

**Responses to ED-315<sup>1</sup>**  
**Comments on ‘Standback and ISA 330 para. 18’**  
**NVivo Report 8A**  
**(FOR REFERENCE)**

**01. Basel**

*Stand-back testing*

- We welcome the proposed “stand-back” provision in paragraph 52 of ED-315 for all classes of transactions, account balances and disclosures. This is in line with the requirements in ISA 540 (Revised) for accounting estimates.
- In “standing back”, the auditor reconsiders the possibility that any “qualitatively or quantitatively material” classes of transactions, account balances and disclosures, which have not been determined to be significant upon initial risk identification and assessment, continue to be non-significant or could be significant in accordance with paragraphs 16(k) and 46 of ED-315. This is meant to reinforce the completeness of the identification of the risks of material misstatement.
- In addition, we believe that there should be separate “stand-back” tests in ED-315 and ISA 330.<sup>5</sup> because the “stand-back” concept is important in the risk assessment phase of designing the audit as well as in designing the audit responses.
- We recommend that ISA 315 (Revised) be revised to require that any further audit procedures performed (as in accordance with paragraphs 6 and 18 of ED-315) be responsive to the assessed risks of material misstatement (in line with the ISA 540 (Revised) requirements for accounting estimates). Furthermore, we agree with the conforming and consequential amendments to ISA 330, especially to paragraphs 18 and A42 of ISA 330 arising from paragraph A42 of ED-315.
- In addition, the narrative in the application material (i.e. paragraphs A240–A242 of ED-315) should be clarified to provide adequate guidance in respect of paragraph 52(b). According to paragraph 61 of the Explanatory Memorandum, the stated purpose of the stand-back test is to “drive an evaluation of the completeness of the significant classes of transactions ...”. The narrative in paragraphs A240–A242 seems to indicate that ISA 330 is the relevant standard for matters that are material, but are not significant, e.g. the narrative does not suggest a re- evaluation of whether all significant transactions have been identified. The application material in ED-315 should incorporate some of the narrative statements from paragraphs 61 and 62 of the Explanatory Memorandum, particularly as regards the purpose of the test.

*Linkage to ISA 330*

- ISA 330 addresses the design and performance of further audit procedures responsive to the assessed risks of material misstatement. In this regard, ISA 330 distinguishes between “significant” and “material” classes of transactions, account balances and disclosures. In general, the procedures to be performed for “material” assertions are less intensive as these are not considered “significant”, but still require the auditor to design and perform substantive procedures (see paragraph 18 of ISA 330).

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

- Against this background, we recommend that paragraph 52 of ISA 315 (Revised) should contain a stronger linkage to paragraphs 18 and A42 of ISA 330. Paragraph 52 addresses the auditor's identification of material classes of transactions, account balances and disclosures that have not been identified as significant and whether the auditor's conclusion that they present no related risks of material misstatement remains appropriate. Taken together, paragraphs 18 and A42 state that an auditor who identifies a class of transactions, account balance or disclosure that is quantitatively or qualitatively material, regardless of whether the assertion is significant, must design and perform substantive procedures for the assertion unless such procedures have already been performed.
- In our view, paragraph 18 of ISA 330 sets forth an important requirement for auditors because it safeguards against insufficient risk identification and assessment ("irrespective of the assessed risks of material misstatement" [at the assertion level]) by preventing situations in which further audit procedures for each material class of transactions, account balance and disclosure would only include tests of controls.

## 07. IOSCO

### Reference 1:

- Some auditors have interpreted paragraph 18 of ISA 330 as not requiring substantive testing for a relevant assertion for a material class of transactions, account balance, or disclosure where the risk of material misstatement is assessed as low, particularly where it is possible to rely on internal controls.
- Paragraph 18 of ISA 330 says:  
*"Substantive Procedures"*  
18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure."- Paragraph A42 of the related application guidance says:  
*"Substantive Procedures (Ref: Para. 18)"*  
A42. Paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement. This requirement reflects the facts that: (a) the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement; and (b) there are inherent limitations to internal control, including management override."- Paragraph 18 of ISA 330 requires the auditor to perform some substantive testing for each material class of transactions, account balance, and disclosure. However, the standard, either currently or as proposed, does not explicitly state that the auditor should perform substantive procedures for all relevant assertions for a material class of transactions, account balance, or disclosure.
- In contrast, the auditing standards issued by the Public Company Accounting Oversight Board clearly require the auditor to perform substantive procedures for all relevant assertions of each significant account and disclosure, regardless of the assessed level of control risk. See paragraph 36 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

- We are concerned that the approach adopted by certain firms may allow for the possibility of material misstatements in a material class of transactions, account balance, or disclosure where a relevant assertion is identified but substantive procedures are not performed.
- We acknowledge that the Board has proposed revisions to both paragraph 18 and paragraph A42 of ISA 330 within the Paper and has also proposed adding paragraph A42a, though we do not believe the proposed revisions and additions are sufficiently clear to address the concerns noted above.

Reference 2:

*Not Significant, but Material*

- The Paper addresses classes of transactions, account balances and disclosures that are not significant, but which are material. Paragraph 52 states that the auditor shall:
  - Identify the classes of transactions, account balances and disclosures that are quantitatively or qualitatively material, and that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 46; and
  - Evaluate whether the auditor's conclusion that there are no relevant assertions (that is, no related risks of material misstatement) for these classes of transactions, account balances and disclosures remains appropriate.
- Did the Board intend for the language within paragraph 52(b) to imply that circumstances where the auditor does not identify a relevant assertion for a quantitatively or qualitatively material class of transactions, account balance or disclosure should be rare?
- Paragraph 52(b) draws a comparison between there being no relevant assertions for a class of transactions, account balance or disclosure as synonymous with there being no related risks of material misstatement.
- Is this the right threshold or should the terminology used in the definition of a relevant assertion (i.e.: "more than remote") be used here?
- 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.
- We observed that the Board has requested comment, in question 8, as to views about the revisions to paragraph 18 of ISA 330 and whether the requirement should be retained. We believe that the revised requirements of this paragraph should be retained, subject to our concerns discussed above, and we encourage the Board to consider whether an unintended consequence of removing this paragraph would be auditors not performing any substantive audit procedures on a material class of transactions, account, or disclosure.

## 08. IRBA

### Reference 1:

- We support the proposed stand-back requirement in paragraph 52 of ED-315 and its supporting application material as it is important for the auditor to ensure that conclusions that material classes of transactions, account balances and disclosures are “*Not Significant*” are correct.
- We suggest that the IAASB clarify in the application material whether the assessment required by paragraph 52(b) of ED-315 is performed at an assertion level or at the classes of transactions, account balances and disclosures level, or at both levels. This is to ensure consistent application of the requirement by auditors.
- We recommend that the documentation requirements in paragraph 54 of ED-315 also include the requirement for the auditor to document the auditor’s considerations with respect to paragraph 52 of ED-315, especially paragraph 52(b) of ED-315.
- The revisions made to paragraph 18 of ISA 330 are supported subject to the issues below, with their supporting application material, being resolved.
- Paragraph A42a of the proposed consequential amendments to ISA 330 states that in designing the substantive procedures to be performed, the auditor’s consideration of the assertion(s) in which a possible misstatement could occur – and if it were to occur, the effect of that misstatement would be most material – may assist in identifying the appropriate nature, timing and extent of the procedures to be performed. This statement is confusing as it seems to imply the identification and consideration of relevant assertions for material classes of transactions, account balances and disclosures, which makes the distinction between significant classes of transactions, account balances and disclosures and material classes of transactions, account balances and disclosures redundant. To that end, we recommend that the IAASB considers application material to differentiate between significant classes of transactions, account balances and disclosures and material classes of transactions, account balances and disclosures.
- It is not clear whether paragraph 18 in ISA 330 requires the auditor to perform substantive procedures on ALL assertions for material classes of transactions, account balances and disclosures. If it’s not ALL assertions, then it is recommended that the IAASB provides criteria on how the auditor selects which assertions to perform substantive procedures on. This can possibly be a requirement that the auditor considers the risks of material misstatement at the assertion level and applies professional judgement on selecting assertions to substantively test, including documenting his/her decision on the audit file.
- Further, the application material should provide guidance as to whether substantive procedures as envisioned in paragraph 18 of ISA 330 also includes substantive analytical procedures.
- We also suggest that the application material to paragraph 6 of ISA 330 state that the auditor focuses on relevant assertions in responding to the assessed risks for significant classes of transactions, account balances and disclosures.
- We support retaining both paragraph 52 of ED-315 and paragraph 18 of ISA 330 as they serve different purposes, being the identification of relevant assertions and the performance of substantive procedures for material classes of transactions, account balances, and disclosures that are not significant, respectively.

Reference 2:

We support the IAASB clarifying that material as used in paragraph 18 of ISA 330 refers to “*quantitatively and qualitatively material*”. We further acknowledge that this aligns with the scope of the proposed stand-back in ED-315.

**09. UK Financial Reporting Council**

- We support the proposed stand-back requirement in ED-315 and the alignment with paragraph 18 of ISA 330. Paragraph 52 in our view supports the IAASB’s objective of enhancing and providing for a more robust risk assessment process. However, we do not agree that ED-315 paragraph 52 and ISA 330 paragraph 18 serve the same purpose and strongly believe that both requirements should be retained.
- As noted in the explanatory memorandum, paragraph 52 requires an evaluation of the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor and in turn the completeness of the identification of the risks of material misstatement.
- In contrast, ISA 330 paragraph 18 recognizes that regardless of the robustness of the auditor’s risk assessment process, there are always inherent limitations. Firstly, the auditor’s identification and assessment of risk is subject to judgement and secondly there are inherent limitations to internal control. In our view, paragraph 52 alone is not sufficient to recognize these inherent limitations, and therefore we would strongly oppose the removal of paragraph 18 of ISA 330.

**10. AASB of ICAI**

Reference 1:

*Response to questions no. 8 and 10:*

- In our view, the requirements with regard to ‘stand-back’ should be retained both in ISA 330 and ED of ISA 315. We agree with the views of the IAASB that proposed changes in ISA 315 would drive an evaluation of the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor. The stand-back requirements will also enable the auditor to focus on material classes of transactions, account balances or disclosures (that have not been determined to be significant i.e., the auditor has not identified any risks of material misstatement that are reasonably possible and therefore for which there are no relevant assertions).
- We noted that proposed revisions to paragraph 18 of ISA 330 has been made to apply to classes of transactions, account balances or disclosures that are ‘quantitatively or qualitatively material’ to align with the scope of the proposed stand-back in ED–315 and has also updated the related application material to explain the interaction of the requirement with the new concept of significant classes of transactions, account balances and disclosures.
- We are of the view that the expansion of description of definition of the term ‘material’ to include both ‘quantitatively or qualitatively material’ in both ED of ISA 315 and proposed revised paragraph of ISA 330 will be useful for the auditors.
- Therefore in our view revised paragraph 18 of ISA 330 should be retained as both will serve the purpose to safeguard against imperfect risk identification and assessment. Also paragraph 18 of ISA 330 would be necessary to prevent situations in which further audit procedures for a material class of transaction, account balance or disclosure would only include tests of controls.

- It is suggested that cross reference of ISA 315 can be made in ISA 330 in paragraph 52 of the ED. The identification and evaluation of classes of transactions, account balances or disclosures that are quantitatively or qualitatively material but have not been determined to be significant classes of transactions, account balances or disclosures to be carried out in accordance with ISA 315. However, audit procedures to address such identified classes of transactions in accordance with ISA 315 are addressed in ISA 330.
- The stand back provision may operate as an effective mechanism to overtly emphasize the application of professional skepticism. That said, we believe that additional application guidance may be included in ISA 315 to provide auditors with practices they may consider employing in performing the stand back review in order to best demonstrate professional skepticism.

#### 11. Australian A&A Standards Board

##### Reference 1:

- The AUASB supports the concept of a stand-back requirement in ED 315. While there was a clear consensus that a stand-back provision is not required in both standards, our stakeholders expressed mixed views as to whether it is better placed in ED 315 or ISA 330. On balance the majority prefer the stand-back requirement resides in ISA 315, as this will result in a more robust risk assessment process. Logically, if a class of transactions, account balances or disclosures has not been assessed as significant in ISA 315 as there is no risk of material misstatement then ISA 330 paragraph 18 is not relevant and is no longer required.
- Furthermore, in relation to the ED 315 paragraph 52 we do not consider it necessary to explicitly include the terms “quantitatively and qualitatively” when describing how the auditor assesses materiality in this requirement. The process of assessing the risk of material misstatement in paragraphs 45 – 50 of ED 315 already capture both quantitative and qualitative considerations.
- However as “Inherent Risk Factors” (16(f) and A6) include the quantitative significance of a class of transaction, account balance or disclosure in relation to performance materiality, it may be interpreted that all material items could be considered significant. We question if this is the intended consequence and do not agree that all classes of transactions, account balances or disclosures should be considered significant based on quantitative factors alone. Refer to Question 6(b) for further discussion of this point.

##### Reference 2:

The AUASB supports the removal of ISA 330 paragraph 18. Refer to Question 8

#### 12. Canadian AASB

##### Reference 1:

*Stand-back requirements* - we support the stand-back in ED-315 but believe it should be removed from ISA 330 to reduce confusion and different interpretations that exist today about the purpose of the stand-back in ISA 330. [Please see our response to Q8 for further details].

##### Reference 2:

- We believe the stand-back requirement should be retained in ISA 315 and removed from ISA 330. Removing the requirement in paragraph 18 of ISA 330 would reduce confusion and enhance clarity as there are different interpretations of why that requirement exists and how it is put into practice. Our field testing indicated:

- Some stakeholders interpret ISA 330.18 to require substantive procedures that are more perfunctory in nature or compliance based. The procedures performed by these auditors are not directed toward a particular risk of material misstatement as the auditor has already concluded (in complying with ISA 315) that there was no relevant assertion associated with that account.
- Others interpret the procedures required to comply with ISA 330.18 to be directed at confirming whether the risk assessment performed in accordance with ISA 315 was appropriate.
- Now that ED-315 will promote a more robust risk assessment, and the auditor is obtaining sufficient appropriate audit evidence as a basis for the identification and assessment of risks of material misstatement, we believe that ISA 315 will drive appropriate responses to risks. Accordingly, we believe that a further stand-back requirement in ISA 330 is redundant.
- If the IAASB decides to keep the stand-back requirement in both ISA 315 and ISA 330, see our response to Q10 below.

Reference 3:

- No. As discussed in response to Q8 above, we do not believe the requirement in ISA 330.18 is needed now that ED-315 promotes a more robust risk assessment.
- However, should the IAASB choose to keep the requirement in ISA 330.18, we suggest more application material is needed on how to perform the stand-back assessment based on qualitative aspects. We believe that qualitatively material amounts are already dealt with properly under ISA 315 when there is an aspect of risk associated with them. Specifically, disclosures that are considered to be qualitatively material would be considered when identifying significant classes of transactions, account balances, and disclosures under the requirements in ISA 315. The ISA 315 Task Force Chair provided some examples in the IAASB's October 3, 2018 webinar, such as a related party transaction that is qualitatively material. These examples could be considered as an additional application material paragraph.

**13. CNCC-CSOEC**

Reference 1:

- We support the proposed stand-back requirement in paragraph 52 of ED -315 which is intended to drive a more robust evaluation of the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor.
- We consider that the proposed stand-back requirement has more value in ISA 315 than in ISA 330. Having it in both ISA 315 and ISA 330 appears to be redundant. We therefore propose to keep it in ISA 315 only. In addition, we suggest including application material to clarify the extent of expected documentation from this stand-back requirement.

Reference 2:

- Since materiality is already understood as having quantitative and qualitative components, we consider that the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures ("SCOTABD") that are quantitatively or qualitatively material" to align with the scope of the proposed stand-back in ED 315 does not seem essential. Furthermore, we believe that the introduction of the concept of "qualitatively material" may create great confusion and inconsistencies in interpretations. It is not clear how the proposed revisions would be

implemented in practice and what would be the impacts in terms of documentation. We consider that the use of professional judgment should be emphasized.

#### 14. Hong Kong Institute of CPAs

##### Reference 1:

- Under paragraph 45 and 46 of ED-315, items that are qualitatively material, in general, would have been identified as significant items. Under paragraph 52, the auditor shall identify items that are quantitatively or qualitatively material, but have not been identified as significant items.
- We find the requirements under paragraph 52 confusing to distinguish between significant classes of transactions, account balances and disclosures, against material classes of transactions, account balances and disclosures. The stand-back requirement under paragraph 52 might unintentionally lead auditors to believe that the risk assessment performed under paragraph 45 and 46 do not cover items that are not significant (i.e. inherent risk not along the upper end of the spectrum), yet present reasonable likelihood of material misstatements quantitatively.
- We believe that it is more effective if the stand-back requirements are imposed on either significant or material items as opposed to only material items. We also suggest that paragraph 52 or the relevant application material be more explicit in its wording and clarify the intention of the stand-back provision, i.e. an evaluation of the completeness of significant COTAB. The linkage between paragraph 18 of ISA 330 and proposed paragraph 52 of ED-315 should be consistent with the decision on whether the stand-back requirements are imposed on either or both significant items.
- In addition, paragraph 52 and the application material do not provide adequate documentation requirements on the stand-back provision to demonstrate auditor's thought process in concluding the risk assessment. We recommend that the documentation requirements or application material is expanded to address the nature and extent of documentation required in relation to the stand back provision.

#### 15. IDW

##### Reference 1:

- We understand the stand-back in the draft to essentially represent an overall consideration as to whether any risks of material misstatement for material items in the financial statements have not been appropriately assessed based upon the information that the auditor has obtained. We think that in most cases, material items would have been assessed as having risks of material misstatement that are not acceptably low. However, the stand-back seems to make sense so that the auditor is led to rethink whether all the information received has been appropriately taken into account. We believe that this requirement is independent of whether or not the requirement in paragraph 18 of ISA 330 is retained.
- However, we believe that paragraph 52 is not consistent with ISA 320.11. To take into account aggregation risk for the purposes of risk assessment, ISA 320.11 requires the auditor to use performance materiality – not materiality – for quantitative amounts in the financial statements. Consequently, 52 (a) in the draft needs to be rephrased as follows: "... disclosures that, if quantitative, exceed performance materiality, or are qualitatively material, and that..."



Reference 2:

- As we pointed out in our response to question 8, we believe that the requirement for a stand-back as proposed in the draft of ISA 315 is independent of whether or not paragraph 18 is retained. Different views have been expressed about whether extant paragraph 18 in ISA 330 is appropriate.
- On the one hand, views have been expressed that paragraph 18 is not needed if an appropriate risk assessment has been performed in accordance with ISA 315: it undermines the view that appropriate application of ISA 315 leads to an appropriate risk assessment. Furthermore, the requirement could be addressed with any substantive procedures, which meant that it was not an onerous requirement, but it was not a particularly useful requirement either.
- On the other hand, views have also been expressed that risk assessments are never perfect and paragraph 18 represents a final “backstop” for material items when risk assessments turn out to be incorrect after the fact. The requirement also involves consideration of the reputational risk for auditors, audits and auditing standards if no substantive procedures are performed on material items, but subsequent to issuance of audit reports material misstatements arise on such material items: it is difficult to explain to stakeholders subsequently why no substantive procedures had been performed or are not required to be performed on material items.
- However, if the requirement is retained, we believe that the requirement is not in line with ISA 320.11, which requires auditors to determine performance materiality – not materiality – for quantitative amounts in the financial statements to take into account aggregation risk for the purpose of determining the nature, timing and extent of further audit procedures. Consequently, paragraph 18 in the draft of ISA 330 needs to be rephrased as follows: “... disclosures that, if quantitative, exceed performance materiality, or are qualitatively material”.

**16. Japanese Institute of Certified Public Accountants**

We do not agree with the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330. We agree to establish stand-back requirements for both ISA 315 and ISA 330. However, it is difficult to understand the distinction between “significant” in ISA 315 and “material” in ISA 330 as described below. We believe it is difficult to implement them in practice and that they would cause unnecessary confusion.

*Paragraph 52 of ED-315*

- It is difficult to understand what kinds of classes of transactions, account balances or disclosures are considered to be material from the viewpoint of the financial reporting needs of users of financial statements, but not quantitatively or qualitatively significant from the viewpoint of the auditor’s assessment of risks of material misstatement. Paragraph A241 describes a disclosure about executive compensation as an example of a class of transactions, account balances and disclosures that is not significant but is material in accordance with paragraph 52. While executive compensation is an item of high interest to shareholders and other stakeholders from the perspective of corporate governance, we believe it is not an appropriate example. In some jurisdictions, it is not required to be disclosed in the financial statements but is required to be disclosed in the corporate governance report. It is unclear what kinds of items are determined to be of high interest to users and therefore material, but not significant in terms of the auditor’s risk assessments.

*Paragraph 18 of ISA 330*

- We cannot find an example of a class of transactions, account balances or disclosures that is not quantitatively or qualitatively significant (and therefore not covered by paragraph 52 of ED-315) but that is quantitatively or qualitatively material. We believe that the purpose of paragraph 18 of ISA 330 is to require substantive procedures for a class of transactions, account balances or disclosures that is quantitatively material, even if the assessed risk is low, in order to compensate for the limitations of the auditor's risk assessment. Therefore, we believe qualitative factors should not be included in paragraph 18 of ISA 330.

**17. Malaysian Institute of Accountants**

Reference 1:

We believe both requirements should be retained. It is an important step or stage to exercise in having an overall view of whether there is potential risk of material classes of transactions or account balances that were not scoped in earlier. Further, it would also be helpful for IAASB to consider providing guidance to clarify the extent of audit procedures for significant and material classes of transactions, account balance or disclosure versus non-significant and material classes of transactions, account balance.

Reference 2:

We support the proposed revisions to paragraph 18 of ISA 330.

**18. Nederlandse Beroepsorganisatie van Accountants**

Reference 1:

In our view, the proposed stand-back requirement in ISA 315 is appropriate. This moment of reflection enhances the risk assessment process. By already stating this in ISA 315, this reflection is made earlier than when previously it was only mentioned in ISA 330. The requirement in ISA 330 can be maintained as this requirement is useful as well. More moments of reflection in the audit will have a positive effect on the audit.

Reference 2:

See also question 8. According to us, paragraph 18 of ISA 330 has not been changed fundamentally.

**19. National Board of Accountants (Tanzania)**

Reference 1:

The proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material should be retained because they indirectly help insisting the application of the concept of professional skepticism

Reference 2:

We support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315

## 20. NZ Auditing and Assurance Standards Board

### Reference 1:

- The NZAuASB considers that the addition of a stand-back requirement is useful and will promote a more robust framework to ensure that all relevant assertions are addressed in the audit.
- The NZAuASB has received mixed feedback in relation to whether the stand-back requirement in paragraph 18 of ISA 330 is needed.
- Those in favor of removing the stand-back requirement in ISA 330 are of the view that with a comprehensive and enhanced risk assessment and a stand-back requirement in ED-315, the stand-back requirement in ISA 330 is redundant. A robust risk assessment process concluded with a stand-back requirement that prompts the auditor of an entity to explicitly consider if they have omitted any risk of material misstatement for all material classes of transactions, account balances or disclosures is sufficient.
- Others believe that since the stand-back requirement in ISA 330 requires auditors to perform substantive audit procedures over material classes of transactions, account balances or disclosure, even when the auditor has not identified any related risks of material misstatement, it is not equivalent to the stand-back requirement in paragraph 52 of ED-315 (which prompts auditors to perform procedures if there is a risk of material misstatement). They believe that removing the stand-back requirement in ISA 330 will adversely impact audit quality as the auditor's risk assessment may fail to appropriately identify all risks of material misstatements. They believe the stand-back requirement in ISA 330 acts as a counter measure to that possibility.
- The NZAuASB is of the view that should the size of account balances, classes of transactions or disclosures be included as an 'inherent risk factor' (as suggested in the NZAuASB response to question 6(b) above) in ED-315, there will be a stronger case for removing the stand-back requirement of ISA 330. This is because considering size as an inherent risk factor is likely to substantially address the concern that material account balances, classes of transactions or disclosure may be left out.

### Reference 2:

Yes. The NZAuASB supports this proposed revision.

## 21. Altaf Noor Ali Chartered Accountants

### Reference 1:

Giving consideration to quantitative as well as qualitative aspect of materiality is the right way. (Q10)

A8.

- We are not in favour of retaining both the requirements at once.
- We see stand back arrangement as an unnecessary duplication. Any concerns may well be addressed by revising the text. We admit in a lighter vein that the term sounds so good that we are reluctant to oppose it but in substance it adds another layer of requirement.

Reference 2:

A10:

No. We do not favor stand-back in ED-315. Yes, we welcome and embrace elaboration of the term 'material'.

22. BDO International

Reference 1:

- On balance we are supportive of the 'stand-back' requirement (outlined in ISA 315 paragraph 52) which has been included by the IAASB to drive an evaluation of the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor. In our view, it is likely to be more efficient and effective for auditors to perform this stand-back at a relatively early stage of the audit; other ISAs require auditors to reconsider the impact of changes in facts and circumstances which may lead to identification of additional significant classes of transactions, account balances and disclosures and potential risks of material misstatements throughout the audit.
- It will be for firms to determine within their methodologies the optimal point in time to perform the stand-back requirement - although it may be helpful for auditors if the IAASB were to set out (perhaps via IFAC staff resources/FAQs) examples of typical points in the audit cycle when this type of stand-back may be appropriate (for example, Engagement Team Discussion) and also whether the stand-back is performed once or multiple times (given the 'iterative' emphasis outlined in the Explanatory Memorandum).
- We note that the current documentation requirements (paragraph 54) outline the various risk identification and assessment requirements that require documentation but paragraph 52 is not explicitly referred to within this section. We also note that part (b) of paragraph 52 of the stand-back requirement uses the words '*...evaluate whether the auditor's conclusion....remains appropriate.*' This gives rise to a question about whether the auditor is therefore required to document the nature, extent and results of such an evaluation. In order to provide clarity to auditors and regulators, it would be helpful for the IAASB to clarify in paragraph 54 whether the expectation regarding documentation extends to the paragraph 52 requirement or not.
- In our view, the modifications which have been made to ISA 330 (paragraph 18) do not go far enough (see our response to Question 10 below). Accordingly, our recommendation would be to retain the ISA 315 stand-back requirement and remove the ISA 330 paragraph 18 requirement.
- As we outlined earlier in this section, we believe that the stand-back concept should be performed at a relatively early stage of the audit, in order that auditors can reconsider for material (but not significant) classes of transactions, account balances and disclosures whether there could be one or more additional risks of material misstatement at the assertion level. There are a number of reasons why we favor this earlier (ISA 315) rather than later (ISA 330) fail-safe mechanism to capture missing risks of material misstatement; these include:
  - The emphasis of ED-315 is on the iterative nature of risk identification and assessment. To promote this concept, it seems contradictory to introduce yet another requirement in ISA 330 at a specified point in time. As a consequence, we would favor one stand-back requirement rather than two potential fail-safe mechanisms.
  - As the IAASB has itself noted in ED-315 (see paragraph 63 of the Explanatory Memorandum), ISA 330 (paragraph 18) is also targeted at the same types of 'material' classes of transactions,

account balances and disclosures as ISA 315 (paragraph 52) which would indicate some duplication and potential redundancy.

- There is a danger that by leaving this type of review activity until a later stage of the audit (i.e. the design auditor response phase in ISA 330, paragraph 18), that this important reflect and review task is crowded out by other ongoing activities such that it is not given the attention it deserves and there is a lack of real reconsideration.
- We see the risk identification aspects of ISA 330 (paragraph 18) to be redundant on the basis that auditors already have a requirement to review earlier professional judgements that have been made in light of changes in facts and circumstances (see Requirement 53 of ISA 315 and paragraphs 16 and 17 of ISA 200 *Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing*) and to consider, revise and re-review the planned work as the audit progresses and further information comes to light.
- As currently drafted, ISA 330's (paragraph 18) requirement does not draw sufficient attention to the '*consideration of the assertion(s) in which a possible misstatement could occur*' as this part is hidden within the newly drafted A42a of ISA 330. As a result, there is a real danger that auditors focus primarily on the 'design' part of ISA 330 (paragraph 18) to the detriment of any consideration of gaps in identified risks of material misstatement highlighted in the application materials. As such, we do not believe this potential secondary fail-safe mechanism is likely to be more effective than paragraph 52 in ED-315.
- Given increasing use of automated tools and techniques by auditors to perform risk identification and assessment procedures – providing greater potential for deeper and more extensive analysis through audit data analytics – this, in our view, also adds more weight to the inherent value of the ISA 315 (Revised) ED stand-back requirement when compared to the ISA 330 (paragraph 18) requirement.
- The ED-315 changes, when viewed as a whole, provide a more robust set of risk identification and assessment requirements. In our view, this reduces the need for an additional fail-safe mechanism in ISA 330 (paragraph 18).
- While we appreciate the efforts of the IAASB to consider the interaction of paragraph 18 of ISA 330 with the revisions proposed to extant ISA 315, we do not believe the case has been made for the retention of both mechanisms and, for the reasons cited above, we favor proposed ISA 315's stand-back requirement as being the more effective of the two potential requirements.

#### Reference 2:

- No, we do not agree with the revisions to ISA 330 paragraph 18 and the accompanying application guidance. We support the IAASB's decision, outlined in the Explanatory Memorandum that it was also appropriate for the IAASB to consider the ISA 330 (paragraph 18) requirement alongside the planned changes contained in ED-315. We also agree that there has been inconsistent application about how this particular requirement has been applied in practice. We note that regulators and firms have taken differing views about the extent and likely impact of ISA 330 (paragraph 18) and the volume of 'substantive procedures' work that this has entailed.
- While we support the decision to look again at ISA 330, we are nevertheless, underwhelmed by the extent of the planned changes made to this particular paragraph which, in our view, only consists of:

- Minor conforming changes of the actual wording of the requirement (i.e. inclusion of the ‘quantitatively and qualitatively material’ concept outlined in ISA 315 ED (Revised)), and
- Extensive but ineffective changes to the application guidance as drafted in ISA 330 paragraphs 42-42A of the conforming changes section of the Explanatory Memorandum.
- As noted above, one of the areas that has caused confusion for auditors when applying ISA 330 (paragraph 18) has been the extent of substantive procedures that are required when no potential risks of material misstatement have been identified but the classes of transactions, account balance and disclosures are material. We support the clarification about the ‘target’ of this particular requirement – as outlined within paragraph 42 of ISA 330 application guidance and the link into ISA 315 (Revised):
 

*‘...substantive procedures are required to be designed and performed in accordance with paragraph 18...for each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as quantitatively or qualitatively material in accordance with ISA 315 (Revised).’*
- These changes still however raise more questions than they answer about how much work (i.e. the volume of substantive procedures) will be sufficient to meet the objectives of this particular requirement, especially given that (i) final analytical review procedures are already performed by auditors, and (ii) these classes of transactions, account balances and disclosures have also been subjected to a more rigorous ED-315 suite of risk assessment procedures.
- In our view, the ISA 330 requirement is an unnecessary step which is likely to be less effective given our support for the more robust identification and risk assessment procedures outlined in ED-315 (see our responses to Question 8 above) and the extant requirements contained across a range of ISAs, such as:
  - ISA 500 Audit Evidence (paragraphs 6 and 11),
  - ISA 505 External Confirmations (paragraph 16),
  - ISA 520 Analytical Procedures (paragraphs 6 and 7(b)), and
  - ISA 560 Subsequent Events (paragraphs throughout)
- All of the above ISA requirements, taken together with ED-315 and increasing use of technology procedures to help further drive identification and assessment of risks of material misstatement, would, in our view, contribute to sufficient consideration by auditors of whether there are potential gaps from risk or planned audit work perspectives.

#### 24. Crowe International

##### Reference 1:

We agree with taking a “stand back” approach that evaluates the completeness of the risk assessment.

##### Reference 2:

*Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are ‘quantitatively or qualitatively material’ to align with the scope of the proposed stand-back in ED-315?*

We agree with this proposed agreement, as we agree with the proposed stand-back in ED-315.

**25. Deloitte**Reference 1:*Stand-back requirement*

- The proposed standard is based on a thorough understanding of the entity and its system of internal control after which the auditor identifies and assesses the risks of material misstatement. The requirements and guidance in ED-315 drive a robust, risk-based approach that allows the auditor to better tailor procedures based on the reasons for the assessed risks of material misstatement. The robust risk assessment procedures within ED-315 also enable the auditor to identify the classes of transactions, account balances and disclosures for which no reasonable possibility of material misstatement exists. The inclusion of the stand-back requirement in paragraph 52 of ED-315 for classes of transactions, account balances and disclosures that are quantitatively or qualitatively material that have not been identified as significant does not appear to be directly aligned with the risk-based approach taken in the proposed standard; DTTL believes this stand-back should be removed. DTTL believes that the stand-back requirement will result in additional focus on classes of transactions, account balances and disclosures that were already determined by the auditor not to be qualitatively or quantitatively material through the risk assessment process, with no measurable increase in audit quality. The inclusion of the stand-back requirement also adds additional unneeded complexity to the proposed standard. Finally, the iterative nature of the proposed standard which requires that the auditor reassess the risk assessment conclusions reached (e.g., as new information is obtained that may inform or contradict previous conclusions), making the stand-back requirement unnecessary (i.e., because that auditor has been re-assessing, and “standing back” throughout the process).
- In addition to the stand-back requirement in ED-315, ISA 330.18 requires the auditor to focus again on the same population of classes of transactions, account balances and disclosures through performance of substantive procedures, irrespective of whether there are risks of material misstatement. As a result, the stand-back in ED-315 is duplicative of the requirements in ISA 330.18.

Reference 2:

- The response in this area should be read in conjunction with DTTL’s comments on the stand-back requirement in our cover letter and the response to question 10 below. DTTL believes that the stand-back requirement does not align with the concepts within the proposed standard and adds unneeded complexity. If an auditor is applying the concepts within ED-315, an appropriately detailed risk assessment will be the result, which negates, or makes redundant, the need for the stand-back requirement. As such, DTTL believes that the stand-back requirement should be removed from the proposed standard.
- In addition, DTTL believes that the requirements in paragraph 18 of ISA 330 should be removed. As stated above, if the procedures within ED-315 have been appropriately applied to identify risks of material misstatements, the action of performing substantive procedures over class of transaction, account balance and disclosure which have not been identified as significant (and therefore for which no risks of material misstatement have been identified) but that are qualitatively and quantitatively material, results in 1) audit procedures performed for accounts that do not have a risk of material misstatement and 2) additional audit procedures being performed that do not increase the quality of the audit.
- Further, DTTL believes that the IAASB needs to consider how these requirements will impact the proposed standard in the future, given the continual advancement in risk assessment procedures as

the result of the implementation of automated tools and techniques. With automated tools and techniques, the auditor will be better equipped to identify when risks or risk factors do not rise to the level of a risk of material misstatement. The proposed standard currently does not allow for risk assessment conclusions to stand on their own when the class of transaction, account balance and disclosure is qualitatively or quantitatively material. Rather, paragraph 52 of ED-315 and paragraph 18 of ISA 330 undermines and second-guesses the professional judgments and conclusions the auditor has made and thus does not support such advanced risk assessment procedures.

- In addition, ED-315 requires the auditor to have sufficient, appropriate audit evidence related to their risk assessment. DTTL believes that the requirement for sufficient appropriate audit evidence eliminates the need for the stand-back requirement as the auditor is required by the proposed standard to have supported the judgements made during the risk assessment process, i.e., in order to be able to conclude that sufficient appropriate audit evidence has been obtained.
- However, if the IAASB believes that ISA 330 paragraph 18 is needed in order to deal with the situation that only tests of controls have been performed for significant accounts (i.e., to require some level of substantive testing), DTTL would encourage the Board to consider providing additional clarification on the purpose of paragraph 18 (or revise other requirements) within ISA 330 through amendments to ISA 330.
- To the extent that the stand-back requirement is retained, DTTL believes that it is necessary to remove “qualitatively” from paragraph 52(a) in ED-315. In DTTL’s experience, classes of transactions, account balances and disclosures that are considered qualitatively material in nature are identified as part of the risk assessment process and would have an associated risk of material misstatement, i.e., based on the qualitative considerations. As such, there would be no population of class of transactions, account balances and disclosures that would be qualitatively material to assess as part of the stand-back requirement. The following edit should be made to the proposed standard if the stand-back requirement is retained:
  - 52(a) Identify the classes of transactions, account balances and disclosures that are quantitatively ~~or qualitatively~~ material, and that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 46; and

### Reference 3:

*Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?*

- This response should be read in conjunction with the comment letter and the response to question 8 above. As noted above, DTTL believes that paragraph 18 of ISA 330 should be deleted as there are various instances where a class of transactions, account balance and disclosure is material but determined through appropriate risk assessment to have no reasonable possibility of material misstatement. For example, goodwill may be a quantitatively material balance; however, based on a thorough understanding of the entity, the auditor may appropriately determine that there is not a reasonable possibility of material misstatement related to goodwill due to various factors (e.g., no changes in the business, no changes in the industry, strong financial performance, history of significant excess in value in use over the carrying value). In this example, under the proposed standard the auditor would be required to perform substantive audit procedures, i.e., even though a thoughtful and thorough risk assessment resulted in the conclusion that there are no risks of material misstatement related to goodwill. The substantive procedures performed by the auditor in this



example would not be addressing any identified risk of material misstatement. Requiring substantive procedures for each class of transactions, account balance and disclosure where there is no reasonable possibility of material misstatement results in procedures that are inadequately tailored and unnecessary.

- If ISA 330 paragraph 18 is not removed, the Board should however consider removing “qualitatively” material from the paragraph. Classes of transactions, account balances and disclosures that are qualitatively material in nature are identified as part of the risk assessment process and would have an associated risk of material misstatement identified as part of the process required in ED-315. As all class of transactions, account balances and disclosures that are qualitatively material would already have an identified risk of material misstatement there would be no population of class of transactions, account balances and disclosures that would be qualitatively material to perform substantive procedures in order to address the requirement in ISA 330 paragraph 18. If ISA 330 paragraph 18 is retained, DTTL would suggest the edit below:
  - ISA 330 18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each class of transactions, account balance, and disclosure that is quantitatively ~~or qualitatively~~ material.

## 26. EY Global Limited

### Reference 1:

We support the deletion of paragraph 18 of ISA 330. We believe that the performance of a comprehensive and appropriate risk assessment, including the newly introduced ‘stand-back’ requirement set out in paragraph 52 of ED-ISA 315 is sufficient to drive an appropriate audit response, and that the requirement in ISA 330 paragraph 18 is redundant.

### Reference 2:

No, given that we support the deletion of paragraph 18 of ISA 330 – please see our response to question 8.

## 27. Grant Thornton International

### Reference 1:

- We do not object to the retention of a stand-back requirement in ED 315, however, we do not believe that a stand-back requirement in either ED 315 or ISA 330 is required. We are of the view that the proposed changes in ED 315 will increase robustness of the auditor’s performance of risk assessment procedures, which negates the need for a stand-back requirement. However, we are also of the view that there is value to including application material that includes the concepts of considering the appropriateness of the risk assessment. This would promote a principles-based standard and also reinforce that risk assessment is a continuous not a linear processes.
- Further, we are of the view that it would be preferable for any such application material to move closer towards the requirements of other standard setters in this area. For example, PCAOB AS 2110 indicates that for classes of transactions, account balances or disclosures that are determined not be significant, the auditor might perform substantive procedures because it may be assessed that there is an unacceptably high possibility that a material misstatement may exist or because the auditor determines that this is an appropriate means of introducing unpredictability.

## Reference 2:

We do not support the proposed revisions to paragraph 18 of ISA 330. We are of the view that this requirement should not be retained. However, if based on the preponderance of responses, this requirement is retained, we are of the view that application to classes of transactions, account balances or disclosures that are qualitatively material should be deleted. Such a determination would be made as part of the auditor's materiality determination and risk assessment (i.e. it would likely be the risk factor that would make a class of transactions, account balance or disclosure significant).

## 28. KPMG IFRG Limited

### Reference 1:

- We do not necessarily believe that it is critical that ISA 315 should include a standback requirement, since there is greater emphasis now on the iterative nature of the risk assessment process, as well as the increased clarity in respect of how and why to perform each step, and furthermore the emphasis on professional skepticism.
- However, given the complexity of the standard and the fact that many of the steps are performed concurrently, which necessitates the auditor continually updating their understanding and re-considering their initial views formed and assessments made, we believe that overall it may be helpful to have a standback at the end of the ISA 315 risk assessment process, before the auditor proceeds to the execution of responses. This also flows well into paragraph 53 which reminds auditors that the assessments of risk may change as additional evidence is obtained.
- We recommend that the IAASB include further guidance in the application material as to the matters the auditor would be expected to consider in performing this requirement, such as performing a re-evaluation of any relevant inherent risk factors for these non-significant classes of transactions, account balances and disclosures.
- However, we do not support the inclusion of "qualitatively" when describing how an item may be identified as being material in paragraph 52. We believe that the enhancements to ED-ISA 315 should drive an auditor to perform appropriately robust risk identification and assessment procedures, including identification of significant risks, which includes focus on inherent risk factors that are qualitative. Accordingly, inclusion of the concept of "qualitatively material" within the standback paragraph may cause confusion or serve to undermine the auditor's determination that they have performed sufficient and appropriate risk identification and assessment procedures.
- In addition, in light of the key objective of improving the application of professional scepticism during an audit, we recommend that the IAASB remove the "standback" requirement in ISA 330.18 as we believe that the placement of a requirement to validate, and even override, the risk assessment at a relatively advanced stage of the audit, as well as the specific language used, i.e. "irrespective of [the risk identification and assessment procedures performed]" may serve to reduce the emphasis on the risk identification and assessment process as a critical part of the audit process, and furthermore, may undermine the objective of the IAASB to underscore the importance of professional scepticism during this phase.

### Reference 2:

- We do not believe these conforming amendments are appropriate. In accordance with ED ISA 315, appropriately robust risk identification and assessment procedures should have been performed,

including identification of significant risks, which includes focus on inherent risk factors that are qualitative. Accordingly, inclusion of the concept of “qualitatively material” in ISA 330 may cause confusion or serve to undermine the auditor’s determination that they have performed sufficient and appropriate risk identification and assessment procedures.

- Please refer also to our comment above, in which we suggest removal of the standback requirement at ISA 330.18.

#### 29. MNP LLP

- We support the addition of the proposed stand-back requirement in paragraph 52 of ED-315 and believe this procedure allows users to exercise professional skepticism.
- While we understand that this is likely outside the scope of what is being asked, we recommend that the Board consider whether the requirements outlined in paragraph 18 of ISA 330 continue to be necessary, given the robustness of the risk assessment process in ED-315. In our opinion, the improvements to the risk assessment process should provide the auditor adequate confidence that all risks have been identified and appropriately assessed. Thus, we feel that the work effort of substantive procedures on a balance, even a material balance, where no risk has been identified, may not be necessary to support the audit opinion.

#### 30. PwC International

##### Reference 1:

- We support the retention of paragraph 18 of ISA 330. For the reasons described in our previous responses with respect to the definition of SCOTABD, we do not support the proposed ISA 315 stand-back.
- We believe ISA 330 provides a more robust stand-back requirement to guard against a flawed risk assessment as it addresses procedures that would be required for all material classes of transactions, account balances and disclosures. If the core requirements in ISA 315 are clearly drafted, fit for purpose and appropriately followed by auditors, there should be no need for an intermediate stand-back in ISA 315 and the safeguard provided by paragraph 18 of ISA 330 should be sufficient.
- Under the proposed 315 model, we find this stand-back to be redundant. Given the concept of “relevant assertion” uses the threshold “more than remote”, the auditor should have identified all classes of transactions, account balances and disclosures for which there could be a potential risk of material misstatement. However, assuming all risks were not adequately identified, asking the auditor to simply revisit their judgement that there were no relevant assertions is unlikely to result in a change in view and thus does not guard against a flawed risk assessment. This is consistent with the findings from our field-testing. The majority of engagement teams concluded no further risks were identified. However, there continues to be confusion between the concept of “relevant assertion” when applied to disclosures, specifically in relation to the presentation (and disclosure) assertion. This is, however, not a stand-back related issue but a broader challenge to be addressed in relation to the description of assertions. We believe this is evidence that the increased complexity of the proposed requirements creates the potential for increased inconsistent judgements, placing even greater emphasis on the need to retain the current safeguard provided by ISA 330 paragraph 18.

Reference 2:

While we do not support the proposed stand back in ISA 315, as explained in our response to question 8, we are supportive of the change proposed to ISA 330, as this does not, in our view, change the intended application of the requirement. While materiality by definition includes consideration of both quantitative and qualitative factors, we believe this will act as a useful reminder that there may be financial statement items, in particular disclosures, that although not quantitatively material may be material for qualitative reasons.

**31. RSM International**

- Consistent with our response to question 6d, we believe that, when an auditor has appropriately applied the risk assessment standards and adequately considered risk considering the inherent risk factors, the stand-back requirement would be redundant, and therefore should not be a requirement within the standard.
- In addition, we do not support the revision to paragraph 18 of ISA 330 since a qualitative risk would be expected to be identified as a risk of material misstatement as, by definition, materiality encompasses both quantitative and qualitative considerations. We therefore consider that there is no need for either paragraph 52 in ISA 315 or paragraph 18 in ISA 330. The latter often results in 'notional' substantive procedures being performed for compliance purposes only. The proposed standard is clear enough without it.

**32. Office of the Auditor-General of Alberta**Reference 1:

- In our view the stand-back requirements are of limited usefulness because the "stand-back" would occur during planning and therefore may be too close to the prior period to reveal any differences. These procedures would likely result in the conclusion that no change to risk assessments was necessary, and therefore would not deal directly with the completeness matter. To more properly deal with any biases or overlooked information in risk assessment, other techniques may be useful, such as the auditor using root cause analysis, discussing at least some of the non-significant components with management and those charged with governance, and/or the auditor specifically asking the EQCR, if appointed, to agree on judgments of non-significant components. What would also be useful to evaluate completeness of the significant components is that the auditor shall select one or more of the non-significant components ("residual balances") and audit them as if they were significant components. This would also add unpredictability to the audit.
- We note that ISA 450 has a stand-back in determining whether the audit strategy and plan need to be revised, based on misstatements. It may be good to also have a stand-back requirement during the completion stage, specifically in ISA 700. ISA 700 could more clearly require the auditor to evaluate whether their initial or revised assessments of risk through the audit continue to remain appropriate, and whether the financial statements corresponded with their knowledge of the entity obtained through the audit.
- We note that paragraph 52 and the revision to ISA 330.18 could be improved by providing guidance on what auditors should do when the aggregate of non-significant components is material. It is not clear what work, if any, auditors would need to do on these "residual balances" that may be an artifact of how the entity has dis-aggregated its transactions or balances/disclosures. We note that ISA 315/330 should state that regardless of the risk of material misstatement, the auditor should perform

risk assessment procedures, including inquiry in addition to other procedures, on each account balance, class of transactions or disclosure.

Reference 2:

As we note above, the revision to ISA 330.18 could be more helpful if it provided guidance on what auditors should do when the aggregate of non-significant components is material. It may be that simply how the entity has dis-aggregated its transactions or balances or disclosures that there are few relevant assertions. We note that ISA 315/330 should state that regardless of the risk of material misstatement, the auditor should perform risk assessment procedures, including inquiry in addition to other procedures, on each account balance, class of transactions or disclosure.

**33. Office of the Auditor-General of Canada**

Reference 1:

Question 8 – In our view, the stand-back provisions set out in paragraph 52 would not be required in a simplified standard as proposed in our response to Question 1a). Given the construct of the standard as set out in the Exposure Draft, a stand-back provision becomes necessary. ISA 330.18 ensures each material class of transaction, account balance, and disclosure is subject to at least some form of substantive procedure irrespective of risk assessment and should be retained.

Reference 2:

Question 10 – Yes, we support the proposed revisions to ISA 330.18.

**35. US Government Accountability Office**

Reference 1:

We believe that both the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of International Standard on Auditing (ISA) 330 and its supporting application material should be retained.

Reference 2:

We support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances, or disclosures that are quantitatively or qualitatively material, which aligns with the scope of the proposed stand-back in ED-315.

**36. Swedish National Audit Office**

- Stand-back requirement paragraph 52 and ISA 330 paragraph 18. We believe that paragraph 52 in revised ISA 315 would benefit from some clarification of the meaning of being qualitatively material.
- We support the inclusion of paragraph 52 in ISA 315 and paragraph 18 in ISA 330. Auditors may not always have all the relevant information, (due to many reasons) which could affect the relevance and quality of the risk assessment. By adding paragraph 18, the auditor will at least do some procedures which will lower the audit risk. The extent to use such procedures would be a matter of professional judgement.

**38. ACCA-CAANZ (Global)**Reference 1:

With the introduction of a stand-back in paragraph 52, in our view the requirements of ISA 330.18 are no longer necessary. Therefore, we suggest removing paragraph 18 of ISA 330.

Reference 2:

*Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?*

We have no particular comments on this question.

**39. Accountancy Europe**Reference 1:

In principle, we support the inclusion of the proposed stand-back requirement. A stand-back assessment is most commonly performed in practice at the completion stage when assessing the sufficiency and appropriateness of the audit evidence obtained by the auditor. Placing more emphasis on its importance during the planning stage, before the audit work is carried out, is welcome to drive completeness of the SCOTABD identified by the auditor and to help drive completeness of the identification of the risks of material misstatement. We consider that the proposed stand-back requirement has a lot of value to be included in ISA 315.

Reference 2:

Given that materiality is already understood as having quantitative and qualitative components, it does not seem essential to be so descriptive. It is not clear how the proposed revisions would be implemented in practice and what would be the requirements in terms of documentation. We would welcome more emphasis on the use of professional judgment in these instances.

**40. AICPA**Reference 1:

Response: We are supportive of the stand-back requirement in paragraph 52 of ED-315. To enhance the standard's clarity about the level of disaggregation at which this requirement is intended to be applied, we recommend paragraph A240 specifically state that the level of detail at which information is presented in the financial statements is not, in itself, determinative of the level at which classes of transactions and account balances are to be defined by the auditor. Also, please refer to our response to question 10) below.

Reference 2:

- Paragraph 18 of ISA 330 states: "Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure." We believe that this requirement is counterintuitive to, and may undermine the effectiveness of, the risk assessment process in ISA 315, particularly in view of the enhancements being proposed by ED-315. That is, the auditor is required to identify and assess the risks of material misstatement in order to design tailored audit responses. In addition, the stand-back requirement in paragraph 52 provides an opportunity to again consider the assessed risks, with a specific focus on material classes of transactions, account balances, and disclosures that the auditor has not identified as significant. If an auditor would be required to perform substantive audit

procedures regardless of the assessment of risks of material misstatement under ISA 315, then the objective of performing the work effort under ISA 315 could be questioned as well as the enhanced approach related to assessing the system of internal control. Accordingly, we recommend that paragraph 18 of ISA 330 be eliminated.

- However, if the IAASB makes the decision to retain paragraph 18 of ISA 330, then we do not believe the proposed conforming amendments to that paragraph are necessary. ED-315 proposes paragraph 18 of ISA 330 be amended to explicitly state that the auditor's consideration of materiality includes quantitative and qualitative factors in designing and performing substantive audit procedures for classes of transactions, account balances, and disclosures. We believe that such quantitative and qualitative considerations are inherent in the concept of materiality in the ISAs, and therefore we do not believe that the conforming amendments are necessary.
- In addition, if paragraph 18 of ISA 330 is retained, we recommend application material be added to provide guidance as to how the auditor should determine which assertions should be addressed in designing and performing further audit procedures, given that this requirement only applies to classes of transactions, account balances, and disclosures that the auditor has determined, through the ISA 315 process, do not contain relevant assertions.

#### 41. Center for Audit Quality

##### *Stand-back and Paragraph 18 of ISA 330*

The Exposure Draft asks a specific question on whether the proposed stand-back requirement in paragraph 52 of ISA 315 (Revised) and the revisions made to paragraph 18 of ISA 330, *The Auditor's Responses to Assessed Risks*, should be retained. It is not necessary to retain the proposed stand-back requirement in ISA 315 (Revised) or the proposed change to make reference to "qualitatively material" in paragraph 18 of ISA 330. The IAASB states in the Exposure Draft that the Board is of the view that a more robust (and specific) process to identify and assess risks of material misstatement will result in auditors developing responses that are more targeted and responsive to the assessed risks of material misstatement. We believe that when applying the inherent risk factors described in paragraphs A5 and A6 of the application guidance, the auditor would identify those classes of transactions, accounts or disclosures that are significant to the financial statements, including the example provided in paragraph A241, making the proposed changes redundant.

#### 42. Chartered Institute of Public Finance & Accountancy

CIPFA agrees that the proposed stand-back requirement in paragraph 52 of ED-315 is helpful. In our view both requirements should be retained.

#### 43. CPA Australia

##### Reference 1:

We support the stand back provision as it considers the materiality of the balances, transactions and disclosures but does not require them to be tested if it is not necessary, however we consider that the requirement in ISA 330 paragraph 18 undermines this requirement. ISA 330 effectively requires all quantitatively and qualitatively material balances, transactions and disclosures to be subject to substantive procedures, which means the stand back provision would be obsolete. We suggest only one of these requirements is needed not both and would support paragraph 52 of ED-315 as being sufficient.

Reference 2:

Yes, except that as noted in question 8 above we suggest that ISA 330 paragraph 18 is removed as it is inconsistent with the stand back provision. As suggested in question 8 above we do not think this amendment goes far enough as is inconsistent with the stand back provision in this ED and this paragraph should be removed.

44. EFAA

*We have no comments.*

45. Finnish Association of Authorised Public Accountants

Reference 1:

In principle, we support the inclusion of the stand-back requirement in the proposed standard. But, as explained in our answer to question 6d, we do not consider the stand-back requirement necessary in light of materiality vs. significance.

Reference 2:

Materiality is already understood as having quantitative and qualitative components, so it does not seem necessary to mention both dimensions here. It is not clear how the proposed revisions would be implemented in practice and what would be the requirements in terms of documentation.

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

Reference 1:

- The ED315 makes a distinction between:
  - Classes of transactions, account balances and disclosures over which there is a significant risk, and
  - Classes of transactions, account balances and disclosures over which there is no significant risk, but they are material
- The issue raised and open to opinion is whether for the statements described in b) it reaches with tests of controls or substantive tests are also necessary. The ED takes this last alternative. We also agree with that position.

Reference 2:

- Yes, we support them, in line with our previous response.
- The amendments go in the sense of requiring the application of substantive procedures to transactions, balances and disclosures over which no significant risks have been identified. This is clearer in paragraph A42 than in paragraph 18 (in both cases, of ISA 330).

47. FSR Danske Revisorer (Denmark)

Reference 1:

- In our view, it is important to keep in mind that we perform risk based audits. For example, the scope of ED-315 is to identify and assess the risk of material misstatements in the financial statements.



- In this perspective the stand-back requirement in paragraph 52 makes sense as it helps to ensure that the auditor has identified all relevant risks of material misstatements in the financial statements.
- However, the requirement in paragraph 18 of ISA 330 is not consistent with a risk-based audit as it basically undermines the risk assessment process and the stand-back requirement by requiring procedures to be performed on areas that do not include risks of material misstatements.
- We, therefore, propose that the requirement in paragraph 18 of ISA 330 should be removed as this will contribute to create a clear and more consistent risk assessment and a better basis for an efficient audit. The contrary, in our view, indicates that the standard setter does not believe that an appropriate risk assessment can be performed and, therefore, requires additional procedures to be performed on areas that do not include risks of material misstatements.

Reference 2:

As stated in our response to question 8, we believe that the requirements in paragraph 18 of ISA 330 should be removed as they are redundant due to the inclusion of the proposed stand-back in ED-315. The alignment is, therefore, in our opinion not adding value.

48. Interamerican accounting association (South America)

Reference 1:

- We do not identify in ED-315, paragraph 52, reference to the proposed backwardness requirement. Regarding paragraph 18 of ISA 330, the proposal is more explicit than the current version when treating materiality as qualitative and quantitative, which the current one does not distinguish. Both requirements should be considered. Our recent experience in an audit of financial statements to an entity that questioned our materiality by the amount we justify our position that materiality not only depends on that attribute but also the qualitative nature of the error, independently, position accepted by the entity.

Reference 2:

*Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?*

- Yes, we fully support.
- We understand that it is an obligatory adaptation due to the changes proposed to NIA 315 (Revised), it is a necessary and required agreement. The auditor, in all cases, must obtain appropriate evidence for each transaction, balance of accounts and disclosure if it is material, individually or with other components, qualitatively or quantitatively, in order to support his opinion on the financial statements taken as a whole. ; in consideration that the determination and consequent evaluation or weighting of the risks that the auditor performs in any way is conclusive and absolute, as there may be material errors not identified or valued in an inaccurate manner, in addition to the limitations of the controls, aggravated because of the latent possibility of management's dishonest actions.

**49. Instituto dos Auditores Independentes do Brazil**Reference 1:

*What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?*

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

Reference 2:

We do not support the proposed revisions, except for the revision of paragraph 18. Please refer to response in question 8.

**51. Institute of Chartered Accountants in England and Wales**Reference 1:

- Our outreach indicates that there is a strong body of opinion to the effect that there is no need for either paragraph 52 in proposed ISA 315 or paragraph 18 in ISA 330, and certainly not both. The latter often results in 'notional' substantive procedures being performed for compliance purposes only and rarely if ever, catches items that have somehow fallen through the net. The proposed standard is clear that the requirements are intended to be iterative and there should be no need for yet another safety net. A requirement in ISA 330 to perform substantive procedures on a material balance anyway, renders the proposed requirement to re-determine what is significant in paragraph 52 of ISA 315 redundant in the eyes of some. Both requirements undermine the risk-based and iterative nature of risk assessment and both are inadequate to the extent that neither deals with completeness or understatement, both of which are very common lacunae. If either is needed, on the face of it, ISA 315 seems the right place for a requirement; proposed paragraph 52 should be retained, and paragraph 18 of ISA 330 removed.
- However, concerns have also been expressed that because of the different approaches to risk assessment described in our answer to Q1 above, without the extant ISA 330 stand-back, auditors might in some cases do no work on a material item on the basis that there is no risk of material misstatement, and that paragraph 18 should therefore be retained. The issue in hand is not necessarily the stand-back, but whether the proposed spectrum of risk is intended to permit an assessment of **no** risk of material misstatement where a class of transactions, account balance or disclosure is material. These issues warrant further consideration prior to finalisation.
- The use of the terms 'quantitatively or qualitatively' in the context of material is similarly wholly unnecessary as materiality by definition always has (at least potentially) both aspects.

Reference 2:

As noted in response to Q8 above, we do not support the use of the terms 'quantitatively or qualitatively' in the context of materiality. By definition, it covers both aspects.

## 52. Institute of Chartered Accountants (Ghana)

### Reference 1:

- Paragraph 46 of ED 315 requires us to identify only those COT's AB and D's that are significant and then continue to further perform risk assessments on (risk of misstatement on COT's AB and D's considered significant related to assertions). The stand back provisions of para 52 of the ED asks that we stand back and look at the COT's AB and D's that are either quantitatively or qualitatively material and that have not been classified as significant. We are then to re-assess our assessed non-significant COT's, AB and D's and evaluate that there are no relevant assertions. Relevant assertions are the concept of reasonable possibility of misstatement with respect to an assertion that is material. If there are no relevant assertions then we respond in accordance with ISA 330.
- This is contradictory to:  
The revision to paragraph 18 of 330 which essentially clarifies that we are to perform substantive procedures on COT's AB's and D's that are either "quantitatively or qualitatively material". The two cannot stand and so a decision must be made to make these standards to be consistent with each other.

### Reference 2:

We agree with the revision to paragraph 18 of ISA 330 to include both 'qualitatively and quantitatively' to the standard. We also agree with the intent to align paragraph 18 of ISA 330 to the proposed stand-back in ED-315, since ISA 330 is a response to the risk of misstatement identified in ISA 315. But, they appear to have different outcomes. If the stand-back procedure performed in ISA 315 reveals that there is no revision to the conclusion not to categorize some material COT's AB and D's as significant then some material COT's AB and D's are not to be tested. However, paragraph 18 of ISA 330 requires we test all material COT's AB and D's whether they are significant or not. We believe the guidance in both standards needs to be consistent.

## 53. Institute of Chartered Accountants of Pakistan

### Reference 1:

We support the proposed stand-back requirement as this approach will result will promote professional skepticism and professional judgment, which are imperative in risk assessment. We also believe that the requirements of both the paragraphs i.e. paragraph 52 of ED-315 and paragraph 18 of ISA 330 are interlinked and support each other and both should be retained.

### Reference 2:

We understand that both these paragraphs serve a similar purpose to safeguard against imperfect risk identification and assessment. Therefore, we support the proposed revisions to paragraph 18 of ISA 330 and its alignment with the scope of the proposed stand-back in ED-315.

## 54. Institute of Chartered Accountants of Scotland

### Reference 1:

With regard to the inclusion of the stand-back requirement itself, we believe that this is already performed in practice, but further detail on who might perform the stand-back, at what stage and how it should be performed would be helpful. We would suggest that this process could be performed at an earlier stage, perhaps at the planning stage, of the audit process.

Reference 2:

We believe that materiality is already well understood as having quantitative and qualitative components, therefore do not believe that it is necessary for ED-315 to be so explicit in this regard. We would however welcome an emphasis on the use of professional judgement in these instances.

**55. Institute of Chartered Accountants (Zimbabwe)**

Reference 1:

We believe that both requirements should be retained because they complement each other. Requirements of ED-315 further enhances risk assessment procedures and ISA 330 safeguards against imperfect risk identification.

Reference 2:

Yes, we support the proposed revisions to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315. This provides coverage of all the sections to be audited

**57. Institute of Public Accountants**

Reference 1:

While the IPA supports the proposed revision of ISA 330.18, the IPA remains unconvinced that the proposed "stand-back" requirements of ISA 315.52 are necessary. At the time of planning, it is unlikely that new information would be available to alter the original determination (which should occur at the completion of the risk assessment process). Furthermore, given the existing iterative nature of audit risk assessment, the IPA does not see the need for a distinct requirement in ISA 315 in relation to material but not significant transactions, account balances or disclosures. If necessary the requirement to reassess audit risk in light of audit evidence could specifically mention them.

Reference 2:

In accordance with our response to Question 8, the IPA supports the proposed amendments to ISA 330.18 but is unconvinced of the usefulness of the proposed stand-back provisions of ISA 315.

**58. Institute of Singapore Chartered Accountants**

*Stand-Back Requirement and Paragraph 18 of ISA 330*

- Given that many of the risk assessment steps are performed concurrently, which necessitates the auditor continually updating their understanding and re-considering their assessments, we believe that overall it is helpful to have a stand-back requirement at the end of the risk assessment process to drive completeness of identification of risks of material misstatement, before the auditor proceeds to the execution of responses. We note that the stand-back requirement in paragraph 52 of ED-315 also flows well into paragraph 53 which reminds auditors that the assessment of risk may change as additional evidence is obtained.
- For the proposed revisions to paragraph 18 of ISA 330 and its related supporting application material, we are not sure how substantive procedures on the material transaction, account balance or disclosure can be designed in a risk-based audit approach when there is no risk of material misstatement being identified (i.e. the transaction, account balance or disclosure is not significant). Having this requirement to carry out more audit procedures may also diminish the significance of the

risk identification and assessment process as a critical part of the audit process, and undermine the importance of professional skepticism during the risk assessment phase. Hence, we would suggest removing this proposed requirement (second sub-point of paragraph A42 of ISA 330).

- Nevertheless, we support the retention of the requirement to perform substantive procedures for every significant class of transaction, account balance or disclosure. This is to safeguard against the approach where tests of controls for significant classes of transactions, account balances and disclosures are the only further audit procedures performed.

#### 59. Malaysian Institute of CPAs

##### Reference 1:

The proposed stand-back requirement in Para 52 serves as a reminder to auditors to take a step back to evaluate whether their conclusions about significant classes of transactions, account balances or disclosures in accordance with Para 46 remain appropriate and not miss out on any significant classes of transactions, account balances or disclosures which may lead to a possible incorrect risk assessment of material misstatements.

In this regard, MICPA believes Para 52 and revision to Para 18 of ISA 330 should be retained.

##### Reference 2:

Yes, as per our response to Question 8, MICPA supports the proposed revisions to Para 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are “quantitatively or qualitatively material” to align with the scope of the proposed stand-back in ED-315.

#### 60. New York state society of CPAs

- Given the nature of the audit environment in the United States, we do not agree with the proposed revisions in paragraph 52. A class of transaction, account balance or disclosure that is quantitatively or qualitatively material should be considered significant. The extant standards provide further guidance on the most prominent significant audit areas as key audit matters. We find the ability to perform a stand-back early in the audit process to be contentious. Although conceptually a good idea, especially in regard to an initial audit, stand-backs in recurring audits are difficult to process, as once stand-backs are evaluated, they may become boilerplate in an organization’s subsequent audits. The completeness assertion is an important issue for auditors since it involves auditing from the appropriate population. In this case, the evaluation is being done on the identified population risks. We believe that such re-evaluations are done in the wrap-up stages of the audit. The stand-back is too early in the process to perform a meaningful evaluation to meet the intended objectives. This is especially true with regard to financial statement disclosures.
- We support the changes made to evaluate the response to risks that were identified as a result of paragraph 52 of ED-315 being implemented to proposed revisions of ISA 330.

#### 61. PAFA

##### Reference 1:

PAFA supports the proposed stand-back requirement as it views it as a mechanism to further enhance the risk assessment process.

Reference 2:

Yes, PAFA believes this is appropriate as it clarifies that when the ISAs refer to material it means in quantitative or qualitative respects.

**62. SAICA**

Reference 1:

- There are probably two main reasons for supporting that both requirements (i.e. ED-ISA 315, paragraph 52 and ISA 330, paragraph 18) should be retained, although it would be interesting to consider the other comment letters and the arguments that may be presented to retain one, but not the other, or even not to retain either.
- The purpose of the requirements in ED-ISA 315, paragraph 52 and ISA 330, paragraph 18 is aligned in terms of providing a catch-all to safeguard against an imperfect risk identification and assessment process. However, ISA 330, paragraph 18 serve an additional purpose related to guarding against an approach to further audit procedures that includes only tests of controls, because there are inherent limitations of controls, including management override.
- The manner in which the stand-back provision in ED-ISA 315, paragraph 52 has been set up, could potentially have the following outcome: The auditor identifies a material COTABD that was not initially identified as a SCOTABD (paragraph 52(a)), and the auditor performs the evaluation as required by paragraph 52(b) and concludes that the original conclusion that there are no relevant assertions remains appropriate. If ISA 330, paragraph 18 was to be removed, it will result in an instance such as this where no substantive procedures are performed in relation to a material COTABD.

Reference 2:

- Yes, SAICA believes this is appropriate as it clarifies that when the ISAs refer to 'material' it means in quantitative or qualitative respects.
- Also refer to our comments to **question 8**, above, relating to the interaction between the stand-back provision in ED-ISA 315, paragraph 52 and the conforming amendments to ISA 330.18. In particular, ISA 330, paragraph A42a should be further refined to better describe the work effort required.

**63. SMPC**

Reference 1:

- Differing views were expressed on the proposed and extant stand-back requirements. While they fulfil two different purposes, many consider that neither is necessary. If the risk assessment is performed properly, proposed paragraph 52 is unnecessary. Extant paragraph 18 in ISA 330 generates dysfunction in that notional substantive procedures are performed for compliance purposes only. On balance, we suggest that both are retained, but as application material.
- We do not support the use of the terms 'quantitatively or qualitatively' in the context of materiality as, by definition, it covers both aspects.
- Consideration should be given to the importance and use of the terms 'material' and 'significant'. For example, in Japan the translations are the same, so more explanation is needed.

Reference 2:

As noted in response to question 8, we do not support the use of the terms 'quantitatively or qualitatively' in the context of materiality as it covers both aspects. The additional level of precision may impact practice if it leads to regulators demanding documentary evidence that the auditor has considered each and every item separately in terms of both quantitative and qualitative factors

65. Chartered Accountants Academy (Zimbabwe)

Reference 1:

We think that both requirements should be retained because they complement each other. Requirements of ED-315 further enhances risk assessment procedures and ISA 330 safeguards against imperfect risk identification.

Reference 2:

Yes, we support the proposed revisions to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315. This provides coverage of all the sections to be audited

66. FocusRoi Inc.

We support the stand back and believe it should be retained in both places.

67. Lynessa Dias

- Response (8): Agree with the revisions made to paragraph 18 of ISA 330, which supports the evaluation of material classes of transactions, account balances and disclosures and requires substantive procedures for these classes. The requirement to have an auditor reconsider whether all significant classes of transactions, account balances and disclosures were identified once the initial risk identification and assessment processes are completed in paragraph 52 of ED-315 should feed into the revisions to paragraph 18 of ISA 330, to account for business scale, materiality and risk assessment of the effectiveness of controls on inherent risks. The decision should be based on expediency and risk exposures facing the entity.
- Response (10) Agree, see response 8, above.

70. S Dianne Azoor Hughes

Question 10 - No significant matters arising.