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The Chairman
Australian Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne, VIC 8009

3 October 2018

Dear Chairman

Re: Exposure Draft ED 01/18 – *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement*

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board's (AUASB) Exposure Draft ED 01/18 – Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* ("ED 01/18").

Overall we support having one set of international standards on auditing that are used by practitioners worldwide in the audit of a financial report (although we also acknowledge that there may be certain circumstances where compelling reasons exist for the inclusion of Australian specific requirements and guidance). Based on the specific comments on ED 01/18 included within Appendices 1 and 2 relating to fundamental concepts and definitions, we are of the view that further consideration is required prior to the issuance of ASA 315, otherwise there is a risk of misunderstanding and incorrect application of the standard.

Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 01/18.

In addition, we have included comments relating to specific concepts and definitions within the proposed auditing standard in Appendix 2.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 3434.

Yours sincerely

Gareth Bird
Partner
Deloitte Touche Tohmatsu

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Appendix 1 – Response to specific questions posed within ED 01/18

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:*

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

   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.

   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.

   Please refer to our detailed responses below and within Appendix 2.

   (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?

   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.

   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.

   (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.

   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.

   (d) Are the new introductory paragraphs helpful?

   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:

   - 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
   - refer to risks at the assertion level only (from paragraph 4 onwards) and do not refer to financial statement level risks.

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?*

   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.

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?*

   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

   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).

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?*

   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.

   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.

   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.

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?

   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.

(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?

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.

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.

(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?

Yes, we support the introduction of the new IT-related concepts and definitions as they provide a baseline understanding for auditors.

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.

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).

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'?

   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).

   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).

Refer to our detailed comments within Appendix 2.

(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?

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.

(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?

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.

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.

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.

(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?

Please refer to our detailed comments within Appendix 2 of this response.

(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?

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.

7. *Do you support the additional guidance in relation to the auditor's assessment of risks of 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?*

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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 centred 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.

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".

Please refer to additional comments relating to the assessment of risks of misstatement at the financial statement level within our detailed comments in Appendix 2.

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?*

   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.

   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.

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?*

   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.

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?*

    Nothing further to note.

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?*

    None noted.

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?*

    None noted.

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:*

   (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?

   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.

   We do 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.

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)?*

   Refer to comments raised in response to the questions above.

15. *Are there any other significant public interest matters that stakeholders wish to raise?*

   Nothing further to note.

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Appendix 2 – Other specific comments relating to proposed changes within ED 01/18

<table>
<tr><th>ED 01/18 Paragraph</th><th>Comment</th></tr>
<tr><td colspan="2">Amendments to ED 01/18</td></tr>
<tr><td>Overriding</td><td>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.

Paragraph 4 states:
"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."

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.

Paragraph 10 indicates that:
"<u>After identifying the risks of material misstatement, the auditor determines the significant classes</u> of transactions, account balances and disclosures. The auditor is also required to perform a stand-back to confirm that this identification is appropriate."

Similarly paragraph 46 requires that:
"The auditor <u>shall determine significant classes</u> of transactions, account balances and disclosures, and their relevant assertions, <u>based on the identified risks of material misstatement.</u>"

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.

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.

As a consequence, it is unclear what the expectation of the auditor is under Paragraph 10 and 46.

Refer also to our comment below on paragraphs 52 and A240-A242.</td></tr>
<tr><td>Overriding</td><td>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.</td></tr>
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	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. 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.
4, 5, 39(e)	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. Within paragraph 4, it states "*The <u>required understanding of</u> the entity and the environment, the applicable financial reporting framework, and <u>the system of internal control forms the basis for the auditor's identification</u> of risks of material misstatement. The identification of risks of material misstatement at the assertion level is performed <u>before</u> consideration of any controls.*" Paragraph 39(e) states: *[The auditor shall identify controls relevant to the audit, being those:] That, in the auditor's professional judgement, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:* *(i) Identify and assess the risks of material misstatement at the assertion level; or* *(ii) Design further audit procedures responsive to assessed risks.* 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. 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. 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. Thirdly, it is unclear how inherent risk and control risk interacts and combines together when it comes to assessing the risks of material misstatement.

	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.
16(h)	Paragraph 16 (h) defines relevant assertions as "*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* <u>*reasonable*</u> *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.*" 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'. 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.
16(k)	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. 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.
52, A240-A242	Currently the wording of paragraph 52 is as follows: *"The auditor shall:* *(a) Identify the classes of transactions, account balances and disclosures that are quantitatively or qualitatively material, and that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 46; and* *(b) Evaluate whether the auditor's conclusion that there are no relevant assertions (that is, no related risks of material misstatement) for these classes of transactions, account balances and disclosures remains appropriate."*

	In addition, this paragraph sits under a sub-heading entitled "*Classes of Transactions, Account Balances and Disclosures that are Not Significant, but which are Material*". 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. 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: *"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;"* 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. 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 balances or disclosures as there are no relevant assertions, and then provides an example that fails to explain or differentiate. 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.
50(a)	Paragraph 50 (a) states that *"When the auditor plans to test the operating effectiveness of controls in designing further audit procedures to be performed to respond to a risk of material misstatement at the assertion level, the auditor shall assess control risk at less than maximum."* 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. 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:

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	"the auditor's assessments of the risks of material misstatement at the financial statement level and assertion level <u>may change</u> during the course of the audit as additional audit evidence is obtained." which is one example where the control risk may be set at maximum notwithstanding the planned audit approach.
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. 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. We recommend that an overarching paragraph indicating the requirement to utilise professional judgement be included at the start of this paragraph.
Overriding	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. 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).
Clarification and clerical changes to ED 01/18	
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".
6	We noted a repeated comma in the final sentence of this paragraph.