a "reasonable possibility" threshold for identifying relevant assertions.

However, since the identification of relevant assertions is such a critical piece of the proposed risk assessment process, as demonstrated within the flowchart attached to the Paper, we believe that auditors will need clear guidance for how they should apply the "reasonable possibility" threshold when identifying relevant assertions.

Since relevant assertions are those assertions of a relevant class of transactions, account balance or disclosure for which the nature or circumstance of that item has a reasonable possibility of a material misstatement (individually or in combination), one potential way to provide this guidance would be to more clearly link the identification of relevant assertions to the proposed inherent risk factors. We believe this linkage would be appropriate since inherent risk is the susceptibility of an assertion about a class of transactions, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

Given the requirements in paragraph 18 of ISA 330 for the auditor to "design and perform substantive procedures for each class of transactions, account balance, and disclosure that is quantitatively or qualitatively material," we believe that it would be useful for the Board to provide clear discussion and examples within the Application and Other Explanatory Material that illustrate how an auditor might conclude there were no relevant assertions for a class of transactions, account balance or disclosure that was concluded to be material. In essence paragraph 52 of ISA 315 (Revised) seems to contradict with paragraph 18 of ISA 330. We believe the concepts in ISA 330, subject to our concerns above, are more relevant and the more likely scenario.

08. IRBA

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.

We believe that there is sufficient guidance to explain how they are determined (i.e. an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assertion), and how they assist the auditor in identifying where risks of material misstatement exist.

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

² Significant Classes of Transactions, Account Balances and Disclosures

We suggest that the definition of relevant assertions, as per paragraph 16(h), be revisited by the IAASB as it states that the determination of whether an assertion is a relevant assertion be made before the consideration of controls. This implies that one considers inherent risk factors in determining relevant assertions without it being stated in the definition – as a result, the definition lacks clarity. We understand that this is one area where the IAASB aligned its definition to the Public Company Accounting Oversight Board, but submit that this should not be done at the expense of simple and clear language. To that end, we propose that the definition of relevant assertion be updated as follows: “An assertion is relevant to a class of transactions, account balance or disclosure when the ~~nature or circumstances~~ inherent risk factors of that item are such...”

09. UK Financial Reporting Council

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures (significant COTABD) and relevant assertions and believe there is sufficient guidance to explain how they are determined. This concept, in our view, along with the concept of inherent risk factors, should facilitate the auditor in more effectively linking the inherent risks (identified through the auditor’s understanding of the applicable financial reporting framework and the entity and its environment) to relevant assertions.

We recognize the challenge the IAASB has in writing ISAs in a linear manner when many aspects of ED-315 are interconnected in nature and are often performed in an iterative manner. However, despite this, we believe the requirements in relation to the determination of significant COTABD are missing an important and logical link. We agree with the placement of the auditor’s final determination of significant COTABD in ED-315 paragraph 46. However, we believe it is important to make an explicit reference to the auditor’s initial expectation about significant COTABD earlier in the requirements, specifically relating to the auditor’s understanding of the entity and its environment and the applicable financial reporting framework in ED-315 paragraphs 23-24.

Without the understanding required in ED-315 paragraphs 23-24 and an initial determination of significant COTABD, it may be difficult for auditors to focus their attention effectively when performing the requirement in ED-315 paragraph 35(b) that addresses how information relating to significant COTABD flows through the entity’s information system. We therefore recommend that the IAASB include a requirement for the auditor to make an initial determination of significant COTABD in the section of ED-315 addressing the auditor’s understanding of the entity and its environment and the applicable financial reporting framework.

10. AASB of ICAI

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.

11. Australian A&A Standards Board

We are not supportive of the proposed definitions of significant classes of transactions, account balances and disclosures and relevant assertions. A relevant assertion is an assertion where there is “a reasonable possibility” of occurrence of a misstatement, which is defined as when the likelihood of a material misstatement is “more than remote”. No guidance is provided on how to assess this. Our stakeholders strongly consider that “more than remote” is fundamentally different to “a reasonable possibility”, and are concerned that this will create issues for scalability, as many assertions may meet this test, and therefore

may result in more significant classes of transactions, account balances, or disclosures being identified than was intended. We do not consider this is the desired outcome of these definitions and additional guidance is required to clarify these terms and concepts in the proposed standard.

The AUASB is aware of research that supports that these terms are interpreted by auditors to be very different. The AUASB would be happy to share this research with the IAASB if requested.

Also some stakeholders have expressed concerns that the introduction of new definitions to describe significant classes of transactions, account balances and disclosures and relevant assertions is confusing and there needs to be guidance on how this is different to material classes of transactions, account balances and disclosures and relevant assertions currently applied in ISA 330.

12. Canadian AASB

Yes, we support the introduction of significant classes of transactions, account balances and disclosures, and their relevant assertions. These concepts make the scope of this standard clearer for auditors.

During field testing, some practitioners debated whether sales tax would be a significant class of transaction, account balance or disclosure. The sales tax is an account that usually has voluminous transactions, but the year-end balance is normally relatively small. Most participants believe that such an account is usually not significant. However, other participants viewed the example in paragraph A213 as indicating that the auditor should consider all the debits and credits through an account when determining whether it is a significant class of transaction, account balance or disclosure and that an account such as sales tax might be significant because the account contains voluminous transactions. Stakeholders would like further guidance as to when accounts with a low balance at period end may nevertheless be significant.

13. CNCC-CSOEC

Concerning the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures ("SCOTABD") and their assertions, we find the new definitions difficult to read and rationalize. The standard should further clarify the concepts used. Moreover, the terms used in the definition of relevant assertions, i.e. "possibility of occurrence" of a misstatement, "more than remote" to qualify the likelihood of a material misstatement, may result in an increase in work effort without specific increase in audit quality.

14. Hong Kong Institute of CPAs

Under paragraphs 45 and 46 of ED-315, the auditor first identifies the risks of material misstatement at the financial statement level or assertion level, then goes on to determine significant classes of transactions, account balances and disclosures and their relative assertions ('COTABD') based on the identified risks of material misstatement. We therefore consider significant COTABD are those with identified significant risks which require audit effort under paragraph 21 of the extant ISA 330.

We note that there is no proposed conforming amendment to paragraph 21 of ISA 330.

15. IDW

Although we support the idea of introducing definitions for "significant classes of transactions, account balances and disclosures," and for "assertion," and "relevant assertion," we do not agree with the content of those definitions. We have already addressed in our response to question 5 (a) our main issue with the

definition of “significant classes of transactions, account balances and disclosures” resulting from this definition’s use of the defined term “relevant assertion”.

We also believe it may be helpful to define what “classes of transactions” and “account balances” and “disclosures” mean.

Definition of Assertion

We believe that the definition of “assertion” and its related application material confuses a number of different meanings of that term. There are three potential uses to the term “assertion” in the context of ISA 315:

- Using the Assurance Framework and ISAE 3000 as a basis for understanding, to refer to the individual explicit and implicit representations that would be contained in the subject matter information (the financial statements) if the criteria (the requirements in the applicable financial reporting framework regarding recognition, measurement, presentation and disclosure) are appropriately applied to the underlying subject matter (the transactions, events and conditions and other circumstances of the entity). This concept can be called the “required assertions”.
- To refer to the individual explicit and implicit representations as noted above actually contained in the financial statements as prepared by management. This concept can be called the “actual assertions”.
- To refer to the tools used by auditors to identify inherent risks and assess inherent and control risks. These tools are based on the “required assertions” as noted above but are generally summarized into categories that are not as granular as the individual requirements of the financial reporting frameworks that would be reflected in the required assertions as defined above. This concept of “tools the auditor uses” can be called the “auditor assertion categories”.

At a theoretical level, an audit involves the auditor comparing the actual assertions to the required assertions by applying the auditor assertion categories to determine whether there are material differences between the actual and required assertions.

The first sentence of the definition of assertions in the draft refers to the actual assertions. The second sentence of the definition of assertions in the draft refers to the auditor assertion categories. The application material to the definition of assertions in paragraph A1 of the draft refers to the actual assertions. Consequently, the use of the defined term “assertions” in the draft is extremely confusing because readers of the draft would not know which of these three concepts is meant when the term “assertions” is used in the work effort requirements and guidance of the draft. This is important because the definition determines the required granularity of the assertions and what “assertion level” means in practice. The definition of assertions as written now would require a drill-down to the individual requirements of the financial reporting framework rather than permitting the use of categories as described in paragraph A204 of the draft: application material such as in paragraph A204 cannot contradict a requirement or definition.

We surmise that when the term “assertions” is used in the work effort requirements and guidance in the draft, the “auditor assertion categories” as described in paragraphs A203 and A204 of the draft are being referred to. For these reasons, and to rationalize the definition of assertion based on our responses to the previous questions, we suggest that the following definition be used for assertions:

“Summary categories of explicit and implicit representations that would be contained in the financial statements if the financial statements are appropriately prepared in accordance with the financial

reporting framework. These summary categories are required to be used by auditors to consider different types of potential misstatement.”

The important features of this definition are: 1. Assertions as defined are required to be used by auditors to consider potential misstatements (i.e., this is an auditor tool that ISA 315 requires to be used), 2. The assertions represent summary categories of the explicit or implicit representations in the financial statements that result when applying the financial reporting framework – not the granular representations that result when applying detailed requirements of the financial reporting framework, and 3. The summary categories relate to what would be contained in the financial statements if the financial reporting framework is appropriately applied – not to the actual assertions in the financial statements as prepared by management. The reference to recognition, measurement, presentation and disclosure need not be included in the definition, but can be included in the application material to the definition, as is currently the case in extant ISA 315.A127.

It would also be important that the application material in paragraph A5 clearly distinguishes that this description of assertions relates to the actual assertions in the financial statements as prepared by management, rather than the assertions as we propose be defined above.

Definition of Relevant Assertion

As noted above in our response to the main question 6, we also disagree with the use of the definition of “relevant assertion” because of its connection to a class of transactions, account balance or disclosure, and we also disagree with the use of “material misstatement” when “inherent risk” would be more appropriate. However, more importantly, we strongly disagree with the use of the threshold “reasonable possibility” in connection with “more than remote likelihood”. We believe that a “more than remote likelihood” is far too low a threshold because it would cause an excessive number of assertions to be regarded as relevant and thereby result in auditors identifying and assessing inherent risks that are exceedingly unlikely to be the cause of material misstatements. This is a particular issue for audits of financial statements of smaller and less complex entities: the low threshold would have a very detrimental effect on the scalability of the standard and lead to an excessively bureaucratic approach to risk assessment.

We recognize that the term “reasonable possibility” is used in PCAOB Auditing Standards and that through reference it means “a more than remote likelihood”. Deleting the reference to “remote likelihood of risk” in relation to the threshold “a reasonable possibility” in the draft would not represent a reasonable solution because readers of the draft would still assume that a “reasonable possibility” means the same as that use of the term in PCAOB Auditing Standards.

For these reasons, we have come to the conclusion that a different threshold needs to be applied that uses a term other than “reasonable possibility”.

We recognize that the threshold for identifying inherent risks prior to their assessment (i.e., the “educated guess” as noted in the Explanatory Memorandum) needs be lower than an acceptably low level of risk as used in ISA 200 so that auditors can assess those risks that are just below this latter threshold to determine whether they are in fact acceptably low or not. For these reasons, in line with ISA 200 we believe that the appropriate threshold relates to the consideration of whether it is unlikely that inherent risk is acceptably low. Based on all of these considerations we believe that the definition of a relevant assertion should read as follows:

“An assertion is relevant when the auditor believes that its inherent risk is unlikely to be acceptably low.”

The reference to “its inherent risk” automatically brings in all of the definition of inherent risk (see ISA 200.13 (n) – i.e., see what happens when you substitute “its inherent risk” with the definition of inherent risk), which makes the definition shorter and clearer without losing anything important, and includes the “auditor’s belief”, which involves the character of an educated guess.

A further reduction in complexity of the draft through a rationalization of the requirements resulting from the use this definition can also be achieved by merging the identification and assessment of inherent risks and hence the identification of relevant assertions: such identification and assessment need not be separate steps and in practice often occur concurrently.

Use of Risk Thresholds

The end of sub-question (d) above refers to “identifying where risks of material misstatement exist”. The meaning of this term in existing ISAs was always unclear to readers, so we welcome the attempt to provide some clarification in paragraph A211. However, there are a number of issues with this attempt at clarification. First, not only is this extremely important matter far back in the application material, it is also in the middle of a paragraph of a number of sentences, which means many readers will not become aware of this clarification.

Second and more importantly, the sentence contains an inherent contradiction: the sentence essentially states that when there is a remote possibility of a material misstatement, there is no identified risk of a material misstatement, which is an inherent contradiction because one had identified a risk of material misstatement with a remote likelihood of occurrence. As noted in the third bullet point of our response to the main question 6 above, no risk implies zero risk, which is not the case when there is a remote possibility of a material misstatement. This inherent contraction is exemplified in paragraph 45 which states that the auditor should “identify risks of material misstatement and determine whether they exist”: we note that under A211, if they have been identified, they must exist.

Third, seeking to distinguish an “identified risk of material misstatement” (which is then equivalent to the “existence of a material misstatement”) from “a risk of material misstatement” that was identified as part of the identification of relevant assertions is just too subtle for most readers to understand. Fourth, as noted in our response above, we do not believe that “remote likelihood of risk” is the appropriate threshold to use. Fifth, this threshold does not articulate with the threshold “acceptably low level of risk” used in ISA 200 and elsewhere, which represents the converse of reasonable assurance, and therefore the use of risk thresholds throughout the ISAs is internally inconsistent.

We recognize that this weakness about the meaning of “risks of material misstatement exist” or “no risks of material misstatement exist” is in the extant ISAs, but we believe that the IAASB should take this opportunity to ensure that the ISAs use an internally consistent approach to rationalize the risk thresholds used (e.g., acceptably low level of risk, existence of risk, no risk, assessed risk, remote likelihood of risk, potential risk, possible risk): a limited number of minor conforming amendments in the other ISAs could resolve the issue. Throughout the drafts, we also note instances in which the term “risk” or “risks” are used in which it is not clear what the risk or risks relate to: i.e., risk of what? In some cases, if a risk or risks are clearly identified in the beginning of a paragraph, the solution may be to simply use “this risk” or “these risks”, but in other cases it is completely unclear which risks are meant. In these cases, we suggest that clarification be provided.

We would like to point out that other professions, whether scientists, engineers, actuaries, or statisticians, have a clear conception of what a risk means: in the long run, the IAASB’s standards cannot afford to use

“code” that is at variance with how risk is generally understood worldwide and that only those who are aware of A211 will understand. It also leaves the impression to those outside of the auditing profession that the auditing profession and the IAASB do not understand the meaning of risk.

Rather than seeking to replace “risks of material misstatement exist” and the like throughout the ISAs with phrases like “risks of material misstatement are not acceptably low”, it may be simpler to replace the noted phrase in the other affected ISAs regarding responses to risk along the lines of “responding to assessed risks of material misstatement”, as long as a sentence is added in a prominent place in the application material to ISA 330.6 that auditors need not respond to risks of material misstatement that have been assessed as being acceptably low. Of course, the wording in paragraphs 45 to 52 and related application material would also need to be rephrased (other than in the case of risks at a financial statement level, this can be done using the concept of relevant assertions and “acceptably low level”).

16. Japanese Institute of Certified Public Accountants

We agree with the proposal to introduce the concept of significant classes of transactions, account balances or disclosures.

17. Malaysian Institute of Accountants

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions. We agree that defining significant classes of transactions, account balances and disclosures can assist the auditor's identification and responses to the risks of material misstatement.

In view that there appears to be concerns that ‘reasonably possible’ does not equate to “more than remote” for the definition of “relevant assertions”, we recommend that IAASB provide more guidance on how to assess this probability.

18. Nederlandse Beroepsorganisatie van Accountants

This concept was already mentioned in the current ISA, but apparently now it is more detailed out. We wonder what the actual change is. Furthermore, the difference between significant classes and material classes is not very clear. Perhaps a figure or an example might help.

19. National Board of Accountants (Tanzania)

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.

20. NZ Auditing and Assurance Standards Board

The NZAuASB agrees that defining significant classes of transactions, account balances and disclosures is useful and may help to clarify the scope of the auditor's understanding of the information system and the scope for the auditor's responses to the assessed risks of material misstatement.

The NZAuASB however has concerns in relation to the definition of ‘relevant assertions’. Paragraph 16(h) defines a relevant assertion as follows.

“an assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a

misstatement with respect to that assertion that is material, individually or in combination with other misstatements. There is such possibility when the likelihood of a material misstatement is more than remote. The determination of whether an assertion is a relevant assertion is made before consideration of controls”.

The NZAuASB considers that the current drafting could be clarified further as these two terms may be seen as different, which may be confusing. If the two terms are seen as equivalent, the NZAuASB questions the need to use both terms.

21. Altaf Noor Ali Chartered Accountants

A6(d) Yes.

Many terms in the IAS (such as data analytics) have been defined in the running text. Conveying their meaning and explaining terms defined elsewhere such as audit risk as a glossary of key terms may be helpful for the users. Also, an ‘Index’ with key entries and paragraph references with electronic links to access relevant paragraph instantly may help navigate a long document. For example, there is no reference of para 54 (documentation) in para 22(audit team engagement discussion). They will appear together in an index.

22. BDO International

We are generally supportive of the new concepts of significant classes of transactions, account balances and disclosures, and their relevant assertions. However, we are concerned with the definition of ‘relevant assertions’ in paragraph 16(h) where it equates ‘a reasonable possibility of occurrence of a misstatement’ to ‘the likelihood of a material misstatement is more than remote’. We believe that these terms have different meanings and are likely to lead to misinterpretation and therefore inconsistency in application. Further, we believe that the public interest would not be harmed by removing the very low threshold of ‘more than remote’ from the definition of relevant assertions as the public would not normally be concerned with risks that are at the low end of the likelihood scale. If the definition remains unchanged, it could lead to a proliferation of potential risks of material misstatement being identified in an audit engagement, which results in the need for auditors to spend time assessing them. In our view, this is not a productive use of time; auditors should be focused on risks that are higher on the likelihood scale.

Therefore, we recommend that the definition of relevant assertions be modified as follows:

“Relevant assertions – An assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements. ~~There is such possibility when the likelihood of a material misstatement is more than remote.~~ The determination of whether an assertion is a relevant assertion is made before consideration of controls.”

In addition, the definition of relevant assertion considers only the likelihood of misstatement, but not the magnitude, which is inconsistent with other concepts in the standard (e.g. significant risk and spectrum of inherent risk). We suggest that the definition of relevant assertions also be revised to take into account the concept of magnitude.

23. Baker Tilly

While we agree with defining a relevant assertion as, “a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements,” we do not agree that a reasonable possibility should be defined as, “such possibility when the likelihood of a material misstatement is more than remote.” We believe that including a threshold of “more than remote” in the definition may require auditors to conclude that some assertions are relevant even though the likelihood of the occurrence of a misstatement with respect to that assertion is very low, resulting in the performance of unnecessary audit procedures. We believe that auditors should be allowed to utilize their professional judgment to determine when there is a reasonable possibility of the occurrence of a misstatement with respect to a given assertion.

24. Crowe International

We support the introduction of these new concepts and definitions. The guidance is sufficient, but has to be supplemented with case studies and other materials after the standard has to be published.

25. Deloitte

DTTL is supportive of the definitions of significant classes of transactions, account balances and disclosures and their relevant assertions and believe they assist the auditor in identifying where the risks of material misstatement exist.

DTTL believes that paragraph 46 of the proposed standard should be reconsidered as it implies that the auditor must first identify risks of material misstatements before identifying significant classes of transactions, account balances and disclosures. DTTL believes that the proposed standard should be nonlinear. For example, an auditor may determine which accounts are significant based on a preliminary determination of the risks of material misstatement, and may then confirm the identification by going through the formal process to identify the risks of material misstatement. Currently, the proposed standard appears to always require the identification of the risks of material misstatement prior to the identification of significant accounts. DTTL suggests the following revision to paragraph 46 to enhance the proposed standard:

46. The auditor shall determine significant classes of transactions, account balances and disclosures, and their relevant assertions, ~~based on~~ considering the identified risks of material misstatement and the risk assessment procedures performed.

In addition, the flowchart should make it clear that the risk assessment process is an iterative process, and is not linear. DTTL would suggest revising the flowchart to show more dynamic interaction between the identification of significant accounts and the identification of risks of material misstatement. In addition, DTTL believes that the “Notes” at the bottom of the page should be revised to note that the process is not required to be linear, as the flowchart describes.

26. EY Global Limited

Yes, we believe these concepts reflect the approach to risk assessment that is taken in practice. In particular, we agree with the threshold for the identification of risks of material misstatement to be those risks that are ‘reasonably possible’. This threshold provides a practical approach to identifying and focusing on those risks that matter to the audit.

27. Grant Thornton International

We are supportive of the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures and their relevant assertions. However, we are of the view that further clarity is required in respect of the following:

- The proposals should clarify that the approach to identifying and assessing risks of material misstatement begins at the financial statement level and with the auditor's overall understanding of the entity and its environment and works down to the significant classes of transactions, account balances and disclosures and their relevant assertions. This approach will focus attention on the significant classes of transactions, account balances and disclosures and the assertions that present a reasonable possibility of material misstatement. As such, it is possible that not every account in the trial balance will be subject to audit procedures.
- The definition of relevant assertions lacks clarity. It equates the concept of "reasonable possibility" with that of "more than remote." We do not believe that this is an appropriate equation. "Remote" and "possible" have distinct meanings in some financial reporting frameworks and even with the use of qualifiers should not be considered to mean the same in all frameworks. We would recommend that the IAASB use only one of these terms and include a definition of that term.

Absent further clarity in these areas, we are of the view that new concepts and definitions will be inconsistently and, maybe inappropriately, interpreted and applied.

28. KPMG IFRG Limited

We are supportive of inclusion of these new concepts and definitions and their clear links with relevant assertions. We believe this aligns better to other standards e.g. ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing, and helps the auditor to identify where risks of material misstatement exist by establishing clearer "steps" in this overall process as well as emphasizing the iterative nature of these steps.

We recommend that the IAASB provide further information to support the definitions, such as examples of "classes of transactions" and "account balances" and the distinction between the two, as well as information to help an auditor distinguish between "transactions" and "classes of transactions", as the standard refers to both these terms, e.g. at paragraph 35(a).

We highlight that there is some inconsistency in the use of "classes of transactions" versus "transactions". For example, at A204(a) we believe the reference should be to "Assertions about ~~classes of~~ transactions and events, and related disclosures...". We note that the remainder of A204 refers only to "transactions".

We note that the definition of relevant assertions at paragraph 16(h) appears to equate "reasonable possibility of occurrence" with a "more than remote likelihood". We question whether it is appropriate to interchange this terminology, and recommend that the IAASB use "reasonable possibility".

29. MNP LLP

Yes. We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions. With that said, we are concerned that the title assigned to significant classes of transactions, account balances and disclosures may result in confusion. ED-315 now includes two concepts with reference to their "significance"; however, "significance" is not assigned the same meaning for these two concepts. For the sake of clarity, we

recommend retaining the term 'significant risk' as it is already used in extant-315 and is widely understood. However, we recommend revising ED-315 to include an alternative term in reference to classes of transactions, account balances and disclosures. Perhaps 'material', 'relevant' or 'principal' would work.

30. PwC International

We agree that the auditor needs to consider the classes of transactions, account balances and disclosures that are significant to the financial statements. This is a relevant scoping decision. The auditor also thinks about risks and to which assertions those risks relate. In that regard, we support the broad intent of the concept of SCOTABD. However, we do not agree that the relevant assertions are thought of first and then used to drive the scope of what is significant. Rather, having identified a risk, the assertions to which that risk relates are identified, thus becoming "relevant".

Consequently, while there may be a useful purpose for a definition of significant classes of transactions, account balances and disclosures, its circular definition (using the definition of relevant assertions) needs revision. We believe explaining how to consider what is significant to the financial statements can be described with reference to materiality and relevant qualitative considerations, addressed through application material. Such guidance could explain that COTABD that individually exceed overall materiality would generally be considered significant. COTABD that fall between performance and overall materiality may be deemed significant based on professional judgement. By doing this, a definition of relevant assertions is not needed. Having identified the risk, the auditor can then determine the related assertions.

The use and interrelationship of these definitions adds unnecessary complexity to the requirements and creates challenges in their interpretation and application. The way that they have been applied in the related requirements feels like the proposed revision is driving a specific approach and methodology, rather than being outcome-driven requirements that can be applied as appropriate to audits of entities with differing characteristics. We believe this is contrary to the IAASB's intent to allow flexibility, recognising various firm methodologies.

We recognize that the definition of relevant assertion incorporates the threshold developed by the IAASB for determining what is significant. We believe the notion of reasonable possibility can be built into the application material, alongside consideration of materiality and qualitative factors, to determine significance.

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

We believe the intent can be achieved without the need for these definitions, as set out in our suggestions in Appendix 2.

31. RSM International

We support the concepts of 'significant classes of transactions, account balances and disclosures' and 'relevant assertions', and we believe that they will contribute to a more focused risk assessment at the assertion level. However, the definitions and articulation of these could be amended and simplified as suggested in our bullet points which follow.

- In our view, there is a danger that, by linking the definition of 'significant classes of transactions, account balances and disclosures' to 'relevant assertions', the process becomes somewhat circular.

We would prefer to link 'significant classes of transactions, account balances and disclosures' to materiality (ensuring that both qualitative and quantitative aspects were considered). This would then remove the need to clarify ISA 330 paragraph 18 and negate the need for the 'stand back' requirement in ED-315 paragraph 52.

- The terms 'probable', 'possible' and 'remote' are distinct and widely used terms within financial reporting. We do see some potential confusion in this area since "reasonable possibility" can be viewed as somewhat higher than "more than remote". If the terminology is retained then we suggest simplifying the drafting such that "an assertion is relevant.....are such that there is a more than remote possibility of occurrence of a misstatement....." The sentence starting "There is such a possibility...." would then no longer be required.
- We suggest that more guidance is provided to assist auditors in determining the level at which significant classes of transactions and account balances are assessed. Is it at the primary statement level, e.g. Income Statement or Balance Sheet? Or should items in the notes to the financial statements also be assessed? We appreciate that auditor judgment will be key in this assessment but we believe that more guidance is required in this critical area of the risk assessment process otherwise it may appear that the Board is avoiding the issue.

32. Office of the Auditor-General of Alberta

Our concern is that the definitions are too intricate and may be misused. For example, does the concept of "relevant assertions" then imply that some assertions can be argued to not be relevant? Assessing that an assertion is not relevant may be equivalent to assessing the assertion has a low risk of misstatement. For others, it may be that an assertion is not relevant if it is not a requirement of the applicable financial reporting framework. For others, it may be that an assertion is not relevant if the risk of misstatement is "remote." For accounts payable, to what extent is the existence assertion ever relevant, when most auditors would say that the relevant assertion is completeness?

Moreover, the standard should consider the basic impact of double-entry accounting and to what extent auditors can argue that assertions are not relevant. To illustrate, some auditors may argue that reciprocal transactions make the offsetting assertion irrelevant; existence of accounts payable is not a relevant assertion because existence is relevant to purchases, inventory and supplies expense (the reciprocal transactions). Other auditors may suggest that this substantially increases audit risk, and only by assuming all assertions are at least "low risk" relevant does an auditor obtain sufficient appropriate audit evidence. It is not clear which approach the Board intends, but by introducing the concept of relevant assertions, the Board may unintentionally endorse the "offsetting assertions" approach to risk assessment.

We suggest that all assertions are relevant, so the concept of "relevant assertions" should be removed from the standard. What matters to practice is what the assessment of risk itself is, not whether an assertion may be relevant. In our view, conceptually an assertion is not relevant only if it is an assertion that explicitly is not being made by management, consistent with the applicable financial reporting framework.

33. Office of the Auditor-General of Canada

Yes, we are supportive of the new concepts and related definitions and we believe the guidance is sufficient to explain the concepts.

As noted in our response to question 1a) above, the approach could be simplified.

35. US Government Accountability Office

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances, and disclosures and their relevant assertions. As discussed in our response to question 1(a), the proposed standard will require 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 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 classes of transactions, account balances, and disclosures until the auditor has assessed risk of material misstatement at the assertion level. While we have noted that the proposed standard explains the interaction of risk assessment and obtaining an understanding the entity's system of internal control in application guidance, in our view, the IAASB should enhance the standard to further clarify this interaction.

36. Swedish National Audit Office

Yes, we support the introduction of the new concepts and definition of significant transactions etc.

38. ACCA-CAANZ

ED-315 sets a threshold of 'reasonable possibility' of material misstatement for the identification and assessment of the risks of material misstatement. Paragraph 16(h) states that 'reasonable possibility' means the same as a 'more than remote' likelihood.

We do not support defining these two terms as equivalent within the standard. In English, and potentially in common law, they have different meanings. If the desired level of likelihood is 'reasonable possibility' then the simplest approach is to use that term without having to define a different term as having equivalent meaning. Without a single clear definition of the likelihood required, we do not feel that it is sufficiently clear which controls are relevant to the audit. If 'more than remote' must be retained, then it should be included separately in the definitions and explicitly defined to mean 'reasonable possibility'. More clarity is needed as to what the IAASB's intention is here.

We noticed that the term 'significant classes of transactions, account balances and disclosures' is used in the Introduction and is defined in paragraph 16(j) but the Requirements do not further elaborate. We would expect to see how to apply this central concept discussed more fully within the requirements of the standard.

39. Accountancy Europe

Reference 1:

We also note that ED-315 introduces PCAOB terminology that is inappropriate in an ISA environment. While the notion of 'reasonable possibility' is helpful in plain English in explaining the level of likelihood to take into account when identifying relevant assertions and risks of material misstatement, a different term should be used because of its connotations with standards issued by the PCAOB. In addition, associating this notion with the wording 'more than remote' is confusing in an ISA environment. It implies a lower threshold than the ISA term 'acceptably low level' and will confuse practitioners.

A further area of concern is the introduction of the so-called "drill down". Whilst a deeper drill down may be appropriate for complex audits, it should not be systematically the case for global application.

We find the new definitions difficult to read and comprehend. Generally, the standard is difficult to understand and needs significant improvements to give more clarity in the concepts used and to eliminate repetition.

Another confusing aspect is related to the introduction of the PCAOB constructions 'more than remote' coupled with 'reasonable possibility' in the definition of relevant assertions. Although the use of this construction might have been intended to set a higher bar in determining which assertions are relevant, it may generate the opposite effect without the right contextualization, resulting in an increase in work effort without commensurate increase in audit quality.

Reference 2:

We also note that the standard introduces PCAOB wording that is confusing without clearly explaining the need to do so. While we find useful the term of 'reasonable possibility' to explain the level of likelihood that should be taken into account when identifying relevant assertions and risks of material misstatement, the use of 'more than remote' wording is confusing and redundant in an ISA environment. While we consider that the notion of 'reasonable possibility' is helpful in explaining the level of likelihood to take into account when identifying relevant assertions and risks of material misstatement, for the reasons explained in more detail in our cover letter and response to Question 1, a different term should be used.

40. AICPA

We are generally supportive of the proposed changes, although we note that they are broad in nature and, if adopted, will likely impact the methodologies of many firms fairly significantly. Such changes often result in an iterative adoption process as the auditors become more familiar with the concepts over time. As such, we recommend that the IAASB consider some targeted outreach on certain of the changes (once ultimately adopted), such as those highlighted above.

41. Center for Audit Quality

Relevant Assertions

We are supportive of the term "reasonably possible" in the revised definition of Relevant Assertions in paragraph 16(h) of the Exposure Draft.

Significant Classes of Transactions, Account Balances, and Disclosures

The definition of Significant Classes of Transaction, Account Balances, and Disclosures in paragraph 16(j) does not specifically refer to transactions, account balances, and disclosures significant to the financial statements. Instead, the definition refers to relevant assertions and appears circular in nature. We recommend that the definition make it clear that the auditor should obtain an understanding of classes of transactions, account balances, or disclosures that are significant to the financial statements. This could be done by revising the definition of Significant Classes of Transactions, Account Balances, and Disclosures to read as follows: "A class of transactions, account balance, or disclosure for which there is a reasonable possibility that the class of transactions, account balance or disclosure could contain a misstatement that, individually or when aggregated with others, has a material effect on the financial statements, considering the risks of both overstatement and understatement. A significant class of transactions, account balance, or disclosure includes one or more relevant assertions."

In addition to revising the definition, we recommend the Board provide clarity on how to apply the definition of significant classes of transactions, account balances, and disclosures. We believe giving increased prominence to the concept of identifying significant classes of transactions, account balances, and disclosures earlier in the standard could assist in focusing auditor effort on understanding the entity's information system relevant to significant classes of transactions, account balances, and disclosures. This increased prominence also would assist with demonstrating scalability, by highlighting for auditors those classes of transactions, account balances, and disclosures on which the practitioner should focus.

42. Chartered Institute of Public Finance & Accountancy

CIPFA supports the new concepts in relation to significant classes and relevant assertions, which help with the identification of what is most important for the audit work.

However, CIPFA considers that the meaning of the term 'reasonably possible' in an audit context is unclear. Outside of its defined usage in US GAAP financial reporting it is not clear that 'reasonably possible' equates to risks which are 'more than remote', and this may result in confusion and inconsistent interpretation.

43. CPA Australia

The definition of relevant assertions uses the phrase "more than remote" as having the same meaning as "reasonable possibility of occurrence" in relation to the likelihood of misstatements, although in our view, based on a plain English understanding of these phrases, they are not equivalent. We recommend avoiding use of the phrase "more than remote" as it suggests a very low bar for relevant assertions and would categorize potentially the large majority of assertions as relevant.

44. EFAA

We are less supportive of much of the new concepts introduced which seem over engineered and confusing for example: inherent risk factors which overlap considerably; the definitions of relevant assertions and significant classes of transactions, account balances and disclosures; and a new level of risk assessment which involves consideration of 'potential' risks before actual risks are considered.

We are concerned that the new concepts and definitions of significant are complex and voluminous and demand simplification. As we stress under our 'General Remarks' we believe PCAOB concepts and terminology are inappropriate for ISAs designed for use in audits of entities of all size and complexity.

45. Finnish Association of Authorised Public Accountants

The new concept of SCOTABD (and also the stand-back requirement in that relation) is somewhat useless, because in our opinion there are only few (if any) material items on that would not be SCOTABDs. Together with the confusing circularity of the risk assessment process it is not clear, at what point the SCOTABS can actually be identified.

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

Absolutely agree. The concept of Relevant Assertion as that which contains an inherent risk other than remote will help to have consistency in practice. We refer to the previous comment about the clarifications regarding the combination of the inherent risk factors, among those mentioned in paragraphs A5 and A6.

47. FSR Danske Revisorer

We find the new definitions difficult to read and rationalize. Overall, the new concept is difficult to understand and needs significant improvements to improve clarity.

48. Interamerican accounting association (South America)

We understand that the proposed guidance to explain how material risks are determined is sufficiently illustrative, and there is no doubt that it will help the auditor to locate the areas in which the risks of material errors could be found.

49. Instituto dos Auditores Independentes do Brazil

The concept of relevant assertions emphasize that the audit approach should be risk based. However, the complexity of the interaction of the proposed definitions of “relevant assertion” and SCOTABD and their relationship with the risk assessment requirements is not clear. In addition, the definition of a reasonable possibility of occurrence being ‘more than remote’ may lead to misinterpretation or may lead to more relevant assertions and FSAs being scoped in. So, more guidance may be necessary in determining what is considered ‘more than remote’ or even exclude this definition in the context of defining relevant assertions.

50. Belgian Institute

Taken from introductory comments:

We acknowledge, and welcome, that the Board in the revision of ISA 315 has looked into the matter of scalability as explained in the Explanatory Memorandum to ED-315 (paragraphs 13-17). We note that the scalability considerations of the Board are dealt with in the Application and Other Explanatory Material (AM) of the ED. We are not convinced that this approach is sufficiently satisfactory. Indeed, the AM paragraphs listed in Appendix 1 to the EM highlight the considerations for audits of entities that are both smaller and less complex. However, these considerations do not modify or do not add nuances to the requirements of the Standard. Application material should aim at explaining a requirement but not alleviate it. We would appreciate the Board to take an approach avoiding different interpretation, if any. The proposed standard does not seem to be sufficiently clear as to how far the risk identification has to go. The ED seems to require a risk identification below assertion level, the so called ‘drill down’. This is of particular importance to the audit of SMEs as we firmly believe that such an approach would be inappropriate for this section of the audit market.

51. Institute of Chartered Accountants in England and Wales

We broadly support the notion of ‘relevant assertions’, although we believe that the related definitions and articulation of these and of the ‘significant classes of transactions, account balance and disclosure’ are laboured in the extreme. IAASB should seek to rationalise these concepts before finalisation. The proposed paragraph 52 stand-back requirement might suggest that the concept of a ‘significant’ assertion is redundant. Why not simply refer to ‘material’ classes, throughout?

- ‘Relevant assertions’ if used properly should contribute to a more focused risk assessment at the assertion level. However, our outreach indicates universal disagreement with the notion that ‘reasonably possible’ can or should be equated with ‘more than remote’. This equation makes little sense in plain English and will result in inconsistent application, particularly in translation. It is

impossible to construe this odd articulation as anything other than a completely unnecessary and wholly inappropriate attempt to create a direct link between ISA 315 and FASB definitions used in PCAOB requirements for integrated audits of internal control over financial reporting – definitions not replicated in IFRS. Our objection is not to proposals being aligned with those of the PCAOB as a matter of principle, it is to the substance of the proposal, and to the fact that it has been made without adequate explanation or justification: the sole reference to this important change is made in a footnote, which explains only that while there were objections, IAASB decided ‘on balance’ that the two terms ‘reasonably possible’ and ‘more than remote’, were synonymous.

- We strongly suggest that IAASB simply removes the words ‘more than a remote likelihood’ before finalisation. It is unnecessary and serves only as a distractor. If firms wish to justify this equation internally within their methodologies they are free to do so, but it should not be mandated by standards.
- The terms ‘probable’, ‘possible’ and ‘remote’ are distinct and widely used terms within financial reporting and we see no reason to use different terminology. Specifically, ‘possible’ and ‘remote’ (even when the former is ‘more than’ the latter) do not sit well together. ‘Possible’ is closer to ‘more than remote’ than ‘reasonably possible’ but we doubt IAASB would be willing to abandon the term ‘reasonably’, and we therefore suggest that ‘reasonably possible’ be left as it is. There is no need for further elaboration.

52. Institute of Chartered Accountants (Ghana)

Yes, we support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures and their related assertions. This is because the new concepts and related definitions help the auditor to address the risks of material misstatement associated with significant classes of transactions, account balances and disclosures and their related assertions.

There is sufficient guidance to explain how they are determined. These are best explained in paragraph 6 of ISA 330. There is now focus on reasonable possibility of misstatement of an assertion to the exclusion of remote possibility of misstatement. The guidance is principles based allowing the auditor to interpret for their particular situation, but this is also circular. Relevant assertions are those assertions that can likely (reasonably) result in significant misstatement for a SCOTABD while a SCOTABD exists when there is a reasonable likelihood of significant misstatement for a particular assertion.

53. Institute of Chartered Accountants of Pakistan

We agree and support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions and the related guidance given in ED 315 and its application material.

54. Institute of Chartered Accountants of Scotland

We find the new definitions difficult to read and follow. Overall, the standard is difficult to understand and needs significant improvements to give more clarity to the concepts used and to eliminate repetition.

We also note the introduction of the PCAOB terms 'more than remote' and 'reasonable possibility' in the ED and question whether this may have unintended consequences in relation to the work effort perceived necessary to meet these requirements.

55. Institute of Chartered Accountants (Zimbabwe)

The guidance on how relevant assertions are identified is appropriate and all requirements are complied with and the auditor clearly understands the client's internal control based on the assessed risks. When guidance is provided, the expectations from the auditor are clear in the risk assessment process.

57. Institute of Public Accountants

The IPA supports the concept of identifying significant classes of transactions, account balances and disclosures. The distinction between significant transactions, accounts and disclosures and material transactions, accounts and disclosures and the appropriate audit response (while set out in both ISA 315 and ISA 330), needs to be presented in summary format. Although the flowcharts are useful, the IPA recommends a tabular format of nature of the items and the audit response should be included in ISA 330. In addition, the IPA is concerned with one of the examples of significant disclosures at ISA 315.A214 where it is stated that a significant disclosure would be liquidity and debt covenants of entity in financial distress. The IPA's concern is the example implies that such disclosures are significant at the time of financial distress when in fact they may be relevant when the entity has little margin before breach of the covenants is possible even though the entity may technically have no going concern issues at reporting date.

58. Institute of Singapore Chartered Accountants

The proposed definition of "relevant assertion" is complex and confusing. It does not reflect how relevant assertions are being described in ED-315, which are simply assertions for which there are one or more risks of material misstatement.

59. Malaysian Institute of CPAs

Yes, MICPA supports the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions and opines that there is sufficient guidance to explain how they are determined and how they assist the auditor in identifying where risks of material misstatement exist.

61. PAFA

PAFA supports the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and the relevant assertions.

62. SAICA

There were mixed views [43% 'Yes'; 23% 'No'; 34% 'Not sure'] on whether the use of the terms 'reasonable possibility of occurrence' and 'more than remote likelihood' to describe the threshold for identifying relevant assertions are appropriate. This could be due to the fact that 70% (74/105) of the survey respondents predominantly agreed that these terms seem to represent different thresholds and may be subject to misinterpretation.

A number of the text comments of survey respondents suggest that the standard should clarify or provide guidance when a risk is 'less than remote' or define the concept 'remote'. While a definition may not be practicable, SAICA appreciates that this appears to be confusing to some readers (and, to be honest, that practitioners and the regulator are concerned that this could be a source for more inspections findings). Therefore, the IAASB should heed calls to provide more clarity in this regard.

Further discussions within the SAICA working group on this matter, revealed that the terms 'reasonable possibility of occurrence' and 'more than remote likelihood' could be interpreted differently and applied inconsistently. This appears to be the case despite the latter being used to describe the former in the definition of a relevant assertion. There is a risk that 'reasonable possibility' could be interpreted as a higher threshold than 'more than remote', which could result in more assertions not being identified as relevant assertions compared to what the intension may be when referring to 'more than remote'. 'More than remote' was seen as the auditor having a very high confidence level that there is a relatively small chance of a risk of material misstatement occurring.

We appreciate that the IAASB cannot quantify a threshold for 'remote', but it should be described more clearly that this is a low threshold. That is, if an assertion is not determined to be a relevant assertion it should be clear and obvious that based on the work performed thus far, as represented in the auditor's risk assessment procedures, the auditor requires no further evidence to be persuaded that the COTABD concerned is not materially misstated with respect to the assertion under consideration; conversely, even if the auditor contemplates a relatively small extent of additional evidence to be persuaded in this regard, the assertion would have to be identified as a relevant assertion. Another option that was discussed in the working group was to only use one of the terms, i.e. 'reasonably possibility' or 'more than remote', but there wasn't consensus around this.

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

Our comments above, including the need for additional clarification in some instances, are reflected by the survey results indicating that only 65% (61/94) of the survey respondents predominantly agree that there is sufficient guidance to explain how SCOTABD and their relevant assertions are determined; i.e. more than a third of survey respondents lean more towards not agreeing. There was a comment that it should be clarified how the 'relevant assertions' and the stand-back provision works. Another respondent did not agree that material balances could be scoped out 'during this stage' if there are no relevant assertions, and believed that the stand-back provision is 'too late' in the process.

SAICA supports the introduction of SCOTABD and agree with the definition in principle. During our discussion of the amendments with our members it was not clear whether the auditor would only do work on the relevant assertions and nothing on the rest. The requirement of ISA 330.18 would ensure that substantive procedures are performed irrespective of the risk assessment (refer to question 8), but a concern was raised that all potential material misstatements will not be identified if all assertions are not

considered. Also refer to our comments in relation to question 6(b), above, pertaining to clarification around the reference to “at assertion level” in the ISA in that it is not clear whether, or in which instances this refers to each assertion for a COTABD or only to the relevant assertions for a SCOTABD.

Lastly, in paragraph A140 the auditor’s understanding of the information system relevant to financial reporting is not required to include an understanding of the flows of information related to COTABD that are not SCOTABD. It is suggested that this paragraph be made applicable to all direct controls and not only the understanding of the information system (i.e. the information system and communication component and the control activities component. Also refer to our comments around the distinction between direct controls and indirect controls under question 5(a), above).

63. SMPC

We have a number of concerns as to the proposed introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures and their relevant assertions as they stand as they are unnecessarily convoluted and warrant further rationalization prior to finalization.

We do not believe that introduction of PCAOB terminology to set thresholds for risk assessment and risk response (see the definition of “relevant assertions”) is either warranted or appropriate for ISAs designed for world wide application in audits of all entities. The IAASB needs to explain whether, and, if so, how it believes that PCAOB concepts and thresholds align with extant ISAs. In relation to audit risk, the overall objective of ISA 200 uses the term “acceptably low level”, whereas the introduction of PCAOB terminology implies this threshold is amended to “a remote possibility”. The proposed changes will have a significant impact in practice as the proposed conforming amendments to ISA 330, applied in an iterative risk response process will result in auditors performing risk response procedures until risks of material misstatement are remote.

Further, we do not support the notion that ‘reasonably possible’ can be equated with ‘more than remote’. We are concerned this will result in inconsistent application, especially upon translation. It also lowers the threshold without a corresponding increase in audit quality and may also impact the ISAs notion of “acceptably low level” of audit risk and thus have a very significant impact.

64. Wirtschaftsprüfer

Introductory comments:

The ED ISA 315 is not sufficiently clear as to the proposed introduction of a so-called “drill-down” for risk identification below assertion level. Whilst this drill-down designed to identify risks of material misstatement within relevant assertions is generally appropriate in the audit of larger and complex entities, it introduces a “checklist” approach that would be excessive in the audit of smaller and less complex entities.

The IAASB is proposing to introduce terminology specifically from the US PCAOB’s standards (“reasonable possibility” and “more than remote likelihood” – see ED ISA 315.16(h)) without exploring whether these terms are aligned to the overall objective of an ISA audit (to reduce audit risk to an acceptably low level) and related concept of reasonable assurance. This non-ISA terminology potentially introduces a lower risk assessment threshold, and a corresponding increased risk response work effort.

65. Chartered Accountants Academy (Zimbabwe)

The guidance on how relevant assertions are identified is appropriate. Although firms have different methods in identification of significant classes of transactions, account balances and disclosures, what matters is that all requirements are complied with and the auditor clearly understands the client's internal control based on the assessed risks. When such guidance is provided, the expectations from the auditor are clear in the risk assessment process.

66. FocusRoi Inc.

Yes

71. UNSW Research Network

The definition of relevant assertion refers to "... a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material ..." In the definition, this is subsequently explained as "...the likelihood of a material misstatement [that is] more than remote". The definition of relevant assertion, envisages that the terms 'reasonable possibility' and 'more than remote' are equivalent. Indeed, the Explanatory Memorandum (footnote 26) notes that the "IAASB is of the view that the two terms are synonymous". Research would suggest that this is not the case, and equating 'reasonable possibility' with 'more than remote' will likely lead to confusion.

In 2016, the Korea Accounting Standards Board and the Australian Accounting Standards Board reported the results of a survey eliciting Korean and Australian preparers' and auditors' interpretation of linguistic probability statements contained in the International Accounting Standards. Australian preparers and auditors perceived remote to mean a probability of 9.0% (range 3.2% to 12.1%). However, these same preparers and auditors perceived reasonably possible to mean a probability of 57.2% (range 49.7% to 72.7%). Similar results are revealed in Amer, Hackenbrack and Nelson (1994), that is; remote: 12.33%, reasonably possible: 58.57%. There are, therefore, a broad range of likelihoods (approximately 10% to 50%) that, while being more than remote, are not reasonably possible. This difference between more than remote and reasonable possibility highlights the dangers in attempting to define one linguistic probability term with reference to another linguistic probability term, and this is even more the case when the terms are clearly perceived to be different. Between remote and reasonably possible in the joint KASB/AASB study were, from less likely to more likely; extremely unlikely, highly unlikely, unlikely and possible. We would not recommend defining one linguistic probability statement in terms of another.

Whether the term 'reasonable possibility' or 'more than remote' is employed rests on standard setters' preference for the standard to capture more or less assertions. The term 'more than remote' will capture more assertions than 'a reasonable possibility'. We do not offer any comment on which of these two terms is better.