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Submitted via website

Brussels, 2 November 2018

Subject: Accountancy Europe's response to the IAASB Consultation Paper *Exposure Draft, ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement*

Dear Sir,

Accountancy Europe is pleased to comment on the IAASB *Exposure Draft, ISA 315 (Revised) (ED-315), Identifying and Assessing the Risks of Material Misstatement*.

General comments

Modernizing ISA 315 in relation to IT considerations to better address IT-related risks is vital for this standard to remain fit for purpose. Its revision is also essential to ensure the consistency of the general risk assessment process with the one for accounting estimates as included in the new ISA 540.

Revisions to address specific challenges in understanding the entity's system of internal controls and to provide more guidance to auditors during the risk identification and assessment process are welcome. While more work is required, we appreciate specific clarifications brought by ED-315, such as (i) introducing the 'spectrum of inherent risk' to facilitate assessment of inherent risks; (ii) clarifying the requirement to assess separately the inherent and control risk at the assertion level; and (iii) placing more emphasis on the stand-back requirement during the planning stage.

However, as we discuss in this letter, we are very concerned that certain aspects of ED-315 – unless satisfactorily addressed in finalising this standard – could have a detrimental impact on specific parts of the audit market. The issues raised below suggest that ED-315 is not fit for its purpose to promote a more robust risk identification and assessment process that supports better quality audits at a global scale and across all the spectrum of audits. In particular, it is crucial for the IAASB to address the issues regarding scalability. This may mean that the standard should be re-exposed to allow interested parties to comment on substantial changes made.

Length and complexity

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

Use of flowcharts and introductory paragraphs

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

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

Clarification on key issues

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

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

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.

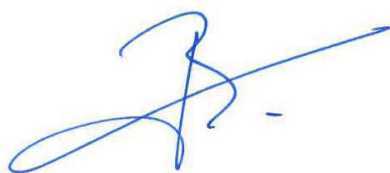
Introduction of terminology from PCAOB standards

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

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

Our responses to the specific questions addressed in ED-315 can be found in the attached appendix to this letter. For further information on this Accountancy Europe letter, please contact Hilde Blomme on +32 (0)2 893 33 77 or via email at hilde@accountancyeurope.eu or Noémi Robert on +32 (0)2 893 33 80 or via email at noemi@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 37 countries that represent 1 **million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

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ANNEX

OVERALL QUESTIONS

Question 1:

Has ED-315 been appropriately restructured, clarified and modernized in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:

- a) Do the proposed changes help with the understandability of the risk identification and assessment process? Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)?*
- b) Will the revisions promote a more robust process for the identification and assessment of the risk of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6-28?*
- c) Are the new introductory paragraphs helpful?*

a) Understandability of the risk identification and assessment process

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

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

We note that the standard introduces PCAOB terminology¹ that is confusing, and potentially introduces a lower threshold than the current one for audit procedures performed in accordance with ISAs 315 and 330 without explaining the need to import such terms. While the concept of ‘reasonable possibility’ might appear useful in plain English to explain the level of likelihood that should be taken into account when identifying relevant assertions and risks of material misstatement, another term should be used, as currently combined with the wording ‘more than remote’, it is confusing in an ISA environment.

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

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

¹ PCAOB terminology in this letter refers to FASB definitions used in PCAOB requirements for integrated audits.

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

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

b) The process for the identification and assessment of the risks of material misstatement

The key concepts underpinning the risk identification and assessment model seem to fundamentally change the risk assessment process despite the IAASB's intention not to do so as outlined in the Explanatory Memorandum to ED-315 (*paragraph 8*).

While we understand the demand for more detail, we think that this has been done at the expense of a robust principles-based standard that allowed for the use of professional judgement. The ED-315 is very prescriptive and detailed and seems to go into the direction of a methodology in prescribing specific approaches. We recommend that the IAASB stands back and reconsiders which material should be within the principles-based standard and which material, whilst still valuable to users, should be included in guidance that resides outside of the standard.

In its effort to address the issues raised by the audit regulatory and oversight bodies related to inconsistent auditor risk assessment, the IAASB first needs to understand what consistency means from this perspective. A standard cannot and should not aim to restrain auditor judgement, since it is the application of many years of professional experience applied to the specific facts and circumstances which drives such judgement.

This focused approach on consistency in outcome should also be taken forward in the revision of ISA 500 to drive consistency in obtaining and assessing audit evidence, rather than to drive consistency in exercising professional judgment.

c) Are the new introductory paragraphs helpful

On one hand, using introductory paragraphs contributes to setting the scene and highlights the iterative nature of ISA 315. However, on the other hand, it is regrettable that these paragraphs are needed to understand the standard. The standard ought to be standalone and its understanding should not be conditional to the introductory paragraphs. As proposed, these paragraphs are a must-read to understand the depth of ISA 315 requirements.

Question 2:

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

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.

Question 3:

Do respondents agree with the approach taken to enhancing ED-315 in relation to automated tools and techniques, including data analytics, through the use of examples to illustrate how these are used in an audit (see Appendix 1 for references to the relevant paragraphs in ED-315)? Are there other areas within ED-315 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance?

The examples illustrating how to leverage their use in the early stages of the audit are helpful. Nevertheless, the considerations regarding data analytics and automated tools and techniques could be made more visible in the text of the standard. Pushing the topic of using data analytics and automated tools and techniques in the application material seems to minimize the importance of using technology tools from the earliest stages of the audit. As part of the revision of ISA 500 on audit evidence, there is a lot more to be done by the IAASB to promote the use of automated tools and techniques.

Although in the current environment the use of automated tools and techniques is not uncommon, at least at a basic level, the standard should specify that (i) the use of such techniques in the risk identification and assessment process is a matter of professional judgement, since many small or medium practice firms do not have access to automated tools and techniques and the circumstances do not require their use; (ii) data analytics and automated tools and techniques are not adding to the work effort required in the risk assessment and identification process, as leveraging on their use should replace part of the extant procedures.

Question 4:

Do the proposals sufficiently support the appropriate exercise of professional scepticism throughout the risk identification and assessment process? Do you support the proposed change for the auditor to obtain 'sufficient and appropriate audit evidence'² through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement, and what is the nature of the necessary guidance?

The exercise of professional scepticism, as well as the requirement to assess and obtain sufficient and appropriate audit evidence, are key underlying concepts in auditing. However, the requirement to obtain sufficient and appropriate audit evidence is not within the scope of this project, but is definitely on the IAASB agenda when reviewing ISA 500.

a) Considerations related to exercising professional scepticism

Exercising professional scepticism throughout the risk identification and assessment process is instrumental at any stage of the audit. The risk identification and assessment process is an iterative process carried out through the understanding of the entity, its external environment and its internal control system.

It is vital for the auditor to exercise professional scepticism, especially in the risk identification and assessment process of the entity's internal control system. While the Explanatory Memorandum highlights the importance of exercising professional scepticism throughout the risk identification and assessment process, we find that this importance is not properly reflected within the standard itself.

The table included on pages 34/35 of the Appendix 1 to the Explanatory Memorandum to ED-315 is particularly useful and could be included in an appendix to the standard.

b) Requirement to obtain 'sufficient and appropriate audit evidence' through the performance of risk assessment procedures

We appreciate the IAASB's intention stated in the Explanatory Memorandum to ED-315 that the revision of the standard was done in the spirit of adding more clarity rather than to change the risk identification and assessment model. However, this requirement to obtain sufficient and appropriate audit evidence adds confusion to the standard. Indeed, obtaining sufficient and appropriate audit evidence from the early stages of the audit is premature and seems circular as a requirement and not realistic or practical.

As highlighted above, the risk identification and assessment process is a key iterative process at the early stages of the audit engagement strategy. Auditing is an iterative process and requiring auditors to assess whether the audit evidence obtained during an early stage in the life of an audit engagement is sufficient and appropriate seems to suggest the requirement to obtain audit evidence on the audit evidence obtained at this stage. We highlight that the iterative process of risk identification and assessment process does not mean that the standard should be circular in its requirements.

² See paragraph 27 of ED-315 Explanatory Memorandum and paragraph 17 of ED-315;
https://www.ifac.org/publications-resources/exposure-draft-isa-315-revised-identifying-and-assessing-risks-material?utm_source=IFAC%20Main%20List&utm_campaign=d45be386a9-SMP_Press_Release_9_14_16_13_2016_COPY_01&utm_medium=email&utm_term=0_cc08d67019-d45be386a9-80451985

SPECIFIC QUESTIONS

Question 5:

Do the proposals made relating to the auditor's understanding of the entity's system of internal control³ assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks of material misstatement? Specifically:

- a) Have the requirements related to auditor's understanding of each component of the entity's system of internal control been appropriately enhanced and clarified? Is it clear why the understanding is obtained and how this informs the risk identification and assessment process?*
- b) Have the requirements related to the auditor's identification of controls relevant to the audit⁴ been appropriately enhanced and clarified? Is it clear how controls relevant to the audit are identified, particularly for audits of smaller and less complex entities?*
- c) Do you support the introduction of new IT-related concepts and definitions? Are the enhanced requirements and application material related to the auditor's understanding of the IT environment, the identification of risks arising from IT and the identification of general IT controls sufficient to support the auditor's consideration of the effect of the entity's use of IT on the identification and assessment of the risks of material misstatement?*

a) The requirement to understand of each component of the entity's system of internal control

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

However, from a scalability standpoint, we do not consider that assessing the design and implementation of controls is always necessary to understand each component of the entity's internal control system, particularly for entities in a simple and low-risk environment (small or less complex entities) for which a full substantive audit approach will be adopted.

Requiring such work at best prevents the auditor's resources being applied to more valuable aspects of the audit and at worse results in significant audit documentation which is of little value and could obfuscate the real audit issues. While an understanding of at least the overarching internal control systems has to feed into the risk assessment process, a detailed documentation or testing may not be appropriate (i.e. where the auditor understands enough to know that the controls are not sufficient/ satisfactory for further relevance in the audit). Auditors should not be required to perform unnecessary work that would make the audit ineffective in terms of cost benefits in the smaller entities market.

³ See paragraphs 25-44 and A.89-A.200 of ED-315 (ibid)

⁴ See paragraph 39-40 of ED-315 and paragraphs 37-40 of the Explanatory Memorandum (ibid)

b) The requirement to identify 'controls relevant to the audit'

Following on the point above, after the assessment of the control system for an entity that has a simple and low-risk environment, auditors might conclude that there are relatively few controls relevant to the audit and might adopt a fully substantive approach. Therefore, we consider that the requirement to identify controls relevant to the audit, evaluate their design and determine whether they have been implemented (*paragraph 39(e)*), is of limited value in the context of auditing entities in a simple and low-risk environment, for which a fully substantive audit approach is the chosen audit strategy. We are particularly concerned with the requirements in *paragraph 39(e)* which is open ended. We find the requirements in this paragraph not conclusive and duplicative, since in a smaller/not complex entity environment the auditor will not necessarily need to rely on understanding the controls established by management to identify potential risks.

Despite the fact that we find *paragraph 31(a)* useful to determine the work effort required in a simple and low-risk environment, the paragraph does not address all aspects of scaling down the requirements of the standard.

Similar considerations could be made in other areas of the standard where scalability would be necessary (ex. aspects raised in points a) and c) of this question), to allow the use of professional judgement – the cornerstone in the effective application of principle-based standards.

As an overarching comment to the two proposals above, the IAASB should also make it clear in its project to revise ISA 500 that, where the auditor determines that a fully substantive approach is sufficient for entities in a simple and low-risk environment, limited, if any work should be required to assess design and implementation of controls.

c) The introduction of new IT-related concepts and definitions

In general, the introduction of the new IT-related concepts and definitions is helpful for the understanding of the IT environment for larger and more complex entities, but the level of complexity introduced here is wholly unwarranted for the vast majority of very small audits.

Therefore, we think that a conditional paragraph is necessary to introduce a clear exception for entities in a simple and low-risk environment (small or less complex entities, using only 'off-the-shelf' software packages). The standard should be clearer on the work effort required from practitioners in such cases – e.g. minimum requirement to assess the modifications or updates made to off-the-shelf software package or modification of standard reports functionalities.

Question 6:

Will the proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment? Specifically:

- a) *Do you support separate assessments of inherent and control risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments?⁵*
- b) *Do you support the introduction of the concepts and definitions of 'inherent risk factors'⁶ to help identify risks of material misstatement and assess inherent risk? Is there sufficient guidance to explain how these risk factors are used in the auditor's risk assessment process?*
- c) *In your view, will the introduction of the 'spectrum of inherent risk' (and the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatements, including significant risks?*
- d) *Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures ('SCOTABD'), and their relevant assertions? Is there sufficient guidance to explain how they are determined (i.e. an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assessment)⁷, and how they assist the auditor in identifying where risks of material misstatement exist?*
- e) *Do you support the revised definition⁸, and related material, on the determination of 'significant risks'? What are your views on the matters presented in paragraph 57 of the Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?*

a) Separate assessments of inherent and control risk at the assertion level

The separate assessments of inherent and control risk at the assertion level are inevitable and the revised requirements and guidance thereon are appropriate to support the separate assessments. This is also a logical consequence of the approach taken in revised ISA 540, as recently approved. We would also like to point out that logically it will also be necessary to identify inherent risk separately from control risk in order to perform such assessment.

b) Concepts and definitions of 'inherent risk factors'

The concept of 'inherent risk factor' and its definition is consistent with ISA 540. ED-315 provides sufficient guidance to explain how these risk factors are used in the auditor's risk assessment process.

c) The 'spectrum of inherent risk' (and the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement)

We welcome the concept of a 'spectrum of risk', but ED 315 does not explain it well, since this new notion is introduced by way of inclusion in a definition. Better explanation will be needed to drive consistent application by auditors not already using this in their methodologies.

⁵ See paragraphs 45-50 and A.201-A.235 of ED-315 (ibid)

⁶ See paragraphs 16(f), A.5-A.6 and A.83-A.88 of ED-315 and paragraph 48 of the Explanatory Memorandum (ibid)

⁷ See footnote 26 of the Explanatory Memorandum (ibid)

⁸ See paragraphs 16(k), A.10 and A.229-A.231 of ED-315 (ibid)

Conceptually, we support retaining the notion of ‘significant risk’, but when using the ‘spectrum of inherent risk’ in risk assessment, the notion of ‘significant risks’ may be seen as redundant. However, we appreciate the role that significant risk plays. Not retaining this notion would cause disruptions in the suite of ISAs. Because the concept is a ‘bright line’ to both auditors and regulators, defining ‘significant risks’ as risks closer to the upper end of the ‘spectrum of inherent risk’ is not sufficient to sort this issue and needs further consideration. It is unclear though, how ED-315 applies to the rest of the spectrum of inherent risk, after having identified significant risks.

With regard to the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement when assessing inherent risks, the standard should make it clearer that the auditor applies professional judgement to the individual engagement circumstances when determining whether to place an inherent risk closer to the upper end of the ‘spectrum of inherent risk’. It would also be helpful if the IAASB could clarify what is meant by the notion of “magnitude” (which could be interpreted as doubling up on the concept of materiality).

A possible circumstance or event that could give rise to a material misstatement even with a low likelihood of occurrence might still be relevant, for example in the extreme, if it would have devastating impact, potentially affecting the entity’s ability to continue as a going concern. This is noted as not being excluded in the Explanatory Memorandum, but it should be made clear in the standard itself. If the Board’s intention is that risks with a potential high magnitude but with a low likelihood of occurrence should always be assessed as significant risks, then the standard needs to be clearer on this. Considering the objective of consistent application, practitioners would need some guidance or benchmark in determining the level of likelihood that would make a high magnitude risk a significant risk.

The standard should generally discuss the approach to be taken where only one of the two criteria is assessed as high (high likelihood or high magnitude), and also make it clear as to the impact where no risks are identified. This is fundamental in having a better-quality risk assessment process that results in addressing all relevant risks.

d) The new concepts and related definitions of SCOTABD, and their relevant assertions

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

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

e) The revised definition, and related material, on the determination of ‘significant risks

Please refer to our answer to *point c)* above.

Question 7:

Do you support the additional guidance in relation to the auditor's assessment of risks of material misstatement at the financial statements level⁹, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

We do not find the additional guidance in relation to the auditor's assessment of risks of material misstatement at the financial statements level sufficiently clear and explanatory.

This guidance is superfluous, repeating the requirements in the standard without providing additional guidance. Therefore, we do not think that this additional guidance is necessary. This is an example of the standard being unnecessary lengthy and complex.

In addition, the application material (*paragraph A.215*) does not make it clear whether instances where such risks can be contained at the assertion level or should still be categorized at the financial statement level.

Question 8:

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

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

⁹ See paragraphs 47, A.215-A.220 of ED-315 (ibid)

CONFORMING AND CONSEQUENTIAL AMENDMENTS

Question 9:

With respect to the proposed conforming and consequential amendments to:

- a) *ISA 200¹⁰ and ISA 240, are these appropriate to reflect the corresponding changes made in ISA 315 (Revised)?*
- b) *ISA 330, are the changes appropriate, in the light of the enhancements that have been made in ED-315, in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?*
- c) *The other ISAs as presented in Appendix 2, are these appropriate and complete?*
- d) *ISA 540 (Revised), and related conforming amendments (as presented in the Supplement to this exposure draft)¹¹, are these appropriate and complete?*

The revision of ISA 315 after the exposure period will have significant consequential bearing on the proposed conforming and consequential amendments moving forward. Therefore, before addressing the conforming and consequential amendments, key issues in the ED-315 are primarily to be resolved, such as unnecessary complex constructions, and the issues in applying scalability.

To address some of the specific aspects of this question, on point a) above, we consider the ISA 200 definition of ‘small entities’ to be sufficient for the time being, while on point b) above, we note that there is a lot more to be done to promote the use of data analytics as part of the revision of ISA 500.

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

Question 10:

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

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

¹⁰ Conforming amendments to ISA 200, paragraph A.42 will be presented with the conforming amendments to ISA 540 (Revised) (ibid)

¹¹ Published in July 2018 (ibid)

Question 11:

In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- a) Translations – recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-315.*
- b) Effective Date – Recognizing that ED-315 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*

a) Translations

The proposed revised standard is very difficult to understand and needs significant improvements to give more clarity in the concepts used and to eliminate repetition. The IAASB should ensure that the terminology used in the standard is consistent with the suite of ISAs and capable of being properly translated. Difficulties to understand the language used will de facto lead to inconsistencies in translation. Accountancy Europe notes with some concern a tendency for ISAs to become significantly longer each time they are revised.

The cost of translation will increase as will the time needed to ensure high quality of these translations with effective reflection in audit firms' methodologies. We urge the IAASB to bear this in mind when drafting revised standards, as well as when setting their effective dates. Specific examples of terminology that will be difficult to translate are 'more than remote' and 'closer to the upper end', since these constructions are particularly difficult to represent.

b) Effective Date

We find the timeline set for revising the standard too aggressive considering the number of aspects requiring clarification, as outlined in our response to this consultation.

It is crucial that the revision of this standard is given sufficient time to eliminate the unnecessary complex constructions and to address the issues of scalability. In this context, the IAASB should set a more realistic timeline for revising this standard. In particular, it is crucial for the IAASB to address the issues regarding scalability, as highlighted in our cover letter and in our response to *Question 2*. This may mean that the standard should be re-exposed to allow interested parties to comment on substantial changes made.