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Stellungnahme zu ED-ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs*

Die WPK hat mit Schreiben vom 2. November 2018 gegenüber dem International Auditing and Assurance Standards Board (IAASB) zu zu *ED-ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs* wie nachfolgend wiedergegeben Stellung genommen.

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Exposure Draft (ED). We would like to highlight some general issues first and provide you with our specific responses to the ED questions subsequently.

General Comments

WPK welcomes that IAASB revises ISA 315 in order to address concerns and challenges – especially from SMPs – regarding the effective and efficient applying of the standard.

However we are concerned that the extent of requirements and complexity of the revised draft might negatively affect the understandability and coherent application of ISA 315. Nevertheless the need to create three pages of flow charts – which are not intended to form part of the final standard – demonstrates this complexity and extent of the draft.

Overall the flow charts appear to be clear and well structured. But navigating the standard without the flow chart seems hardly possible.

Regarding the aspect of scalability, we are concerned about the length and complexity of the proposals and we fear that the proposed revision of ISA 315 does not materially diminish the challenges of SMPs when trying to understand and to apply the risk-based audit approach.

In addition to the aspect of scalability and besides the length and complexity of the standard we have three further concerns:

1. The Introduction to the draft contains a variety of terms that are not used within the ED itself. However, they appear essential for the content. If essential, they need to be included and defined in the ED itself and not just used within an introductory paragraph.
2. The IAASB is proposing to introduce terminology specifically from the US PCAOB's standards ("reasonable possibility" and "more than remote likelihood" – see ED ISA 315.16(h)) without exploring whether these terms are aligned to the overall objective of an ISA audit (to reduce audit risk to an acceptably low level) and related concept of reasonable assurance. This non-ISA terminology potentially introduces a lower risk assessment threshold, and a corresponding increased risk response work effort.
3. The ED ISA 315 is not sufficiently clear as to the proposed introduction of a so-called "drill-down" for risk identification below assertion level. Whilst this drill-down designed to identify risks of material misstatement within relevant assertions is generally appropriate in the audit of larger and complex entities, it introduces a "checklist" approach that would be excessive in the audit of smaller and less complex entities.

Specific Comments

Question 1

- 1) *Has ED-315 been appropriately restructured, clarified and modernized in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:*
 - (a) *Do the proposed changes help with the understandability of the risk identification and assessment process? Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)?*

We welcome the revision of ISA 315 in order to address concerns and challenges – especially from SMPs – regarding the effective and efficient application of the standard.

However we are concerned that the extent and complexity of the revised draft might negatively affect understandability and coherent application of ISA 315. The need to create three pages of flow charts – which are not intended to form part of the final standard – demonstrates this complexity.

Overall the flow charts appear to be clear and well structured. But navigating the standard without the flow chart seems challenging. However, we question whether the simple use of footnotes in the flow charts adequately depicts the iterative nature of the risk assessment process, especially in relation to newly imposed/extended requirements (for example, obtaining an understanding of

the entity's system of internal control requires the auditor to identify controls relevant to the audit, especially those controls that address risks that are identified as a significant risk (ISA 315. 39 (b)). The identification of significant risks according to ISA 315.49 takes place several steps later, than jump back to ISA 315.42 to evaluate the control's design).

- (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?*

We are not convinced whether the requirements and application material are sufficiently principles-based to effectively address concerns on complexity and scalability.

- (c) *Are the new introductory paragraphs helpful?*

Yes, the new introductory paragraphs are helpful.

However we think that a clarification of the term "smaller and less complex entities" shall be helpful. It remains unclear whether the term refers to smaller entities that simultaneously are less complex, or whether it refers to smaller entities as well as to less complex entities regardless of their size.

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

Overall, we are concerned about the length and complexity of the proposals and we fear that the proposed revision of ISA 315 does not materially diminish the challenges of SMPs regarding the understanding and application of the risk-based audit approach.

Basically we welcome the inclusion of scaling aspects for audits of smaller entities. Nevertheless the usefulness of some of the scaling statements in the application material appear questionable (for example A16: "The auditor's risk assessment procedures to obtain the overall understanding may be less extensive in smaller and less complex audits").

Due to the fact that SMEs are the backbone of the European and almost every other economy in the world it is crucial for standards to be suitable for SMEs and for the effectiveness on smaller audit engagements. SMPs who conduct the corresponding audits often suffer difficulties to apply the ISAs in a proportionate manner.

The audit is of great value to SMEs and their stakeholders and so the requirements need to be clear and manageable. In our view scalability should be seen and used as a bottom-up concept, starting with requirements designed for small- and medium-sized entities (think small first) and then adding requirements for larger, more complex entities including public interest entities.

We urge the IAASB to make ISA 315 more scalable based on a “think small first” approach and we would like to refer to our statement regarding “Envisioning the Future—Survey on the IAASB’s Future Strategy”. At least more guidance and examples should be provided here.

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

The accelerated integration of new technology into the financial reporting process and into the audit process (“digitalisation”) is one of the key challenges for the profession. Accordingly the audit standards need to reflect this development and show the compatibility of the risk-based audit approach and the use of automated tools and techniques. The work undertaken to update and modernize the standard in relation to information technology is a right step given the fast-paced and evolving business environment.

At the same time we believe that further consideration is needed, perhaps as part of the IAASB’s forthcoming Audit Evidence project, in order to provide guidance as well as implementation support and to outline advantages (scalability) and risks associated with automated tools (such as audit software, electronic working papers, cloud solutions) and techniques.

- 4) *Do the proposals sufficiently support the appropriate exercise of professional skepticism 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 skepticism?*

We believe that the proposals encourage the exercise of professional skepticism throughout the risk identification and assessment process.

Nevertheless professional skepticism depends to a good part on the inner attitude and the mind-set of the auditor. Hence educational work to increase awareness must accompany the revision of extant requirements.

We hope that our comments are helpful. If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.
