



AUASB Comments Received and Updated Disposition Paper - FINAL

| | | | |
|--------------------------------|--|-------------------------|------------------|
| AGENDA ITEM NO. | 2.3 | | |
| Meeting Date: | 29 October 2018 | | |
| Subject: | Exposure Draft 01/18 Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement | | |
| Date Prepared: | 2 November 2018 | | |
| Document Type: | Exposure Draft | Document Number: | ED 01/18 & 02/18 |
| Proposed Type & No: | ASA 315 | | |
| Proposed Title: | ASA 315 Identifying and Assessing the Risks of Material Misstatement | | |

| | Page Number |
|---|-------------|
| EXHIBIT 1: Comments on specific questions ED 01/18 | 7 |
| EXHIBIT 2: Comments on specific questions ED 02/18 | 61 |
| EXHIBIT 3: Other comments on ED 01/18 & ED 02/18 | 71 |

Objective of paper:

The objective of this paper is to list all responses to [ED 01/18](#) and [ED 02/18](#), grouping responses by question. Each comment has been cross-referenced to the relevant submission in the column **Ref Page No.** The **ATG commentary** column includes the ATG’s response to each comment and whether the point has been carried forward to the AUASB draft submission.

A list of respondents has been provided on page 2. Note that two of the respondents requested submissions to be treated as confidential and have been de-identified for the purposes of the disposition paper. A full list of questions asked in ED 01/18 and ED 02/18 with page references have been included on pages 3-6.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

LISTING OF RESPONDENTS

| Short Form Name | Name | Date Received |
|-----------------|--|------------------|
| Deloitte | Deloitte Touche Tohmatsu | 11 October 2018 |
| R2 | Respondent 2 (confidential submission) | 15 October 2018 |
| KPMG | KPMG | 16 October 2018 |
| UNSW | University of New South Wales | 15 October 2018 |
| ACAG | The Australasian Council of Auditors-General | 15 October 2018 |
| IIA | The Institute of Internal Auditors | 5 September 2018 |
| R7 | Respondent 7 (confidential submission) | 16 October 2018 |

LISTING OF QUESTIONS

ED 01/18 Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement

| | Page # |
|---|---------------|
| Question 1 – Has ED 01/18 been appropriately restructured, clarified and modernised in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular: | |
| Qn. 1(a) – Do the proposed changes help with the understandability of the risk identification and assessment process? | 7 |
| Qn. 1(b) – Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)? If yes, should they be included in the final ISA 315? | 11 |
| Qn. 1(c) – Will the revisions promote a more robust process for the identification and assessment of the risks of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6–28 of the IAASB’s Explanatory Memorandum? | 12 |
| Qn. 1(d) – Are the new introductory paragraphs helpful? | 14 |
| Question 2 – Are the requirements and application material of ED 01/18 sufficiently scalable, including the ability to apply ED 01/18 to the audits of entities with a wide range of sizes, complexities and circumstances? | 15 |
| Question 3 – Do respondents agree with the approach taken to enhancing ED 01/18 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 of the IAASB’s Explanatory Memorandum for references to the relevant paragraphs in ED 01/18)? Are there other areas within ED 01/18 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance? | 18 |
| 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 appropriate audit evidence’¹ through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement, and do you believe this clarification will further encourage professional scepticism? | 20 |
| Question 5 – Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control² 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 or material misstatement? Specifically: | |
| Qn. 5(a) – Have the requirements related to the 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? | 25 |
| Qn. 5(b) – Have the requirements related to the auditor’s identification of controls relevant to the audit 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? | 29 |

| | |
|---|----|
| Qn. 5(c) – Do you support the introduction of the 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 the risks arising from IT and the identification of general IT controls sufficient to support the auditor’s consideration of the effects of the entity’s use of IT on the identification and assessment of the risks of material misstatement? | 31 |
| 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: | |
| Qn. 6(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’? | 33 |
| Qn. 6(b) – Do you support the introduction of the concepts and definitions of ‘inherent risk factors’ 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? | 36 |
| Qn. 6(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 misstatement, including significant risks? | 37 |
| Qn. 6(d) – Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, 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 assertion), and how they assist the auditor in identifying where risks of material misstatement exist? | 39 |
| Qn. 6(e) – Do you support the revised definition, and related material, on the determination of ‘significant risks’? What are your views on the matters presented in paragraph 57 of the IAASB’s Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk? | 43 |
| Question 7 – Do you support the additional guidance in relation to the auditor’s assessment of risks of material misstatement at the financial statement level, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level? | 45 |
| Question 8 – What are your views about the proposed stand-back requirement in paragraph 52 of ED 01/18 and the proposed revisions made to paragraph 18 of ASA 330 and its supporting application material? Should either or both requirements be retained? Why or why not? | 47 |
| Question 9 – Effective Date: the IAASB have proposed that the standard will be effective for financial reporting periods commencing on or after 15 December 2020, which is anticipated to be approximately 18 months after approval of the final ISA 315. Do you think this is sufficient period to support effective implementation of the new standard? | 50 |
| Question 10 – Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted? | 52 |
| Question 11 – Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? | 53 |
| Question 12 – Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? | 54 |

| | |
|--|----|
| Question 13 – What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand: | 57 |
| (a) Where those costs are likely to occur; | |
| (b) The estimated extent of costs, in percentage terms (relative to audit fee); and | |
| (c) Whether expected costs outweigh the benefits to the users of audit services? | |
| Question 14 – What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 315 (specific questions/examples would be helpful)? | 59 |
| Question 15 – Are there any other significant public interest matters that stakeholders wish to raise? | 60 |

ED 02/18 Proposed Auditing Standard ASA 2018-1 Amendments to Australian Auditing Standards (Conforming and consequential amendments arising from the proposed revisions to ASA 315)

| | Page # |
|--|---------------|
| Question 1 – With respect to the proposed conforming and consequential amendments to: | |
| Qn. 1(a) – ASA 200 (including Appendix 2), ASA 240 and ED 03/18, are these appropriate to reflect the corresponding changes made in proposed ASA 315? | 61 |
| Qn. 1(b) – ASA 330, are the changes appropriate in light of the enhancements that have been made in proposed ASA 315, in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit? | 62 |
| Qn. 1(c) – The other ASAs as presented in Appendix 1, are these appropriate and complete? | 63 |
| Question 2 – Do you support the proposed revisions to paragraph 18 of ASA 330 to apply to classes of transactions, account balances or disclosures that are ‘quantitatively or qualitatively material’ to align with the scope of the proposed stand-back in proposed ASA 315? | 64 |
| Question 3 – Effective Date: the IAASB have proposed that the standard will be effective for financial reporting periods commencing on or after 15 December 2020, which is anticipated to be approximately 18 months after approval of the final ISA 315. Do you think this is sufficient period to support effective implementation of the new standard? | 65 |
| Question 4 – Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted? | 66 |
| Question 5 – Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? | 67 |

| | |
|--|-----------|
| <p>Question 6 – Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?</p> | <p>68</p> |
| <p>Question 7 – What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:</p> <ul style="list-style-type: none"> (d) Where those costs are likely to occur; (e) The estimated extent of costs, in percentage terms (relative to audit fee); and (f) Whether expected costs outweigh the benefits to the users of audit services? | <p>69</p> |
| <p>Question 8 – Are there any other significant public interest matters that stakeholders wish to raise?</p> | <p>70</p> |

EXHIBIT 1: Comments on specific questions ED 01/18

Question 1 – Has ED 01/18 been appropriately restructured, clarified and modernised in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:

Qn. 1(a) – Do the proposed changes help with the understandability of the risk identification and assessment process?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 2 | Deloitte | <p>a) Overall we believe the changes to ED 01/18 are improvements to the previous version of the standard, however there does remain a number of areas that may cause misunderstanding or confusion (for example, the concept of a significant class of transactions, account balance or disclosure versus a material class of transactions, account balance or disclosure; inherent risk versus control risk and the consideration of controls when identifying and assessing risks of material misstatement), which need to be addressed prior to the revisions, promoting a robust risk identification and assessment process.</p> <p>b) The complexity and professional judgement required when identifying and assessing the risks of material misstatement, as well as the sheer volume of the standard also create potential application challenges relating to consistency and robustness.</p> <p>c) We believe the first point that needs to be made clear is the identification of a risk of material misstatement versus the assessment of a risk of material misstatement. The next point is in relation to differentiating between having an 'understanding of internal control' (as included in paragraph 4) when identifying risks of material misstatement versus assuming that the entity's controls are operating effectively and thus influencing whether a risk of material misstatement exists or not.</p> <p>d) Ultimately, the understanding of the internal control structure including the design and implementation of controls is appropriate and required when identifying and assessing risks of material misstatement, however auditors are unable to conclude that there is a remote risk (therefore not a risk of material misstatement) by assuming that one or more controls are operating effectively - this is what needs to be clearly communicated within the standard.</p> | <p>(a) Consistent with feedback received from other stakeholders. Included in AUASB Submission;</p> <p>(b) Consistent with feedback received from other stakeholders. Included in AUASB Submission;</p> <p>(c) AUASB submission included a recommendation identifying risk of material misstatement on inherent risk only and to paragraph 4 and 5;</p> <p>(d) Consistent with feedback received from other stakeholders. Included in AUASB Submission in Q1 and Q5; and</p> <p>(e) Consistent with feedback received from other stakeholders. Included in AUASB Submission in Q1 and Q6.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>e) It is unclear how inherent risk and control risk interacts and combines together when it comes to assessing the risks of material misstatement.</p> <p>For instance, paragraph 5 states "For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ASA." However no requirements or guidance is provided on how these separate assessments then combine together to form the overall assessment of the risk of material misstatement</p> | |
| 2 | Page 3 | R2 | <p>We support the general principles of the revised standard and note its improvement on the extant ASA 315. However, we do detail below some concerns in response to the questions raised.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 3 | Pages 5-6. | KPMG | <p>We are supportive of the overall direction of the proposed changes to ISA 315 and believe that these are helpful in addressing the public interest issues.</p> <p>In general, we believe that ED 01/18 has provided significant clarification regarding many aspects of the process for the identification and assessment of the risks of material misstatement, in comparison to the extant standard. In particular, the introductory paragraphs, the flowcharts and the increase in “signposts” or “milestones” help with the understandability of the standard, both in terms of the flow, the overall objectives, and how each part of the process supports the achievement of these objectives. In this regard, we recommend that the flowcharts are ultimately included as part of the standard.</p> <p>Nevertheless, this is a highly complex standard, with much of this complexity residing in the fact that an auditor executes the procedures required in an iterative, rather than a linear fashion, as described in the Explanatory Memorandum to the ED, as well as in the application material. Furthermore, as we describe in our overarching comments, many “steps” are in practice performed concurrently, and in doing so, implicit consideration is given by the auditor to the results or expected results relating to other aspects of the standard. This level of intricacy, which will vary depending on the engagement circumstances, is challenging to describe in the standard itself, and is also very difficult to capture clearly in flowcharts, which therefore summarise the written material but do not provide more meaningful insights as to its application.</p> | <p>Consistent with feedback received from other stakeholders. All matters included in AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|------------------------------|
| | | | <p>We also note in our overarching comments that the requirements are supported by lengthy and detailed application material, to a much greater extent than is the case for other ISAs. We believe that this compounds the difficulties in understanding the intended flow of the standard.</p> <p>We consider that the standard would particularly benefit from clearer linkage between the “understanding” obtained regarding each of the components of the entity’s system of internal control and how this is applied in fulfilling the requirements to identify and assess the risks of material misstatement at paragraph 45 onwards. Paragraph 17 describes this understanding as forming the basis for the risk identification and assessment. However, the application material, in particular A201 and A202, focuses more on the inter-relatedness of these aspects of the standard, e.g. that the auditor forms initial expectations and then confirms or updates these, or that information gathered in performing the risk assessment procedures to obtain the understanding is used as audit evidence to support the risk assessment. Paragraph A208 states that the identification of risks of material misstatement at the assertion level is performed before consideration of any controls, which seems to contradict this linkage insofar as risks of material misstatement at the assertion level are concerned.</p> <p>We suggest that the IAASB consider including further enhancements to the ED to avoid confusion and inconsistency in application of the standard, such as, at a minimum, increased cross-referencing between relevant areas of the standard, in particular in respect of steps that may be performed concurrently. We also recommend that the IAASB may wish to explore alternative or additional flowcharts, or a tabular presentation, to provide a more meaningful summary of the simultaneous nature of the performance of certain key requirements, as well as to illustrate where implicit consideration is made of the results of other steps, and where initial expectations are formed, and then refined, during the performance of certain procedures.</p> | |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 2 | ACAG | <p>ACAG agrees that there is generally an improvement in understandability and description of risk.</p> <p>Service entity use is rising and should be considered when obtaining an understanding of the entity’s system of internal control. ACAG considers that</p> | Include in AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| | | | additional considerations in this standard or <i>ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation</i> would be beneficial. | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | Page 1 | R7 | Our initial discussions have not identified any serious issues with the ability of the requirements in the ED to be operationalised however, there are concerns with the length and complexity of the standard which may result in challenges for SMPs trying to incorporate it into their methodologies. We appreciate that risk identification and assessment is a complex and iterative process which is not easy to present in narrative form. Therefore we expect it would be well received if the IAASB incorporated the flowcharts or other diagrammatical representation into the body of the standard to simplify its presentation. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

Qn. 1(b) – Are the flowcharts, prepared by the IAASB, helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)? If yes, should they be included in the final Standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 2. | Deloitte | <p>We understand that the flowcharts are aimed to add value, however we also acknowledge that due to the complexity and iterative nature of risk assessment, the flowcharts do require careful consideration and are not "quick reference guides". There are some challenges with the ordering and sequencing of certain steps (for example, relating to the identification of material but not significant classes of transactions, account balances and disclosures after identifying and assessing the significant classes of transactions, account balances and disclosures) within the flowcharts.</p> <p>If flowcharts are included in the final standard, it is important that they clearly present what is inherently an iterative process and where multiple steps are concurrently occurring.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 2 | Page 3. | R2 | The flowcharts are an excellent addition to the proposed ASA 315 and should be incorporated as appendices or guidance to the standard but not as mandatory elements of the standard. They enhance the understanding of the intent of the standard setters consistent with the inclusion of the introductory paragraphs to assist auditors in obtaining an overview of the standard. However, the flow charts should not be seen as a substitute for understanding the standard in its full form. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 3 | Page 5. | KPMG | In this regard, we recommend that the flowcharts are ultimately included as part of the standard. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 2. | ACAG | ACAG supports flowcharts being included in the final standard. The flowcharts clarify both the logical flow of the standard and clearly describe the processes required of auditors to understand the control environment. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | Page 1. | R7 | We expect it would be well received if the IAASB incorporated the flowcharts or other diagrammatical representation into the body of the standard to simplify its presentation. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |

Qn. 1(c) – Will the revisions promote a more robust process for the identification and assessment of the risks of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6–28 of the IAASB’s Explanatory Memorandum.

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | Page 2. | Deloitte | Yes, however we believe there are a number of inconsistencies and areas needing clarification relating to key concepts and terminology that need to be addressed. Refer to our response to question 1 (a) above, as well as Appendix 2. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 2 | Page 3. | R2 | In principle the revisions provide more granular process and understanding of the intent of the standard setters around the requirements of the risk assessment process. There are however, some points of concern within the standard these are addressed further in the response. With respect to the increase in the robustness of the process, the standard in most instances clarified the extant standard where it was executed appropriately previously I do not believe the current standard will result in a more robust process for identifying risks, as it is clarification rather than changing of the process, however it will result in greater documentation requirements and costs in performing the audit. | Consistent with feedback received from other stakeholders. Documentation points included in AUASB Submission |
| 3 | Page 5. | KPMG | No response | N/A |
| 4 | N/A | UNSW | No response | N/A |
| 5 | Pages 2-3. | ACAG | <p>ACAG agrees that the revisions will promote a more robust risk assessment process. We are supportive of the clarification that when the operating effectiveness of controls are not tested the auditors shall assess controls risk at the maximum.</p> <p>The public interest issues are reasonably well addressed. ACAG makes the following comments in relation to specific aspects of the proposed requirements:</p> <ul style="list-style-type: none"> - The inherent risk factor of susceptibility to management bias is a helpful clarification and distinction to fraud risks, as are the broader statements regarding qualitative aspects. - The auditor’s use of data analytics tools in risk assessments is not well considered and ACAG makes further comment on this under question 3 below. - Considerations specific to the public sector do not articulate our requirements to consider the risks of probity and propriety and the need to comply with legislated financial accountability frameworks (A36). - Although paragraph A51 encourages the auditor to consider the responsibilities of those charged with governance for oversight of financial reporting, this paragraph does not | Agree. Public interest points included in the AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|----------------|
| | | | address the need for an auditor to also consider the responsibilities of those charged with governance for the accuracy and relevance of the data used in business intelligence reporting. | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 1(d) – Are the new introductory paragraphs helpful?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 2. | Deloitte | <p>We consider the introductory paragraphs to be too detailed in the context of their purpose as an introduction. As a consequence of this detail they:</p> <ul style="list-style-type: none"> - attempt to introduce multiple concepts which causes duplication in the standard; - may be interpreted by practitioners as setting requirements that should be specifically addressed in addition to those within the body of the standard; - create potential confusion about the requirement to understand the entity and environment, including the system of internal control that forms the basis of the identification of risks of misstatement versus the identification of inherent risk before consideration of any related controls; and - refer to risks at the assertion level only (from paragraph 4 onwards) and do not refer to financial statement level risks. | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>Point covered in AUASB submission in Q5.</p> |
| 2 | Page 3 | R2 | No comment. | N/A |
| 3 | Page 6 | KPMG | We believe that the introductory paragraphs are helpful, as they “set the scene”, help the auditor to navigate this complex standard, and give emphasis to key overarching concepts, including professional scepticism. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 3. | ACAG | ACAG agrees that the new introductory paragraphs are helpful. | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 2 – Are the requirements and application material of ED 01/18 sufficiently scalable, including the ability to apply ED 01/18 to the audits of entities with a wide range of sizes, complexities and circumstances?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 2. | Deloitte | <p>Yes, we note that paragraph A16 indicates: "the auditor's risk assessment procedures to obtain the overall understanding may be less extensive in audits of smaller and less complex entity", and that this has been followed by references to differing requirements for "smaller and less complex" entities in various other paragraphs, as has been highlighted in the IAASB's Explanatory Memorandum. However, the length of the standard may possibly create a challenge in applying this to a very small entity.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission</p> |
| 2 | Page 4 | R2 | <p>The proposed standard uses the terms smaller and less complex. Having considered the standard in its entirety it appears the intent of the standard setters and the key driver of risk assessment is complexity and that size while it may be an indicator of complexity is not actually relevant to the complexity of an entity and therefore the risk assessment required. It would be better to simplify the terminology within the standard and simply note that the scalability is dependent on the complexity of a client, because size does not in of itself mean that an entity is not complex. This would simplify some of the other considerations about the language in the standard as to whether smaller and less complex is two distinct populations i.e. smaller clients, population 1, and less complex clients, population 2, or whether it is one population of smaller and less complex entities and to be scalable both elements must be true.</p> <p>Further while scalability is mentioned in the standard there is little guidance as to how to simply and effectively actually scale the effort within the standard, and as a consequence the revised standard will likely lead to greater costs in audit execution.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission</p> |
| 3 | Pages 6-7. | KPMG | <p>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 detailed application material, including guidance and examples as to how to apply the requirements across entities that vary significantly in terms of size and complexity.</p> <p>We note that the Explanatory Memorandum, 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.”</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>In connection with the above, we welcome, in particular the following enhancements:</p> <ul style="list-style-type: none"> - recognition that aspects of the system of internal control may be less detailed / formalised in smaller and less complex entities; - clarification regarding understanding of the IT environment / identification of risks arising from IT and identification and evaluation of GITCs relevant at smaller and less complex entities; - recognition that complexity as well as, or even more so than, size of an entity is important. We also support the description of smaller and less complex entities being at one extreme, to help provide a reference point as to how the auditor would apply judgement (paragraph A224) and take into account the nature and circumstances of each entity. <p>It would be helpful if the IAASB could provide examples as to the execution of certain requirements. The application material contains 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 examples.</p> <p>Furthermore, the documentation requirements, in their specificity, may be onerous for audits of smaller and less complex entities, as implicitly the judgements in identifying and assessing risks of material misstatement may be difficult to specifically describe. We suggest that the IAASB provide further guidance as to what would be expected in terms of documentation in this area, in particular, the extent to which judgements made en route to a final determination need to be included. We believe it is also critical to clarify the extent of documentation required where, for example, a risk is not significant. While paragraph A245 acknowledges that the auditor is not required to document “every inherent risk factor that was taken into account”, more clarity on the expected extent of documentation will be critical in our view for consistency of application.</p> | |
| 4 | N/A | UNSW | No response | N/A |
| 5 | Page 3. | ACAG | <p>ACAG considers scalability is limited by using the term “small and less complex” throughout the standard. Complexity is a key factor in determining most aspects of audit risk and audit response. The use of “small or less complex” or “simpler and less complex” would improve scalability as there are large non-complex audits. The public sector has many examples of large non-complex audits, such as policy Departments</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| | | | <p>where funds are merely administered on behalf of central agencies. Similar examples can exist in the private sector in the form of large controlled entities.</p> <p>We consider that the examples of complexity throughout the ED are well documented however, from our interpretation, an entity will have a de-facto higher risk if it is large and less complex.</p> <p>The definition of “reasonable possibility” is where the likelihood of material misstatement is more than remote. A “remote possibility” is a much lower threshold than “reasonably possible”. If it is intended that “reasonable possibility” and “remote possibility” are not explicitly defined, ACAG suggest further guidance be provided. This can be in the form of criteria for auditors to consider when assessing reasonable possibility versus remote possibility. In the absence of such definitions or clarifying criteria, ACAG questions whether it is the intention for the auditor to apply their professional judgment in making this assessment? Either way, we would support the need for further clarity to aid the auditor in grounding an assessment of “reasonably possible” versus “remote possibility”. In the absence of such guidance, there may be an increase in audit work effort over low risk balances.</p> <p>The requirements in relation to IT risks and response is sufficiently scalable provided the auditor’s skills, experience and knowledge are equally scalable to the level of understanding of the IT environment.</p> | |
| 6 | N/A | IIA | No response | N/A |
| 7 | Page 1. | R7 | <p>While the IAASB has stated that it intends the proposed standard to address scalability, we also believe that, as with ISA 540, this standard has again been drafted for entities with complex risks, with the application and other explanatory material being for auditors of entities with less complex risks to guide them in scaling back their audit procedures. This drafting approach means those auditors auditing entities with less complex risks have to read the entire standard to determine what they can exclude from their audit. This is a resource intensive process for SMPs. The preferred approach is to have a base standard for all, then additional material that addresses audit procedures for entities with more complex risks.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

Question 3 – Do stakeholders agree with the approach taken to enhancing ED 01/18 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 of the IAASB’s Explanatory Memorandum for references to the relevant paragraphs in ED 01/18)? Are there other areas within ED 01/18 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 3. | Deloitte | <p>Yes, we agree with the enhancement of ED 01/18 in relation to references to automated tools and techniques, particularly within paragraphs A17-A19, A33 and A48.</p> <p>Another area where further guidance is needed is in relation to the underlying data used within the automated tools and techniques when this constitutes information produced by the entity that is used for risk assessment procedure purposes, and what the requirements are in relation to understanding and/or obtaining evidence over the reliability of this information (including the nature, timing and extent of testing).</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 2 | Page 4 | R2 | The acknowledgement of the use of automated tools and techniques in the standard is a positive addition, although the enhanced wording does not appear to have changed the applicability of these techniques to risk assessment as they were permitted but not expressly mentioned in the extant standard. However, 4 EDs here do not include any revision to ASA 500 and how the such automated tools can be used as a source of audit evidence to respond to risks of material misstatement consistent with ASA 500 para 10. | Consistent with feedback received from other stakeholders. Included in AUASB Submission with the exception of points around revisions to ASA 500, as this has not been raised by other stakeholders. ASA 500 is planned to be reviewed in 2019-2020. |
| 3 | Page 8. | KPMG | <p>We agree with the approach taken and find the illustrative examples helpful. We believe that this is appropriate in terms of the objective of modernizing the standard and making it fit for purpose in today’s technological environment.</p> <p>We are supportive of the approach to avoid the use of terminology that is overly precise/ narrow, or that may be understood differently by various groups, as this is a rapidly emerging field and we recognise the IAASB’s intention not to outdate itself at the outset.</p> <p>However, we suggest that the IAASB further explores the impact of Data and Analytics (D&A) specifically on risk assessment, in terms of whether and how the nature and/or extent of the risk assessment procedures as currently described may change in an audit environment in which the auditor is able to incorporate all transactions into its risk assessment process. As currently described, D&A techniques would appear to be applied in addition to the current requirements of the standard, rather than being an integral part of a possible approach to risk identification and assessment. Paragraphs A33 and A213 touch on this but at a very high level. We recognise that this is an</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|--|--|
| | | emerging area, and that there is a separate working group/ project to consider the implications of D&A on an audit. However, it would be helpful to further acknowledge this area in the ED. | |
| 4 | N/A | UNSW No response provided. | N/A |
| 5 | Page 4. | <p>ACAG</p> <p>ACAG’s overall opinion is that the standard does not include enough information about risk factors relating to the use of big data and automated analytics technology. While these technologies are still evolving, they are evolving at a rapid rate and are widely used throughout the profession, in both private and public sectors. We believe guidance is required now to help the profession address the use of big data and automated analytics technology. There is a risk that the standard, when issued for implementation, will be outdated given the rate of technological evolution.</p> <p>Paragraph 54 (documentation) and paragraphs A15, A18, and A32-A33 discuss that automated tools can be used. However, this application material could be enhanced by:</p> <ul style="list-style-type: none"> - providing information about control assessments over data quality, completeness and accuracy once data is extracted from client systems for use by auditors - commenting on the risk considerations or documentation of judgments specific to the use of predictive analytics or analytic tools that incorporate machine learning or artificial intelligence (AI) by both entities and auditors, particularly the nature of what is considered evidence - providing guidance for documentation of analytic procedures to allow for re-performance where machine learning is used by an entity and/or auditor - outlining clear linkages between the underlying need for quality ITGC assurance and database control assurance prior to the use of automated tools - establishing an expectation about documenting the appropriateness and reliability of external data sets (being data sets external to the entity’s sphere of control) - describing how audit analytics and automated tools can be used to assess qualitative inherent risks factors described in section A5. | Consistent with feedback received from other stakeholders. |
| 6 | N/A | IIA No response provided. | N/A |
| 7 | Page 1. | R7 We support the standard explicitly addressing the use of automated tools and techniques. We expect that practitioners would find further application material or implementation guidance useful in relation to these. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

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 appropriate audit evidence’ through the performance of risk assessment procedures to provide the basis for the identification and assessment of the risks of material misstatement, and do you believe this clarification will further encourage professional scepticism?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 3. | Deloitte | <p>In our view ED 01/18 somewhat supports the appropriate exercise of professional scepticism by the inclusion of references to where professional scepticism may be considered or is encouraged, such as within paragraphs A44, A47 and A201.</p> <p>In our view, more explicit references to the expectation and requirement to exercise professional scepticism could be included within the standard, and this could include guidance on the types of procedures to perform, and the associated documentation requirements.</p> <p>We support the proposed change for the auditor to obtain "sufficient appropriate audit evidence" through the performance of risk assessment procedures, however we note that paragraph 54 does not require the auditor to document the procedures performed as part of paragraph 17. It is our view that a requirement to document the procedures performed be included within paragraph 54.</p> | <p>Stakeholders have provided mixed views on the use of the term “sufficient appropriate audit evidence” in ISA 315. The ATG’s view is that the term is inconsistent with terminology already applied in ISA 200, and ISA 500. Therefore the AUASB Submission has recommended using a different term.</p> |
| 2 | Pages 4-5. | R2 | <p>The change the granularity of risk assessment and terminology will not of itself increase the exercise of professional scepticism, having to perform more work does not in of itself make the executer of that work more sceptical. Scepticism is an attitude and mindset, therefore prescribing that the auditor perform more work does not change the underlying mindset and possibly may even reduce professional scepticism as the auditor is wading through the compliance requirements rather than focusing on exercising their professional scepticism.</p> <p>Use of the term "sufficient appropriate audit evidence" is confusing as it is using a description which is misleading close to that used in ASA 500. Based on the intent of the standard setters for auditors to document their risk assessment processes more fully this could be more meaningfully worded as sufficiently document the risk assessment process or similar wording rather than repurposing the words "sufficient appropriate" and "audit evidence".</p> | <p>Stakeholders have provided mixed views on the use of the term “sufficient appropriate audit evidence” in ISA 315. The ATG’s view is that the term is inconsistent with terminology already applied in ISA 200, and ISA 500. Therefore the AUASB Submission has recommended using a different term.</p> |
| 3 | Pages 8-9. | KPMG | <p>Overall, we believe that the proposals are helpful in supporting the appropriate exercise of professional scepticism throughout the risk identification and assessment process. In particular, we agree with the principles-based approach and reference to the concept of professional scepticism in an overarching fashion in the introductory paragraphs, rather than the inclusion of several, individually prescriptive requirements, throughout the standard. We believe that this approach is</p> | <p>Stakeholders have provided mixed views on the use of the term “sufficient appropriate audit evidence” in ISA 315. The ATG’s view is that the term is inconsistent with terminology already applied in ISA 200, and ISA 500.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| | | | <p>aligned to the current description of professional scepticism being a mindset/ fundamental behaviour of an auditor.</p> <p>With regard to the proposal to include a requirement in paragraph 17 for the auditor to “obtain sufficient appropriate audit evidence as a basis for the identification and assessment of risks of material misstatement”, we do not consider this concept to be applicable to separate “steps” in this auditing standard. This terminology is understood in a broader context and the proposed approach does not recognise the cohesive nature of an audit as a whole.</p> <p>Accordingly, we suggest that the IAASB considers revising the requirement to remove the reference to “sufficient, appropriate” when describing audit evidence.</p> | <p>Therefore the AUASB Submission has recommended using a different term.</p> |
| 4 | Pages 2-3. | UNSW | <p>Our own research, and that of others, suggests that the proposals will support the appropriate exercise of professional scepticism throughout the risk identification and assessment process, especially as it relates to fraud risk. In particular, discussions among the engagement team (paragraphs 22, A41-A45) have been shown to result in higher levels of professional scepticism. We feel, however, that additional explanatory material emphasising that the engagement partner should consider the format of the discussion, and how to communicate with those not in attendance at the discussion, would be beneficial in supporting the appropriate exercise of professional scepticism.</p> <p>Paragraph 22 (and the related explanatory material) is silent on the format that engagement team discussions should take. We believe that there is merit in noting that different formats may be more or less effective, depending on the circumstances. Our research (Trotman, Simnett and Khalifa 2009; Chen, Khalifa, Morgan and Trotman 2018; Chen, Trotman and Zhou 2015; Trotman, Bauer and Humphreys 2015), consistent with a number of other studies (e.g., Carpenter and Reimers 2013; Dennis and Johnstone 2018), highlight that differences in the nature and format of the discussion (e.g., face-to-face or electronic brainstorming), and those involved in the discussion, can facilitate or impede a robust risk assessment process. To illustrate, we (Trotman, Simnett and Khalifa 2009) find that different group formats and different instructions to group members affected the number and nature of potential frauds identified. In another study (Chen, Trotman and Zhou 2015), we find that when the discussion takes place via computer interaction (as may be the case when discussion participants are geographically dispersed), discussion impedes the risk assessment process and that this is caused, in part, by less experienced auditors relying on others to provide inputs into the discussion.</p> <p>While supporting the ongoing requirement for audit team members to discuss the potential for material misstatement, we believe that the risk assessment process would be more robust if paragraph 21, in addition to noting that the engagement partner is to determine which matters are to</p> | <p>A summary of academic feedback in relation to this matter has been included in the AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|---|----------------|
| | | <p>be communicated to engagement team members not involved in the discussion, also notes that the engagement partner is to use professional judgment to decide the format of, instructions provided, and who will participate, when conducting the discussion. This can also be further elaborated upon in the explanatory material, by noting that the discussion can take many forms and that it is a matter of professional judgment as to what form such discussions should take in order to facilitate a robust risk assessment process.</p> <p>In addition, our own research (Kim and Harding 2017), consistent with other research highlighting that the preferences of the auditor’s firm and superior can influence (both positively and negatively) their judgments (e.g., Peecher 1996; Wilks 2002; Shankar and Tan 2006), provides support for a communication plan (noted as being potentially useful in paragraph A45) in order to minimize deleterious consequences of the engagement partner inappropriately directing the risk assessment process, and to leverage off the benefits that such communication can have on elevating professional scepticism in the risk assessment process.</p> <p>We have also undertaken research examining the effect on professional scepticism of differences in what the partner communicates to those not involved in the discussion (Harding and Trotman 2017). This research highlights that the nature of the communication with those not involved in the discussion can have a noticeable effect on the level of professional scepticism exercised by those receiving the engagement partner’s communication.</p> <p>Based on this research, we recommend, in order to encourage professional scepticism in the risk assessment process, that paragraph A45 be expanded to note that the engagement partner should be cognisant, when communicating with those not included in the discussion, that what they communicate, and how they communicate, might lead to auditor bias which can, depending on the circumstances, both positively and negatively impact the level of professional scepticism being exercised.</p> <p>Also with reference to the exercise of an appropriate level of professional scepticism, we draw attention to recent developments in the academic literature regarding the representation of professional scepticism. The academic literature has, of late, addressed professional scepticism as both a mindset and an attitude (see Nolder and Kadous 2018). Broadly speaking, mindsets (i.e., “judgment criteria and cognitive processes and procedures to facilitate completion of a particular task”) directs an auditor’s approach to risk assessment, and attitudes (i.e., beliefs and feelings that drive individual intentions and actions”) direct an auditor’s response to that risk assessment. Both mindsets and attitudes are important in encouraging and supporting an appropriate level of professional scepticism.</p> | |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>With reference to mindsets, the understanding of professional scepticism in the extant standards is consistent with a deliberative mindset that "...is characterized by receptivity, openness or alertness to new information, and an objective and unbiased assessment of the merits of the evidence" (Nolder and Kadous 2018, p.5). Attitudes, by comparison, refer to beliefs and, importantly, feelings that will influence future actions (e.g., response to an identified risk of material misstatement). While the current version of the proposed auditing standard goes some way to encourage and support an appropriate sceptical mindset and attitude, there may be opportunities for further improvements.</p> <p>We support reference to contradictory evidence / information in paragraphs A19, A42 and A44 in that the search for and consideration of contradictory evidence is indicative of the exercise of professional scepticism (including the identification of troubling patterns). However, in order to further encourage an appropriate level of professional scepticism, we recommend that thought be given to expanding paragraph A19 to refer to broad sources of information (that may include but not limited to the points noted) so as to avoid consciously and/or subconsciously narrowing the breadth of information search. Similarly, we note that particular reference is made to the consideration of contradictory evidence in paragraph A42 and suggest that other benefits of the engagement team discussion can be noted, including helping auditors to be open to new information, and different interpretations of the information, and to limit the possibility of prematurely forming a belief.</p> | |
| 5 | | ACAG | <ul style="list-style-type: none"> - ACAG considers the prompts to consider professional scepticism are sufficient. We support the emphasis on "management bias", particularly the link to the entity's financial performance. We consider the most important encouragement of professional scepticism is behavioural change through staff awareness and training. - ACAG supports the emphasis on an appropriate evidence base for risk assessment. If quality evidence is not found to be available at an early stage, the auditor should become more sceptical, continue to challenge management and refine the audit approach as required. <p>While ACAG supports the intention of this change, we are concerned that the specific requirement for the risk assessment procedures to obtain sufficient appropriate audit evidence as the basis for identification and assessment of risks is unclear. The objective of an audit of financial statements is to draw conclusions on the financial statements as a whole and not on the risks of material misstatement. Risk assessment procedures and other audit procedures work together to allow the auditor to obtain a sufficient and appropriate evidence on which to draw conclusions because audit evidence is cumulative in nature. That is to say, sufficiency and appropriateness of evidence can only be measured when concluding on the subject matter and</p> | <p>Stakeholders have provided mixed views on the use of the term "sufficient appropriate audit evidence" in ISA 315. The ATG's view is that the term is inconsistent with terminology already applied in ISA 200, and ISA 500. Therefore the AUASB Submission has recommended using a different term.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>risk assessment procedures alone may not be able to draw conclusions. For example on a practical level, when taking a controls strategy, the auditor will not have sufficient and appropriate audit evidence of control risk at the conclusion of the risk assessment phase of the audit because procedures related to assessing the operating effectiveness of controls is a risk response procedure. The risk assessment procedures for controls only provide an educated guess as to the likely results of the testing which is not consistent with sufficient and appropriate audit evidence. Similarly, the emphasis on the iterative nature of risk assessments also suggests that the sufficiency and appropriateness of evidence related to risk assessment relies upon the corroboration of the execution of the risk response.</p> | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | Page 1. | R7 | <p>We support the inclusion of more detail on professional scepticism, although there is potential for this to be taken further. The standard does not contain much more than the extant standard in relation to documentation, and this is often the aspect of the exercise of professional scepticism that regulators identify as lacking.</p> | <p>Stakeholders have provided mixed views on the use of the term “sufficient appropriate audit evidence” in ISA 315. The ATG’s view is that the term is inconsistent with terminology already applied in ISA 200, and ISA 500. Therefore the AUASB Submission has recommended using a different term.</p> |

Question 5 – Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control 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 or material misstatement? Specifically:

Qn. 5(a) – Have the requirements related to the 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?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 3. | Deloitte | <p>Yes, the additional guidance in the latest exposure draft enhances the understanding of what is required of the auditor in documenting the components of the entity's system of internal control. Additionally the updated definitions provide greater relevancy and clarity.</p> <p>We note that different paragraphs convolute the consideration of the entity's controls with respect to the identification and assessment of risks of material misstatement. Some of these paragraphs are included within the "Key Concepts in this ASA" section, so they are critical for auditors to understand when applying the standard.</p> <p>Within paragraph 4, it states "The required understanding of the entity and the environment, the applicable financial reporting framework, and the system of internal control forms the basis for the auditor’s identification of risks of material misstatement. The identification of risks of material misstatement at the assertion level is performed before consideration of any controls."</p> <p>Paragraph 39(e) states:</p> <p>[The auditor shall identify controls relevant to the audit. being those:] That, in the auditors professional judgement, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:</p> <p>Identify and assess the risks of material misstatement at the assertion level; or</p> <p>Design further audit procedures responsive to assessed risks.</p> <p>The "Identifying and Assessing the Risk of Material Misstatement" flowchart also supports the view that the understanding of controls is factored into the process to identify risks of material misstatement.</p> <p>We believe the first point that needs to be made clear is the identification of a risk of material misstatement versus the assessment of a risk of material misstatement. The next point is in relation to differentiating between having an 'understanding of internal control' (as included in paragraph 4) when identifying risks of material misstatement versus assuming that the entity's controls are operating effectively and thus influencing whether a risk of material misstatement exists or not.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>Ultimately, the understanding of the internal control structure including the design and implementation of controls is appropriate and required when identifying and assessing risks of material misstatement, however auditors are unable to conclude that there is a remote risk (therefore not a risk of material misstatement) by assuming that one or more controls are operating effectively - this is what needs to be clearly communicated within the standard.</p> <p>Thirdly, it is unclear how inherent risk and control risk interacts and combines together when it comes to assessing the risks of material misstatement.</p> <p>For instance, paragraph 5 states "For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ASA." However no requirements or guidance is provided on how these separate assessments then combine together to form the overall assessment of the risk of material misstatement.</p> | |
| 2 | Page 5. | R2 | <p>In conjunction with the flow chart "obtaining an understanding to the entity's system of internal control" the revised standard clarified the understanding of what is required and how it feeds to the risk assessment. In particular the limiting of the design and implementation testing to the information system and communications, and the control activities. The inclusion of the flow charts will be crucial in appropriate adoption and understanding of the standard both by practitioners and regulators.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 3 | Pages 9-11. | KPMG | <p>(a) We are supportive of the IAASB’s aims in enhancing and clarifying this area, as we consider that much of the complexity and scope for inconsistency of application in practice lies in obtaining this understanding. In particular, we welcome the alignment of the categorisation of the components of the system of internal control to the COSO Framework, and therefore the order in which the components of internal control are presented. Additionally, the requirements include greater focus on why we obtain the understanding, with a number of “signposts” or “milestones” that require the auditor to make an evaluation.</p> <p>However, we suggest that the IAASB consider clarifying that any ‘evaluation’ is made in respect of the overarching objectives of the standard as a whole, and not in respect of any specific matter in isolation.</p> <p>(b) We believe there is scope for inconsistency in application in relation to how to obtain the required understanding of each component of the system of internal control, which may present challenges for auditors of smaller and less complex entities in particular.</p> <p>For example, we believe there is an intentional difference in respect of the understanding obtained over the information system and communication component of the system of</p> | <p>(a) Noted.</p> <p>(b) This difference is intended, referred to IAASB <i>Explanation Memorandum</i>. Not included in the AUASB submission;</p> <p>(c) Agreed by the AUASB to be included in AUASB submission.</p> <p>(d) Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|--|----------------|
| | | <p>internal control, and that an auditor is required to identify the controls relevant to financial reporting that are embedded in this component and to evaluate the design of this system by evaluating the design and implementation of these controls, but is not required to perform a similar evaluation in respect of the controls in the other components, other than to identify whether there are any controls relevant to the audit within these components. We suggest that the IAASB clarify whether this is an intentional difference.</p> <p>(c) We believe that the ED may give rise to uncertainty and inconsistency in application with regards to the understanding that is required to be obtained in respect of the information system and communication component of the system of internal control at paragraph 35(a)–(d) and how this relates to the evaluation of the design and implementation of the information system controls relevant to financial reporting required by paragraph 36. It is unclear whether the requirement at paragraph 36 is achieved through the performance of paragraph 35, or whether it is considered as part of the performance of paragraph 36. This is compounded by a lack of clarity as to how this understanding is obtained.</p> <p>(d) Furthermore, we are concerned that the ED does not sufficiently clarify which controls reside in the information systems component and which in the control activities component and how these interrelate, if at all.</p> <p>At paragraph 37 of the EM, the IAASB notes that “Controls relevant to the audit are primarily direct controls and controls in the controls activities component. However, the auditor may identify certain controls in the control environment, the entity’s risk assessment process or the entity’s process to monitor controls as relevant to the audit because they address risks of material misstatement at the assertion level.”</p> <p>The above leads to a lack of clarity as to the distinction between the nature of the controls in the information system component and the control activities component, including whether controls over the flow of information are direct and why controls in the information system component are relevant to financial reporting whereas controls in the control activities components are relevant to the audit, and how these concepts are connected. There is also uncertainty in relation to the work needing to be performed over controls that are relevant to financial reporting.</p> <p>We consider that the standard would particularly benefit from clearer linkage between the “understanding” obtained regarding each of the components of the entity’s system of internal control and how this is applied in fulfilling the requirements to identify and assess the risks of material misstatement at paragraph 45 onwards. Paragraph 17 describes this</p> | |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| | | | <p>understanding as forming the basis for the risk identification and assessment. However, the application material, in particular A201 and A202, focuses more on the inter-relatedness of these aspects of the standard, e.g. that the auditor forms initial expectations and then confirms or updates these, or that information gathered in performing the risk assessment procedures to obtain the understanding is used as audit evidence to support the risk assessment. Paragraph A208 states that the identification of risks of material misstatement at the assertion level is performed before consideration of any controls, which seems to contradict this linkage insofar as risks of material misstatement at the assertion level are concerned. The reference to “significant classes of transactions, account balances and disclosures” in the requirement at paragraph 35(a), in relation to the understanding of the information system relevant to financial reporting, also seems to contradict the notion that the understanding of this component of internal control is considered in identifying the risks of material misstatement, i.e. significant classes of transactions, account balances and disclosures).</p> | |
| | N/A | UNSW | No response provided. | N/A |
| 5 | Page 6. | ACAG | <p>This aspect is enhanced and clarified and shows the link to risk identification. ACAG is supportive of the clarification that when the operating effectiveness of controls are not tested, the auditor shall assess control risk at the maximum.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 5(b) – Have the requirements related to the auditor’s identification of controls relevant to the audit 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?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | Page 4. | Deloitte | <p>(a) Paragraph 39 and the associated guidance paragraphs have enhanced the standard, however we don't believe that they have provided a lot of clarity on what constitutes other controls relevant to the audit, and the expectations and requirements on how the auditor determines these. We acknowledge there is some enhanced guidance within paragraph A179 however this doesn't extend to providing clarity on how the auditor may go about determining what other controls are relevant in the circumstances.</p> <p>(b) Similarly, paragraph A167 indicates that for smaller and less complex entities, there may not be any other controls aside from the minimum expectation of controls over journal entries, however does not provide guidance on how the auditor should exercise professional judgement in making this determination. It also doesn't contemplate the common situation for smaller and less complex entities where controls exist but are not formally documented.</p> | <p>(a) Most stakeholders supportive of controls relevant to audit, and in AUASB submission supportive of controls relevant to the audit,.</p> <p>(b) Raised by other stakeholders at the ED ISA/ASA 315 roundtable and included in the AUASB submission.</p> |
| 2 | Pages 5-6. | R2 | <p>(a) The revised standard increases the clarity of selecting the relevant controls in particular in Para A166 and A167, is clear that the auditor may, based on their judgement of the complexity and size of an entity conclude that the only relevant controls are those over journal entries if they do not plan to rely on any of the other controls which may be present. However, there is much less clarity over what constitutes a smaller and less complex entity, while assuming this is intentional to encourage auditors to consider the client, it is also open to considerable misinterpretation or variability of interpretation as to what is smaller and less complex.</p> <p>(b) The revised standard however, is likely to result in far more controls being considered relevant because of the definition of relevant assertions being described in the introductory paras as being "reasonably possible" whereas the language in the standard in the definitions in para 16 (h) describes reasonably possible as being where this is more than remote.</p> <p><i>(h) Relevant assertions -An assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements. There is such possibility when the likelihood of a material misstatement is more than remote. The determination of whether an assertion is a relevant assertion is made before consideration of controls. (Ref Para, A9)</i></p> | <p>(a) Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>(b) Included in the AUASB submission in Q1 and Q2.</p> |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|--|--|
| | | <p>This wording seems to be the inverse of the intent of the standard setters which according to the discussions at the round table was to suggest that remote mean reasonably possible, in ordinary use this might be interpreted as more likely than not, but the wording in the standard is to suggest that reasonably possible is measured as being greater than remote, the exact opposite or the outlined intent of the standard setters. Remote has the implication in ordinary use of being highly unlikely, implausible, far-fetched, therefore the use of the word in the standard is misleading or will result in most balances and most or all assertions being considered to have a risk greater than remote and therefore being relevant. Hence, relevant controls will necessarily be greater in response to more assertions being considered relevant.</p> <p>The issues of the use of the word remote and the definition of relevant assertions is likely to lead to more controls being identified which is going to make scaling the standard for "smaller and less complex entities" more challenging.</p> | |
| 3 | Page 11. | <p>KPMG</p> <p>We welcome the additional granularity regarding the types of controls that are relevant to the audit in paragraph 39. We also find the clarification in the application material that most controls, although not necessarily all, that are relevant to the audit will be direct controls, and that these will reside in the Information System and Communication, and Control Activities components, helpful.</p> <p>Notwithstanding the above, this is a complex area. We recommend that the IAASB introduce further clarity regarding paragraph 39(e), which refers to controls for which it is appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to identify and assess the risks of material misstatement at the assertion level. This is difficult to implement – how can you “know what you don’t know” unless you identify and evaluate all the controls. We believe that this concern applies irrespective of the size or nature of the entity, although the work effort to identify these controls may seem disproportionate in a smaller entity.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 4 | N/A | UNSW No response provided. | N/A |
| 5 | Page 6. | ACAG The process for identification of relevant controls is enhanced and clarified and consider this can be applied to all types of audits. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 6 | N/A | IIA No response provided. | N/A |
| 7 | N/A | R7 No response provided. | N/A |

Qn. 5(c) – Do you support the introduction of the 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 the risks arising from IT and the identification of general IT controls sufficient to support the auditor’s consideration of the effects of the entity’s use of IT on the identification and assessment of the risks of material misstatement?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 4. | Deloitte | <p>a) Yes, we support the introduction of the new IT-related concepts and definitions as they provide a baseline understanding for auditors.</p> <p>The enhanced requirements and application materials around the impact of the IT environment and IT controls on the identification and assessment of risks of material misstatement is useful in assisting the auditor to understand the various elements of what is required as part of the risk assessment process.</p> <p>b) Having said this, we highlight that it is a requirement under paragraph 38 that the auditor obtains an understanding of the control activities component - how this interacts with risk identification and assessment is unclear particularly in the context where the identification of risks of misstatement is made before the consideration of controls (refer to our response to question 1(a) and our comments in Appendix 2).</p> | <p>(a) consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>(b) included in Q5 (a).</p> |
| 2 | Page 6. | R2 | The enhancements to the standard certainly make clearer the requirements, however there is also an implied increase in the volume of expected work from the extant standard. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 3 | Page 11. | KPMG | <p>We support the introduction of the new IT-related concepts and definitions and agree that these are necessary to ensure that ASA 315 remains fit for purpose in a modern environment.</p> <p>In respect of the IT environment, we note that the description/ definition at A7 and A8 is very technical and may not be clearly understood by auditors.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 6. | ACAG | <p>ACAG supports the introduction of IT related concepts and definitions.</p> <p>ACAG’s overall opinion is that the standard does not include enough information about risk factors relating to current and quickly evolving technology, such as “infrastructure/ software as a service” solutions, wireless networks, blockchain, and other technology devices (Internet of Things) that connect to organisational networks. These are current technologies that are being used in organisations now, including many public sector organisations.</p> <p>We note:</p> | ATG has included the points relevant to risk factors, in the AUASB Submission. Other points have not been have not included as they relate to specific technology and tools and may become obsolete. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|----------------|
| | | | <ul style="list-style-type: none"> - the enhanced material is only sufficient for simple in-house IT environments; - understanding the transaction flow for significant classes of transactions, account balances and disclosure COTBAD is an important step and will highlight all the systems involved. However, auditors will need more guidance in understanding “as a service” offerings within the IT environment and the related risks of trusted third parties; - more guidance is required to understand the end-to-end IT services that relate to processing significant COTBAD for comprehensively identifying and assessing risks resulting from the use of IT; - use of other new technologies, such as Distributed Ledger Technology (including block chain), also present different and additional risks to the control environment that need to be considered when understanding the IT environment. | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

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:

Qn. 6(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’?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 4. | Deloitte | <p>a) Yes, we support the separate assessments of inherent and control risk to the extent of preventing auditors from "taking credit for controls" when determining risks of material misstatement, however we believe that there is a need to clearly articulate the consideration of controls when assessing inherent risk (that is, using the understanding of the control environment and internal controls that exist) and what is included within the assessment of inherent risk versus control risk (for example, where the entity does not have an appropriate control or the control is not designed or implemented appropriately, whether this is incorporated as part of the inherent risk or control risk assessment).</p> <p>Furthermore, in the introduction paragraphs it states that the assessment of the risks of material misstatement at the assertion level are based on the separate assessments of inherent risk and control risk, however there is no clarity or guidance on how the combination of these separate assessments come together when determining the risk of material misstatement. Following on from this, it is highlighted that control risk would be assessed at "maximum" if the auditor does not intend to rely on the operating effectiveness of control(s) that address the risk of material misstatement, however there is no linkage or connection to the understanding of the control environment and the design and implementation of these controls (which we assume is part of the inherent risk assessment, although this is not directly stated).</p> <p>Refer to our detailed comments within Appendix 2.</p> <p>b) The requirement to assess control risk at less than maximum automatically, based on the planned audit strategy does not take into consideration the underlying robustness of the control and whether they will prevent, detect or correct material misstatements, as defined in Paragraph 3.</p> <p>Additionally, the requirement to assess control risk at less than maximum based on the planned audit approach, may not be always be appropriate. Paragraph 53 states:</p> <p>“The auditor's assessments of the risks of material misstatement at the financial statement level and assertion level may change during the course of the audit as additional audit evidence is obtained.”</p> <p>which is one example where the control risk may be set at maximum notwithstanding the planned</p> | <p>(a) consistent with feedback received from other stakeholders. Included in AUASB Submission;</p> <p>(b) inconsistent with other feedback received from stakeholders and has not been included. Majority of stakeholders agree with requiring control risk to be maximum unless planning to test controls, and have not commented on the requirement to assess at less than maximum if planning to test controls. ATG’s view is that 50 (a) requires the consideration of the design of the controls and therefore has not included in the submission</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--|--------------------|--|---|
| | | | audit approach. | |
| 2 | Pages 6-7. Page 11. | R2 | <p>We support the separation of inherent risk and control risk. However, the use of the term control risk is confusing and misleading. The control risk is a response not a risk i.e. it is binary in its outcome in respect of audit evidence, either the control is tested or it is not i.e. there is audit evidence or there is not, the extent of the audit evidence from a tested control. Therefore, it is not possible to not test controls and conclude that a risk of material misstatement does not exist if the inherent risk suggests it is a risk of material misstatement. Therefore, it is unclear how any factor in substance affects the determination of risks of material misstatement other than the inherent risk. The response can be either controls, or substantive tests or a combination but the inherent risk i.e. the risk of material misstatement cannot by definition be reduced without testing the controls, therefore controls do not determine inherent risk controls are a mechanism to respond to inherent risk, as inherent risk does not include controls as an inherent risk factor.</p> <p>A5 and A6 - Para A5 is the inherent risk factors but para A6 reads like another list of inherent risk factors either they are all risk factors and should be in a single para or para A5 is a little misleading in describing it as "the" inherent risk factors.</p> | Point raised in relation to assessing control risk and more guidance has been included in AUASB Submission. Para 16f refers to paras A5 and A6, therefore considered clear. |
| 3 | Page 12. | KPMG | <p>(a) We support the separate assessments of inherent and control risk at the assertion level, and we consider that the related requirements and guidance are clear. We believe this amendment results in better alignment to ASA 330.7, which requires the auditor to consider inherent risk and control risk separately in order to respond, and it also aligns to the amendments already made to ISA 540 in this regard.</p> <p>(b) As discussed above, we suggest that the IAASB consider whether the concept of ‘identification of a risk of material misstatement’ (versus assessment of a risk of material misstatement) can be dropped, given the separation of assessments of inherent and control risk.</p> | <p>(a) consistent with feedback from other stakeholders and has been included in AUASB Submission.</p> <p>(b) included in the AUASB submission..</p> |
| 4 | Pages 3-4 | UNSW | Although not specifically related to separate assessments of inherent and control risk, we (Chen Khalifa and Trotman 2015) find that auditors identify more potential frauds when sequentially considering one risk area at a time (e.g., revenue recognition/receivables, inventory, non-current assets and management estimates). If applied to the unpacking of risk of material misstatement assessments (and we have no reason to expect that our findings would not be applicable), these findings suggest that separate assessments of inherent risk and control risk would result in the identification of more risk factors and a | Not included in the AUASB submission as not considered actionable by the IAASB. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| | | | <p>more robust risk assessment process. We therefore support the separate assessment of inherent and control risk.</p> <p>As a word of caution, however, while more fraud risk factors were identified, auditors in our study assigned a lower likelihood to these fraud risk factors, suggesting that lower levels of scepticism may accompany the ‘unpacking’ of assessments of risk of material misstatement. Simon, Smith and Zimbleman (2018) similarly report that decomposition of fraud risk assessments into likelihood and magnitude components (compared to a holistic assessment) led auditors to “...discount their fraud risk assessment for higher-risk fraud schemes”(p.3). These results suggest that while unpacking/decomposing the risk of material misstatement may be beneficial by way of increasing auditors’ sensitivity to information, it may limit the scepticism applied to the risks identified. We therefore recommend that the application and other explanatory material relating to paragraph 48 be expanded to reinforce the need to exercise an appropriate level of scepticism across the greater number of identified risks that are likely to follow from the unpacking / decomposition of the components of risk of material misstatement assessments.</p> | |
| 5 | Page 7 | ACAG | ACAG supports the separate assessment of inherent and control risk and agrees the revised requirements and guidance are appropriate. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 6(b) – Do you support the introduction of the concepts and definitions of ‘inherent risk factors’ 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?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | Page 5. | Deloitte | Yes, we support the introduction of these concepts and definitions. However we note that whilst the factors have been established, they are quite high level and how the auditor applies these factors against a spectrum of risk assessment has not been explained, nor guidance provided. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 2 | Page 7. | R2 | The inherent risk factors are consistent with what an experienced auditor might use and essentially consistent with the factors previously described in the extant standard for a significant risk, however the revised standard makes clear that the presence of these factors is not binary but a scale and that a risk of material misstatement can have some of these factors and still not be a significant risk. This is a better reflection of the audit environment than the extant standard. The practical execution of these factors however and the expectations of documentation of each factor is unclear. If each risk is expected to have detailed documentation for each factor then the changed standard will result in an extremely burdensome documentation requirement, a better understanding of regulatory interpretations of this would allow a more considered response to this. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. Point on documentation is included in application material of ED, para A245. |
| 3 | Page 13. | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 7. | ACAG | ACAG supports the concepts of inherent risk factors and agrees the guidance is appropriate. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 6(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 misstatement, including significant risks?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| 1 | Page 5. | Deloitte | <p>This formalises a concept that auditors have already been utilising, however more guidance is needed in the application of professional judgement if consistency in the identification and assessment of the risks of material misstatement and significant risk is to be achieved, as currently the implementation guidance only indicates what to look for, rather than how to assess. The term "spectrum" itself has not been defined, nor is guidance included.</p> <p>In addition, there does not appear to be a similar spectrum concept for the control risk assessment - the standard describes only "maximum" and "less than maximum". These options are not clearly defined either, and application guidance is not included.</p> <p>Magnitude is a new way of thinking and can be misinterpreted without specific guidance. Auditors are used to "material" and "significant" and thus magnitude needs to be defined.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>Note on control risk assessment has been included in AUASB submission.</p> |
| 2 | Pages 7-8. | R2 | <p>The concept of the spectrum of risk is consistent with auditor practice, however the outcome is ultimately still only 2 outcomes, not risks of material misstatement, risks of material misstatement and significant risks. The inclusion of likelihood and magnitude in addition to the inherent risk factors is confusing as adds an alternative method of determining the inherent risk without being included within the inherent risk making the entire decision more complex. The separation and express requirement to consider the factors and to consider likelihood and magnitude in our opinion increase complexity and documentation requirements without substantially impacting risk assessment or audit quality. Auditors may expend considerable time documenting where on the spectrum a matter sits only to ultimately conclude that it is a risk of material misstatement and then determine what work they will do for that risk.</p> | <p>Not consistent with feedback from other stakeholders. Has not been included in the AUASB Submission.</p> |
| 3 | Page 13. | KPMG | <p>(a) We are supportive of the introduction of the “spectrum of inherent risk” and believe that this will help us to understand that this may vary smoothly, rather than being the binary assessment of significant versus non-significant that we make at present. We are also supportive of the IAASB’s conclusion to retain the concept of significant risk on the basis that other ISAs contain the concept of significant risk and therefore ISA 315 needs to align to this.</p> <p>(b) Together with the updated definition of significant risk, the concept of a spectrum of inherent risk helps the auditor to focus on the nature of the risks themselves, rather than requiring a determination as to whether a risk is significant based on the expected audit response, i.e. whether the risk requires “special audit consideration”.</p> | <p>(a) Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>(b) Inconsistent feedback on likelihood and magnitude discussed in submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>We support the IAASB’s preliminary conclusion that significant risks are best represented by a high likelihood of occurrence or high magnitude of potential misstatement (rather than ‘and’), and consider that the auditor will apply its professional judgement as to whether a matter is actually a significant risk.</p> <p>(c) However, we have some concerns about the description in A229 that significant risks are “assessed close to the upper end of the spectrum” and suggest referring instead to “at the upper end of the spectrum”.</p> | (c) Included in AUASB Submission. |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 7. | ACAG | <p>ACAG agrees with the concept of a “spectrum of inherent risk” and the combined assessment of “likelihood” <u>or</u> “magnitude” when determining significance. We suggest the inclusion of a diagrammatic representation to highlight how likelihood and magnitude interplay in the process of determining if a risk is significant or otherwise, i.e. “likelihood” on one axis and “magnitude” on the other axis.</p> <p>To ensure appropriate determination of “significant risk”, ACAG suggests additional guidance be inserted to help auditors determine where on the scale of likelihood and magnitude would result in a significant risk, i.e. would a low likelihood and high magnitude instance result in a significant risk?</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> <p>Inconsistent feedback on likelihood and magnitude discussed in submission.</p> |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 6(d) – Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, 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 assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|---------------|--------------------|---|--|
| 1 | Pages 8 & 10. | Deloitte | <p>Significant class of transactions, account balance or disclosure</p> <p>We question why the introduction of a new concept 'significant class of transactions, account balance or disclosure' is required and how it differs from a material class of transactions, account balance or disclosure referred to in ASA 330.</p> <p>Paragraph 4 states:</p> <p>"the assertions to which such risks of material misstatement relate are referred to as 'relevant assertions,' and the classes of transactions, account balances and disclosures to which the relevant assertions relate are referred to as 'significant classes of transactions, account balances and disclosures.</p> <p>Intuitively we would equate a significant class of transactions, account balance or disclosure to be the same as a material class of transactions, account balance or disclosure as fundamentally it comes down to the existence of one or more risks of material misstatement associated with one or more relevant assertions, however this is not how it is currently structured.</p> <p>Paragraph 10 indicates that:</p> <p>"After identifying_ the risks of material misstatement, the auditor determines the significant classes of transactions, account balances and disclosures.</p> <p>The auditor is also required to perform a stand-back to confirm that this identification is appropriate."</p> <p>Similarly paragraph 46 requires that:</p> <p>"The auditor shall determine significant classes of transactions, account balances and disclosures, and their relevant assertions, based on the identified risks of material misstatement."</p> <p>It appears that a significant class of transactions, account balance or disclosure is a subset of a material class of transactions, account balance or disclosure (i.e. a significant class of transactions, account balance or disclosure is always a material class of transactions, account balance or disclosure, but not vice versa), but this is not clearly defined and the concepts/definitions are not currently articulated to distinguish between them.</p> | <p>Para 4 included in submission.</p> <p>All points included in the AUASB submission except the last paragraph, as not raised by the other stakeholders.</p> <p>Inherent risk determines risks, in this scenario a risk over completeness would be identified as a relevant assertion.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| | | | <p>The inclusion of a significant class of transactions, account balance or disclosure within ASA 315 is misleading and confusing as there is no clear distinction between this and a material class of transactions, account balance or disclosure.</p> <p>As a consequence, it is unclear what the expectation of the auditor is under Paragraph 10 and 46.</p> <p>Relevant assertion</p> <p>We recommend that consideration factors or additional guidance be linked or included, in order to assist auditors in determining what constitutes a 'reasonable possibility' or when a possibility would be 'remote'.</p> <p>In addition, this paragraph states that the "determination of whether an assertion is a relevant assertion is made before consideration of controls", which implies that relevant assertions are only applicable to inherent risk and not control risk. This does not envisage scenarios such as when the entity does not have a control over the cut-off assertion, or they do have a control but it is not designed/implemented appropriately. This may potentially lead to an additional relevant assertion (if cut-off was not considered relevant beforehand) that is based on control risk not inherent risk. If this is considered to be part of the inherent risk assessment rather than control risk assessment, then this needs to be made clear so that it sets the scene for the remainder of the standard.</p> | |
| 2 | Page 8. | R2 | <p>Refer previous comments about the misleading definition of reasonable possibility being anything more than remote in response 5b.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 3 | Page 13. | KPMG | <p>We are supportive of the inclusion of the new concepts and related definitions, however, we recommend that the IAASB provides further information to support the definitions, such as examples of “classes of transactions” and “account balances” and the distinction between the two.</p> <p>We note that one of the intentions of the IAASB is to clarify the scope of the auditor’s understanding of the information system, and the auditor is required at ED 01/18.35(a) to “understand how information relating to significant classes of transactions, account balances and disclosures flows through the entity’s information system.” We believe that this is helpful as it clarifies when such understanding needs to be obtained.</p> <p>We also support revisions to the definition that better focus on a significant risk being assessed by reference to the spectrum of inherent risk, rather than on the response to the risk. It better enables</p> | <p>Not included in the AUASB submission as it has not been raised by other stakeholders and not considered a key point.</p> |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|---|---|
| | | <p>compliance with the requirement in the extant standard at paragraph 27 to identify significant risks excluding the effects of controls, i.e. based on the inherent risk alone.</p> | |
| 4 | Page 4 | <p>UNSW</p> <p>The definition of relevant assertion refers to "... a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material ...". In the definition, this is subsequently explained as "...the likelihood of a material misstatement [that is] more than remote". The definition of relevant assertion, envisages that the terms 'reasonable possibility' and 'more than remote' are equivalent. Indeed, in the IAASB Explanatory Memorandum to ED315 (footnote 26), it is noted that the "IAASB is of the view that the two terms are synonymous". Research would suggest that this is not the case, and equating reasonable possibility with more than remote will likely lead to confusion.</p> <p>In 2016, the Korea Accounting Standards Board and the Australian Accounting Standards Board reported the results of a survey eliciting Korean and Australian preparers' and auditors' interpretation of linguistic probability statements contained in the International Accounting Standards. Australian preparers and auditors perceived remote to mean a probability of 9.0% (range 3.2% to 12.1%). However, these same preparers and auditors perceived reasonably possible to mean a probability of 57.2% (range 49.7% to 72.7%). Similar results are revealed in Amer, Hackenbrack and Nelson (1994), that is; remote: 12.33%, reasonably possible: 58.57%. There are, therefore, a broad range of likelihoods (approximately 10% to 50%) that, while being more than remote, are not reasonably possible. This difference between more than remote and reasonable possibility highlights the dangers in attempting to define one linguistic probability term with reference to another linguistic probability term, and this is even more the case when the terms are clearly perceived to be different. Between remote and reasonably possible in the joint KASB/AASB study were, from less likely to more likely; extremely unlikely, highly unlikely, unlikely and possible. We would not recommend defining one linguistic probability statement in terms of another.</p> <p>Whether the term 'reasonable possibility' or 'more than remote' is employed rests on standard setters' preference for the standard to capture more or less assertions. The term 'more than remote' will capture more assertions than 'a reasonable possibility'. We do not offer any comment on which of these two terms is better.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 5 | Page 7-8. | <p>ACAG</p> <p>ACAG is not clear as to the intention of the introduction of this concept as there is minimal guidance as to the difference in auditor response to significant COTABD and material COTABD. Para A242 requires the auditor to address quantitatively and qualitatively material COTABD in accordance with ISA 330 para 18 which states that "the auditor shall design and perform substantive procedures...."</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| | | | <p>In order to design and perform audit procedures, the auditor would first need to determine the relevant assertion at risk. If that is the case, then ACAG questions the appropriateness of the auditor’s response to material COTABDs.</p> <p>Given the example provided in para A242 refers to a qualitatively material disclosure, it appears the intent to distinguish between significant and material is related to qualitatively material aspects of the COTABD. ACAG questions the benefits of making this distinction if this is the case, as the concept of qualitatively material COTABD is an existing concept and auditors would already be considering the qualitative aspects under the current framework when scoping in their COTABDs.</p> | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 6(e) – Do you support the revised definition, and related material, on the determination of ‘significant risks’? What are your views on the matters presented in paragraph 57 of the IAASB’s Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | Page 5. | Deloitte | <p>Yes, the previous definition of significant risks within the extant ISA 315 focused on the response to a significant risk, rather than defining what a significant risk is. Whilst we agree with defining significant risks as relating to inherent risk close to the upper end of the risk spectrum, we highlight the fact that this does not consider situations where significant risk may arise due to inherent risk being exacerbated by issues with internal controls. In addition, linking to our response to question 6(b) above, the risk spectrum is not defined and no further guidance is included to assist in understanding the concept of the "upper end" of the spectrum.</p> <p>The definition of a significant risk is an identified risk of material misstatement for which the inherent risk is close to the upper end of the spectrum of inherent risk. The potential impact of the control risk is not referred to at all.</p> <p>Does this mean that only the inherent risk impacts whether a risk of material misstatement is classified as significant or not? Our view is that the potential for a significant risk may be increased if the entity does not have relevant controls or they were not designed, implemented or operating effectively.</p> | <p>Point on spectrum of inherent risk is included.</p> <p>Other points not raised by other stakeholders and ATG do not agree. Significant risks based on inherent risks are supported by other stakeholders. Not included in AUASB Submission.</p> |
| 2 | | R2 | <p>The concept that significant risks can be determined by either magnitude or likelihood, is confusing in two aspects: Firstly the use of or, it would appear that it’s a combination of magnitude and likelihood which would drive a risk to be considered significant. Secondly, the risk is defined by its inherent risk factors and it’s the extent to which they are applicable which would determine whether an inherent risk is significant. As such there is insufficient clarity as to the application and use of the likelihood and magnitude in conjunction with the inherent risk factors to determine whether a risk is significant.</p> | <p>Consistent with feedback received from other stakeholders. Included in AUASB Submission.</p> |
| 3 | N/A | KPMG | No comment | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 8. | ACAG | <p>ACAG supports the revised definition and related material on determining risk. We are aware of examples such as IT environments where the likelihood of a risk is low, but the consequence extremely high. Therefore, it is important not to exclude these risks from the auditor’s determination of significant risks.</p> | <p>Point noted and agreed by the ATG.</p> <p>Mixed views on likelihood or magnitude. The AUASB submission supports likelihood and magnitude. Agree these risks should not be excluded from</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|-----------------------|---|
| | | | | significant risks but should also not automatically be significant risk. likelihood and magnitude leaves it up to the auditor's professional judgement as to whether this scenario would be a significant risk. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 7 – Do you support the additional guidance in relation to the auditor’s assessment of risks of material misstatement at the financial statement level, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | Page 6. | Deloitte | <p>We support the need for additional guidance in relation to the auditor's assessment of risks of misstatement at the financial statement level. We note however that the guidance within ED 01/18 is largely centered on the risk of misstatement at the assertion level. ED 01/18 does not contain detailed guidance relating to the identification and assessment of risks at the financial statement level, and how such risks may affect the assessment of risks at the assertion level.</p> <p>A specific example of this is within Appendix 2 where it introduces the guidance as "The following are examples of events and conditions that may indicate the existence of risks of material misstatement in the financial report, either at the financial statement level or the assertion level" however the subsequent subheading is "Inherent Risk Factors at the Assertion Level".</p> <p>Requirements throughout the standard refer to risks of material misstatement at the assertion level. In many instances, there would also presumably be an impact on financial statement level risks, however the relevant paragraphs refer to the assertion level risks only.</p> <p>We acknowledge that ED 01/18 indicates that financial statement level risks are constituted from assertion level risks with a pervasive impact, however there is no specific guidance on how to determine what assertion level risks constitute financial statement level risks.</p> <p>We recommend that updates are made to include further guidance on financial statement level risks and/or how the auditor should apply the requirements and guidance of the standard to financial statement level risks.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 2 | Page 8. | R2 | <p>The guidance on how to assess the financial statement level risks is enhanced however the guidance on how to apply the assessment to the risks of material misstatement is lacking in detail. Conceptually based on the risk assessment process described by the revised standard any financial statement level risks such as going concern or management override of controls would already be considered as part of the risk assessment process at the balance or transaction level and therefore other than as a stand back option the assessment of risks at the financial statement level appears to be repetitive, and not enhancing audit quality in of itself.</p> | Inconsistent with feedback from other stakeholders, not included in submission. |
| 3 | Page 13. | KPMG | <p>Yes, the guidance better clarifies how risks that affect a number of assertions have a more pervasive effect on the financial statements and therefore need to be assessed to develop overall responses, as</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| | | | well as the consideration of how such risks affect the assessment of risks of material misstatement at the assertion level. | |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 8. | ACAG | ACAG supports the additional guidance material. It clarifies how the control environment can have a pervasive effect on financial reporting and fraud. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 8 – What are your views about the proposed stand-back requirement in paragraph 52 of ED 01/18 and the proposed revisions made to paragraph 18 of ASA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|------------------|--------------------|---|--------------------------------------|
| 1 | Pages 6 & 10-11. | Deloitte | <p>The proposed stand-back requirement promotes the application of professional judgement and professional scepticism, and is an important step of the risk assessment process to prompt the auditor to holistically consider the appropriateness of the risk assessment made.</p> <p>The proposed revision made to paragraph 18 of ASA 330 to specifically articulate that a material class of transaction, account balance and disclosure can be material based on quantitative or qualitative factors is supported, however difficulty in understanding arises from confusion around what constitutes a significant class of transaction, account balance and disclosure versus a material but not significant transaction, account balance and disclosure which we have detailed further in Appendix 2.</p> <p>Linked to our overriding comment above, we highlight that the wording utilised is potentially misleading and confusing due to the reference to 'quantitatively or qualitatively material' and the definition of a significant class of transactions, account balance or disclosure. We question whether it is possible for the auditor to identify a class of transactions, account balance or disclosure that is qualitatively material that has not been identified as significant. Perhaps the reference to a class of transactions, account balance or disclosure that is 'quantitatively material' infers that it is greater than materiality.</p> <p>From our perspective that the purpose of this paragraph is for the auditor to perform a 'sense check' and reassess whether their original conclusions remain true (although this depends on the outcome of our earlier comments relating to significant and material classes of transactions, account balances and disclosures). As a result, we recommend that the wording of paragraph 52(a) be amended to remove reference to 'quantitatively or qualitatively material' so it reads as follows:</p> <p>"The auditor shall: (a) Identify the classes of transactions, account balances and disclosures that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 46;"</p> <p>Paragraph 52 is supported by guidance paragraphs A240-A242. We believe that the content included within paragraphs A241 and A242 does not provide relevant guidance to the auditor and if anything, creates further confusion and ambiguity.</p> <p>Paragraph A241 indicates that there can be transactions, account balances or disclosures that are quantitatively or qualitatively material but are not determined as significant transactions, account</p> | Points included in AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| | | | <p>balances or disclosures as there are no relevant assertions, and then provides an example that fails to explain or differentiate.</p> <p>Paragraph A242 incorporates a reference to paragraph 18 of ASA 330 which states "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure". We are struggling to understand how this links to supporting paragraph 52 of ASA 315.</p> | |
| 2 | Page 9 | R2 | <p>The revised stand back provision is a better and more comprehensive consideration than ASA 330 para 18. Retaining both in separate forms is not an option designed to enhance audit quality or consistency given they address the same concept. The ASA 315 revised wording should be adopted in both standards. Failing this the ASA 315 should be consistent with ASA 330 rather than having a different definition.</p> <p>However, of greater concern is the relevance of the paragraph at all given the definition of reasonable possibility as being remote meaning that in almost all scenarios all balances and all assertions could be considered at risk of material misstatement, rendering any stand back provision essentially redundant. The concept of the stand back provision is very good but only where there is a likelihood of there being balances and transactions which have not been identified as having risks of material misstatement.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission |
| 3 | Page 14. | KPMG | <p>We do not believe that it is critical that ED 01/18 include a stand back requirement, since there is greater emphasis now on the iterative nature of the risk assessment process, as well as the increased clarity in respect of how and why to perform each step.</p> <p>However, given the complexity of the standard and the fact that many of the steps are performed concurrently, which necessitates the auditor to continually update its understanding and consideration of views formed and assessments made, we believe that overall it may be helpful to have a stand back at the end of the risk assessment process, before the auditor proceeds to the execution of responses.</p> <p>We do not consider it appropriate to retain the stand back at ISA 330.18, as we believe that the placement of this requirement at a relatively advanced stage of the audit, as well as the specific language used ("irrespective of [the risk identification and assessment procedures performed]") may serve to reduce the emphasis on the risk identification and assessment process as a critical part of the audit process.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Pages 8-9. | ACAG | <p>ACAG generally supports stand back provisions however it is unclear the benefit of this particular provision. Unlike the stand back provision in the proposed ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i>, this procedure appears unlikely to result in a meaningful improvement to audit quality because it simply requires the auditor to double-check the completeness of risks with respect to material balances. In our view the auditor, in conducting risk assessment procedures to understand the entity, its environment and financial reporting framework, should already have considered material transactions, balances and disclosures in identifying sources of risk. The application of appropriate levels of skills and experience (including engagement leader review) consistent with ASA 220 <i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i> is more effective than this stand back requirement in improving the quality of risk assessments.</p> <p>ACAG believes that the requirements in ASA 330 should be retained because it will continue to enhance the application of qualitative considerations to financial reporting.</p> | <p>Included in AUASB Submission. Majority of stakeholders support the stand back procedure in ED ISA 315, and support removing it in ISA 330.</p> |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 9 – Effective date: the IAASB have proposed that the standard will be effective for financial reporting periods commencing no or after 15 December 2020, which is anticipated to be approximately 18 months after approval of the final ISA. Do you think this is a sufficient period to support effective implementation of the new standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 6. | Deloitte | This appears to be a sufficient timeframe, however we note that amendments are also proposed for ASA 200, 240 and 330 to support changes within ASA 315. Given ED 01/18 permits early adoption prior to 15 December 2020, effective implementation of the ASA 315 will be contingent on the adoption of the suite of changes (that include those in ASA 200, 240 and 330) and thus we believe this should be clearly stated in the new/updated standards. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the application date. The AUASB Submission reflects this. |
| 2 | Page 9. | R2 | It is not possible to comment on the sufficiency of time to implement this at this time, the changes required to software and methodology may take longer to implement than the allotted time. We certainly would not support any earlier release of the revised standard as the impact of the changes in documentation and the structure of risk assessment will require considerable work. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the application date. The AUASB Submission reflects this. |
| 3 | Page 14. | KPMG | We do not have any other specific comments in respect of the questions posed. We believe the effective date to be a reasonable implementation period. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the application date. The AUASB Submission reflects this. |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | ACAG considers ASA 315 to be a fundamental auditing standard that warrants significant consultation and debate prior to approval. ACAG considers the 18-month post approval period to be sufficient timing to support effective implementation. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|-----------------------|---|
| | | | | application date. The AUASB Submission reflects this. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 10 – Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 6. | Deloitte | Nothing further to note. | N/A |
| 2 | Page 9. | R2 | None noted. | N/A |
| 3 | Page 14. | KPMG | We believe the applicable laws and regulations have been appropriately addressed and no references to relevant laws or regulations have been omitted. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10 | ACAG | <p>ACAG considers the public sector guidance to be of marginal help, the standard would be strengthened by further guidance with respect to:</p> <ul style="list-style-type: none"> - interaction between this standard and additional Auditor-General responsibilities arising out of legislative mandates and Auditor-General audit standards; - the influences of Parliament and the Executive, such as the directions of Shareholding Ministers; - impact or influence of Machinery of Government changes; - explicit statement of the requirements to audit probity and propriety risks. | <p>To be considered as part of Australian modifications.</p> <p>AUASB submission includes the overarching comments that the considerations specific to the public sector do not articulate their requirements to consider the risks of probity and propriety and the need to comply with legislative financial accountability framework.</p> |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 11 – Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|----------------|
| 1 | Page 6. | Deloitte | Nothing further to note. | N/A |
| 2 | Page 9. | R2 | None noted. | N/A |
| 3 | Page 14 | KPMG | We do not believe any applicable laws and regulations may impact or conflict with the proposed standard. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10. | ACAG | ACAG is not aware of any such laws and regulations. | N/A |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 12 – Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 6. | Deloitte | None noted. | N/A |
| 2 | Page 9. | R2 | None noted. | N/A |
| 3 | Page 14. | KPMG | We are not aware of any principles and practices that may impact the application of or conflict with the proposed standard. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10. | ACAG | A well-informed risk assessment is critical to audit quality. ACAG has not identified any principles and practices that would compromise audit quality. | N/A |
| 6 | Pages 1-3. | IIA | <p>To the first part of this question, IIA-Australia believes that there are current internal audit principles and practices that should be acknowledged in this revised standard, which would enhance and improve the application of ASA 315.</p> <p>We believe a critical change would enable external auditors to confidently exercise professional skepticism in identifying and assessing the risks of material misstatement, particularly in relation to internal controls and in their dealings with the internal audit function. Paragraph A19 states “Regardless of the source of information, the auditor considers the relevance and reliability of the information to be used as audit evidence in accordance with ASA 500”.</p> <p>As you would be aware, ASA 500 Audit Evidence is considered by the auditor when assessing the relevance and reliability of the information to be used. Paragraph 7 of ASA 500 states in part “the auditor shall consider the relevance and reliability of the information to be used as audit evidence.” Paragraph 8 goes on to say “If information to be used as audit evidence has been prepared using the work of a management expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes: (a) Evaluate the competence, capabilities and objectivity of that expert”</p> | <p>ISA/ASA 610 <i>Using the Work of Internal Auditors</i> already deals extensively with the Auditors’ requirement to assess the adequacy of the work of the internal audit function and is explicitly referenced via footnote in Paragraph 34 of the ISA 315 ED, as well as a number of related paragraphs in the application material.</p> <p>The ATG considers that the ASA 315 ED addresses how the knowledge and experience of the internal audit function informs the external auditor’s understanding of the entity and its environment and identification and assessment of risks of material misstatement. The ED also explains how effective communication between</p> |

| Item No. | Ref Page No. | Respondent Comment | ATG Commentary |
|----------|--------------|--|--|
| | | <p>IIA-Australia contends that, for consistency with ASA 500, ASA 315 could be improved by having the external auditor satisfy him or herself that the internal auditor that they are dealing with is competent, capable and objective.</p> <p>IIA-Australia believes that guidance is needed to enable the auditor to form a proper judgement. This can be achieved by the auditor asking a threshold question: “Has the work performed by the internal audit function conformed to the International Internal Auditing Standards contained in The IIA’s International Professional Practices Framework?”</p> <p>Conformance with the International Internal Audit Standards indicates that the internal audit function is competent, capable and objective. If an internal audit function cannot provide this assurance, then the ability to rely on the work of that internal audit function should be open to question and doubt.</p> <p>Our key message here is that you can rely on the work of internal auditors if they conform to the International Internal Audit Standards as issued, from time to time, by the International Internal Audit Standards Board.</p> <p>In Exposure Draft 315, paragraph A28 states “Appropriate individuals within the internal audit function with whom enquiries are made are those who, in the auditor’s judgement, have the appropriate knowledge, experience and authority, such as the chief audit executive or, depending on the circumstances, other personnel within the function.”</p> <p>Exposure Draft 315 does not provide guidance for the auditor to evaluate whether an internal auditor is knowledgeable and how the work was performed. Currently it is left entirely to the auditor to form a judgement about, the internal audit function, and with which he or she is unlikely to be familiar. IIA-Australia maintains that this is a fundamental weakness that should be addressed in the Exposure Draft.</p> <p>We believe that all internal audit practitioners should be knowledgeable about their trade. Knowledge can be demonstrated by the head of the internal audit function, or someone they have access to, if they have successfully completed and hold the Certified Internal Auditor® designation, or the Australian Graduate Certificate in Internal Auditing qualification, or having been made a Professional Member of the Institute Internal Auditors – Australia (PMIA). IIA-Australia believes this should be written into the revised ASA 315, or at the very least footnoted.</p> <p>In summary, IIA-Australia believes that audit quality can be improved in Australia by having the auditor satisfy him or herself that the internal auditor that they are dealing with is competent, capable and objective (in accordance with ASA 500). To this end, the following wording should be added as follows:</p> <ul style="list-style-type: none"> - Add to the end of paragraph A19: “In respect of the internal audit function, conformance with the International Internal Audit Standards indicates that the internal audit function is competent, | <p>the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor’s work.</p> <p>ISA/ASA 610 already includes application guidance to assist the external auditor determine the extent to which the internal audit function’s organisational status and relevant policies and procedures support the objectivity and competence of the internal auditors.</p> <p>Accordingly the ATG believe this point does not need to be addressed in the AUASB’s submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| | | | <p>capable and objective. If an internal audit function cannot provide this assurance, then the ability to rely on the work of that internal audit function should be open to question and doubt.”</p> <p>IIA-Australia believes that Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement can be improved with the addition of the following:</p> <ul style="list-style-type: none"> - Paragraph A28: Add after the first sentence “Knowledge can be demonstrated by the head of the internal audit function, or someone they have access to, if they have successfully completed and currently hold the Certified Internal Auditor® designation, or the Australian Graduate Certificate in Internal Auditing qualification, or having been made a Professional Member of the Institute Internal Auditors – Australia (PMIIA).” | |
| 7 | Page 1. | R7 | <p>We note that there may be need for an Australian amendment in relation to the reference to internal audit in paragraph 34 in order to ensure that auditors do not breach the requirement in ASA 610 (para) Aus 25.1.</p> | <p>To be considered when adopting the standard as a legislative instrument in Australia.</p> |

Question 13 – What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

Qn. 13(a) – Where those costs are likely to occur?

Qn. 13(b) – The estimated extent of costs, in percentage terms (relative to audit fee)?

Qn. 13(c) – Whether expected costs outweigh the benefits to the users of audit services?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | Page 7. | Deloitte | <p>The requirements of ED 01/18 appear to enhance requirements compared to the extant ASA 315. The largest compliance impact is likely to be on small and less complex entities, however scalability has been considered within ED 01/18.</p> <p>We do not believe that there will be additional costs arising from the changes to the proposed standard. More risks may be identified with the introduction of new defined concepts, and thus in a market where audit fees are under pressure and are seen as a compliance cost will create challenges on its own, however this will depend on the extent and quality of current audit engagement documentation.</p> | To be considered when adopting the standard as a legislative instrument in Australia. |
| 2 | Page 10. | R2 | The proposed changes and increased granularity of risk assessment will lead to increased costs across all engagements. The identification of more risks will likely lead to further work again increasing costs. Whether this will result in higher quality audits or reductions in audit failure is unclear at this time. Whether users will consider increased costs of an audit to be a benefit will be determined by the users at a future date. | To be considered when adopting the standard as a legislative instrument in Australia. |
| 3 | Page 15. | KPMG | <p>We expect to incur costs associated with training and coaching auditors to apply the changes in requirements. It is difficult to estimate the extent of costs or the proportion of audit fee, as each audit will be impacted in a different manner depending on its size and complexity. We consider that the increase in costs will generally benefit audit quality and therefore the users of audit services.</p> <p>However, we note that incremental costs may be incurred where the auditor is required to comply with the documentation requirement in paragraph 54(d) relating to the rationale for the significant judgements made in identifying and assessing the risks of material misstatement. We expect that the more extensive documentation requirement in paragraph 54(d) of the ED will increase the time spent on documentation, particularly for smaller firms, without an associated benefit for users of audit services.</p> | <p>To be considered when adopting the standard as a legislative instrument in Australia.</p> <p>Documentation point is included in the AUASB submission.</p> |

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 11. | ACAG | ACAG believes some of the adopted terminology may impact scalability and could lead to increased audit costs with little value to the audit process. Examples of this terminology are the concepts of “More than remote” and “small and less complex” rather than “small or less complex”. | To be considered when adopting the standard as a legislative instrument in Australia. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 14 – What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ASA 315 (specific questions/examples would be helpful)?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|-------------------------|
| 1 | Page 7. | Deloitte | Refer to comments raised in response to the above question. | N/A |
| 2 | Page 10. | R2 | The inclusion of the IAASB flow charts in the standard as appendices. | Included in submission. |
| 3 | Page 15. | KPMG | Considering the current status of the ISA 315 project, we cannot at this time identify specific implementation guidance that we would like the AUASB to issue in conjunction with the release of ASA 315. | Noted. |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 11. | ACAG | ACAG would like further consideration of more advanced data analytic techniques to be considered. For example, the use of predictive analytics as a tool for determining risk and additional guidance on the implications of using population data in assessing risk and determining the audit approach. | Included in submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 15 – Are there any other significant public interest matters that stakeholders wish to raise?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| 1 | Page 7. | Deloitte | Nothing further to note. | N/A |
| 2 | Page 10. | R2 | None noted. | N/A |
| 3 | Page 15. | KPMG | No, there are no other significant public interest matters that we wish to raise. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 11. | ACAG | ACAG is not aware of any other significant public interest matters. | N/A |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

EXHIBIT 2: Comments related to ED 02/18– Proposed Auditing Standard ASA 2018-1 – Amendments to Australian Auditing Standards

Question 1 – With respect to the proposed conforming and consequential amendments to:

Qn. 1(a) – ASA 200 (including Appendix 2), ASA 240 and ED 03/18, are these appropriate to reflect the corresponding changes made in proposed ASA 315?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 12. | R2 | None comments. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | ACAG considers the proposed conforming and consequential amendment to ASA 200, ASA 240, ED 03/18 and ASA 330 are appropriate. We would like further considerations to consistency of application for ASA 402, 600 and 620. | The ATG notes that ISA 600 due to be revised in 2019, any required consequential amendments arising from the revision of ASA/ISA 315 will be considered as part of this project. The point in respect of ASA 402 and ASA 620 will be included in other matters raised in the AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 1(b) – ASA 330, are the changes appropriate in light of the enhancements that have been made in proposed ASA 315, in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 12. | R2 | No comments. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | ACAG considers the proposed conforming and consequential amendment to ASA 200, ASA 240, ED 03/18 and ASA 330 are appropriate. We would like further considerations to consistency of application for ASA 402, 600 and 620. | The ATG notes that ISA 600 due to be revised in 2019, any required consequential amendments arising from the revision of ASA/ISA 315 will be considered as part of this project. The point in respect of ASA 402 and ASA 620 will be included in other matters raised in the AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Qn. 1(c) – The other ASAs as presented in Appendix 1, are these appropriate and complete?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|--|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 12. | R2 | Yes. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | ACAG considers the proposed conforming and consequential amendment to ASA 200, ASA 240, ED 03/18 and ASA 330 are appropriate. We would like further considerations to consistency of application for ASA 402, 600 and 620. | The ATG notes that ISA 600 due to be revised in 2019, any required consequential amendments arising from the revision of ASA/ISA 315 will be considered as part of this project. The point in respect of ASA 402 and ASA 620 will be included in other matters raised in the AUASB Submission. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 2 – Do you support the proposed revisions to paragraph 18 of ASA 330 to apply to classes of transactions, account balances or disclosures that are “quantitatively and qualitatively material” to align with the scope of the proposed stand-back in proposed ASA 315?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|--|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 12 | R2 | The proposed change to ASA 330 para 18 is not consistent with the stand back para in the proposed ASA 315. As mentioned in the submission on ED 1, the wording in the proposed ASA 315 is preferable. Failing that at a minimum ASA 315 and ASA 330 should be consistent in their phrasing. | This is consistent with feedback from a range of stakeholders. Included in AUASB Submission. |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | Subject to the clarification of our concern raised in question 6d) above, ACAG supports this. | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 3 – Effective Date: the IAASB have proposed that the standard will be effective for financial reporting periods commencing on or after 15 December 2020, which is anticipated to be approximately 18 months after approval of the final ISA 315. Do you think this is sufficient period to support effective implementation of the new standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|--|---|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 12 | R2 | We cannot comment on whether this is sufficient time as this will be dependent on external factors such as software providers, however, under no circumstances would less time be appropriate. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the application date. The AUASB Submission reflects this. |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10. | ACAG | ACAG considers the 18-month post approval period to be sufficient timing to support effective implementation. | AUASB has previously deliberated on this matter and agreed with the proposed IAASB implementation date for ISA 315 of December 2020. No stakeholders raised significant concerns with the application date. The AUASB Submission reflects this. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 4 – Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 13 | R2 | None noted. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 9. | ACAG | <p>ACAG considers the public sector guidance to be of marginal help, the standard would be strengthened by further guidance with respect to:</p> <ul style="list-style-type: none"> - interaction between this standard and additional Auditor-General responsibilities arising out of legislative mandates and Auditor-General audit standards; - the influences of Parliament and the Executive, such as the directions of Shareholding Ministers; - impact or influence of Machinery of Government changes; - explicit statement of the requirements to audit probity and propriety risks. | |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 5 – Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 13 | R2 | None noted. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10. | ACAG | ACAG is not aware of any such laws and regulations. | N/A |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 6 – Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 13 | R2 | None noted. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 10. | ACAG | A well-informed risk assessment is critical to audit quality. ACAG has not identified any principles and practices that would compromise audit quality. | N/A |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 7 – What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

Qn. 7(a) – Where those costs are likely to occur;

Qn. 7(b) – The estimated extent of costs, in percentage terms (relative to audit fee); and

Qn. 7(c) Whether expected costs outweigh the benefits to the users of audit services?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 13. | R2 | <p>(a) The increased granularity of risk assessment in the proposed ASA 315 will lead to increased planning time and most likely increased fieldwork time as more risks is likely to result in an increased level of work. Without having performed some engagements under the proposed standard the areas where these costs will occur is not certain.</p> <p>(b) Without having performed engagements under the proposed standard the extent of the increase in costs is not possible to estimate accurately.</p> <p>(c) It is not possible to determine whether increased granularity of risk assessment will be considered to be of additional benefit to the users of the accounts when offset by the increased costs.</p> | To be considered when adopting the standard as a legislative instrument in Australia. |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 11. | ACAG | ACAG believes some of the adopted terminology may impact scalability and could lead to increased audit costs with little value to the audit process. Examples of this terminology are the concepts of “More than remote” and “small and less complex” rather than “small or less complex”. | To be considered when adopting the standard as a legislative instrument in Australia. |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

Question 8 – Are there any other significant public interest matters that stakeholders wish to raise?

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|----------------|
| 1 | N/A | Deloitte | No response provided. | N/A |
| 2 | Page 13. | R2 | None noted. | N/A |
| 3 | N/A | KPMG | No response provided. | N/A |
| 4 | N/A | UNSW | No response provided. | N/A |
| 5 | Page 11. | ACAG | ACAG is not aware of any other significant public interest matters. | N/A |
| 6 | N/A | IIA | No response provided. | N/A |
| 7 | N/A | R7 | No response provided. | N/A |

EXHIBIT 3: Other comments on ED 01/18 & ED 02/18

| Item No. | Ref Page No. | Respondent Comment | | ATG Commentary |
|----------|--------------|--------------------|---|---|
| 1 | Page 12. | Deloitte | <p>As previously mentioned (refer to our response to question 3 in Appendix 1), ED 01/18 should be updated to articulate the expectations and requirements over information prepared by the entity used for risk assessment purposes.</p> <p>Further guidance is needed on what constitutes information produced by the entity that is used for risk assessment purposes, and what the expectations and requirements are in relation to understanding and/or obtaining evidence over the reliability of this information (including the nature, timing and extent of testing).</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 2 | Page 12. | Deloitte | <p>Paras. 5 and 48 – These paragraphs make reference to assessing risk based on the magnitude of misstatement, however our view is that the wording should be aligned to the wording in paragraphs A10 and A222 which reference the "potential magnitude" of the misstatement were that misstatement to occur, and "magnitude of the possible misstatement".</p> | Inconsistent with feedback from other stakeholders. Not included in AUASB Submission. |
| 3 | Page 12. | Deloitte | <p>Para 6. – We note a repeated comma in the final sentence of this paragraph.</p> | Noted for editorial. |
| 4 | Page 12. | Deloitte | <p>54 - We note that this paragraph relating to audit documentation does not have an overarching requirement to indicate that auditors need to use professional judgement in the documentation of the procedures they have performed as part of the risk assessment. The current wording of this paragraph promotes a risk that auditors will interpret paragraph 54 to mean that only the items stipulated require documentation.</p> <p>This paragraph also does not include a requirement to document key considerations and judgements, such as those relating to the stand-back requirement in paragraph 10, nor control deficiencies identified in paragraph 43 or risk assessment procedures performed in paragraph 17.</p> <p>We recommend that an overarching paragraph indicating the requirement to utilise professional judgement be included at the start of this paragraph.</p> | Consistent with feedback received from other stakeholders. Included as an “Other Matter” in AUASB Submission. |
| 5 | Pages 10-11 | R2 | <p>Para. A10 – The guidance in Para A10 is repetitive and does not actually provides guidance. Sentence 2 repeats, 1, as does 3. And ultimately it says matters are significant because of how much work you do, but how do you know how much work to do because it's a significant risk, the whole thing seems circular, compared to the previous 6 factors of a significant risk in the extant standard, which suggested where the significant risks would lie.</p> | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |

| | | | | |
|---|---------|----|---|--|
| 6 | Page 11 | R2 | Para. 17(c) – This para is inconsistent with the use of the words "audit evidence" in question 4 above. | Consistent with feedback received from other stakeholders. Included in AUASB Submission. |
| 7 | Page 11 | R2 | Para. 54(a) – What is a significant decision? Likely additional documentation requirements in planning, but no substantive guidance on what specifically constitutes a significant decision is included in the standard. | Inconsistent with feedback from other stakeholders. Not included in AUASB Submission. |
| 8 | Page 11 | R2 | Para. A146 – Missing “of”? | Editorial. |