

ED 315 ROUNDTABLES

SUMMARY OF FEEDBACK

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:	Roundtable	ATG Comments
<p>a) Do the proposed changes help with the understandability of the risk identification and assessment process?</p> <ul style="list-style-type: none"> • Overall good improvement on extant 315, but long and complex, particularly with so many terms and inter-relationships. • Will this make the process more robust? Yes probably. • Definition of significant class of transactions, account balances, disclosures, relevant assertion, significant risk – confusing. • Concerned won't be consistently applied due to the complexity and the judgements required. 	All	Include in submission
<p>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?</p> <ul style="list-style-type: none"> • Different views on flow of the standard. <ul style="list-style-type: none"> ○ Positive <ul style="list-style-type: none"> ○ Whilst the standard was 'circular' the flow made sense. ○ Iterative process. ○ Initial identification of ROMMs before SCOTABDs¹ forces you to look more widely at risks, before getting into detail. That's good. ○ Throughout process continually identifying and assessing ROMMs. ○ BUT need flowcharts to help understand so shows it is complex. ○ Alternative view <ul style="list-style-type: none"> ○ In practice identify SCOTABDs before ROMM but ED has identify ROMMs before you've identified SCOTABDs? ○ Identification of SCOTABDs too late in the process ○ paragraph 35 refers to SCOTABDs before you've identified them yet? • Overwhelming support for the flowcharts as an appendix to the standard 	Perth – mixed but a stronger view that it was in the wrong order All	Majority view was that the order and flow was ok. But iterative process made it complex.
<p>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.</p>		

¹ Significant class of transactions, account balances, disclosures

<ul style="list-style-type: none"> • Overall support the references to automated tools and techniques in the application material. • Not enough– was expecting the standard to go further • Concern there should be more guidance / examples about how you can use Data Analytics / Technology as a means to identify and assess risks. • Concern that standard should have mechanisms where use of Data / Technology techniques can be used as a substitute for requirements in ISA 315. • How far do you need to test data used at the risk assessment stage? Do you need to test ITGC before you use data sets used in risk assessment? 	All	Consistent message
<p>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’² 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?</p> <ul style="list-style-type: none"> • General view is that whilst the standard has more robust requirements and will result in more work – this doesn’t necessarily mean more professional sceptical. Professional scepticism is an attitude, a standard cant enforce. • General disapproval of the use of the term “sufficient appropriate audit evidence” in paragraph 17. Extant 315 uses the term “form the basis”. • Need a different term which is a halfway house increasing evidentiary requirements for risk assessment but acknowledging it doesn’t need to be at the same level as required under ISA 500. • Concern about the interaction of the increased professional scepticism requirements and more granular risk assessment process diminishing the work done in this area, specifically in relation to Fraud risk assessment. • Shouldn’t paragraph 54 reference paragraph 17? Paragraph 54 needs to have enough to achieve paragraph 17. 	Consistent view Melbourne, Perth, Canberra Brisbane	Include in submission.
<p>Question 5 Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control³ assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks or material misstatement? Specifically:</p> <p>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?</p>	All	

² See paragraph 27 of the IAASB’s Explanatory Memorandum and paragraph 17 of ED 01/18
³ Paragraphs 25-44 and A89-A200 of ED 01/18

<ul style="list-style-type: none"> • More granular requirements are good. • Concern in relation to understanding control environment particularly 27(a) and 27(d) – whilst these aspects are important, how do you demonstrate you have met these requirements? Suggestion is to write these requirements from the negative ie. have you identified any evidence not in place... Consider that more examples are required. • Paragraph 29 should be just for FS risks • Spell out what component 4 really means and clarify how component 4 and 5 interact. • Should include a reference to IIA Standards in the Internal Audit content ie. when assessing competency etc. • Size is redundant eg A166, A167, consider removing. 	<p>All</p> <p>Perth</p> <p>Melbourne</p> <p>Sydney</p> <p>Canberra /Hobart</p>	
<p>b) Have the requirements related to the auditor’s identification of controls relevant to the audit⁴ been appropriately enhanced and clarified? Is it clear how controls relevant to the audit are identified, particularly for audits of smaller and less complex entities?</p> <ul style="list-style-type: none"> • More integration of the IT environment within the Internal Controls paragraphs required. • Paragraphs 39 – 42 clear and what should be happening <ul style="list-style-type: none"> ○ Possible increase in number of controls which are relevant to the audit, more assertions are in play due to “more than remote” which means there are more controls. ○ What is the intention of para. 39 (c) – if it is for fraud, then ASA 240 sufficiently covers this, if it is for another reason it is not clear (roundtable struggled to think of anything other than fraud, perhaps other errors). ○ What is the intention of para. 39 (e) – not clear why this sub-paragraph has been added. ○ Concern around application for less complex entities. Doing D&I not always appropriate for smaller audits ○ D & I over journals shouldn’t be for every audit particularly where fully substantive ○ What are the implications of wanting to take a fully substantive approach? 	<p>Canberra</p> <p>All</p> <p>Melbourne / Sydney</p> <p>All</p> <p>Brisbane</p> <p>Brisbane</p> <p>All</p>	
<p>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</p>		

⁴ See ED 01/18, paragraphs 39-40 and paragraphs 37-40 of the IAASB’s Explanatory Memorandum

<p>the identification and assessment of the risks of material misstatement?</p> <ul style="list-style-type: none"> • All the IT aspects are seen as a positive • Para. 35 (understanding of IT controls) and para. 36 (design and implementation) are two separate steps in the standard, logically should be done as one. • Confusion as to when general controls are tested – on all engagements? Concern scalability. • Not enough risk factors with new technologies • Definition of 16a – is this appropriate? Not framed as an IT application controls, but the term is IT centric • Relevant to the audit – this is clear but concern this will increase the number of controls. More assertions in play, means more controls in play. 	<p>All Melbourne</p> <p>Perth, Brisbane</p> <p>Canberra</p> <p>Canberra</p> <p>All</p>	
<p>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:</p> <p>(a) Do you support separate assessments of inherent and control risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments’?⁵</p> <ul style="list-style-type: none"> • Support for separate assessment. • Research shows hard to do in practice. Do we subconsciously consider controls when assessing? • How you combine IR and CR to get to ROMM is unclear. <p>(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?</p> <ul style="list-style-type: none"> • Support for the inherent risk factors • Do you need to document each IRF for all assertions? (no per application material) • Should size be an inherent risk factor? <p>(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?</p> <ul style="list-style-type: none"> • Mainly support for the concept but needs more explanation. • Not sure it will result in consistency as upper end is judgemental. Does this need to be defined? • Too abstract, too hard to evidence and support. • What documentation is expected re likelihood and magnitude and assessment of where you are at on the spectrum 	<p>All</p>	<p>Consistent feedback in submission</p>

⁵ Paragraphs 45-50 and A201-A235 of ED 01/18.

<p>(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),⁶ and how they assist the auditor in identifying where risks of material misstatement exist?</p> <ul style="list-style-type: none"> • Total consensus that the definition of relevant assertion is not right. More than remote isn't the same as reasonable possibility. Needs to explicitly state that they are the same. • Research supports they are different. • Will result in inconsistent application, and more relevant assertions, significant accounts etc. <p>(e) Do you support the revised definition,⁷ 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?</p> <ul style="list-style-type: none"> • Concern re what might be defined as what is at the 'Upper End'; • Majority think should be likelihood and magnitude, rather than 'or'. Or a combination. • But support for the idea that the definition should have more of a detailed definition describing how a combination of magnitude and likelihood may be appropriate. • Why is it OR in the SR definition, but AND in para 47 when assessing IR at the assertion level? • Expect that more significant risks will be identified • Does not tie well to management risk assessment process (if entity has the process in place and has identified "significant risks" is there a specific tie back to what the entity has identified). Area could be beefed up. • 		
<p>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,⁸ including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?</p> <ul style="list-style-type: none"> • Generally supportive • Concern re circular references re process of measurement of financial statement level risk in para 47. • Alternate view – para 47 fine – what happens in practice. practically this may be of concern as people tend to shy away from documenting financial statements risks as don't know how to address 	All	
<p>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</p>		

⁶ See footnote 26 of the IAASB's Explanatory Memorandum.
⁷ Paragraphs 16(k) and A10, and A229-A231 of ED 01/18.
⁸ Paragraphs 47 and A215-A220 of ED 01/18.

<p>application material? Should either or both requirements be retained? Why or why not?</p> <ul style="list-style-type: none"> • No major concern with the standback provision as a concept, but <ul style="list-style-type: none"> ○ concern with how the auditor demonstrates and documents this - will create a 'checklist approach' ○ concern will raise expectation of documentation around why each assertion isn't relevant. ○ Misalignment with 330 – If you don't assess a risk in 315, stand-back in 330 tells you if it is material you need to do something, which, properly going through 315 you wouldn't have assessed a risk. 330 stand-back then needs you to pick an assertion and do something when your 315 procedures said no risk for any assertions. • Alternate view - Don't need it as ASA 315 robust process and ASA 330 sufficient • On balance – remove in 330 	<p>All</p> <p>Perth , Canberra</p> <p>Melbourne</p> <p>Melbourne</p> <p>All</p>	
<p>Other matters raised:</p> <ul style="list-style-type: none"> • There's not enough consideration of service provider entities in the public sector where you may audit both organisations – additional guidance is required. • Could have something like appendix 4 (ITGCs) covering cyber security considerations • Concern that public sector examples are not really specific to the public sector. Need to be more specific. • No compelling reasons identified 		