

Dear recipients,

Suomen Tilintarkastajat ry (The Finnish Association of Authorised Public Accountants) is pleased to provide you with its comments on the IAASB *Exposure Draft, ISA 315 (Revised) (ED-315), Identifying and Assessing the Risks of Material Misstatement*.

We thank you for your effort in revising ISA 315 and especially for your attempts to make the standard more scalable. Risk assessment is an important part of the audit process, and therefore the standard should be as clear and understandable as possible. It should also be suitable and easily applicable for entities of different legal forms and different sizes and degrees of complexity. Our comments relate mainly to the scalability and understandability of the revised standard.

We are concerned that certain aspects of the ED – unless satisfactorily addressed when finalising this standard – could have an undesirable impact on SME audits. Majority of audit clients in Finland are SMEs. The revised standard is very difficult to understand, and the risk assessment process cannot be followed unambiguously. In its attempt to make the standard more scalable the IAASB has, on the contrary, made the process even heavier, and even vague for SMEs.

Our responses to the specific questions are below. For further information on our comments, please contact Riitta Laine on +358-40-7560676 or via email at [riitta.laine@suomentilintarkastajat.fi](mailto:riitta.laine@suomentilintarkastajat.fi).

Sincerely,

Sanna Alakare

Riitta Laine

Chief Executive

Audit Specialist

**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)?
- b) Will the revisions promote a *more robust process* for the identification and assessment of the risk of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6-28?
- c) Are the new *introductory paragraphs* helpful?

The revised standard is difficult to understand and follow through. Therefore the consistency in adoption between auditors will most likely not be promoted even though the changes would probably increase the robustness of the risk assessment process. The use of terminology can also cause inconsistency and difficulties in understanding. In our opinion, the standard should not include so many 'different levels' of same term - e.g. likelihood, 'reasonable possibility', 'more than remote' and '(acceptably) low level' - especially from the translation point of view.

The circular approach of the standard makes it hard to follow the process of understanding, identifying, determining, assessing and evaluating in an unambiguous way. All audits and risk assessment procedures are iterative in nature, but it does not mean that the standard should be circular in its requirements. A

standard should be written so clearly that it can easily be followed as a process from the beginning to the end without having to flip between paragraphs or additional flowcharts. This is extremely important e.g. when designing and using audit software.

One of the flowcharts demonstrates how the risks of material misstatements (RoMMs) should be identified (a) at FS level and assertion level before determining the significant COTABDs (b). And only after that, inherent risk factors as well as likelihood and magnitude are assessed (c). The COTABD is defined to be an item for which there is one or more relevant assertions. It is not clear what affects the identification of RoMMs (a) if the assessment of inherent risk is not done until later in the process.

On the whole, the standard should be understandable without flowcharts, even though they are helpful. Reference to flowcharts cannot be an appropriate substitute for clear standards.

The same applies to the introductory paragraphs, which are also helpful but should not be necessary.

## **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?**

No, in our opinion the standard is not scalable enough.

The majority of Finnish companies are small, and many of them are audited only after the year-end when the financial statements are completed. Therefore the whole audit process (incl. risk assessment procedures, further audit procedures and reporting) is performed in one or two days (or even less).

From the scalability standpoint, we do not consider that assessing the design and implementation of controls is always necessary in order to understand each component of the entity's internal control system, particularly for smaller entities for which a full substantive audit approach will usually be adopted. Requiring such work, at best prevents the auditor's resources being applied to more valuable aspects of the audit and at worst results in significant audit documentation which is of little value and could obfuscate the real audit issues. At least, a detailed documentation or testing should not be required. Auditors should not be required to perform unnecessary work that would make the audit ineffective in terms of cost benefits in small entities.

Majority of smaller Finnish companies use an 'off-the-shelf' software for accounting. They also generally outsource their accounting. The level of complexity in the revised standard as regards to understanding and evaluating the D&I of the IT environment is too heavy for a vast majority of Finnish companies. Therefore, an exception to the requirements should be incorporated in the standard regarding smaller entities using 'off-the-shelf' software. The Standard should be clearer on the work effort required from auditors in such cases – e.g. a minimum requirement to assess the modifications or updates made to off-the-shelf software package or the modification of standard report functionalities.

Many auditors in Finland have been combining the inherent risk and controls risk, as permitted by the extant ISA315. For them, the suggested change to consider these two separately will make the risk assessment more robust but somewhat increases the time spent in the risk assessment phase. According to the revised ISA 315, control risk should be assessed at the maximum if no controls testing is done. Since the described situation is common in small Finnish engagements, more guidance is needed about how and how much the presumed maximum control risk affects the further audit procedures. Also in general, more guidance is needed about what is the effect of inherent risk assessment and control risk assessment, as well as their joint effect, on the audit procedures. For example, if inherent risk is considered low and control risk

at maximum, what is the impact on the nature, timing and extent of audit procedures accordingly? The guidance could be added to either ISA 315 or ISA 330.

In the extant as well as in the revised standard, the SMPs need to read the whole standard and all material, and then decide how to scale down the requirements. Instead of having to scale down, all standards should be scalable upwards. There should be a general and clear standard for all kinds of audit engagements added with additional requirements for large and complex entities. That way the effort of scaling would fall on the large teams and audit firms, not vice versa.

**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?**

In our opinion, the automated tools and techniques (ATTs) are “only” tools and techniques, and should therefore not be incorporated in standards. It should, though, be made sure that the standards do not restrict or prevent the efficient use of ATTs.

**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 and appropriate audit evidence’ through the performance of risk assessment procedures to provide a basis for the identification and assessment of the risks of material misstatement, and what is the nature of the necessary guidance?**

Professional scepticism is incorporated in all audits and is a matter of professional judgement. No specific guidance is needed in ISA 315 regarding professional scepticism.

**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 of material misstatement?**

No comments except those in Q2.

**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?
  - 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?
  - 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 misstatements, including significant risks?
  - d) Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures ('SCOTABD'), 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 assessment), and how they assist the auditor in identifying where risks of material misstatement exist?
  - 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 Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?
- a) Yes, a separate assessment is useful. More guidance is needed e.g. about what is the joint effect of these two on the audit procedures. See also our answer to question 2.
  - b) Yes, the new concepts are useful and the guidance is sufficient.
  - c) The term spectrum is difficult to translate into Finnish, and probably many other languages (see question 11). It is also not clear how the likelihood and magnitude affect the positioning of inherent risk on the spectrum and how this affects the amount of further audit procedures (see also 6a).
  - d) The new concept of SCOTABD (and also the stand-back requirement in that relation) is somewhat useless, because in our opinion there are only few (if any) material items on that would not be SCOTABDs. Together with the confusing circularity of the risk assessment process it is not clear, at what point the SCOTABS can actually be identified.
  - e) It is not clear how significant risk (at the high end of the spectrum) does differ from other risks at high end of the spectrum.

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

No comments about the additional guidance.

**8 What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?**

In principle, we support the inclusion of the stand-back requirement in the proposed standard. But, as explained in our answer to question 6d, we do not consider the stand-back requirement necessary in light of materiality vs. significance.

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

- a) ISA 200 and ISA 240, are these appropriate to reflect the corresponding changes made in ISA 315 (Revised)?
- b) ISA 330, are the changes appropriate, in the light of the enhancements that have been made in ED-315, in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?
- c) The other ISAs as presented in Appendix 2, are these appropriate and complete?
- d) ISA 540 (Revised), and related conforming amendments (as presented in the Supplement to this exposure draft), are these appropriate and complete?

No comments other than those presented in question 2.

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

Materiality is already understood as having quantitative and qualitative components, so it does not seem necessary to mention both dimensions here. It is not clear how the proposed revisions would be implemented in practice and what would be the requirements in terms of documentation.

**11 In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

- a) **Translations – recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-315.**
  - b) **Effective Date – Recognizing that ED-315 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**
- a) The proposed revised standard is very difficult to understand and needs significant improvements to give more clarity in the concepts used and to eliminate repetition. Difficulties in understanding the language used will, de facto, lead to inconsistencies in translation and application.
- Comments about the wording:
- likelihood of a material misstatement is more than remote (in the definition of Relevant assertions): this expression has not appeared in the ISAs before. It has, though, been used in the IFRSs, and hopefully all those who plan to translate the standard have access to IFRSs in their native language
  - perform a stand-back (para 10) – this is also a new expression that may not have a direct equivalent in all languages
  - word referring to comparatives, such as 'further audit procedures' – this term is frequently used in the ISAs, and it causes challenges in those languages that cannot use a word with a comparative meaning without including what it is compared to: for example: audit procedures that are further to X. E.g. in Finnish, we have had to find ways to say it in different ways in different contexts. When it is used together with risk assessment procedures, we just say "other audit procedures", or "audit procedures other than risk assessment procedures", and when used alone, it could be "audit procedures that follow risk assessment procedures" or something similar. The same is true with comparatives such as 'smaller' or 'less complex', which actually cannot be used in our language without telling what it is compared to, e.g. entities smaller than X.

- the term spectrum is also used in ISA 540 which is being translated in Finland at the moment. There is no equivalent term in Finnish, and we will probably use a term that means a scale or a range. Is there more to the term that we need to understand?

Comments about the structures:

- complex prepositional structures: In languages that do not use prepositions, sentences including several prepositional structures are challenging to translate. Example: in para 6(I), definition of System of Internal Control: '... to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting...and compliance with applicable laws and regulations. Another example (para A10): "...in the context of how, and the degree to which, the susceptibility to misstatement is subject to, or affected by, the inherent risk factors. In the latter case, the languages that do not use prepositions, need to repeat several words to be able to say what would be easy to express by using prepositions
- multiple genitive structures: In the English language, possession can be expressed by using 'of' or 's'. In some languages, there is only one way of doing it, and sentences including multiple genitives that all have to be translated in the same way makes the text monotonous and difficult to read. An example of such a structure is in para 19: '...from the auditor's acceptance or continuance of the client relationship' or 'auditor's consideration of susceptibility of misstatement '

b) We find the timeline set for revising the standard too aggressive considering the number of aspects requiring clarification.