

Responses to ED-315¹
Comments on ‘Scalability’
NVivo Report 1A
(FOR REFERENCE)

01. Basel Committee on Banking Supervision

We understand the approach to scalability expressed in paragraph 13, e.g. the standard (including the principles) is intended for all entities and the application material includes considerations specific to audits of smaller, less complex entities. However, this paragraph seems to be the only mention of scalability in ED-315 and in our view is overly broad.

We would emphasize, however, that the complexity of banks’ business models and expected credit loss (ECL) accounting frameworks complex internal models for estimating ECL within banks. Thus, it could prove to be very difficult for auditors to independently develop their own model for ECL estimates. In that situation, the auditor should emphasize the assessment of (i) the appropriateness of internal processes, including assumptions, and controls; (ii) the reasonableness of management’s ranges and point estimates; and (iii) the model’s theoretical soundness and mathematical integrity. We recommend that the “requirements” section or application material in ISA 315 (Revised) should recognize these complex risk areas and set out the required audit response.

In particular, to more fully address accounting estimates that have high estimation uncertainty or complex models, such as ECL estimates, the IAASB should revise ED-315 to treat the risks of material misstatement associated with these estimates to be a significant risk. Paragraphs 39(b) and 42 of ISA 315 (Revised) require the auditor to identify controls that address risks identified as a significant risk, evaluate whether these controls are designed effectively and determine whether they have been implemented. When these conditions are present, we believe as a next step that the standard should require auditors to test the operating effectiveness of internal control over ECL estimates and other complex accounting estimates as part of their risk assessment procedures.

In addition, we acknowledge that several references to analytical procedures are included in the application material, e.g. in paragraphs A32 and A33 of ED-315. However, we would recommend moving these two paragraphs in particular into the “requirements” section of the standard.

The application material could also be clarified in some places (e.g. in paragraphs A47 and A49) to explain that audit procedures may vary in relation to the size and complexity of the audited entity, although the objective of these procedures remains unchanged. The audit objective is always to obtain a sufficient understanding of the entity, its environment, the applicable financial reporting framework and the entity’s system of internal control, regardless of its size and complexity.

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

02. Committee of European Auditing Oversight Body

Scalability – general comment made

We concur with the intention for the standard to be scalable. However, we believe that auditors might find it difficult to scale their work on risk assessment in the absence of further material in the standard in this regard. We believe that it is important that the standard be clear on the fact that the extent of work performed, in compliance with this ISA, needs to be adapted to the size and complexity of the audit, and that it may need to be increased for larger or more complex entities.

03. Canadian Public Accountability Board

Scalability – general comment made

The application guidance to the proposed standard provides for a scaled down risk assessment to be performed for smaller and less complex entities. Paragraph 13 also emphasizes this approach could be applicable to the audits of larger and less complex entities.

In Canada CPAB is focused on ensuring a consistent level of audit quality across the audit of all reporting issuers in Canada. We are concerned that an approach to have a scaled down risk assessment process for certain audits could lead to a significant difference in the audit quality between different size entities having a negative impact on the public interest.

At a minimum, we suggest a clarification be added to the final standard that a scaled back approach to risk assessment would not be applicable to listed companies and other entities that have a significant public interest, regardless of whether the entity is not considered to be complex.

04. IAASA

Scalability – general comment made

We note that one of the objectives of the standard is to be scalable. However, we believe that this will be difficult to achieve in practice. We believe that it is important that the standard be clear that the extent of work performed can be expanded for larger or more complex entities.

06. IFIAR

Scalability – general comment made

The application material provides significant mention of different approaches that could be taken for smaller and less complex entities. Paragraph 13 also emphasizes this approach could also be applicable to the audits of larger and less complex entities.

We believe additional information would be helpful in providing examples of the types of entities that would be considered smaller and less complex entities. Specifically, more guidance would help auditors to understand whether and if so, when, listed companies could be considered less complex entities.

We also believe the standard should state that while the standard allows scaling down the risk assessment approach for smaller and less complex entities, auditors likewise would be expected to enhance their risk assessment for particularly large or complex entities.

08. IRBA

Paragraph 13 of ED-315 specifically mentions “*small and less complex entities*” and “*larger and less complex entities*”, but the application material on scalability is focused on “*smaller and less complex entities*” which may lead to auditors not applying themselves to other scenarios where scalability may be applicable. We acknowledge that scalability is dependent on professional judgment but urge the IAASB to consider adding application material that demonstrates all forms of scalability, and examples such as whether listed entities that are holding companies that do not have operations or dormant companies could be considered to be “*smaller and less complex entities*” or “*larger and less complex entities*”.

We recommend that the IAASB considers criteria regarding the minimum factors to be considered for entities to be categorized as “*smaller and less complex entities*” or “*larger and less complex entities*”, as that will be helpful to auditors in deciding whether scalability is applicable. That will also ensure consistent application of the standard. The criteria could possibly include professional judgment.

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

The IAASB could also consider whether ISA 315 should contain requirements on scalability, such as the auditor being required to assess whether scalability is applicable on an engagement specific basis.

09. UK Financial Reporting Council

The requirements and application material of ED-315 are sufficiently clear and capable of proportionate application to the audits of financial statements for all entities, ranging from small, simple non-complex entities to large, complex, multinational entities.

10. AASB of ICAI

We appreciate that IAASB recognizes that the auditor’s ability to serve the public interest includes the ability to apply the standard to the audits of financial statements for all entities, ranging from small, simple, non-complex entities to large, complex, multinational entities and has been explained clearly in the Explanatory Memorandum.

However, we are of the view that detailed requirements for Scalability should be inbuilt within the ‘Key concepts in this SA’ section of the standard. In addition to paragraph 13 of ED, it may also be clarified that considering the different requirements applicable in different jurisdictions, the requirements contained in ISA may not be applicable to smaller and less complex entities. Also in various countries, e.g. India, there is a mandatory audit requirement for all companies including private and unlisted public companies.

Further, the following sentence in paragraph 13 may be amended as below:

This ISA is intended for audits of all entities, regardless of size or complexity. However, the requirements of this ISA can be scaled for audits of small and less complex entities considering the jurisdictional requirements in accordance with the guidance given in application material of this ISA.

11. Australian A&A Standards Board

Introductory comments

We recommend more guidance and examples be included in the application material of the proposed standard on how to effectively scale the work effort in ED 315 to less complex entities, such as examples of: how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted; and how to perform risk identification and assessment procedures when the entity's system of internal control may be less detailed and formalized.

Question 2

The AUASB considers that ED 315 is not sufficiently scalable due to the following:

- Many of our stakeholders gave feedback that it appeared ED 315 had been drafted for an audit of a large complex entity and then guidance was added on how to scale this down to smaller and less complex entities. The IAASB should consider drafting standards for less complex entities, then adding application or guidance for more complex entities.
- The use of the term "smaller and less complex entities" in the ED may be interpreted as being overly restrictive. We consider complexity to be the key driver of scalability when performing risk assessment procedures. Smaller entities may be complex, and conversely larger entities may be less complex. We recommend the terminology used in ED 315 should refer to "less complex entities" which will allow this guidance to be used in audits regardless of size. We note that "less complex entities" is the terminology used in the IAASB's future discussion paper on this topic. We also believe that ED 315 paragraph 13 should state more definitively that the guidance may be appropriate for larger and less complex entities.
- The use of the term "more than remote" in the definition of relevant assertion we consider will increase the audit work effort over low risk balances, as most assertions will meet this test. This will possibly result in a greater volume of significant classes of transactions, account balances, and disclosures being included in scope than necessary. We do not agree this definition is appropriate. Refer to question 6(d) for further comments.
- The increased length of ED 315 is also a potential barrier to its understanding and application - particularly for audits of smaller and less complex entities. We recommend that the IAASB consider whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.

In addition, we recommend the IAASB provide more guidance and examples on how to effectively scale the work effort in ED 315 to less complex entities, such as:

- An example of how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted to be included in the application material.
- Examples of how to perform risk identification and assessment procedures when the system of internal control may be less detailed and formalized.
- How to gather the understanding of the IT environment, identification of risks arising from IT and identification and evaluation of general IT controls.

12. Canadian AASB

In part. There are areas of the proposals that we believe enhance the scalability of the standard, but we have identified some challenges as well.

An area where we support the scalability of ED-315 is:

Application material specific to smaller and less complex entities

We support the use of the term “smaller and less complex”, and the change in structure of the application material in ED-315 to move the material relating to smaller and less complex entities close to the front of the related section. Although we have heard from some stakeholders that they want a quick answer or short-cut through the application material for auditing a small and less complex entity, we believe that is not the purpose of application material. We believe a weakness of sign-posting the application material for small and less complex entities is that some practitioners do not read all the material in the standard when provided with headings to point to specific sections.

We note that the approach to application material specific to small and less complex entities in ED-315 is different compared to the approach followed by the IAASB in ISA 540 (Revised). In 540 (Revised) there are headings for “Scalability” and no references to “smaller and less complex”. We believe using a consistent approach to draft the ISAs would improve clarity and understandability.

Based on feedback provided by our stakeholders, we offer suggestions below as to how ISA 315 could be made more scalable:

New introductory material to describe the benefit of evaluating design and determining implementation of controls relevant to the audit (D&I procedures)

Paragraph 6 of ED-315 emphasizes that if the auditor does not intend to test the operating effectiveness of controls, control risk is assessed at maximum. While we agree with this statement, we believe there is benefit and value to performing D&I procedures. Practitioners who primarily perform substantive only audit engagements indicated that paragraph 6 led them to believe there would be no difference in substantive procedures for audits of entities which have controls that are designed effectively and implemented, versus audits of entities with poor or no controls. We encourage the IAASB to consider adding a statement in the introductory paragraphs that links to the material in paragraph A200 which articulates the benefit and value of performing D&I procedures.

Application material relating to the IT environment for smaller and less complex entities

Stakeholders believe that the material relating to understanding the information system, IT applications and other aspects of the entity’s IT environment that are relevant to the audit was not clear when the entity being audited operates a simple IT environment. They found the application material relating to IT overwhelming and were not able to focus on what was really required in simple environments. We believe the application material relating to IT should be reviewed again in the context of auditing a smaller and less complex entity to determine if there are improvements that could be made to guide practitioners through this complex topic. Another option, as suggested in the response to Q1(a) above, could be to create a simplified version of the IT environment flow chart to assist with this understanding.

Coordination between the projects on Audits of Less Complex Entities and ISA 315

We know the IAASB project on Audits of Less Complex Entities plans to issue a discussion paper in Q2 of 2019. We believe this discussion paper could focus on challenges in practically applying ISA 315. The

results of comments received on ED-315 could inform the discussion paper on Audits of Less Complex Entities and the related questions posed within that discussion paper.

13. CNCC-CSOEC

In making the proposed revisions with regard to scalability, the IAASB has removed the extant considerations specific to smaller entities sections throughout the standard. Even if we understand that most of the matters previously included in these sections have been retained and built into the text of ED-315 as appropriate, together with further proposed revisions to promote scalability, we consider that this removal does not serve the purpose of scalability. To determine the work effort required for less complex entities, lower risk environment, the auditors have to browse the entire standard to then decide what the requirements applicable to their environment are.

Removing specific considerations relating to smaller entities may lead auditors to performing and documenting more work than actually appropriate in this area, resulting in additional costs without an increase in audit quality. One example of the lack of scalability of the standard is paragraph 29 that states that *“the auditor shall obtain an understanding of the entity’s risk assessment process, including the extent to which it is formalized by understanding (...).”* The issue is that small entities do not have any formalized risk assessment process.

The extent of work is not clear enough for smaller or less complex entities, especially in terms of extent of consideration of design and implementation of controls in a fully substantive audit.

Moreover, we consider that the concept of “entities that are both smaller and less complex” mentioned in paragraph 13 of the ED-315 is confusing. ISA 200 already defines “small entities” as less complex entities without considering the size criteria. We therefore promote the use of the term “less complex entities” instead of “small entities” and “smaller and less complex entities”. As mentioned in paragraph 13 of the revised standard, the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex. Please note the typo in the footnote 82, i.e. paragraphs of ISA 200 to be mentioned are A66-68 and not 66-68.

Furthermore, we believe that the standard should address the following situations and propose appropriate procedures, i.e. financial statements prepared by a certified public accountant; entities that are component of a group; entities using the services of one or more service organizations.

Finally, we are supportive of the statements of paragraphs A244 and A246 that confirm the scalability of the documentation.

14. Hong Kong Institute of CPAs

We appreciate the efforts of IAASB building in relevant guidance for smaller and less complex entities into the application and explanatory material. Given the length of ED-315, the inclusion of references of key concepts to relevant paragraphs as an appendix to the standard (for example, tables in Appendix 1 of the explanatory memorandum to ED-315) would be helpful for users to locate relevant requirements and application material.

The enhanced requirements on understanding IT environment include understanding the entity’s use of IT in its business and system of internal control. The guidance in A149 highlights how the understanding of the entity’s IT environment may be more easily accomplished by smaller and less complex entities. As currently drafted, it appears that the SMPs would require IT knowledge to understand. It would be helpful if

the IAASB could clarify whether the specific matters set out in A149 are to be considered by an auditor without engaging an IT expert.

In trying to build in scalability, we note in various paragraphs such as A4, A107 and A113 where references are made to an entity's culture or informal, but effective communication by management. Greater clarity and guidance would be useful on how would the auditor observe such culture or where controls are not explicitly documented, but implied or exhibited by a key management personnel.

15. IDW

As noted above and in our responses to questions 5, 6 and 9 (b), we have concluded that the interplay between the definitions and requirements will lead to a risk assessment process whose increase in work effort will not be worth the increased assurance obtained for all audits, and that this will have a detrimental impact upon the scalability of the standard for audits of financial statements of smaller and less complex entities. Our responses in the questions noted point to those areas where we believe a lack of scalability will ensue.

16. Japanese Institute of Certified Public Accountants

We believe that the scalability of standards is one of the IAASB's challenges requiring strategic focus. ED-315 has removed the extant "considerations specific to smaller entities" sections throughout the standard, and has placed guidance relating to audits of "smaller and less complex entities." However, we consider that the scalability of standards should not be defined in ED-315 differently from other standards, without amending the relevant drafting convention in the extant ISA 200 *"Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."* Additionally, paragraph A66 in ISA 200 describes the term "smaller entities," which is used throughout the other standards, and the term "smaller and less complex entities" contradicts A66 (b) in ISA 200 as A66 (b) includes less complex characteristics in its "small entities" definition. Furthermore, removing "considerations specific to smaller entities" sections makes it harder to identify the guidance for scalability in the lengthy ED-315.

We recognize that the IAASB is going to undertake a project of audits of less complex entities. Therefore, the scalability of standards should be considered as part of this project as this affects other standards, instead of determining the scalability in the respective standards.

In addition, we find that ED-315's approach to scalability has two challenges:

- First, scalability should not be addressed by the judgment as to whether an entity falls under the category of "smaller and less complex entities" (refer to our comments on question 1).
- Second, the auditor is required to have an understanding of the entire text of an ISA, and to determine and apply relevant requirements and application materials as appropriate for the circumstances of the audit in accordance with ISA 200. However, our concern is that the length and complexity of ED-315 makes the standard less understandable and makes it harder for the auditor to determine which requirements and application materials are relevant to the audit. We encourage the IAASB to reconsider whether the following paragraphs related to scalability promote the application of scalability as intended.

Paragraph Reference	Suggestions
A16 (Third and fourth sentences)	<p>Based on the following reasons, we suggest removing the third and fourth sentences in A16.</p> <p>Paragraph 17 and the second sentence in A16 adequately describe the risk assessment procedures and suggest that the auditor's procedures to obtain an overall understanding may be less extensive in audits of smaller and less complex entities.</p> <p>As the third sentence only applies to the audit of smaller and less complex entities, the fourth sentence may lead to the misunderstanding that it applies to the audit of smaller and less complex entities only, and that the depth of the auditor's overall understanding is less than that possessed by management in managing the entity in auditing the smaller and less complex entities, whereas in fact the fourth sentence applies to the audit generally.</p> <p>Additionally, the fourth sentence is the description of paragraph A3 in the extant ISA 315: "the depth of the overall understanding that is required by the auditor is less than that possessed by management in managing the entity." This sentence appears to be unnecessary as it is impractical for the auditor to have more understanding of the entity than management.</p>
A41 (Second sentence)	<p>When the engagement is carried out by a single individual, it appears to be obvious that the requirements related to engagement team discussion are not relevant, and therefore paragraphs A42 and A43 are not applicable. We suggest eliminating the second sentence in A41 to shorten the standard.</p>
A43 (First sentence)	<p>The first sentence in paragraph A43 includes "even in circumstances where the applicable financial reporting framework only requires simplified disclosures." This description does not enhance scalability and should be removed.</p>
A47 (Last sentence)	<p>The last sentence, "The nature and extent of the understanding required will likely depend on the nature, size and complexity of the entity," is essential to the scalability consideration and we propose to move this sentence to the scalability section in the introductory paragraph.</p>
A164	<p>Paragraph A164 appears to apply to all smaller entities with fewer employees, and its application is not limited to "smaller and less complex entities."</p>
A224	<p>We propose to remove this paragraph as paragraph A224 could lead to the misunderstanding that inherent risks would not be assessed as the higher</p>

	end of the spectrum of inherent risk in auditing smaller and less complex entities.
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17. Malaysian Institute of Accountants

Many auditors of smaller entities often struggle to apply the standard appropriately due to their lack of understanding of the standard, which is further aggravated by the length and complexity of the standard. We recognize that the flowcharts provide a better understanding of the standard. It would be helpful for the IAASB to consider providing further examples to scalability in ED-315 such as on paragraph A106 regarding control environment relating to smaller and less complex entities and the extent of understanding appropriate in those circumstances.

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

18. Nederlandse Beroepsorganisatie van Accountants

The concept of scalability is described in the ISA, but in our opinion it will be difficult to apply this concept effectively and efficiently in practice. The ED contains the implications for smaller and less complex entities, but not by the principle of "think simple first". The auditors of smaller and less complex entities need to read the whole ISA first and then sort out what is not applicable for them. We recommend to explore whether it is possible to turn this around.

19. National Board of Accountants (Tanzania)

The requirements and application material of ED-315 scalable, including the ability to apply ED-315 to the audits of entities with a wide range of sizes, complexities and circumstances.

We think there is a need at least to explain in the application guide, the most used estimation models which are currently prevailing in the environment of entities with complex and numerous transactions

20. NZ Auditing and Assurance Standards Board

While the NZAuASB believes that the requirements of the proposed standard are relevant to all audit engagements regardless of their size or complexity, the proposed standard does not significantly improve the scalability of application of these requirements compared to the extant standard. Consistent with other ISAs, the application and other explanatory material of the proposed standard is drafted for a complex, large and high-risk audit engagement. Auditors of small and less complex entities need to go through all the application and explanatory material to then be able to scale down.

Notwithstanding the above, the NZAuASB appreciates the IAASB's efforts to improve the scalability of ED-315 over the extant standard. For example, under the circumstances described in paragraph A167 of ED-315, the only controls relevant to the audit of a small and less complex entity would be controls over journal entries. This guidance is likely to assist the auditors of smaller and less complex entities with scaling back the standard. The NZAuASB suggests that paragraph A90 of ED-315, which explains that the extent and nature of required understanding of each component of internal controls relevant to financial reporting depends on matters such as size and complexity of the entity, is included after paragraph 26 of ED-315.

The NZAuASB believes that including this paragraph in the requirement section of the proposed standard can help with the scalability of ED-315.

Finally, the NZAuASB does not believe that the new approach adopted in ED-315 makes a difference to scalability. On the other hand, the length of ED-315 (more than twice of the length of extant ISA 315) is likely to adversely affect how the standard is read and understood by the auditors of smaller and less complex entities.

21. Altaf Noor Ali Chartered Accountants

No.

We do not find the requirements and application of ED-315 to be sufficiently scalable. In reality, a standard is for stakeholders with varied needs; in its present form and structure, it poses learning difficulties for those of my colleagues specially whose native tongue is not English.

That the SMPs are the weakest link in the chain of compliance is a fact. Most practitioners find it difficult to catch up with the rapid changes and feel intimidated over compliance of the ISAs. Documentation is a weak area ripe for any training and interaction. This gets acute specially when no corresponding effort is undertaken by IFAC members to address such issues.

We fully support the role of IAASB as the standard-setter. However, we miss a representative voice in the IAASB vocal enough to raise the issue of making compliance with the standards in the non-native English countries a priority of the IAASB.

To conclude, we openly invite the Board to take up the discussion on how to strengthen compliance by non-native English countries and SMP there through a technology learning platform. We also invite our dear Institute to constantly arrange ISA trainings and interactions with practitioners, starting with the documentation aspect.

22. BDO International

We believe that ED-315 is significantly improved through the additional examples and guidance provided, and it will assist auditors with applying the requirements to entities of various sizes and complexities. We do have concerns that some of the requirements may be overly complicated and possibly onerous to apply to very small entities. In our response to question 5, and in our overall comments at the beginning, we have raised our concern about the extent of work and documentation related to assessing design and implementation of controls when the auditor plans a purely substantive audit and has no intention of relying on controls either because they are ineffective, or they are non-existent.

We suspect that parts of the flowcharts provided with the ED have blurred the understanding given by the text in the requirements. Furthermore, the need for flowcharts to interpret the requirement paragraphs indicate that the standard may be too long and overly complicated, making it difficult for auditors to interpret, which will lead to inconsistencies in application.

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

would be helpful. Excessive documentation on something with little impact on the audit is a threat to audit quality as it moves resources away from focusing on the important risks on the engagement.

24. Crowe International

We welcome the efforts to address scalability. We note that “considerations applicable to smaller entities” have been removed and that IAASB has adopted a new approach to the presentation of material relevant to “audits of smaller and less complex entities”. If IAASB is committed to retaining this format for the final standard then it is important that IAASB gives prominence to this change in style to avoid any misunderstanding. The table in Appendix 1 to the Explanatory Memorandum is helpful and could be appended to the issued standard.

25. Deloitte

Scalability – Introductory comments

DTTL acknowledges the IAASB’s commitment to including scalability within ED-315 and is supportive of the guidance included throughout the proposed standard. DTTL would encourage the IAASB to develop additional specific non-authoritative guidance for smaller and less complex entities to support the implementation of ED-315 consistent with the IAASB’s project proposal (**see response to question 2 in Appendix I**).

Question 2:

The response in this area should be read in conjunction with DTTL’s comments on *Scalability* in the cover letter. Due to the complexity of the proposed standard, DTTL believes that additional non-authoritative guidance for smaller and less complex entities to support the implementation of ED-315 consistent with the IAASB’s project proposal should be provided. DTTL believes that the complexity of the proposed standard may inherently cause challenges for scalability. As such, DTTL believes that identification and assessment of risks of material misstatement for smaller and less complex entities should be evaluated by the IAASB when developing the discussion paper on *Exploring Possible Actions for Dealing with the Perceived Challenges of Conducting Audits of Less Complex Entities*.

26. EY Global Limited

Scalability – introductory comments

We believe that the ISA addresses scalability for a wide range of sizes, complexities and circumstances, given the specific guidance for smaller and less complex entities.

However, as noted above, the ISA is long – 37 requirement paragraphs, 247 application material paragraphs and 4 appendices. Therefore, even with the application material to assist the auditors of smaller and less complex entities, we believe that it will be time-consuming to apply ED-ISA 315 for audits of smaller and less complex entities. One way to help the auditors of smaller and less complex entities manage this issue may be to create a separate section or appendix specifically to address the guidance for smaller and less complex entities, rather than discussing it throughout ED-ISA 315.

Question 2:

Yes, the requirements and application material are generally sufficiently scalable. In addition, we support the premise that only when an auditor can execute a 'fully' substantive audit (with extensive testing and recomputation of information) should the auditor be permitted to ignore the GITCs that maintain the integrity of the entity's financial data within its IT applications.

However, we are concerned that the requirements of paragraphs 40 and 41, taken together, will cause a large population of 'fully' substantive smaller and less complex audits to be required to identify GITCs, when, in reality, the IT is sufficiently simple, and the risks from IT are sufficiently low that the auditor would be justified in determining that the IT applications and other aspects of the IT environment are not relevant to the audit. In these circumstances, when the auditor concludes that the IT is not relevant to the audit, it would be appropriate for the auditor to take a 'fully' substantive approach and test the outputs of the IT system substantively.

Although the audit is iterative in nature, the necessary linear drafting of the standard requires the auditor to identify the IT applications and other aspects of the entity's IT environment that are relevant to the audit (paragraph 40) before considering the risks arising from the use of IT (paragraph 41) in relation to the information system relevant to financial reporting. We therefore recommend that the IAASB consider moving paragraph 41 to before paragraph 40, and linked more closely to paragraph 35(d), in which the auditor is required to obtain an understanding of the entity's IT environment.

The example in paragraph A181, which does allow for smaller and less complex entities to have no IT applications relevant to the audit, is restrictive – implying the need for 'hard-copy accounting records' and an inability to change the programming of the IT application in use. We believe that this example is unnecessarily restrictive, although we do recognize that 'off-the-shelf' applications allow for setting certain user-driven parameters, which may, if changed, affect the recording and reporting of transactions. We therefore suggest that it would be helpful to include further discussion on user-driven parameters, and the effect that inappropriate or changes to parameters (such as a change to a VAT rate) could have.

See also our suggestion in our Overall comments regarding the creation of a separate section or appendix specifically to address the guidance for smaller and less complex entities, rather than discussing it throughout ED-ISA 315.

27. Grant Thornton International

Overall, we are supportive of the amendments made to the control activities component, and in particular, that paragraph 38 of ED 315 only requires evaluation of the design and determination of the implementation of the controls relevant to the audit.

However, we are concerned that the following proposed changes to extant ISA 315 (Revised) will be contrary to the promotion of the scalability of the standard:

- The extent of the understanding of controls, in particular, remains unclear why an auditor would be required to understand the design and implementation of controls, if control risk always has to be assessed at maximum, unless the auditor intends to test the operating effectiveness of that control. In particular, we are concerned about the potential impact this will have on audit sampling, which currently allows some 'credit,' albeit small, for obtaining an understanding of controls and the control environment.

- The requirement in paragraph 35 of ED 315 requires the auditor to “understand the information system relevant to financial reporting, including related business processes, through understanding how information relating to significant classes of transactions, account balances and disclosures flows through the entity’s information system.” This would appear to contradict paragraph 39, which states that “not all controls that are relevant to financial reporting are relevant to the audit,” by bringing into scope the business processes and controls related to significant classes of transactions, account balances and disclosures.
- The removal of the sign posting of considerations specific to smaller entities makes it more difficult for auditors to identify these specific considerations and may have the consequence of negating the efforts to make the standard more scalable for smaller firms. We also note that the Explanatory Memorandum is silent on whether the IAASB will be revising the other ISAs to eliminate the inconsistency created by this change in format. Such inconsistency would seem contrary to the premise of the clarified standards.

The Explanatory Memorandum also indicates the view that these are considerations for smaller **and** less complex entities and then goes on to note that some of these considerations may be applied to larger less complex entities. As such, it would appear that the focus is on the complexity of the entity rather than its size, and we question whether it would be more appropriate to use the term “smaller **or** less complex entities.”

28. KPMG IFRG Limited

We are supportive of the overall approach taken by the IAASB regarding scalability of the ED, i.e. the establishment of principles-based requirements, supported by illustrative application material, including guidance and examples as to how to apply the requirements across entities that vary significantly in terms of size and complexity.

We note that the EM, at paragraph 36, states that “clarifying the requirements related to the understanding of each component of the system of internal control is an important aspect of the proposed enhancements to the standard. Within each component, the IAASB has set out the matters that need to be understood, as well as providing further guidance about the extent and scalability of related procedures, as appropriate”.

In connection with the above, we welcome, in particular the following enhancements:

- Acknowledgement that the nature, timing and extent of risk assessment procedures that the auditor performs to obtain the understanding of each component of the system of internal control are matters for the auditor’s professional judgement and are based on the auditor’s determination as to what will provide an appropriate basis for the identification and assessment of the risks of material misstatement;
- Recognition that aspects of the system of internal control may be less detailed/ formalized in smaller/ less complex entities;
- Clarification regarding understanding of the IT environment/identification of risks arising from IT and identification and evaluation of GITCs relevant to the audit at smaller/ less complex entities;
- Recognition that complexity as well as, or even more so than, size of an entity is important, as well as the complexity versus simplicity of the IT systems;

- The introduction of a spectrum of inherent risk, which, together with the inherent risk factors, we believe better allows for scalability. We also support the description of smaller AND less complex entities being at one extreme of the spectrum to help provide a reference point as to how the auditor would apply judgement (A224) and take into account the nature and circumstances of each entity.
- Notwithstanding the above, we highlight elsewhere in our responses, in particular, in our response to question 5, suggestions for further, important improvements regarding the clarity of certain requirements, and we note that these apply to aspects of the standard that we believe are likely to present particular challenges to auditors in terms of whether and how these are to be applied in respect of audits of smaller/less complex entities.
- It would be helpful if the IAASB could improve clarity in respect of these matters, as well as provide more specific examples as to the execution of these requirements. The application material contains highly generalized, theoretical guidance that the nature and extent of procedures may vary according to the audit circumstances, including the size and complexity of the entity subject to audit, but this material would benefit from more detailed, illustrative, examples. For example, improved clarity regarding the linkage between the understanding obtained in respect of the entity's control environment, risk assessment process and the process to monitor the system of internal control and the identification and assessment of risks of material misstatement at the financial statement and assertion levels, particularly those that result from the financial reporting process, would be beneficial in promoting greater consistency in application of these requirements. It would be helpful if the IAASB were to provide greater clarity in this area, in particular, in respect of audits of smaller/ less complex entities for which a fully substantive audit is planned. Although A89-A103 provides considerations in respect of scalability, this is very general. We refer to the comments in the ICAEW publication, *Risk Assessment and Internal Controls: Continuing Challenges for Auditors*.

29. MNP

We appreciate the challenges involved in developing a standard that appropriately addresses auditing entities of various sizes. And, for the most part, ED-315 provides sufficient scalability considerations. However, we think that there will be some challenges in applying ED-315 to entities that fit somewhere in between 'smaller, less complex' and 'larger, more complex'. MNP serves a mid-market client base and thus many of our audits are for clients of a size that lies in between the two. In order to comply with the proposed changes to ISA 315, we will need to obtain a more in depth understanding of controls, namely the IT environment. However, in today's economic environment, we think it may be challenging to deliver cost-effective audit services to our mid-market clients that meet all requirements in ED-315.

We "tested" the proposed requirements against a few of our mid-market client audit engagements. Based on this assessment, obtaining the required in-depth understanding of controls and the IT environment did not impact our risk assessment or our overall audit approach. For our mid-market clients, an internal control reliance strategy is often not possible nor efficient. Therefore, the extra documentation of controls had little or no impact on the substantive procedures considered necessary to obtain sufficient, appropriate audit evidence. We have concerns that, for many of these entities, the costs of the auditor obtaining an enhanced understanding of controls and the IT environment may exceed the benefits.

In addition, we are concerned about the amount of judgment that is required in applying the scalability requirements. Size is somewhat relative to the spectrum of clients of each audit firm. That is, what might

be considered 'large, more complex' in one firm might be considered 'small, less complex' in another. We believe this is likely to result in inconsistency in application.

30. PwC International

Introductory comments

Reference 1:

The complexity of the proposed requirements in the ED, and lack of clarity of some of the concepts, together with the overall length of the standard, also, in our view, raise questions as to whether the proposed revision can be applied effectively and efficiently to smaller and less complex audits. Given the critical nature of this standard in underpinning the entire range of audits, if clarity and scalability are not successfully addressed this poses a risk to adoption by jurisdictions and of national standard setters seeking alternative solutions to the ISAs. We comment further on this issue below.

Reference 2:

Scalability is a significant challenge that the IAASB is aiming to address in the revisions, particularly in articulating the nature and extent of understanding of the entity's system of internal control, including design and implementation of controls, needed in order to perform a largely substantive audit for smaller, less complex entities. Due to the matters identified above, we do not believe that the ED successfully resolves this challenge.

Furthermore, paragraph 13 of the ED seeks to explain scalability by reference to relevant considerations for smaller entities when such entities are less complex. That paragraph is explanatory only; it does not have the authority of a requirement. Whether or not the ISA is scalable depends on the clarity of the requirements and how they are applied to audits of varying size and complexity. The length and complexity of the proposed standard, as well as a lack of clarity in how certain new concepts are to apply, in our view, raises questions as to whether it can be applied effectively and efficiently to smaller and less complex audits.

We are particularly concerned that failing to illustrate appropriately how the standard can be applied could lead to inconsistent application.

Question 2:

Paragraph 13 seeks to explain scalability by reference to relevant considerations for smaller entities when such entities are less complex. That paragraph is explanatory only; it does not have the authority of a requirement. Whether or not the ISA is scalable depends on the clarity of the requirements and how they apply to audits of varying size and complexity. While some of the changes proposed help in that regard, we do not believe scalability has been achieved. Notwithstanding the clarification that states that this "smaller and less complex" guidance may also be relevant to larger entities that are also less complex, we believe there is a risk of the "and" construct of the phrase may be misinterpreted to mean that both of these criteria must apply for the guidance to be applicable. We believe there may also be confusion as to the applicability of the guidance in an audit of a larger entity that has a high degree of complexity in some respects but also has classes of transactions or account balances for which the degree of complexity is low and therefore a scaled approach to risk assessment procedures may be appropriate.

We acknowledge the intent of merging the guidance on smaller entities into the body of the application material, rather than separately calling this out. However, the volume of text makes it harder to locate the

material explaining how the requirements throughout the ISA may be applied in an audit of a smaller and less complex entity. We are concerned that the standard's overall length and complexity are themselves barriers to its scalable application.

With respect to understanding the system of internal control relevant to financial reporting, we find the requirements impose a framework in which it is not clear where the auditor could do less, and in which circumstances doing less would be appropriate. We believe that an alternative solution can be developed that would more clearly describe the nature and extent of understanding needed, as a minimum, to support the auditor's inherent risk assessment, together with a more precise direction on what is needed in relation to understanding direct controls. Such an approach would, in our view, better address the questions raised with respect to the extant standard about how much understanding is needed, for example with respect to control activities and general IT controls, and when the design and implementation of controls needs to be evaluated. In many cases, smaller entities simply do not have the sophistication of controls or documentation that the auditor can evaluate to support planned reliance on controls. We describe this proposal in our response to question 5.

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

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

31. RSM International

We appreciate and agree with the various paragraphs (as summarized in Appendix 1 to the Explanatory Memorandum) which set out how the ED can be applied to audits of small or less complex entities. However, in overall terms, it appears that the ED is more applicable to large, complex entities.

We do consider that more could be done to give guidance on how these provisions could easily be applied to these small or less complex entities. Any additional guidance for audits of small or less complex entities should be contained within the standard. We would not want to see separate guidance or, worse, a separate standard for small or less complex entities.

32. Office of the Auditor-General of Alberta

The proposed amendments appear less scalable than the current standards. For example, 315.18 "The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas . . ." is clear and concise. The proposed revision (315.35) is significantly longer and uses different wording but does not appear to change the requirements.

We also note a concern with the application guidance for public sector. Our concern is not that there is guidance provided, but instead that it appears that the "main" requirements are for entities for which

generation of wealth for owners (A55/A58) is the purpose, because A55 states that typically business models include processes important for capturing value. A58 then mentions there may be entities that, rather than creating wealth for owners, instead “promote value in the public interest.” It is not clear what “promoting value in the public interest” means. Furthermore, the audit standards should be written neutrally, without consideration for the ownership characteristics of the entity. So there should be application guidance for “Considerations specific to entities that generate wealth for owners” or “Considerations for entities that serve the public interest” and for other types of entities.

We are pleased that the proposed standard did not have differential requirements for listed entities.

33. Office of the Auditor-General of Canada

Yes, we believe the requirements and application material to be sufficiently scalable and wish to acknowledge the presence of relevant public sector considerations throughout the standard.

34. Auditor General Montreal

Clarification needed in regards of the audit work to be done in order to monitor the effectiveness of controls in a substantive audit approach

In our opinion, the indications of the Exposure Draft should be clarified, because practice shows that auditors have different ways to address that matter.

In fact, discussions between several auditors representing various sectors of activities lead us to conclude that there is no consistency in the nature or extent of the audit work that is performed to assess the effectiveness of controls in a substantive audit approach (no reliance on controls). Some auditors were adamant about the fact that every process must be monitored, while others expressed the opinion that only significant processes or processes with significant risks should be monitored.

Furthermore, the scalability, as described in the Exposure Draft, might be subject to interpretation. We think that documenting an audit file with information the auditor doesn't intend to rely on is inefficient.

Moreover, it is stated in paragraph 6 of the Exposure Draft that: « *The auditor's understanding of the system of internal control forms the basis for the auditor's intentions about whether to place reliance on the operating effectiveness of controls.* » We believe the paragraph should also indicate that an auditor could decide not to rely on the controls, for efficiency purposes among other things.

35. US Government Accountability Office

In general, we agree that the requirements and application material of ED-315 are sufficiently scalable, enabling auditors to apply ED-315 to the audits of entities with a wide range of sizes, complexities, and circumstances. We suggest that the IAASB rephrase the last sentence of paragraph A116 to clarify that regardless of whether the risk assessment process is formally established, the auditor is still required to obtain an understanding as detailed in paragraph 29. Also, as discussed in our response to question 5(c), we believe that ED-315's discussion of information technology (IT) should recognize the potential effect of general controls on an IT environment consisting of commercial software. For example, inadequate access controls could result in inadequate segregation of duties.

36. Swedish National Audit Office

We agree on the ambition to enhance the scalability of the standard. We believe that the usefulness of the guidance provided will be determined by the practical application and it is difficult to foresee whether the proposed changes are enough to achieve the desired scalability. The revised ISA 315 allows for the auditor to consider issues related to scalability, but we believe it would be helpful to provide more practical guidance and perhaps update the already existing guidance provided by IFAC/IAASB (Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities)

37. Wales Audit Office

- We welcome the attempts in the proposed Standard to provide guidance on scalability as application of this Standard has been a particular challenge for small and less complex bodies.
- We strongly agree with the recognition of the importance of both scale and complexity in determining appropriate audit approaches.
- However, we remain concerned that the overall complexity of the proposed Standard remains a barrier to effective and proportionate implementation in such bodies.

38. ACCA-CAANZ

We believe that the methodology of ED-315 has the potential to be sufficiently scalable. We support the approach taken by the task force in including a specific paragraph on scalability early in the introductory paragraphs.

In order for ED-315 to fulfil its potential to be scalable, practitioners need to be able understand the requirements and the procedures it contains. As we have already stated, we believe ED-315 as currently drafted is overly complex and too long. This raises concerns that it will be difficult for smaller practices and sole practitioners to understand. Due to its complexity, the implementation of the revised requirements is likely to take a long time and effort to be adopted into firms' methodologies and the costs of doing this will fall disproportionately on smaller practices.

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

The reference made to 'smaller and less complex' raised a number of questions as to whether the same guidance is applicable in the case of 'large and less complex' entities too. Although we do understand that it is based on professional judgement, the reference made to both size and complexity causes confusion. We suggest making reference only to complexity, rather than size, as this seems to be the main driver of the work effort in the standard, while noting that size may be an indicator of the level of complexity.

39. Accountancy Europe

Introductory paragraphs

Regarding the concept of 'entities that are both smaller and less complex', the construction and conventions that require 'smaller and less complex' to be interpreted (and explained) as meaning 'smaller as well as less complex' is regrettable. In plain English, smaller and less complex can be construed as meaning either smaller entities or ones that are less complex or as smaller entities that are also less complex. Either way, ED-315 should make it clear that large non-complex entities and more complex small entities are excluded. It only adds to the confusion to state that the related issues might also be relevant to larger entities in *paragraph 13*. In general, ISAs should better support audits of small *or* non-complex entities. It is also very hard to square this aspect of ED-315 with the IAASB's recently approved project on less complex entities; these projects should better link together.

Removing the specific considerations to small or non-complex entities from the text of the standard to the application material and incorporating the text elsewhere has not really improved the situation. As they stand, the proposals do not facilitate the application of the standard in this specific environment.

Question 2:

In our view, a 'think small first approach' in revising the extant ISA 315 would have been a better solution to enhance the scalability of the standard. This should not mean adding specific guidance to all facts and circumstances relevant to the simple, lower-risk environment. Since the IAASB did not adopt this approach in revising the standard, it should ensure that ISA 315 is fit for purpose for all audits globally.

To determine the work effort required to apply ED-315 in a less complex, lower risk environment, auditors need to peruse the entire standard in its complexity, to then decide what are the requirements applicable to their environment. For fundamental parts of the standard (e.g. the extent of consideration of design and implementation of controls in a fully substantive audit), the extent of work is not clear for smaller or less complex entities.

We acknowledge that for many (but not necessarily all) smaller or less complex entities, a basic work effort is required in relation to controls, for example the area of the segregation of duties and approval of journal entries. However, introducing a drill down for all audits and at the same time not clarifying the work effort required on controls in the smaller or less complex entities environment will lead to auditors doing more work than actually appropriate in this area, hindering scalability. This could indeed lead auditors to focus on aspects that add little value to the audit of these entities, but at the cost of diverting focus from other key areas (or adding costs without a commensurate increase in audit quality). We are concerned that ultimately this could be detrimental to users' perceptions of the value of the audit in this sector of the audit market worldwide.

The concept of 'entities that are both smaller and less complex' introduced in *paragraph 13* of ED-315 is confusing. In plain English, smaller and less complex can be construed as meaning either smaller entities or less complex or as smaller entities that are also less complex. ED-315 should make it clear that large non-complex entities and more complex small entities are excluded. It only adds to the confusion to state that the related issues might also be relevant to larger entities in *paragraph 13*.

ISA 200 already defines 'small entities' as less complex entities, without considering the size criteria. Having two sets of concepts that aim to define the same notion is an ineffective approach. It potentially results in having two thresholds that address scalability in the standards: the one of ISA 200 ('small entities'), doubled by a second determination of a more restricted population of 'smaller less complex entities'. The ISA 200 definition of 'small entities' is sufficient for the moment, until the project approved in September to explore possible actions for dealing with the perceived challenges of conducting audits of less complex entities has delivered its conclusion.

In addition, the standard does not make it clear whether larger less complex entities could also benefit from the scalability option (*paragraph 13*), while determining whether the less complex criteria is met should be a matter of professional judgement depending on the specificity of each situation. The numbers being larger does not necessarily mean increased complexity, risk, or public interest: we consider that the standard should allow auditors to exercise professional judgment in determining whether larger non-complex entities are included in the broader spectrum of small entities.

Removing the specific consideration to smaller entities from the text of the standard to the application material does not serve this purpose and does not facilitate the application of the standard in this specific environment and will have significant consequential bearing on the standards revision process moving forward.

Please refer to our response to *Question 5*, section a), below, for considerations related to the requirement to understand and document all components of the entity's system of internal control, the controls relevant to the audit and IT considerations, from a scalability standpoint.

40. AICPA

Scalability – introductory comments

We appreciate the effort to propose a risk assessment approach that is scalable, in particular as the risk assessment approach for private company audits contemplates different financial statement users than listed entity audits. In that regard, we note that paragraphs A106, A120 and A123 discuss the informal nature of elements of a system of internal control in many smaller, less complex entities. Due to the importance in ED-315 of the determination of whether controls have been implemented, we recommend these paragraphs also note that such elements may not be clearly documented, depending on management's resources and other considerations. Therefore, it may be necessary for the auditor to observe other evidence in obtaining an understanding of the elements in such entities, for example, management's review of the monthly financial statements whereby such review is demonstrated by e-mail or other electronic correspondence evidencing that such review occurred, instead of initials or the completion of a hardcopy checklist. We believe acknowledgement of situations in which controls are not formally documented combined with guidance about observing such indirect documentation of the operation of controls, would enhance the scalability of the standard in audits of these entities.

Additionally, given the current profession focus on controls consisting of management review of the accounting for transactions or events outside of routine transaction cycles, particularly in the context of controls over significant estimates and nonstandard journal entries, we recommend that the guidance in paragraphs A160–A165 be enhanced to address the extent to which an auditor needs to understand the specific control procedures performed by management, and the controls over data used by management in performing these procedures. This additional guidance could be addressed in an IAPN instead of in the application material. Articulation of expectations of the auditor in this area could significantly impact the

scalability of the standard. For example, the degree of understanding of these details may vary in smaller, less complex entities. If an entity has a strong control environment, it may be more likely that a management review control is being performed conscientiously and effectively, whereas in an entity with a poor control environment, the auditor may need to make more detailed inquiries about how the individual performs the control to reduce the risk that to the auditor inappropriately designs further audit procedures based on an inadequate understanding of the extent to which the control has been implemented.

Finally, we found Appendix 1 to the Explanatory Memorandum very helpful in highlighting the specific paragraphs where the IAASB intended to address issues of scalability. We recommend that this Appendix be retained as an appendix to the final standard.

Question 2:

Please see our Overall Comments above and also refer to our comment regarding paragraphs 27–34 below with respect to clarifying the work effort required in gaining an understanding of internal control.

41. Center for Audit Quality

Scalability – general comments made

It is important that any improvements to existing auditing standards result in scalable requirements and application material that audit firms of all sizes can apply to companies of all sizes. The identification and assessment of risks should not be based on the size of the entity or audit firm. We are supportive of the removal of “considerations specific to smaller entities” throughout the Exposure Draft. We also are supportive of the introduction of application material that provides considerations for audits of entities that are both smaller and less complex contrasted with considerations for audits of entities that are larger and more complex. However, we are not convinced that the application material as drafted clearly demonstrates that the standard is scalable. The final standard should more explicitly acknowledge the variability of entities to which the standard will apply, and efforts should be made by the IAASB to ensure the requirements are sufficiently principles-based so they are capable of being appropriately scaled, with guidance to support those requirements. In this regard, clarifying the extent of understanding of internal control and how the concept of controls relevant to the audit applies when auditors intend to take a more substantive approach to obtaining evidence is essential.

We also have concerns about the length and complexity of the standard. We believe that having the large number of requirements and paragraphs of application material, and multiple flow charts could indicate potential scalability issues and could obscure the most relevant guidance, impairing the auditor’s ability to scale or apply the requirements in the Exposure Draft to smaller entities. We encourage the IAASB to continue to consider what additional actions may be needed to demonstrate the scalability of the standard in light of its length and complexity, for example considering whether other mechanisms to provide implementation guidance may be more effective, such as guides and tools.

42. Chartered Institute of Public Finance & Accountancy

The proposals focus on the level of complexity rather than size, and may help with the totality of understanding by providing a more detailed discussion of how risks may not apply to less complex entities.

However, as explained in our response to question 1, the main body of the standard is over long and contains too much detail. Putting more of this material in Application Guidance would make the standard

more readable, while facilitating more focused reading of the more detailed material, having regard to those aspects of the material which are fully, partially or not relevant to the entity being audited.

43. CPA Australia

Whilst we acknowledge that the IAASB has sought to allow for scalability, the very size and complexity of the standard will make scaling it challenging. The approach taken in the ED is that it addresses more complex entities in the requirements and then in effectively scales back the work effort for less complex entities in the application material. We have a difficulty with this approach as we consider that a principles-based standard should really start with the basic requirements which apply to all entities and scale up the work effort for larger or more complex entities.

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

Scalability could also be facilitated by providing examples demonstrating sufficient procedures for a risk assessment for a small non-complex entity or contrasting risk assessment procedures for a complex and non-complex entity in the same sector.

44. EFAA

Introductory comments:

ISA 315 (Revised) is essentially the bedrock of the risk-based audit making it the single most important ISA. This means it is critical we get it right and that it can be applied in a proportionate manner to audits of smaller and less-complex entities. While we appreciate the efforts taken to improve the extant standard - in particular, to modernize it to reflect developments in technology – and that it will likely improve the audit quality of larger more complex entities, we have reservations about the length and complexity of the standard and, ultimately, whether it is sufficiently scalable for audits of smaller and less-complex entities. While the flowcharts are essential aids to navigating and understanding the standard, they simultaneously demonstrate the ED's complexity. If the standard were simpler then they may not be required.

We believe the ED-315 will need to be extensively reworked if it is to meet the test of scalability. In the absence of such changes there is a high risk that the standard will erode the effectiveness and efficiency of audits of smaller and less complex entities. Ultimately, this may trigger widespread rejection of the standard by those auditing smaller and less-complex entities and lead to further calls for different standards for audits of smaller and less complex entities from those for audits of listed companies and other public interest entities (PIEs). Hence, we strongly recommend that the IAASB investigate how it might build further scalability into the standard and, simultaneously, initiate the timely development of implementation support for audits of smaller and less complex entities.

We note the infusion of concepts from the PCAOB's auditing standards. While international harmonization is generally welcome, we question whether introducing such concepts, designed for large listed entities in an advanced Western economy, lend themselves to a standard used in the audits of SMEs around the

world. The PCAOB did not have non-complex, small and scalability in mind when they developed them. We therefore urge caution in adopting such concepts for all audits.

ED-315 is highly sophisticated and we believe likely to encourage auditors of smaller and less-complex entities to box tick the risk assessment and eat up time and resource that does not contribute towards audit quality. It is vital the IAASB simplify the proposals.

Question 2:

As we have stressed before multiple data sources prove that SMEs collectively constitute the vast majority organizations by number and the majority of private sector GDP and employment as well as social and environmental impacts. Most SMEs are micro-entities and, as our survey cited above revealed, a significant proportion are owner-managed family-controlled entities, which are straightforward businesses where the auditor typically undertakes simple risk assessment procedures.

Overall, we are concerned about the length and complexity of the proposals. Rather than ease the challenge SMPs presently face in trying to understand and apply the risk-based audit approach of the ISAs, we believe the proposals will exacerbate the challenge and result in greater work effort. Ultimately, this may render the audits of smaller and less-complex entities inefficient from a cost benefit perspective. We therefore strongly encourage the Board to redouble its efforts to ensure the scalability of this and other ISAs for audits of smaller and less-complex entities. We believe audits of smaller and less-complex entities yield significant value and benefits to such entities, as our research cited above indicates, and these benefits stand to be dwarfed by excessive costs if ISAs continue to get more complex.

We suggest that scalability can be enhanced by, for example, emulating the approach taken in the recently completed ISA 540 whereby upfront the standard explicitly states that it can be tailored through the professional judgement of the auditor based on the size, complexity and circumstances of the entity.

While we welcome efforts to make the ISA more scalable, including the placement of matters related to scalability at the start of some sections, we question the usefulness of some of the scaling statements in the application material, such as A16.

We question the need and practicality for auditors of small and less-complex entities to have to read and fully understand all the ISAs in order to determine the relevance or otherwise of the content according to different entities circumstances. And we also question the use of 'Special Considerations in the Audit of Small Entities' integrated into the text. Some SMPs believe this impairs usability and is unhelpful. Moreover, we would argue that a truly scalable standard would not need 'Special Considerations in the Audit of Small Entities' but rather 'Special (or Additional) Considerations (or Requirements) in the Audit of Larger / Complex Entities etc.'

Small entities will typically use off the shelf commercial software that cannot be changed by the entity. It should be made clear that in these circumstances, the auditor may determine that certain controls over IT applications will not be relevant to the audit and, accordingly, suggest the use of a conditional requirement to help enhance scalability.

We support certain improvements such as: the introduction of a spectrum of risk, as this enhances scalability; and the acknowledgment that communication may be less structured in smaller and less-complex entities (A159), the formality of controls may vary (A161) and it may be less practicable to establish segregation of duties (A164).

We are less supportive of much of the new concepts introduced which seem over engineered and confusing for example: inherent risk factors which overlap considerably; the definitions of relevant assertions and significant classes of transactions, account balances and disclosures; and a new level of risk assessment which involves consideration of 'potential' risks before actual risks are considered. We also question the merits of requiring a risk identification not only at financial statement level and for inherent risk but also at a level below assertion level, often known as 'drill down'. We understand that the work effort required involves a drill down identification of every departure from an accounting requirement that could go wrong below assertion level. Such a work effort is excessive and undermines cost: benefit balance in a smaller and less-complex entity environment.

We recognize the unresolved differences of opinion regarding the need for auditors to understand controls where a fully substantive audit approach is taken. We hope that the IAASB's project on the audit of smaller and less-complex entities will, amongst other things, investigate alternatives to mandating work on the design and implementation of controls and so we question the merits of inserting the new and untested additional material on IT and controls into the standard itself at this time (as opposed perhaps to the appendices). We note that firms are tending to move away from testing certain controls and conducting analytical procedures and towards extensive tests of details and this trend may accelerate thanks to advances in the use of data analytics. Overall, the standard reads as if to support large firm approaches rather than as a principles-based standard.

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

45. Finnish Association of Authorised Public Accountants

No, in our opinion the standard is not scalable enough.

The majority of Finnish companies are small, and many of them are audited only after the year-end when the financial statements are completed. Therefore the whole audit process (incl. risk assessment procedures, further audit procedures and reporting) is performed in one or two days (or even less).

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

Majority of smaller Finnish companies use an 'off-the-shelf' software for accounting. They also generally outsource their accounting. The level of complexity in the revised standard as regards to understanding and evaluating the D&I of the IT environment is too heavy for a vast majority of Finnish companies.

Therefore, an exception to the requirements should be incorporated in the standard regarding smaller entities using 'off-the-shelf' software. The Standard should be clearer on the work effort required from auditors in such cases – e.g. a minimum requirement to assess the modifications or updates made to off-the-shelf software package or the modification of standard report functionalities.

Many auditors in Finland have been combining the inherent risk and controls risk, as permitted by the extant ISA315. For them, the suggested change to consider these two separately will make the risk assessment more robust but somewhat increases the time spent in the risk assessment phase. According to the revised ISA 315, control risk should be assessed at the maximum if no controls testing is done. Since the described situation is common in small Finnish engagements, more guidance is needed about how and how much the presumed maximum control risk affects the further audit procedures. Also in general, more guidance is needed about what is the effect of inherent risk assessment and control risk assessment, as well as their joint effect, on the audit procedures. For example, if inherent risk is considered low and control risk at maximum, what is the impact on the nature, timing and extent of audit procedures accordingly? The guidance could be added to either ISA 315 or ISA 330.

In the extant as well as in the revised standard, the SMPs need to read the whole standard and all material, and then decide how to scale down the requirements. Instead of having to scale down, all standards should be scalable upwards. There should be a general and clear standard for all kinds of audit engagements added with additional requirements for large and complex entities. That way the effort of scaling would fall on the large teams and audit firms, not vice versa.

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

We believe that the ED-315 has focused its capacity on the requirements and material to be applied to the audits of entities with a wide range of circumstances and of different complexity and are sufficiently scalable. The ED-315 has aggregate scalability conditions and examples of simple issues or circumstances compared to more complex ones.

47. FSR Danske Revisorer (Denmark)

As stated in our response to question 1, we do not believe that the standard is made sufficiently scalable because the standard is not appropriately designed for audits of small and less complex entities.

In our opinion, the standard should be designed differently to become truly scalable. In our view, the basic risk assessment should start with the requirements needed to assess risk and internal control systems for small and less complex entities, as for example described in the Nordic Auditing Standard (SASE). These basic requirements can then be expanded with more rigorous requirements needed to assess risk and internal control systems of more complex entities as well as public interest needs. This will, in our view, create a simpler and understandable standard, that is tailored to different auditors' needs when auditing different types of entities.

The overall length and complexity of the standard does, in our opinion, underpin that the standard is not appropriately designed for scalable application. In particular, we believe this is the case with the requirements on understanding the entity's system of internal control, that do not clearly describe where it would be appropriate for the auditor to do less.

In paragraph 13, the standard explains that the application material incorporates considerations specific to audits of smaller and less complex entities. The application material is only explanatory and, therefore,

does not have the same authority as the requirements. This creates a fundamental challenge that needs to be overcome, as the scalability depends on the clarity of the requirements in the ISA's and how they apply to audits of varying size and complexity.

48. Interamerican accounting association (South America)

Yes. The requirements incorporated in the project as additional to those already considered in the current version of ISA 315 (Revised) that is being modified, we understand that they have sufficient capacity to increase the identification and evaluation of the relevant risks in the audit of financial statements of diverse nature, size, complexities and circumstances of entities and the diversity of their activities.

49. Instituto dos Auditores Independentes do Brazil

We recognize the efforts in incorporating the scalability throughout the standard. The number of paragraphs mentioning 'smaller and less complex entities' increased significantly, which is always helpful to clarify the issues for these kind of entities. However, we are concerned that the overall length and complexity of the standard are barriers to its scalable application and we believe that additional non-authoritative guidance for smaller and less complex entities to support the implementation of ED-315 consistent with the IAASB's project proposal should be provided.

50. IBR-IRE

Introductory comments

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

Therefore, we would welcome specific requirements for SMEs or general requirements that are scalable with regard to identifying and assessing the risks of material misstatements.

We believe that it is feasible to make the requirements themselves scalable. We would like to illustrate this with the following two examples:

- As to the requirements dealing with the information system and communication (paragraphs 35-37 of the ED), the fourth sentence of paragraph A181 could be elevated by modifying paragraph 35(d) as follows:

35. (d) The entity's IT environment relevant to (a) through (c) above. However, when an entity uses an IT application that is reputable, widely-used and considered reliable, is unable to change its programming, and maintains hard-copy accounting records, the auditor shall conclude that

there are no IT applications relevant to the audit. In such a case, the auditor is likely to be able to obtain audit evidence about the completeness and accuracy of the information produced by the entity through substantive testing without the need to test controls over its production (Ref: Para. A144-A150 and Para. A180-A182).

- As to the requirement relating to controls relevant to the audit (paragraph 39), it would be very helpful to explain in the requirement how it would apply to SMEs, particularly paragraph 39 (e) about evaluating the design of controls relevant to the audit. This could be done by elevating the material in A167 that relates to SMEs to the requirement in paragraph 39. Also, we do not understand why the material in A167 refers to controls over journal entries as this paragraph has to be read more broadly.

51. Institute of Chartered Accountants in England and Wales

Introductory comments

- The proposals, as they stand, are unlikely to be applied to smaller and less complex audits without creating significant confusion and inconsistent application. That, of itself, is a public interest issue and compelling reason to revisit the entire text with the sole aim of rationalization. This issue is compounded by a lack of clarity about which entities are encompassed by the description 'smaller and less complex entities'. Our outreach indicates differing interpretations in this area and the fact that such a rudimentary issue was not highlighted and resolved by IAASB, prior to exposure, is particularly worrying.
- While some of the new material listed in the scalability paragraphs in the Explanatory Memorandum is helpful, and a clear improvement on the extant standard, whether it will in practice, achieve the improvements sought by audit regulators is a moot point. If IAASB is to reduce the risk of the slow abandonment of ISAs for SMEs at a national level, it will need to do more to make this standard genuinely scalable for smaller entities. Scalability for smaller audits is not an 'implementation issue'. The belief that standard-setters need not concern themselves with smaller audits *per se*, because IAASB's main customers are the capital markets and because the capital markets are where the public interest lies, is particularly pernicious. We disagree with this approach, which is wrong in principle, and short-sighted. Further guidance and illustrations, outside the standard, produced by IAASB rather than NSS, are essential to ensure consistency of application internationally.

Question 2

- No. The requirements and application material are not sufficiently scalable to be workable for the audits of smaller and less complex entities. We acknowledge the work that has been performed to enhance the scalability of this document for larger more complex organizations but as they stand, the enhancements made for smaller and less complex audits are inadequate. If IAASB is to prevent the slow abandonment of ISAs for SMEs at a national level, it will need to do a great deal more to make this standard scalable for smaller and less complex entities. We believe this is a public interest issue.
- Scalability is regarded by too many as an implementation issue to be dealt with by firms, training providers and professional bodies. IAASB's recently approved and long overdue project on the audit of less complex entities will not compensate for a lack of scalability in ISA 315. The belief that increasing audit exemption limits are reason to be less concerned about smaller audits is in some respects a self-fulfilling prophecy. The belief that standard-setters need not concern themselves with such audits, because IAASB's main customers are the world's capital markets and that the capital

markets are where the public interest lies, is pernicious. We disagree with this approach which we believe to be wrong in principle and short-sighted.

- For scalability to be achieved at the smaller end, it is critical that the work required by the revised standard, particularly on controls and IT, eliminates existing redundancies and avoids introducing more. Unfortunately, we are not convinced that either of these objectives has been achieved and we fear that the proposals as they stand will create significant confusion and inconsistent application for smaller audits. We urge IAASB to consider these areas again before finalization. We make more detailed points on these issues in our answer to Q5 below.
- Further guidance and illustrations, outside the standard, produced by IAASB rather than NSS, are essential to ensure that the standard itself is sound and is consistently applied internationally. If this is left to NSS, the inconsistencies that will inevitably arise will highlight, all too soon, flaws in the standard itself. This would be a highly undesirable outcome and would further compromise the credibility of IAASB as the global auditing standard-setter for SMEs.
- Specifically, more guidance and examples are needed for smaller and less complex audits in the areas of:
 - The nature and extent of work on the design and implementation of controls in primarily substantive audits (paragraphs 39-42) and on IT systems, control components and system generated reports more generally;
 - Evaluating where a risk lies on the spectrum of risk;
 - Documentation, particularly in terms of the two points above, and in terms of understanding the business model, the control environment (paragraphs 27 and 28), the entity's risk assessment process (paragraphs 29-31) and its process to monitor controls (paragraphs 31-34).
- Putting aside the detailed improvements proposed regarding smaller and less complex audits, overall, this standard will require more work and increase costs on all audits. To the extent that this will change behavior and result in better quality and more consistent risk assessments, this is justifiable. But for many audits it seems likely that because of the level of methodological complexity introduced, such improvements will be hard to discern. It also seems possible that the proposals might actually detract from audit quality in some cases, as a result of too much time spent on navigating the standard, and too little on the significant audit issues. While it is possible to take the view that firms who struggle this way need to consider whether they should be performing audits at all, it is also possible to take the alternative view that the extant standard is not really fit for purpose for smaller audits, and that the proposals simply make the situation worse. This line of thinking is one of several underlying IAASB's project on the audit of less complex entities. We welcome that project but ISA 315 needs to work for smaller audits now. Scalability for smaller audits cannot simply be offloaded in the hope that the new project will deal it. Once this ISA is finalized, it will be too late.
- Paragraph 13 refers to considerations specific to 'smaller entities which are also less complex', which is unambiguous in plain English. This terminology should be used throughout, rather than the phrase 'smaller and less complex entities', because the latter construction is ambiguous and begs the question as to whether the two characteristics apply independently of each other, which is not the intention. While we agree that some larger entity audits may be less complex, we do not think it is helpful to state that the relevant considerations may also apply in such cases. All of that said, we note some opposition in our outreach to the notion that the relevant considerations should be limited

to less complex smaller entities, and a belief that they can and should apply to less complex entities of any size. We also note (a) a lack of clarity arising from the ISA 200 definition of smaller entities which already includes the characteristic of uncomplicated operations, and (b) IAASB's recently approved project on the audit of 'less complex entities', but not necessarily smaller ones. Taken together, rightly or wrongly, it is hard to avoid an unfortunate impression that IAASB is simply unwilling or unable to grasp the nettle of smaller audits *per se*.

52. Institute of Chartered Accountants (Ghana)

Yes, the requirements and application of ED-315 are sufficiently scalable considering the fact that ED-315 requires auditors during engagements to understand and appreciate the entity, its environments and its complexities and also the fact that IAASB innovatively has embedded scalability in Exposure Draft 315 to look at clients of all sizes and different operations. While paragraph 13 introduces the concept of scalability, the application materials actually provide the detailed guidance on how to scale the individual concepts/steps that are addressed in the standard. Appendix 1 provides an extensive list of references to scalability.

53. Institute of Chartered Accountants of Pakistan

We agree with the IAASB approach of scalability of the risk assessment requirements to varying nature and sizes of entities and circumstances. The application material is sufficiently scalable and can be applied to the audit of entities with a wide range of sizes, complexities and circumstances.

However, we note that the length of the proposed revised standard could be a barrier to its application to audit of less complex entities. We understand that IFAC has issued an Audit Guide for audit of SMEs, and more guidance and examples on how to effectively scale the work effort to less complex entities may be included in the revised standard for improved understanding and scalability.

54. Institute of Chartered Accountants of Scotland

Introductory comments:

However, as our membership comprises many smaller audit firms, we are particularly disappointed that the specific headings '**Considerations specific to smaller and less complex entities**' have been removed in the ED and would prefer that these references are retained within a separate heading: **Smaller and less complex entities**; within the revised standard. This would enable auditors of such entities to easily identify the relevant paragraphs without having to refer to the full body of the standard, which is contradictory to the objective for the ED to be sufficiently scalable.

We note the comment in paragraph 4 of the Explanatory Memorandum to the ED regarding the scalability challenges faced by auditors of SMEs when applying extant ISA 315, in particular those related to the extent of work to be performed when the auditor does not intend to rely on the operating effectiveness of the entity's internal controls. We do not identify with this as one of the key limitations of extant ISA 315.

Question 2:

We welcome the use of the revised terminology of smaller and less complex entities as the current reference, which is limited to small entities, does not acknowledge that there may be some small entities with some complex issues and, equally, larger entities with no complex issues.

However, we are disappointed that specific references to smaller and less complex entities have been removed in the ED and would prefer that these references are retained within a separate heading: **Smaller and less complex entities**; within the revised standard. This would enable auditors of such entities to easily identify the relevant paragraphs without having to refer to the full body of the standard, which is contradictory to the objective for the ED to be sufficiently scalable.

55. Institute of Chartered Accountants (Zimbabwe)

Yes, the requirements are scalable and the application guidance which will be for audits of smaller entities which are also less complex, should help the auditor to further scale the standard from the application of more complex and larger audits

57. Institute of Public Accountants

Other than the intrinsic scalability relating to complexity and scale of the client's operations, ISA 315 is not otherwise scalable. The limited guidance included in the standard is of some use, but does not address the primary issue that smaller engagements are often fee constrained and this constraint coupled with the overall under appreciation of the importance of audit planning process (including knowledge of the client's system and processes) often results in smaller engagements concentrating on "doing the audit" rather than planning.

In addition, the IPA disagrees with the ISA 315.A224 statement that smaller entities may have a greater proportion of assessed inherent risks at the lower end of the spectrum. The IPA is of the view that many instances of audit failure in relation to smaller entities can be directly attributable to such assumptions ignoring the impact on inherent risk of dominance of management (even owner managers), the limitation of funding sources and the lack of internal controls, management experience and oversight. The IPA strongly recommends this paragraph be deleted.

59. Malaysian Institute of CPAs

MICPA understands that, as in most other ISAs, ED-315 is principle-based and has provided a robust framework in understanding the entity's business and system of internal control.

However, there is a concern whether the detailed requirements may imply a rigid approach to the application of the framework as it is not clear in the standard where the auditor could do less and under which circumstances doing less is appropriate. This is particularly in 'smaller and less complex' audits, the planned audit approach would be significantly substantive in nature with no or little reliance on controls. Accordingly, more guidance and greater clarity on what may be appropriate under these circumstances will greatly improve the scalability and practical application of this standard to audits of a wide range of sizes, complexities and circumstances.

60. New York state society of CPAs

The requirements and application material in the exposure draft are relevant to most entities, regardless of size or complexity. The standards are far-reaching and relate to the overall considerations in a financial statement audit. The exposure draft does not discuss, on a detailed level, the complex processes an auditor may encounter in the audit of a larger organization; guidance, however, should be provided when such matters may be present.

61. PAFA

PAFA appreciates the IAASB's point in relation to all standards being applicable to audits of all size and types and consequently agrees with the removal of the "considerations specific to smaller entities" section. It is PAFA's view that this will enhance the application of professional judgement and minimize the bling application of such explicitly stated consideration regardless of complexity. PAFA believes that the inclusion of the introductory paragraph is adequate to achieve the scalability objective.

62. SAICA (South Africa)

A vast majority [83% (130/156)] of survey respondents answered "Yes" to a question whether they believe that the concepts and principles pertaining to the identification and assessment of the risks of material misstatement apply to entities of all sizes, complexities and circumstances, from smaller and less complex entities through to large and complex entities. This is consistent with the general view that an audit of financial statements follows a risk based approach irrespective of the size and complexity of the audited entity; however, the manner in which certain requirements would apply and the extent of the work effort may differ.

75% (112/150) of the survey respondents predominantly agree that the specific actions taken by the IAASB will enhance the scalability of the standard; however, only 10% (16/150) selected the "strongly agree" option.

When asked if there were any other approaches or actions that the IAASB should consider in enhancing scalability, a majority [58% (86/146)] of survey respondents were unsure at this stage. From the individual comments that were provided, a number of survey respondents suggested additional or supplementary guidance including further examples. A staff publication that explains how scalability should be practically applied when auditing small and less complex entities was also suggested.

SAICA interprets the above survey results as a possible indication that although there is general acknowledgement that the requirements encapsulated in the risk identification and assessment process are applicable to entities of all sizes and complexity, and an appreciation for how the ED is emphasizing scalability at a principle level, there is still a sense of "but how will this work in practice"; hence the comments calling for supplementary guidance, more examples and implementation assistance. A few respondents requested that the separate sections on 'considerations specific to smaller entities' should be reinstated; however, this is probably also driven by the same need for additional guidance and not yet being familiar (and comfortable) with the new approach that is being followed.

Overall, SAICA agrees that it is not simply the size of the entity, but also the level of complexity in relation to, for example, the entity's business model and its financial reporting processes that drives scalability. SAICA agrees with the reasons for removing the sections on 'considerations specific to smaller entities', i.e. the guidance is not always unique to smaller entities, but may also be applicable to other entities and the auditor therefore has to apply professional judgement when applying the requirements to the audit of a specific entity. We understand that the information under the 'considerations specific to smaller entities' sections have been retained and reworked and were therefore not removed from the standard.

A particular concern could be that by removing the extant 'considerations specific to smaller entities' sections, the visibility around scalability has been compromised. We appreciate that the separate sub-section, "Scalability" as part of the Introduction section of the ED (paragraph 13) is intended to counter this perception. However, it may be necessary to consider retaining some of the visibility, for example, including

an appendix where references to smaller and less complex entities are summarized, or highlighting the areas where the contrast between smaller and less complex entities, and larger and complex entities may be of particular relevance.

It is also suggested that the IAASB do a final review of where it may be possible to provide additional contrasting examples in the application material, including a few examples to illustrate how scalability applies to a more complex entity.

Finally, the SAICA working group raised a question whether the IAASB's message from the explanatory memorandum that scalability is affected by the size and complexity of the entity comes through strong enough in ED-ISA 315, paragraph 13. The message from the IAASB webinars should be incorporated in the standard, namely: Scalability should be seen as a continuum starting from small and less complex entities through to large and complex entities. The auditor will have to determine where on the continuum the entity lies and apply his/her professional judgement on how to apply the requirements.

63. SMPC

According to the [World Trade Organization](#) SMEs represent over 90 per cent of the business population, 60-70% of employment and 55% of GDP in developed economies. The majority of SMEs are 'micro-entities' (1-9 employees) and a significant proportion are family enterprises, which are primarily non-complex where the auditor typically undertakes simple risk assessment procedures.

Overall, we are concerned about the length and complexity of the proposals, and the impact of insufficiently clear or inappropriate terminology on application as discussed elsewhere in this letter. We fear that this means, going forward, risk assessments will involve more work, which may not necessarily improve audit quality and ultimately making ISA audits inefficient from a cost benefit perspective for smaller and less-complex entity audits. We therefore strongly encourage the Board to continue focusing on the scalability of the standard for smaller audits as it works towards finalization. In our opinion, it could be clarified upfront – as in the recently finalized ISA 540 - that the standard can be tailored through the professional judgement of the auditor based on the size, complexity and circumstances of the entity. In this context, we also refer to our response to question 1(b).

We support the placement of matters related to scalability to the start of some sections, so that auditors are able to better consider the material that follows in context. However, whilst we recognize the importance of auditors fully understanding and reading all the ISAs in order to determine if/ how to apply the relevant content according to different entities circumstances, the volume of material makes this particularly challenging.

We note the approach to building current matters applicable to "considerations specific to smaller entities" into the text of the standard. However, some practitioners are concerned that this has decreased its usability and that this type of signposting is very helpful. The IAASB should consider how the table on scalability in Appendix 1 of the ED is utilized to assist with implementation support. In addition, we note the explanation provided in paragraph 45 of the explanatory memorandum regarding commercial software that cannot be changed by the entity, which will be the case for many small entities. The requirements section does not clearly illustrate that in these circumstances, the auditor may determine that certain controls over IT applications will not be relevant to the audit. We believe that the use of a conditional requirement in this context might be helpful, to help highlight this specific aspect of scalability.

Improvements we support include the differentiation between direct and indirect control components, clarification regarding which controls are relevant to the audit, the introduction of a spectrum of risk and – with certain reservations (see response to question 6 [e]) – the updated definition of significant risks. We also support the references to IT issues in the context of off the shelf packages to which entities do not have the source code.

We specifically support the acknowledgment that communication may be less structured in smaller and less complex entities (A159), the formality of controls may vary (A161) and it may be less practicable to establish segregation of duties (A164).

We are less convinced by the inherent risk factors which overlap considerably, and the definitions of relevant assertions and significant classes of transactions, account balances and disclosures which overlap and seem very convoluted. We do not understand the need to equate a ‘reasonable possibility’ of a material misstatement with one that is ‘more than remote’ and we do not agree that this makes sense in plain English.

We are concerned about the apparent introduction of a new level of risk assessment which involves consideration of ‘potential’ risks before actual risks are considered. In this context, one key concern is that the convoluted drafting (i.e., the use of definitions to set thresholds and use of “requirement type” explanatory material to further impact practice) does not sufficiently clarify the required depth of risk identification.

We are concerned that if practitioners refer to the text of the requirements (but do not have in the back of their minds the details of the related definitions) they may not fully appreciate the thresholds intended to limit the use of professional judgment in determining the “significant class of transactions, account balance or disclosure”. They may miss the fact that it is necessary to read first the definition of “relevant assertion” (which introduces the threshold of more than remote likelihood of occurrence of a misstatement that is either material individually or in combination with other misstatements) and then relate this to the definition of “significant class of transactions, account balance or disclosure” within which “relevant assertion” is included. Using the text of definitions in this way to set this low threshold of more than remote means that the impact may not be sufficiently clear to practitioners, and this can lead to inconsistency, which we consider should be revisited.

Our reading of the ED leads us to conclude that ED ISA 315 requires a risk identification not only at financial statement level and for inherent risk (which is defined at the assertion level) – both of which are in line with extant ISA 315, but also at a level below assertion level (firm methodologies often call this a “drill down”). Specifically, as explained in para. 62 of the Explanatory Memorandum, the new proposed stand back refers to the need for consideration of whether there could be “one or more risks of material misstatement at the assertion level”. ED ISA 315 A9 states categorically “there will be one or more risks of material misstatement that relate to a (i.e. every) relevant assertion”. Thus, our understanding is that the work effort required involves a drill down identification of every departure from an accounting requirement that could go wrong below assertion level. This is excessive in an SME /less complex entity environment, and if retained, will ultimately be detrimental in terms of achieving a cost-benefit balance for an ISA audit in the smaller and less complex entity audit market. The required use of a drill down is also set forth by the use of the term “identify the risks of material misstatements” in much of the draft, even though a combined risk assessment of inherent and control risks is no longer permitted: if the use of the term means only “the risks of material misstatement at a financial statement level and inherent risks (which are defined only at an assertion level)”, this is what should be used rather than “identify risks of material misstatements”, which would be interpreted

as a drill down given the guidance in A9. In this context, we recommend a review of the present tense sentences in the application material, which in practice may be considered to constitute secondary requirements by adding detail to the requirements which they are intended to explain.

We note that there remain fundamentally unresolved differences of opinion regarding the need for auditors to understand controls where a fully substantive audit approach is taken. It would be unfortunate if IAASB's project on the audit of less complex entities were to find, for example, that there *is* an alternative to mandating work on the design and implementation of controls after finalization of ISA 315 (Revised). The important point for IAASB to consider at this stage is whether all of the new and untested additional material on IT and controls really belongs in the standard itself, in the light of the fact that even larger firms are moving away from testing certain controls, and even analytical procedures, towards extensive tests of details. If this trend is accelerated by advances in the use of data analytics, all of this material may be redundant in a relatively short period of time. Overall, the requirements and application material read more as if they were a large firm methodology than a principles-based standard and we encourage the IAASB to consider how much material can be moved to separate appendices, including, in addition to the material on IT and controls referred to above, considerations specific to public sector entities. The Application Material in para. A38, A79 and A142 are considered overly detailed and may not all be necessary.

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

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

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

Determining whether an action or decision implies a control may be straightforward where actions and behaviors are repeated over time and form a pattern. However, a single action may be indicative of control but be far from conclusive and auditors should not be encouraged to try and determine the existence or otherwise of controls based on the observance of isolated actions.

64. Wirtschaftsprüfer

Overall, we are concerned about the length and complexity of the proposals and we fear that the proposed revision of ISA 315 does not materially diminish the challenges of SMPs regarding the understanding and application of the risk-based audit approach.

Basically we welcome the inclusion of scaling aspects for audits of smaller entities. Nevertheless the usefulness of some of the scaling statements in the application material appear questionable (for example

A16: "The auditor's risk assessment procedures to obtain the overall understanding may be less extensive in smaller and less complex audits").

Due to the fact that SMEs are the backbone of the European and almost every other economy in the world it is crucial for standards to be suitable for SMEs and for the effectiveness on smaller audit engagements. SMPs who conduct the corresponding audits often suffer difficulties to apply the ISAs in a proportionate manner.

The audit is of great value to SMEs and their stakeholders and so the requirements need to be clear and manageable. In our view scalability should be seen and used as a bottom-up concept, starting with requirements designed for small- and medium-sized entities (think small first) and then adding requirements for larger, more complex entities including public interest entities.

We urge the IAASB to make ISA 315 more scalable based on a "think small first" approach and we would like to refer to our statement regarding "Envisioning the Future—Survey on the IAASB's Future Strategy". At least more guidance and examples should be provided here.

65. Chartered Accountants Academy

Yes, the requirements are mainly for larger more complex entities this, in our view, is ideal in that the auditor can then apply judgement to less complex areas and apply the standard accordingly. Further to this, the application guidance which will be for audits of smaller entities which are also less complex, should help the auditor to further scale the standard.

66. FocusRoi Inc.

Yes, with the exception of our comments on the approach to understanding internal control in point 1a above

67. Lynessa Dias

An auditor's understanding of the entity's control environment and its risk assessment process is affected by the entity's scale of operations. The complexity or simplicity of the operating model is a driver of risk assessment strategy. Control risk assessment outcomes are impacted by the effectiveness of an entity's implemented process controls to prevent inherent risks. On the other hand, inherent risks in business operations arise from the nature of business processes and could occur due to the susceptibility of these processes to inherent risks, irrespective of the scale of operations.

Accordingly, it is the size and complexity of the business process controls of an entity that would determine the scale, complexity and resources dedicated to risk management. The audit plan, together with an assessment of the effectiveness of risk controls, determines the level of reliance and testing procedures required at the individual business process levels.

The application material in the exposure draft is scalable to a wide range of sizes, complexities and circumstances. The Board may consider focusing the scalability factor in the audit approach to the effectiveness of the business control processes and risk management strategies adhered to within an entity.

70. S Dianne Azoor Hughes (Australia)

The requirements are scalable.

