



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

2 November 2018

Mr Dan Montgomery
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Dan,

**AUASB Submission on the IAASB's Proposed International Standard on Auditing ISA 315
(Revised) *Identifying and Assessing the Risks of Material Misstatement***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to comment on the IAASB's Proposed International Standard on Auditing ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement* (ED 315), and conforming amendments to other ISAs.

In formulating our response the AUASB sought input from its stakeholders in three principal ways:

1. From hosting a series of roundtable meetings with stakeholders in six large Australian cities. These roundtable meetings were attended by over 70 stakeholders representing a broad range of backgrounds, including assurance providers from a range of audit firms, professional accounting bodies, academics, those charged with governance and preparers of financial statements.
2. Through an open invitation to provide comments on the AUASB issued equivalent exposure drafts via the AUASB website.
3. Formal discussions and deliberations by AUASB members at recent AUASB meetings.

Whilst the AUASB considers that ED 315 improves the clarification of the risk identification and assessment process when compared to the extant version of ISA 315, there are a number of matters which we consider need to be addressed by the IAASB in order to ensure auditors apply the identification and assessment of risks of material misstatement consistently and effectively.

Whilst the majority of the feedback we received on ED 315 supported the overall themes and key concepts in the proposed standard, stakeholders we engaged with when exposing ED 315 across Australia provided consistent feedback that the standard was overly complex and detailed. We acknowledge ISA 315 is at the heart of an audit and needs to contain many elements which means it will never be a simple auditing standard, however the AUASB considers that the current length and complexity of the proposed standard means practitioners may find it difficult to understand and interpret. Additionally this may impact the proposed standard's scalability to audits of entities across different market segments and industries, and in particular audits of small and medium entities. This issue was particularly raised as a challenge for auditors from smaller and medium sized firms who may not have global networks or dedicated technical staff to develop bespoke methodologies or programs that may assist the effective implementation of the revised standard.

Our responses to the questions posed in ED 315's explanatory memorandum are contained in Appendix 1. Key examples where we consider the current version of the proposed standard may have a negative impact on its understandability and scalability include:

- The terminology used in ED 315 to identify risks could be simplified by only requiring an initial identification of inherent risk and control risk, and then combining these into a defined assessment of risk of material misstatement. The current use of the singular term (“risks of material misstatement”) both before and after the separate assessment of inherent risk and control risk was identified as confusing for many of our stakeholders.
- The requirement to consider the “likelihood or magnitude”, as opposed to the “likelihood and magnitude” when identifying and assessing significant risks we consider may result in unnecessary significant risks being identified.
- We do not support the proposed definitions relating to “significant classes of transactions, account balances and disclosures” and “relevant assertions”. A relevant assertion is an assertion where there is a reasonable possibility of occurrence of a misstatement, which is defined as when the likelihood of a material misstatement is “more than remote”. No guidance is provided on how to assess this. We consider that the term “more than remote” is fundamentally different to “a reasonable possibility”, and this revised definition may result in more significant classes of transactions, account balances, or disclosures being identified than was intended. Additional guidance is required to clarify these terms in the proposed standard.
- We recommend more guidance and examples be included in the application material of the proposed standard on how to effectively scale the work effort in ED 315 to less complex entities, such as examples of: how to perform risk identification and assessment procedures for a less complex entity where a mainly substantive audit approach will be adopted; and how to perform risk identification and assessment procedures when the entity's system of internal control may be less detailed and formalised.

As a final point, the AUASB notes with concern that the auditing standards or exposure drafts recently issued or currently in development by the IAASB all contain greater complexity and detail than the extant standards they are replacing, which makes the standards more challenging for auditors of smaller and medium or less complex entities to apply. We consider there is a need for the IAASB to urgently address the impact this issue is having on small/medium/less complex audits and auditors from small and medium practices. This may require a different approach to the development of new and revised auditing standards (e.g. by first drafting standards for less complex entities, then adding application or guidance for more complex entities), or consideration that it is not practicable to create standards that are sufficiently scalable for all audits and a differential approach to the IAASB suite of standards is necessary.

Should you have any queries regarding this submission, please do not hesitate to contact me or Matthew Zappulla at mzappulla@auasb.gov.au.

Yours sincerely,



Professor Roger Simnett AO
Chair

Appendix 1 – Responses to specific questions in the ISA 315 explanatory memorandum

1. Has ED 315 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:

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

The AUASB appreciates that ED 315 includes a more granular and robust process for the identification and assessment of the risk of material misstatement. However, in its current format we believe practitioners will find ED 315 overly complex and difficult to understand, which may act as a barrier to its effective and consistent application. Whilst we appreciate that risk identification and assessment is a multifaceted and iterative process, we consider that the ED's structure, and the introduction of a number of new concepts and definitions, has made the standard more complex than it needs to be. Specifically:

- ED 315 requires the identification of the risks of material misstatement based on inherent risk without consideration of controls, and the assessment of risks of material misstatement based on the inherent risk and control risk. It is not sufficiently clear how controls including the understanding obtained over the system of internal control, impact the identification of risks of material misstatement. Refer question 5(a) for further comments.
- We consider that the terminology used in ED 315 to identify risks could be simplified by just requiring an initial identification of inherent risk and control risk, and then combining these into a defined assessment of risk of material misstatement. The current use of a singular term “risks of material misstatement” both before and after the separate assessment of inherent risk and control risk was identified as being confusing for many of our stakeholders. Refer question 6(a) for further comments.
- ED 315 does not provide enough detail on how inherent risk and control risk interact when assessing the risks of material misstatement. Refer question 6(a) for further comments.
- The introduction of the following new definitions and concepts, or the distinction between concepts, add complexity to the standard:
 - Significant classes of transactions, account balance or disclosure versus material classes of transactions, account balances or disclosures – refer question 6(d).
 - New definitions of significant classes of transactions, account balances and disclosures and relevant assertions and the use of the terms “a reasonable possibility” and “more than remote”, and how to apply this definition is unclear – refer question 6(d).
 - Requiring the consideration of inherent risk factors when identifying and assessing risks of material misstatement – refer question 6(b).

- The requirement to consider the “likelihood and magnitude” when assessing the risks of material misstatement, as opposed to the “likelihood or magnitude” when identifying significant risks – refer question 6(e).
 - The spectrum of inherent risk i.e. how to assess where on the spectrum a risk resides – refer question 6(e).
 - The increased length of ED 315 is also a potential barrier to its understandability and consistent application. We consider the IAASB should reassess whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.
- (a) **(continued) 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?**

The flowcharts provided are definitely helpful and beneficial in understanding ED 315. However, feedback from some of our stakeholders indicated they found it difficult to understand the standard without the flowcharts. This in itself provides evidence of its complexity. The AUASB supports the flowcharts being included as appendices to the final standard, and additionally suggest they could be further enhanced to better present and emphasise the iterative and non-linear processes contained within the proposed standard.

- (b) **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.**

The AUASB agrees that ED 315 provides a more granular and robust process for the identification and assessment of the risks of material misstatement, however for the reasons included in 1(a) above we are concerned it will not result in a more consistent risk identification and assessment process. Also, we consider the following public interest issues need to be further addressed to enhance the applicability and understanding of the proposed standard to all practitioners:

- We do not consider ED 315 to be sufficiently scalable - refer question 2 for further comments.
- The public sector considerations could be further enhanced -refer to appendix 2 for details.
- Further consideration of how automated tools and techniques may be used during the risk assessment process – refer question 3 for further comments.

(c) Are the new introductory paragraphs helpful?

Yes. The AUASB considers the introductory paragraphs greatly assist with the understandability of the risk identification and assessment process and helpfully explain a number of important concepts in the standard. However their inclusion is further evidence of ED 315's complexity. We would caution that extensive introductory paragraphs shouldn't be required for all IAASB standards. Also to avoid confusion it would be beneficial to describe the status of these paragraphs (i.e. are they authoritative?) in more detail.

We also consider that the introductory paragraphs should be enhanced as follows:

- We received feedback that the current terminology used in paragraph 4 of ED 315 is confusing. Specifically, we consider the two sentences in this paragraph relating to the identification and assessment of risk ("*The identification of risks of material misstatement at the assertion level is performed before consideration of any controls.*" and "*The auditor does so based on a preliminary assessment of inherent risk that involves identifying those risks for which there is a reasonable possibility of material misstatement*") should be removed as they duplicate concepts relating to inherent risk which are already addressed in paragraph 5 of the ED. This is consistent with our comments about the use of the term "risks of material misstatement" in our response to Question 1(a) above.
- The "spectrum of inherent risk" needs to be described in greater detail by including how a practitioner may assess at which point a risk resides on the spectrum, or alternatively referring to where this concept is specifically explained in the application material.
- Provide an overview of the identification and assessment of the risk of material misstatement at the financial statement level.

We also consider that the IAASB should consider removing paragraphs 10, 11 and 12 of the ED as they rephrase the relevant requirements and therefore add little incremental value.

2. Are the requirements and application material of ED 315 sufficiently scalable, including the ability to apply ED 01/18 to the audits of entities with a wide range of sizes, complexities and circumstances?

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

- Many of our stakeholders gave feedback that it appeared ED 315 had been drafted for an audit of a large complex entity and then guidance was added on how to scale this down to smaller and less complex entities. The IAASB should consider drafting standards for less complex entities, then adding application or guidance for more complex entities.
- The use of the term "smaller and less complex entities" in the ED may be interpreted as being overly restrictive. We consider complexity to be the key driver of scalability when performing risk assessment procedures. Smaller entities may be complex, and conversely larger entities may be less complex. We recommend the terminology used in ED 315 should refer to "less complex entities" which will allow this guidance to be used in audits regardless of size. We note that "less complex entities" is the

terminology used in the IAASB's future discussion paper on this topic. We also believe that ED 315 paragraph 13 should state more definitively that the guidance may be appropriate for larger and less complex entities.

- The use of the term "more than remote" in the definition of relevant assertion we consider will increase the audit work effort over low risk balances, as most assertions will meet this test. This will possibly result in a greater volume of significant classes of transactions, account balances, and disclosures being included in scope than necessary. We do not agree this definition is appropriate. Refer to question 6(d) for further comments.
- The increased length of ED 315 is also a potential barrier to its understanding and application - particularly for audits of smaller and less complex entities. We recommend that the IAASB consider whether some content currently in the application material of ED 315 should instead be included in other non-authoritative guidance.

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

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

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 315 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance?

Yes, the AUASB agrees with the approach taken of using examples to illustrate how automated tools and techniques may be used in risk assessment. Our stakeholders support the explicit reference to and inclusion of examples of automated tools and techniques. We are also supportive of avoiding terminology that may become outdated quickly.

We consider that ED 315 could be further enhanced by addressing:

- How automated tools and techniques may be used for risk assessment, and how they meet or impact the requirements of ED 315. This is to avoid automated tools and techniques being applied in addition to the current requirements.
- What are the requirements in relation to understanding and/or obtaining evidence over the reliability of underlying data (information produced by the entity) used

within automated tools and techniques that are used for risk assessment (including the nature, timing and extent of testing).

- Risk factors relating to the use of big data and automated analytics technology.

In addition, paragraphs 54 and A15, A18 and A32 – 33 could be enhanced by including:

- Risk considerations or documentation requirements 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 “audit evidence”.
- Documentation requirements for analytic procedures to allow for re-performance where machine learning is used by an entity and/or the auditor.
- Consideration of the requirements in relation to General Information Technology Controls testing and database control assurance required when using automated tools as part of risk assessment.
- Documentation requirements on the appropriateness and reliability of external data sets (being data sets external to the entity’s sphere of control).
- Guidance on how audit analytics and automated tools can be used to assess qualitative inherent risks factors described in section A5.

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?

The AUASB agrees that the application of professional scepticism is reinforced throughout the risk identification and assessment process in ED 315. Specifically we agree with the principles-based approach and reference to the concept of professional scepticism in the introductory paragraphs and application material, rather than prescriptive requirements.

The AUASB is supportive of the principle of obtaining an appropriate base of evidence for risk assessment. However we do not support using the term “sufficient appropriate audit evidence” in paragraph 17 of the ED. This term is commonly associated with drawing conclusions on the evidence collected on the financial statements as a whole, and not during the risk identification and assessment phase. We consider the use of this term in ED 315 is inconsistent with the current definition of audit evidence in ISA 200. We encourage the IAASB to consider if paragraph 17 is appropriate, and the impact this has on ISA 200. If retained in the standard, we also recommend that further guidance is required to explain how this term is to be interpreted in the circumstances of ED 315, and what are the associated documentation requirements.

Based on the findings of academic research (references available upon request if needed) we recommend the following enhancements to ED 315 in order to encourage higher levels of professional scepticism:

- Paragraph 22 - the engagement partner is to use professional judgment to decide the format of instructions provided, and who will participate, when conducting the discussion.
- Paragraph A45 - be expanded to note that the engagement partner should be cognizant, 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.
- Paragraph A19 include reference to broad sources of information (that may include but not be limited to the points noted) so as to avoid consciously and/or subconsciously narrowing the breadth of information search.
- Paragraph A42 include the other benefits identified from research associated with engagement team discussion, 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.

We also recommend that A44 be amended to remove the text “*may also have an opportunity to*”, to reinforce that the engagement team exercise professional skepticism while performing risk assessment procedures.

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:

- (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?**

The AUASB considers that ED 315 provides greater clarity in relation to what is required when obtaining an understanding of each component of the entity’s system of internal control and how this informs the risk identification and assessment process. Additionally, the flowcharts and the updated definitions provide greater clarity. However, in the AUASB’s view the following needs to be clarified:

- The impact of the understanding of an entity’s system of internal control and how this is applied in identifying and assessing the risks of material misstatement, including control risk:
 - The understanding of the entity’s system of internal control is used when identifying risks of material misstatement, however paragraph 4 states that this is done before consideration of any controls. We consider this wording is confusing and needs to explicitly state that the identification of risk at this point is based on inherent risk only and does not take into account the planned reliance on controls. Refer to question 6(a).
 - The understanding of the entity’s system of internal control provides a basis for the determination of the extent to which the auditor plans to rely on the operating

effectiveness of controls. The assessment of control risk is based on the planned reliance on the operating effectiveness of controls.

- More guidance on which controls reside in the Information System and Communication component as distinct from the Control Activities component, and the difference, if any, on the requirements in relation to the audit procedures to be performed on these controls.
 - Paragraph 35 requires an understanding of the information system relevant to financial reporting, and paragraph 36 requires the design and implementation testing of these controls. It is not clear how to obtain this understanding, and whether paragraph 35 and 36 can be performed in conjunction with each other. We would suggest that these two paragraphs be revised to ensure greater granularity of the two requirements.
 - Amend paragraph 35 (a) (ii) to read “Information about significant events and conditions...”.
- (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?**

The AUASB considers that ED 315 paragraph 39 (and paragraphs A166 and A167) provides clarity on the identification of controls relevant to the audit, including clarifying that most controls that are relevant to the audit will be direct controls in the Information System and Communication and Control Activities components. We recommend that the IAASB clarify the intention of 39(e), or consider removing this, as we consider that the controls relevant to the audit are captured appropriately in the preceding elements of this paragraph.

We consider that paragraphs A166 and A167 do provide sufficient clarity that based on the complexity and size of an entity an auditor may conclude that the only relevant controls are those over journal entries if they do not plan to rely on any of the other controls. However, some of our stakeholders have expressed concern that for some less complex entities the controls over journals may not be documented and are difficult to test. We consider paragraph A167 should include guidance to address this scenario.

We also recommend the following amendments:

- Paragraph 39 (a) “... procedures alone ~~do~~ may not provide sufficient...”
 - Paragraph 40 (d) “... substantive procedures alone ~~do~~ may not provide sufficient ...”
- (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?**

The AUASB supports the introduction of the new IT-related concepts and definitions. We agree that the enhancements contained in ED 315 assist greatly in understanding the impact of the IT environment and how to identify IT controls, including general IT controls, which are relevant to the audit.

We consider that ED 315 could be enhanced by including the risk factors relating to current and evolving technology which connect to organizational networks, such as infrastructure / software as a service solutions, wireless networks, blockchain, and other technology devices that connect to organisational networks. We also consider the guidance in A7 and A8 to be very technical and may not be sufficiently understood by many practitioners.

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

(a) Do you support separate assessments of inherent and control risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments?

The AUASB supports the separate assessments of inherent and control risk at the assertion level. We are also supportive of the explicit requirement to assess control risk at maximum if the operating effectiveness of controls is not being tested.

However we recommend that the IAASB provide clarity on how this separate assessment is to be performed as follows:

- The inconsistent use of the term “risk of material misstatement” in paragraphs 45 - 47 of ED 315 prior to and after the requirement to identify and assess inherent and control risk separately was raised as being potentially confusing for practitioners. As the concepts relating to the identification and assessment of risk are initially based on inherent risk alone we recommend that the terminology associated with the identification of risks in this paragraph 45 be amended so it relates solely to the identification of inherent risks, and the use of the term “risk of material misstatement” is applied solely in relation to the combined assessment of inherent and control risk.
- Providing additional detail on how to assess control risk at various levels of the spectrum of risk. ED 315 currently only refers to the concepts of maximum, or less than maximum. Whilst we understand the IAASB’s reticence to define the methodology under which an auditor may assess the level of risk (as described in paragraph A225), more guidance on how a practitioner may define the assessment of different levels of control risk would be helpful.
- Describing in greater granularity in ED 315 the process the auditor undertakes to combine their separate inherent and control risk assessments for each classes of transactions, account balances, and disclosures to determine the risk of material misstatement. Currently paragraphs 48 – 50 of the ED describe the requirements to identify and assess inherent and control risk separately, but there is no explicit requirement in ED 315 to consider these together, as currently required by ISA 200.

- (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?**

The AUASB supports the concepts and definitions of inherent risk factors and how they are used to identify risks of material misstatement and assess inherent risks. We consider this will result in a more robust risk identification and assessment process, as well as assist auditors focus on the characteristics that impact the susceptibility to misstatement.

However, some of our stakeholders gave feedback that the identification and assessment of the risk of material misstatement in ED 315 is overly complex because of the combination of different concepts the auditor needs to consider. In particular, they considered there is insufficient clarity in how to apply the concepts and definitions of the inherent risk factors and the current proposed definition of significant risk (which refers to the need to consider the likelihood or magnitude and the spectrum of an inherent risk). Accordingly, their view was that the requirement to explicitly take into account the inherent risk factors should be removed from paragraph 45(b).

Also as the inherent risk factors in paragraph 16(f) and A6 include the quantitative significance of a class of transactions, account balance or disclosure in relation to performance materiality, this could potentially be interpreted that all material items would have a risk of material misstatement and be identified as significant. We don’t consider this to be the intended consequence of these paragraphs.

Finally, whilst paragraph A245 states that “the auditor is not required to document every inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level”, some stakeholders were still concerned that the introduction of the inherent risk factors still creates an unnecessary documentation burden for practitioners.

- (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?**

The AUASB is supportive of the introduction of the “spectrum of inherent risk” concept, and of auditors considering how inherent risk factors individually or in combination, increase inherent risk to varying degrees. The consideration of inherent risk factors and the concept of the spectrum of inherent risk help auditors consider the susceptibility to misstatement and the risks, when assessing inherent risk.

However, we believe more guidance would be beneficial to assist auditors determine at which point on the spectrum a risk resides. Refer Question 6(e) for further comments on the definition of significant risk.

- (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),¹ and how they assist the auditor in identifying where risks of material misstatement exist?**

We are not supportive of the proposed definitions of significant classes of transactions, account balances and disclosures and relevant assertions. A relevant assertion is an assertion where there is “a reasonable possibility” of occurrence of a misstatement, which is defined as when the likelihood of a material misstatement is “more than remote”. No guidance is provided on how to assess this. Our stakeholders strongly consider that “more than remote” is fundamentally different to “a reasonable possibility”, and are concerned that this will create issues for scalability, as many assertions may meet this test, and therefore may result in more significant classes of transactions, account balances, or disclosures being identified than was intended. We do not consider this is the desired outcome of these definitions and additional guidance is required to clarify these terms and concepts in the proposed standard.

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

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

- (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?**

We support the definition of significant risk being aligned to the nature of the risk and the susceptibility to fraud or error, and not the auditor’s response to a risk, as it is in extant ISA 315. However the definition of significant risk and how this is applied needs further clarity as follows:

- We do not support identifying significant risks based on likelihood of occurrence OR the magnitude of potential misstatement. The IAASB’s Explanatory Memorandum details that the IAASB’s view is that for risks low in likelihood, but for which the magnitude could be very high if it occurred, it wasn’t appropriate to explicitly exclude these from the auditor’s determination of significant risks. The AUASB considers risks with a very low likelihood but high magnitude should not automatically be significant risks, and therefore the definition should be changed so auditors consider likelihood and magnitude in combination when determining significant risk.

¹ See footnote 26 of the IAASB’s Explanatory Memorandum.

- The definition of significant risk should be amended to those “at the upper end of the spectrum of inherent risk” and not “close to the upper end of the spectrum of inherent risk”.
- Additionally as stated above in question 6(c) additional guidance is required in how to assess where on the spectrum a risk resides, and where a significant risk resides on the scale of likelihood and magnitude.
- Paragraph A10 be enhanced to explain how the “spectrum of inherent risk” works in identifying significant risks. A10 focuses more on the implications for the audit, and not on the identification of significant risks.

7. Do you support the additional guidance in relation to the auditor’s assessment of risks of material misstatement at the financial statement level,² including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

Yes, the AUASB agrees that the additional guidance in relation to financial statement level risks explains how these are assessed at the assertion level. To improve the standard we consider paragraph 47 (a) and 48 (b) are duplicative and recommend they are combined (or more clearly distinguished). We also consider that auditors find this difficult in practice and more guidance or examples could be provided. We note that Appendix 2 only includes examples of risks of material misstatement at the assertion level. We suggest that this Appendix should also include at least one example of risk of material misstatement at the financial statement level, and how this may affect the assessment of risks at the assertion level.

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 ISA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?

The AUASB supports the concept of a stand-back requirement in ED 315. While there was a clear consensus that a stand-back provision is not required in both standards, our stakeholders expressed mixed views as to whether it is better placed in ED 315 or ISA 330. On balance the majority prefer the stand-back requirement resides in ISA 315, as this will result in a more robust risk assessment process. Logically, if a class of transactions, account balances or disclosures has not been assessed as significant in ISA 315 as there is no risk of material misstatement then ISA 330 paragraph 18 is not relevant and is no longer required.

Furthermore, in relation to the ED 315 paragraph 52 we do not consider it necessary to explicitly include the terms “quantitatively and qualitatively” when describing how the auditor assesses materiality in this requirement. The process of assessing the risk of material misstatement in paragraphs 45 – 50 of ED 315 already capture both quantitative and qualitative considerations.

However as “Inherent Risk Factors” (16(f) and A6) include the quantitative significance of a class of transaction, account balance or disclosure in relation to performance materiality, it may be interpreted that all material items could be considered significant. We question if this is the intended consequence and do not agree that all classes of transactions, account balances or disclosures should be considered significant based on quantitative factors alone. Refer to Question 6(b) for further discussion of this point.

² Paragraphs 47 and A215–A220 of ED 01/18.

Conforming and consequential amendments

9. With respect to the proposed conforming and consequential amendments to:

- (a) **ISA 200 (including Appendix 2), ISA 240 and ED 03/18, are these appropriate to reflect the corresponding changes made in proposed ISA 315?**

Refer to Question 4. Using the term “*sufficient appropriate audit evidence*” in paragraph 17 is inconsistent with the definition of audit evidence in ISA 200. We believe the IAASB need to consider if paragraph 17 is appropriate, and the impact this has on ISA 200.

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

No matters noted.

- (c) **The other ISAs as presented in Appendix 1, are these appropriate and complete?**

A stakeholder requested that the IAASB also consider reviewing whether conforming amendments are necessary for ISA 402 and ISA 600.

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

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

11. **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?**

The AUASB supports the proposed effective date of the standard.

Appendix 2 – Other matters relating to ED 315 raised by stakeholders

We also highlight the following matters for the IAASB's consideration in relation to ED 315 that were raised by stakeholders during our consultation on the proposed standard.

Documentation:

Stakeholders raised overall concerns about the level of documentation that may be required to evidence compliance with ED 315. To assist auditors the AUASB recommend that the IAASB issue non-authoritative guidance outlining the documentation requirements including for a less complex entity.

Public sector considerations

We received feedback from public sector auditor representatives 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 legislated financial accountability frameworks (ED 315 – Paragraph A36).