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International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York
10017 USA

Submitted electronically at www.iaasb.org, and to danmontgomery@iaasb.org

Dear Dan

SAICA COMMENT LETTER ON THE PROPOSED ISA 315 (REVISED) IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we have close on 44,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 58\%$), in the public sector ($\pm 5\%$), education ($\pm 2\%$) and other members ($\pm 5\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the proposed ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement* (ED / ED-ISA 315).

Overall we are supportive of the proposed changes to ISA 315 (Revised) in respect of scalability, professional skepticism, the evolving technological environment and the enhancement of the risk assessment procedures and the process for the identification and assessment of risks of material misstatement. Please find included the comments prepared by SAICA (accompanying this cover letter).

We wish to express our appreciation for the work of the task force in addressing this challenging, but extremely important and fundamental aspect of an audit of financial statements. Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thinus Peyper (thinusp@saica.co.za).

Yours sincerely

Signed electronically

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A SAICA'S APPROACH TO RESPOND

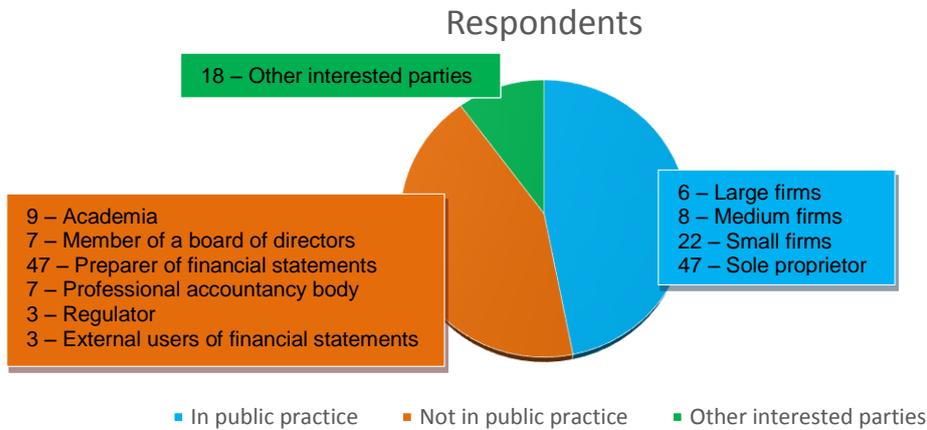
1. SAICA's approach to informing our members of the proposed amendments, and to gather information to inform our comment letter can be summarised as follows:
 - SAICA technical staff studied the ED and prepared a presentation describing the main changes that are being proposed by the IAASB. SAICA also prepared an online survey, based on the questions asked in the explanatory memorandum to the ED, which members completed during the presentation.
 - SAICA also issued a communication requesting its members who did not attend the presentation to complete the online SAICA survey. The survey link and recording of the presentation were circulated to all members.
 - SAICA established a working group consisting of members of the SAICA Assurance Guidance Committee (AGC) to discuss the ED, review the draft comment letter and provide any additional inputs they may have.

B. OVERVIEW OF SURVEY RESPONDENTS

Survey responses

2. The SAICA survey was completed by 177 respondents. 2 respondents are not members of SAICA and 59 of the respondents who are members of SAICA are also registered with the IRBA.
3. In total, 83 (**47%**) of the survey respondents are members in public practice; i.e. practitioners or persons employed by a firm or practitioner in public practice. 76 survey respondents (**43%**) are not in public practice and 18 (**10%**) of the survey respondents indicated that they are in the category "Other interested parties". Overall, this indicates a good mix between input received from service providers and users of services.

4. The graphic below provides a more detailed classification of respondents:



5. In the analysis above, the following meaning is attributable to the relevant terms:

- Large firms are firms with more than 10 partners
- Medium firms are firms with 5 – 10 partners
- Small firms are firms with 2 – 5 partners

6. Throughout this comment letter we present the results from the survey by referring to “**survey respondents**”. The survey results have not been analysed statistically and cannot be extrapolated. The results are presented as perceptions and views that have been observed, and although not representative of a general or common view, provide insights into, and some additional perspectives regarding the matters on which the IAASB are seeking comments, as well as in relation to additional matters that were included in the survey that the IAASB may find helpful.

7. Apart from some questions that required a direct response, for example, ‘Yes’ or ‘No’, or choosing between different options, most of the questions required respondents to indicate the extent to which they agree or the extent to which they support the proposed revisions or a particular approach which the IAASB has applied. For this purpose the survey applied a scale of 1 to 6, where 1 indicates “do not agree / do not support” and 6 indicates “strongly agree / strongly support”. Therefore, the following descriptions are used throughout this comment letter to describe the aggregate of responses (with additional detail provided where deemed appropriate):

- “Predominantly agree / support” for the combination of responses indicated as 4, 5 or 6 on the scale of 1 to 6.
- “Predominantly disagree / do not support” for the combination of responses indicated as 1, 2 or 3 on the scale of 1 to 6.

8. The aggregate of responses per question is indicated as a percentage. The calculation of each percentage has been included to indicate the number of respondents that answered the specific question and to clarify that the 177 survey respondents did not answer every question asked in all instances.

C. DETAILED COMMENTS TO QUESTIONS

9. Our detailed comments are presented in terms of the questions posed in the Explanatory Memorandum (questions 1 to 11).

Question 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? Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)?

10. A vast majority [86% (86/100)] of survey respondents predominantly agree that the proposed changes will help with the understandability of the risk identification and assessment process. 19 respondents indicated that they “strongly agree” in this regard (‘6’), with the other 67 respondents indicating ‘4’ and ‘5’ on the identified scale of 1 to 6. The feedback on this overall question should also be weighted and considered, taking into account the responses to the other questions that address more detailed aspects of ED-ISA 315.
11. 80% (78/97) of the survey respondents indicated that the flowcharts are helpful (4, 5 or 6 on the identified scale of 1 to 6). One respondent recommended that the flowcharts should be used for other ISAs that are under revision as this helps to illustrate the bigger picture and show what the key considerations are.
12. The SAICA survey included an additional general question in order to ascertain the level of support for how the requirements have been restructured to elevate the importance of understanding the applicable financial reporting framework applied in the context of the nature and circumstances of the entity and its environment (ED-ISA 315, paragraph 23). 78% (98/126) of the survey respondents predominantly support this change. There was a comment that this may result in a more focussed audit approach as more important factors influencing an audit is highlighted. Another respondent requested that the importance of analytical review as part of risk assessment should be emphasised and how it links to the understanding of the financial reporting framework.

(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?

13. The SAICA survey included this question at the end, as a general question requiring the survey respondents to reflect on ED-ISA 315 overall. **87%** (84/97) of the survey respondents predominantly agree that ED-ISA 315 promotes a more consistent and robust process for the identification and assessment of the risks of material misstatement, with 25 selecting “4”, 40 selecting “5” and 19 selecting “6”, on the identified scale of 1 to 6. Again, this feedback should be weighted and considered, taking into account the responses to the other questions that address more detailed aspects of ED-ISA 315.

(c) Are the new introductory paragraphs helpful?

14. SAICA believes that the introductory paragraphs are helpful in setting up the standard in terms of the detailed requirements and application material that follow. It provides a concise overview of the key principles and matters that the standard deals with, including the logical flow in terms of how these all fit together and are encountered in the main body of the

standard. It should be noted that the extent to which the introductory paragraphs may assist rather than complicate the reader's understanding would probably depend on the reader's level of knowledge and experience; but it is fair to assume a reasonable level in this regard.

15. SAICA agrees with the views of its members in question 1, but we have included suggestions under the detailed questions that follow to further improve on the structure and flow, and some aspects of the risk identification and assessment process.

Question 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?

16. A vast majority [83% (130/156)] of survey respondents answered "Yes" to a question whether they believe that the concepts and principles pertaining to the identification and assessment of the risks of material misstatement apply to entities of all sizes, complexities and circumstances, from smaller and less complex entities through to large and complex entities. This is consistent with the general view that an audit of financial statements follows a risk based approach irrespective of the size and complexity of the audited entity; however, the manner in which certain requirements would apply and the extent of the work effort may differ.
17. 75% (112/150) of the survey respondents predominantly agree that the specific actions taken by the IAASB will enhance the scalability of the standard; however, only 10% (16/150) selected the "strongly agree" option.
18. When asked if there were any other approaches or actions that the IAASB should consider in enhancing scalability, a majority [58% (86/146)] of survey respondents were unsure at this stage. From the individual comments that were provided, a number of survey respondents suggested additional or supplementary guidance including further examples. A staff publication that explains how scalability should be practically applied when auditing small and less complex entities was also suggested.
19. SAICA interprets the above survey results as a possible indication that although there is general acknowledgement that the requirements encapsulated in the risk identification and assessment process are applicable to entities of all sizes and complexity, and an appreciation for how the ED is emphasising scalability at a principle level, there is still a sense of "but how will this work in practice"; hence the comments calling for supplementary guidance, more examples and implementation assistance. A few respondents requested that the separate sections on 'considerations specific to smaller entities' should be reinstated; however, this is probably also driven by the same need for additional guidance and not yet being familiar (and comfortable) with the new approach that is being followed.
20. Overall, SAICA agrees that it is not simply the size of the entity, but also the level of complexity in relation to, for example, the entity's business model and its financial reporting processes that drives scalability. SAICA agrees with the reasons for removing the sections on 'considerations specific to smaller entities', i.e. the guidance is not always unique to smaller entities, but may also be applicable to other entities and the auditor therefore has to apply professional judgement when applying the requirements to the audit of a specific entity. We understand that the information under the 'considerations specific to smaller entities' sections have been retained and reworked and were therefore not removed from the standard.

21. A particular concern could be that by removing the extant 'considerations specific to smaller entities' sections, the visibility around scalability has been compromised. We appreciate that the separate sub-section, "Scalability" as part of the Introduction section of the ED (paragraph 13) is intended to counter this perception. However, it may be necessary to consider retaining some of the visibility, for example, including an appendix where references to smaller and less complex entities are summarised, or highlighting the areas where the contrast between smaller and less complex entities, and larger and complex entities may be of particular relevance.
22. It is also suggested that the IAASB do a final review of where it may be possible to provide additional contrasting examples in the application material, including a few examples to illustrate how scalability applies to a more complex entity.
23. Finally, the SAICA working group raised a question whether the IAASB's message from the explanatory memorandum that scalability is affected by the size and complexity of the entity comes through strong enough in ED-ISA 315, paragraph 13. The message from the IAASB webinars should be incorporated in the standard, namely: Scalability should be seen as a continuum starting from small and less complex entities through to large and complex entities. The auditor will have to determine where on the continuum the entity lies and apply his/her professional judgement on how to apply the requirements.

Question 3

Do you 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? 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?

24. 84% (112/133) of the survey respondents predominantly agree that the term 'data analytics' is too narrow and that the term 'automated tools and techniques' is appropriate to be used. One respondent requested that the term be defined as it may be too generic. Other text comments received do not give a clear indication why 16% of survey respondents predominantly disagree with the use of the term 'automated tools and techniques'.
25. A vast majority of survey respondents [89% (118/133)] predominantly agree that the ISA should focus on obtaining sufficient appropriate audit evidence and should not be prescriptive or limiting in terms of how audit evidence is obtained. In addition, 76% (100/132) of the survey respondents continued to indicate their agreement with the approach that the use of automated tools and techniques should therefore not be required as these tools and techniques may not be available to all auditors or its use may not be necessary or appropriate in all instances. Some specific comments made in support of this view are indicated below:
 - Automated tools and techniques are powerful tools to improve audit efficiency and to analyse big data sets, but it is not possible to use on all entities.
 - Complexities of clients are not the same.
26. When asked if there were any further enhancements needed or other approaches that the IAASB should consider in respect of the use of automated tools and techniques, a large number [42% (56/132)] of survey respondents were unsure at this stage and [39% (52/132)] said 'No'. The other survey respondents who provided suggestions, requested further guidance and examples, including whether a clearer distinction could be drawn between

some more complex applications in this regard and those that are simpler (e.g. using Excel to sort, filter and analyse a data set). Specific guidance requested, includes:

- It should be clarified what the auditor should focus on in the small and medium-sized environment, when that environment is not conducive to using automated tools and techniques. Apart from indicating a need to better understand the smaller and less complex entity's context, this comment could also be interpreted as relating to an understanding of when (under what circumstances) it is appropriate to use automated tools and techniques; i.e. when and how can automated tools and techniques provide sufficient appropriate audit evidence. This would probably have to be addressed as part of the IAASB's intended Audit Evidence project.
- Clarification around the level of work and documentation required in respect of how the tool/ technique functions or how it produces information to be used as audit evidence. Again, probably something to be addressed as part of the Audit Evidence Project.

27. SAICA agrees with the term 'automated tools and techniques' and its use throughout the standard. It is appropriate not to require the use of automated tools and techniques as explained in the explanatory memorandum, as well as not to attempt to describe the term definitively by the work on this project alone.

Question 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?

28. More than two-thirds [69% (90/130)] of the survey respondents predominantly agree that the approach and actions taken by the IAASB will enhance the exercise of professional skepticism in the risk identification and assessment process. Respondents specifically commented that they agree with the emphasis placed on the auditor's in-depth knowledge that is required of the audited entity.

29. Conversely, there is almost a third [31% (40/130)] of the survey respondents who predominantly disagree that the exercise of professional skepticism will be enhanced. Regrettably, the individual comments provided do not shed light on the reasons why. Our interpretation is that it may be closely linked to a general level or sense of uncertainty around the meaning and application of professional skepticism (i.e. what is actually expected of the auditor in this regard). One specific comment from a survey respondent summarises a sentiment of a broader issue at play, when he/she states "I think serious training is necessary regarding professional scepticism".

30. With reference to the "sufficient appropriate audit evidence"-revision in paragraph 17 of the ED-ISA 315, 70% (93/132) of the survey respondents answered "Yes" in terms of supporting that the purpose of risk assessment procedures is to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement and, therefore, that it is appropriate to include this as part of the requirement. There were however comments made that the standard should not be too prescriptive and that it remains difficult to demonstrate in an audit file how professional skepticism was applied (some respondents requested guidance on the extent of documentation required).

31. SAICA agrees with the manner in which professional skepticism has been enhanced in the standard.
32. SAICA agrees with the amendment in paragraph 17 to obtain sufficient appropriate audit evidence (SAAE) as the basis for identifying and assessing risks of material misstatement. This aligns with the guidance material in ISA 500.A10 which states that audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing risk assessment procedures and further audit procedures. The risk identification and assessment process is foundational to the risk-based approach that underlie an audit that is planned and performed in accordance with the ISAs and it is almost unthinkable that the auditor would not have sufficient appropriate audit evidence as the basis for the identification and assessment of the risks of material misstatement.
33. However, our outreach did indicate that it is not clear to readers how the insertion of the words 'to obtain sufficient appropriate audit evidence' encourages professional skepticism. It should be described in the application material how professional skepticism is encouraged.
34. Another concern that was raised was whether this amendment implies that additional documentation is required of the risk assessment procedures performed. We believe it is appropriate for the auditor to document, for example, the basis for assessing inherent risk at a certain level for relevant assertions. In SAICA's view this does not necessarily imply specific *additional* documentation. The basis for such assessment (the information obtained up to the point before identification and assessment) may already have been documented (i.e. is apparent) from the normal "understanding" and other planning working papers that the auditor would have obtained or prepared, which culminate in the auditor's determinations or assessments in terms of the requirements in paragraphs 45 to 52 of ED-ISA 315. In this context, audit evidence is a collective term that refers to all the information used by the auditor in arriving at the auditor's determinations or assessments. The concern raised pertaining documentation may stem from a lack of clarity around the interpretation of 'sufficient appropriate audit evidence' in the context of risk assessment procedures.
35. A related matter which we were not able to interrogate adequately owing to time constraints, but which we believe the IAASB should be aware of, is whether so-called 'negative' documentation is required, or alternatively would be called for when, for example, an audit file is subject to inspection. For example, documented evidence why an assertion about a class of transaction, account balance or disclosure is not a relevant assertion.

Question 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?

Specifically:

(a) Have the requirements relating 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?

36. 71% (82/116) of the survey respondents predominantly agree that the requirements relating to the auditor's understanding of each component of the entity's system of internal control have been appropriately enhanced and clarified. Some of the individual text comments provided seem to indicate that some members still get stuck on "why an understanding is required, when there is no intention to place any reliance on internal controls". Based on the balance of comments which the IAASB may receive in this regard, it could be necessary to consider whether the messages around the benefits to the auditor of obtaining an understanding of the system of internal control (and its components relevant to financial reporting) come through strong enough.
37. Extant ISA 315.A106 describes the minimum transaction cycles that the auditor is likely to obtain an understanding of in the audit of a smaller entity, namely: revenues, purchases and employment expenses. It was identified that this paragraph has not been retained in the ED. SAICA's outreach indicates that the guidance in the extant standard is helpful to auditors in indicating a certain minimum level of work effort and, hence, the suggestion put forward was to reinstate this in the application material. A different perspective is that the understanding required regarding the entity's business processes under ED-ISA 315, paragraph 35 is driven by what is identified as significant classes of transactions, account balances and disclosures, and would therefore direct attention and work effort to the relevant business processes.
38. In response to a further question, 78% (84/108) of the survey respondents agree that it is clear why an understanding is obtained and how this informs the risk identification and assessment process. We also believe that the flowcharts may have contributed to respondents' understanding in this regard (also refer to the comments to question 1, above).
39. The introduction of the concepts of *direct controls* and *indirect controls*, and distinguishing identified components of a system of internal control within these categories are helpful in contextualising the understanding the auditor requires, including the related work effort and how such understanding flows through to the identification and assessment of risks of material misstatement. It is suggested that the IAASB consider introducing this earlier in the standard, for example, as part of the application material to the definition of "System of internal control", and identifying additional places in the application material to each component of the system of internal control where this distinction can be reinforced.
40. Some comments from survey respondents imply that it is not always clear how an understanding should be obtained, i.e. should the auditor always use observation and inspection in addition to inquiry or when would it be a requirement of the auditor to use observation and inspection? We believe that such uncertainty may be related to the distinction between "internal control relevant to financial reporting" and "internal control relevant to the audit":

- Paragraph 25 requires that the auditor perform *risk assessment procedures* (i.e. as defined in paragraph 16(i) and further described in paragraph 18 and its related application paragraphs). Then, paragraphs A153 (in relation to the requirement in paragraph 36) and paragraph A198 (in relation to the requirement in paragraph 42) address *risk assessment procedures* to obtain audit evidence about “design and implementation”, but in this case stating that inquiry alone is not sufficient for such purposes. Therefore, is the implication that in other instances, such as generally obtaining an understanding about the controls relevant to financial reporting, inquiries alone would be sufficient? A possible solution could be to try and clarify upfront that risk assessment procedures are multi-purpose procedures depending on the context in which they are applied and the objective to which they are directed. This could be illustrated in relation to controls relevant to financial reporting and controls relevant to the audit.
 - Also refer to our proposed definitions in paragraph 45 below.
 - Further to the matter addressed above, it is our view that paragraph A153 should be reworded as follows in order to ensure a higher level of consistency between paragraphs A153 and A198: “The auditor’s understanding of the information system may be obtained in various ways. ~~The auditor’s~~ Risk assessment procedures to obtain audit evidence about the design and implementation of the information system controls relevant to financial reporting such ~~understanding~~ may include, for example, a combination of ...”
41. Another comment received from the survey is that auditors struggle to differentiate between obtaining an understanding, evaluating the design and implementation and testing the operating effectiveness of internal control; the more prominent uncertainty being that between obtaining an understanding and evaluating design and implementation, together with the distinction between “internal control relevant to financial reporting” and “internal control relevant to the audit”, as discussed above.
42. After further deliberation, SAICA believes that there may be an issue with the manner in which information system controls (paragraphs 35 to 37), control activities (paragraph 38) and controls relevant to the audit (paragraphs 39 to 42) have been structured:
- Information system controls and control activities are the two components that comprise direct controls and, by their nature, they are very closely related. For example, the flow of information as part of a particular business process, including how transactions are initiated, recorded, processed and corrected, will also encapsulate control activities such as authorisations and approvals, reconciliations and verifications.
 - It is peculiar why the control activities component is presented and structured in a different manner compared to any of the other four components. Furthermore, why is it necessary to link controls relevant to the audit primarily to the control activities component and not also to information system controls? To illustrate, it would be possible to also identify the controls listed in paragraph 39(a) to (e) with controls in the information system and communication component.
 - The interrelatedness of the information system and communication component, and the control activities component is acknowledged in paragraph A160: “Controls in the control activities component include those controls over the flows of information within the information system relating to significant classes of transactions, account balances and disclosures and the financial reporting process used to prepare the financial statements.”

- There are further indications of this interrelatedness (for example, paragraphs A166 and 40) and, hence, that it is more appropriate to assert that controls relevant to the audit are primarily controls in the information system and communication, and control activities components (i.e. direct controls).
- We believe that a higher level of clarity would be achieved if the control activities component is presented and structured in the same format as the other components, followed by the “Controls relevant to the audit”-section. The latter should be based on the notion that controls relevant to the audit are primarily identified from the direct controls components, namely the information system and communication, and control activities. It may then also be possible to only address the “design and implementation” requirement once, whereas it is now split between paragraphs 36 and 42 (although some thought would need to go into whether the robustness of the auditor’s understanding of an entity’s direct controls may be compromised).
- To further clarify our comments above, the structure of the standard under the heading “Components of the Entity’s System of Internal Control” (paragraphs 27 to 44) is envisaged as follows (indicating headings only):

Indirect controls

Control Environment

The Entity’s Risk Assessment Process

The Entity’s Process to Monitor the System of Internal Control

Direct controls

The Information System and Communication

Control Activities

Controls Relevant to the Audit

Control Deficiencies Within the System of Internal Control

- Related revisions to paragraphs 26 and A104 would also be required.

(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?

43. More than two-thirds [69% (79/115)] of the survey respondents predominantly agree that the requirements related to the auditor’s identification of controls relevant to the audit have been appropriately enhanced and clarified (i.e. including with regards to the consolidated list of controls viewed as relevant to the audit). Furthermore, the same percentage (69%) agreed that it is clear how controls relevant to the audit are identified, including for audits of smaller and less complex entities. However, there is also nearly a third (31%) of the survey respondents who predominantly disagree – also **refer to our comments in relation to question 5(a), above.**
44. One respondent commented that paragraph 39(e) is too vague or too broad. Other survey responses, as well as other input we received outside of the survey, alludes to the possibility that this could create uncertainty around auditor work effort, as well as the evaluation of such work effort.

45. SAICA believes that the terms ‘controls relevant to financial reporting’ and ‘controls relevant to the audit’ should be defined to enhance consistent interpretation and application of these concepts. Suggested wording:

- Controls relevant to financial reporting – Those controls in an entity’s system of internal control that address the achievement of an entity’s objectives with regard to the reliability of financial reporting and, therefore, are relevant to the preparation of the financial statements in accordance with the requirements of the applicable financial reporting framework.
- Controls relevant to the audit – Those controls relevant to financial reporting that address the risks of material misstatement at the assertion level, or that are to be treated as controls relevant to the audit in accordance with the requirements of this ISA or other ISAs.

46. SAICA is of the view that the catch-all requirement for the auditor to identify controls that he/ she believes are appropriate to evaluate (when identifying controls relevant to the audit) may be problematic from a consistent application point of view, as well as from an external monitoring/ inspections point of view. Should the proposed definitions (above) be accepted, paragraph 39(e) and its application material could rather be incorporated as general application material to the definition, while sub-paragraphs (a) to (d) of paragraph 39 would be retained in the context of controls which, if not already identified as part of those controls that address potential risks of material misstatement at the assertion level, shall be identified as controls relevant to the audit.

(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?

47. A vast majority [84% (96/114)] of survey respondents predominantly support the new IT-related concepts and definitions, namely: Application controls; General IT controls; and IT environment.

48. SAICA posed the following question to survey respondents in order to obtain input in relation to ED-ISA 315 requiring the auditor to have an understanding about the entity’s use of IT in its business and system of internal control (the relevant requirements and application material):

Indicate the extent to which you agree with the following statements relating to the entity’s IT environment. Use a scale of 1 to 6, ranging from (1) that indicates “Do not agree” to (6) that indicates “strongly agree”.

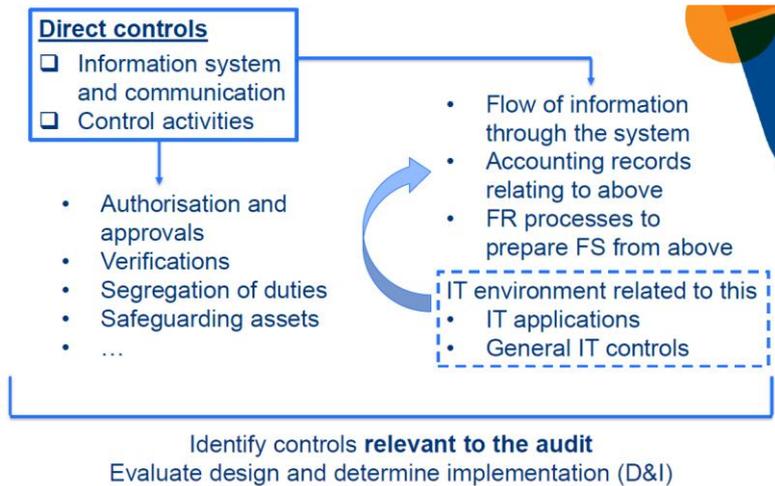
- The requirements with respect to understanding the entity’s IT environment as an integral part of the Information System and Communication component of internal control, including the entity’s IT applications, are clear and sufficient application material is provided.

81% (90/111) of the survey respondents predominantly agree with this statement.

- It is clear when (under which circumstances) the auditor is required to identify the general IT controls relevant to the audit and sufficient application material is provided.

85% (94/111) of survey respondents predominantly agree with this statement.

49. SAICA agrees with the new IT related concepts and definitions. We further support the requirement to understand the IT environment in respect of the information system relevant to financial reporting (paragraph 35(d)), including the related business processes. We also agree with the requirements to (paragraphs 40-42):
- Identify IT applications and the other aspects of the entity's IT environment that are relevant to the audit.
 - Identify risks arising from the use of IT and general IT controls relevant to the audit.
 - Evaluate their design and implementation.
50. On analysing some of the individual comments received from survey respondents, one gets a sense that although the broad principles may be understood that there is some uncertainty about matters related to their application. For example, the criteria to be taken into account in identifying IT applications relevant to the audit (paragraph 40(a)-(d)). Auditors' understanding of how these criteria are applied, could be enhanced if the application material in paragraphs A183 to A187 are presented more directly in relation to each of the criteria, including contrasting examples for each in relation to smaller and less complex entities versus larger and complex entities, and more explicitly indicating the interaction between the criteria and when it may be appropriate to conclude that an IT application is not relevant to the audit or that there are no IT applications relevant to the audit.
51. Paragraphs A149 and A181 make reference to smaller and less complex entities that use commercial software with no or restricted access to the source code to make program changes. The guidance provided seems by some to indicate that the auditor would not plan to test IT application controls under these circumstances and would follow a substantive approach. We believe that guidance for audits of smaller and less complex entities should be expanded to indicate that the auditor could still identify IT applications relevant to the audit under these circumstances, should the auditor consider that testing the operating effectiveness of the controls could be a possible risk response.
52. SAICA believes that all the requirements relating to the entity's system of internal controls, including IT controls and how they fit together should be further refined. For purposes of discussing the requirements of ED-ISA 315 in relation to direct controls with our members, SAICA developed the illustration below and suggests that a similar explanation may be useful.



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:

(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?

53. A vast majority [78% (78/100)] of survey respondents predominantly support the separate assessment of inherent risk and control risk; 35% (35/100) indicating “Strongly support”.

54. We included additional questions in the survey regarding the actual assessment of inherent risk and control risk:

- 72% (72/100) of the survey respondents predominantly agree that the standard is clear and that sufficient guidance has been provided in relation to the separate assessment of inherent risk.
- Fewer survey respondents [67% (66/99)] predominantly agree that the standard is clear and that sufficient guidance is provided in relation to the separate assessment of control risk. This result is not unexpected, taking into account that the control risk assessment, of the two assessments, is probably the one that may be most unfamiliar to some auditors and that may require a more deliberate change in approach.

55. The following comments from survey respondents aptly capture the general support for the proposed change in approach: “I have always believed that it should be done this way, thank you” and, talking about the assessment of control risk, “This was done incorrectly so many times in practice to date and this will clear up any ambiguity and uncertainty”.

56. One respondent commented that assessing control risk in terms of paragraph 50, at maximum or less than maximum based on whether the auditor plans to test the operating effectiveness of internal controls, is confusing when compared to ISA 200.A41, which states that control risk is the function of the effectiveness of the design, implementation and maintenance of internal control by management to address identified risks. The conceptual link exists and is alluded to in the application material, in paragraphs A232-A233. What may be missing is a direct reference that the assessment of control risk is based on the auditor’s

evaluation of the design and implementation of the controls relevant to the audit at the assertion level.

57. SAICA supports the separate assessment of inherent risk and control risk. There should be a better link between how evaluating the design and implementation of controls as well as the decision whether to test the operating effectiveness of controls affect the assessment of control risk, i.e. the auditor's planned reliance on controls should be based on his/her evaluation of the design and implementation of controls and decision to test the operating effectiveness of controls. The aspect around the auditor's decision to test controls is important in the context that even though the evaluation of the design and implementation of controls related to a relevant assertion/(s) for a particular class of transactions, account balance or disclosure had a positive / satisfactory outcome, the auditor's decision may still be to rather perform substantive procedures based on, for example, audit efficiency considerations in the circumstances.

58. The requirements to evaluate the design and implementation of internal controls should be further refined. We suggest that the words 'designed effectively' should be replaced with 'appropriately designed'. The fact that the auditor only determines implementation of appropriately designed controls should be part of the requirements and not only described in the application material. Suggested wording for paragraph 42:

"For each control identified as relevant to the audit in accordance with paragraphs 39 and 41, the auditor shall:

(a) Evaluate whether the control is appropriately designed ~~effectively~~ to address the risk of material misstatement at the assertion level, or ~~effectively~~ appropriately designed to support the operation of other controls; and

(b) Determine whether each ~~the~~ appropriately designed control has been implemented by performing procedures in addition to inquiry of the entity's personnel."

(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?

59. A vast majority [87% (108/124)] of survey respondents predominantly support the introduction of the concept of 'inherent risk factors' and its definition. 78% (97/124) of the survey respondents predominantly agree that sufficient guidance has been provided to explain the inherent risk factors and how they are used by the auditor to obtain an understanding and assist with identifying risks of material misstatement. There are a number of survey respondents (reflected in the difference between 87% and 78%) who agree with the introduction of the concept, but who may not be as convinced that the ED provides sufficient guidance with regard to its application. However, the overall level of support in both instances are still very high.

60. SAICA believes that the definition of inherent risk factors should be further refined to include the notion that the inherent risk factors may not necessarily be restricted to only the five main factors that have been identified; i.e. it may also include other risk factors such as those mentioned in paragraph A6. The following wording is suggested:

- Inherent risk factors – Characteristics of events or conditions that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or

quantitative, and include complexity, subjectivity, change, uncertainty, ~~or~~ susceptibility to misstatement due to management bias or fraud and other risk factors as may be applicable in the circumstances.

61. SAICA agrees that the auditor should take into account the degree to which inherent risk factors affect a significant class of transactions, account balance or disclosure (SCOTABD), when assessing the inherent risk of a SCOTABD at the assertion level (i.e. for the individual relevant assertions). We found that the following explanation resonated with our members who attended SAICA ED-ISA 315 discussion session, namely that the inherent risk factors represent the lens through which the auditor observes and evaluates the information that is obtained in relation to the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, thereby providing the context in terms of which the auditor considers the likelihood and magnitude of material misstatement. Even though 'likelihood' and 'magnitude' are well known concepts, these concepts should be described in the application material, for example by promoting a more common understanding that likelihood relates to the chance or frequency of an occurrence and that magnitude relates to the impact or severity or distribution of an occurrence. This could be illustrated by providing an example in relation to an assertion/(s) about a SCOTABD.
 62. Another matter that should be clarified is the reference to "at assertion level" in the ISA. It is not clear whether, or in which instances this refers to each assertion for a COTABD or only to the relevant assertions for a SCOTABD. SAICA has the following view on this based on the wording in the extant ISA 315: The wording in the extant ISA seems to indicate that risks should be assessed for each assertion because if a specific assertion is not considered it will result in the auditor not considering all possible (material) misstatements that could relate to a COTABD. Applying this to ED-ISA 315, taking into account that the ED introduces the concepts of relevant assertions and SCOTABD, up to and including the point where the auditor determines SCOTABD the auditor is alert to how relevant information that informs his/her understanding as required by ED-ISA 315 may implicate or be related to any / all assertions about all COTABD. Once the auditor has determined the SCOTABD and their relevant assertions, "at assertion level" only relates to these (for example, inherent risk and control risk will only be assessed in relation to the relevant assertions for each SCOTABD).
 63. SAICA believes that the wording in paragraph 48 should be further refined in addition to the comments made in the previous paragraph. I.e. to more clearly indicate that inherent risk is only assessed for risks of material misstatement with respect to relevant assertions.
- (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 risks of material misstatement, including significant risks?**
64. A vast majority [83% (85/103)] of survey respondents predominantly agree that the introduction of a 'spectrum of inherent risk' will assist in greater consistency in the identification and assessment of the risks of material misstatement, including significant risk.
 65. Fewer survey respondents, but still more than 75% [77% (77/100)] believe that the concept of a spectrum of inherent risk together with that of inherent risk factors provide an improved reference point for auditors in terms of clarifying that inherent risk is assessed by assessing the likelihood and magnitude of material misstatement. Also refer to our comments around 'likelihood' and 'magnitude' in relation to **question 6(b)**, above.

66. In order to obtain further insights into survey respondents' perspectives in this regard, including how inherent risk is being assessed in practice (under different methodologies), we included the following question in the SAICA survey:

In particular, also indicate which of the following statements you can identify with most

- The 'spectrum of inherent risk' will improve auditors' understanding and execution of the risk assessment process owing to the clarification and guidance around the degree to which inherent risk varies, including between different financial statement items and between different assertions.

48% (49/102) of survey respondents selected this statement.

- The 'spectrum of inherent risk' incorporates into the standard how most audit firms and auditors have already understood and applied the assessment of inherent risk in practice. It reconfirms and formalises the principles.

35% (36/102) of survey respondents selected this statement.

- I prefer not to choose either of the options that have been provided.

17% (17/102) of survey respondents didn't select either of the statements, above.

67. SAICA believes that the concept of a spectrum of inherent risk explains current practice and supports its inclusion. In particular, our view is that it may positively influence auditor behaviour in terms of an improved understanding that the level of persuasive evidence that is required also varies along this spectrum. Furthermore, it will address a concern that has been raised in some instances that auditors, under extant ISA 315, simply distinguished between risks that are significant and risks that are not significant, resulting in the latter not always receiving appropriate attention in terms of the level of audit evidence that is required, depending on where on the spectrum the inherent risk exists.

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

68. The SAICA survey requested that respondents indicate the extent to which they support or agree with (as appropriate) the relevant revisions being proposed in ED-ISA 315, as reflected in the following statements (using a scale of 1 to 6, ranging from (1) that indicates "do not support / agree" to (6) that indicates "strongly support / agree").

- Indicate the extent to which you support the introduction of the concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.

77% (77/100) indicated that they predominantly support the proposed changes, with 34 selecting "4", 20 selecting "5" and 23 selecting "6", on the identified scale of 1 to 6.

- Indicate the extent to which you believe that it is clear that the auditor will only do risk assessment at the assertion level for SCOTABD and only in relation to those assertions identified to be relevant assertions.

77% (77/100) indicated that they predominantly agree that this is clear, with 32 selecting "4", 28 selecting "5" and 17 selecting "6", on the identified scale of 1 to 6.

- Indicate the extent to which you agree that this will assist the auditor to be more focussed in understanding the entity's information system and those areas where material misstatement may occur. Conversely, not focussing work effort on assertions and financial statement items where the likelihood of material misstatement is remote.

74% (74/100) indicated that they predominantly agree that this will result in appropriately focussing the auditor's work effort as indicated, with 22 selecting "4", 29 selecting "5" and 23 selecting "6", on the identified scale of 1 to 6.

69. It is important to note that a number of text comments made by survey respondents indicate a concern around a possibility that some auditors could exploit this in order to perform less work (i.e. effectively scoping out certain assertions and/or COTABD). One obviously has to consider the intention and effect of the stand-back provision in paragraph 52 in addressing such concerns. SAICA is further of the view that this is also related to the understanding and application of the terms "reasonable possibility of occurrence" and "more than remote" as part of the definition of relevant assertions – refer to comments in the paragraphs that follow, below.
70. There were mixed views [43% 'Yes'; 23% 'No'; 34% 'Not sure'] on whether the use of the terms 'reasonable possibility of occurrence' and 'more than remote likelihood' to describe the threshold for identifying relevant assertions are appropriate. This could be due to the fact that 70% (74/105) of the survey respondents predominantly agreed that these terms seem to represent different thresholds and may be subject to misinterpretation.
71. A number of the text comments of survey respondents suggest that the standard should clarify or provide guidance when a risk is 'less than remote' or define the concept 'remote'. While a definition may not be practicable, SAICA appreciates that this appears to be confusing to some readers (and, to be honest, that practitioners and the regulator are concerned that this could be a source for more inspections findings). Therefore, the IAASB should heed calls to provide more clarity in this regard.
72. Further discussions within the SAICA working group on this matter, revealed that the terms 'reasonable possibility of occurrence' and 'more than remote likelihood' could be interpreted differently and applied inconsistently. This appears to be the case despite the latter being used to describe the former in the definition of a relevant assertion. There is a risk that 'reasonable possibility' could be interpreted as a higher threshold than 'more than remote', which could result in more assertions not being identified as relevant assertions compared to what the intension may be when referring to 'more than remote'. 'More than remote' was seen as the auditor having a very high confidence level that there is a relatively small chance of a risk of material misstatement occurring.
73. We appreciate that the IAASB cannot quantify a threshold for 'remote', but it should be described more clearly that this is a low threshold. That is, if an assertion is not determined to be a relevant assertion it should be clear and obvious that based on the work performed thus far, as represented in the auditor's risk assessment procedures, the auditor requires no further evidence to be persuaded that the COTABD concerned is not materially misstated with respect to the assertion under consideration; conversely, even if the auditor contemplates a relatively small extent of additional evidence to be persuaded in this regard, the assertion would have to be identified as a relevant assertion. Another option that was discussed in the working group was to only use one of the terms, i.e. 'reasonably possibility' or 'more than remote', but there wasn't consensus around this.
74. A related matter that came up in some of the comments from survey respondents and in additional discussions that SAICA had, is about the documentation requirements with regard

to the auditor's determination of SCOTABD and their relevant assertions (paragraph 45). Although paragraph 45 is included in the range of paragraphs referred to in paragraph 54(d) as part of the documentation requirements, the suggestion is that this should also include paragraph 52, since the stand-back provision is intended to address some of the concerns relating to a "less than adequate" risk identification and assessment process. Lastly, a question was raised about the level of documented evidence required in relation to those assertions that have not been determined to be relevant assertions (again, the notion of 'negative' documentations –Also refer to our comments in relation to **question 4**, above).

75. Our comments above, including the need for additional clarification in some instances, are reflected by the survey results indicating that only 65% (61/94) of the survey respondents predominantly agree that there is sufficient guidance to explain how SCOTABD and their relevant assertions are determined; i.e. more than a third of survey respondents lean more towards not agreeing. There was a comment that it should be clarified how the 'relevant assertions' and the stand-back provision works. Another respondent did not agree that material balances could be scoped out 'during this stage' if there are no relevant assertions, and believed that the stand-back provision is 'too late' in the process.
76. SAICA supports the introduction of SCOTABD and agree with the definition in principle. During our discussion of the amendments with our members it was not clear whether the auditor would only do work on the relevant assertions and nothing on the rest. The requirement of ISA 330.18 would ensure that substantive procedures are performed irrespective of the risk assessment (refer to **question 8**), but a concern was raised that all potential material misstatements will not be identified if all assertions are not considered. Also refer to our comments in relation to **question 6(b)**, above, pertaining to clarification around the reference to "at assertion level" in the ISA in that it is not clear whether, or in which instances this refers to each assertion for a COTABD or only to the relevant assertions for a SCOTABD.
77. Lastly, in paragraph A140 the auditor's understanding of the information system relevant to financial reporting is not required to include an understanding of the flows of information related to COTABD that are not SCOTABD. It is suggested that this paragraph be made applicable to all direct controls and not only the understanding of the information system (i.e. the information system and communication component and the control activities component. Also refer to our comments around the distinction between direct controls and indirect controls under **question 5(a)**, above).
- (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?**
78. 82% (82/100) of the survey respondents indicated that they agree with the revised definition of 'significant risk'. SAICA supports this view; we believe that the revised definition is conceptually more sound than the definition in the extant standard; it more appropriately describes how a significant risk should be determined.
79. 79% (76/96) of the survey respondents predominantly agree that sufficient guidance has been provided to assist the auditor with the determination of significant risks. Although half (38) of the 76 survey respondents concerned only indicated their level of agreement at "4", using the identified scale of 1 to 6. This could be an indication that they may not be totally convinced yet and it could be a function that this is still new and some bedding-down of the new definition and its application will be required.

80. An additional perspective is provided by the following question that was included in the SAICA survey, “Do you believe that the revised definition and related material under the new standard will result in any major differences in practice relating to the nature or number of significant risks identified on audits, compared to the extant standard?”

Mixed views were expressed, with 29% (29/101) of survey respondents answering ‘Yes’, 37% (37/101) answering ‘No’ and 35% (35/101) indicating that they are unsure.

81. A vast majority [80% (81/101)] of survey respondents indicated ‘Yes’ in terms of agreeing with the approach that when it comes to determining significant risks, it is necessary to acknowledge that certain significant risks could result from high magnitude of potential misstatement, even though the likelihood of occurrence may be low. Significant risks therefore do not necessarily only result from the combined consideration of likelihood x magnitude.

82. Based on the survey results, above, including individual text comments of survey respondents and further deliberations, we are of the view that the IAASB should give further consideration to whether the description of ‘close to the upper end’ of the spectrum of inherent risk is sufficiently clear, including whether this could have consequences in terms of auditors either unnecessarily identifying more significant risks, or unintentionally or intentionally identifying fewer significant risks, compared to the results in practice under the extant standard. The issue could be addressed to an extent by expanding the application material in paragraph A229, for example, by also contrasting it to a situation where risks of material misstatement are assessed more towards the higher end on the spectrum of inherent risk, but still not reaching the level of being assessed as significant risks.

83. The application material does not describe the intention of the IAASB’s choice of using the words ‘likelihood or magnitude’ instead of ‘likelihood and magnitude’ in relation to the determination of significant risks (refer to paragraph 49 and A229-A231). The application material should be expanded to describe this more fully, including that a significant risk may result from a combination of a very high magnitude and a lower likelihood (with an example), as well as confirming that the combination of ‘magnitude’ and ‘likelihood’ could also still give rise to significant risks (i.e. resulting in inherent risk being close to the upper end of the spectrum). There was a suggestion that the visual presentations used in the IAASB webinar would also go a long way in clarifying how ‘magnitude’ and ‘likelihood’ are applied in the context of determining significant risks.

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, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

84. A vast majority [82% (86/105)] of survey respondents predominantly agree that the revisions will enhance a better understanding and application of how the auditor assesses risks of material misstatement at the financial statement level.

85. SAICA supports the requirement to assess risks of material misstatement at financial statement level with a clear link to the overall responses to such risks in ISA 330. We also agree that it is appropriate to determine how risks at the financial statement level may affect the assessment for risks of material misstatement at the assertion level, and, furthermore, that the auditor may decide during the assessment of risks of material misstatement at

assertion level that some risks relate to more than one assertion and update the identification of risks at financial statement level.

86. We agree that the auditor's assessment should, among other, be influenced by his/ her understanding of the entity's system of internal control. It is suggested that the application material in paragraphs A218-A219 be expanded to specifically relate risks at the financial statement level to the auditor's understanding of indirect controls, similar to how direct controls primarily address potential risks of material misstatement at the assertion level.

Question 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?

87. Based on the SAICA survey results there is a high level of support for the stand-back provision in paragraph 52 – 82% (80/97) of the survey respondents predominantly agree with its introduction; that is, that the auditor is also required to identify the COTABD that are quantitatively or qualitatively material but that have not initially been identified as SCOTABD because of the absence of relevant assertions; and to evaluate whether this conclusion remains appropriate.
88. We proceeded to seek respondents' views around having the stand-back requirement in ED-ISA 315, paragraph 52 and having the requirement in ISA 330, paragraph 18 with respect to the design and performance of substantive procedures in relation to COTABD which are quantitatively and qualitatively material.
- **66%** (66/100) of the survey respondents indicated that both should be retained;
 - **18%** (18/100) indicated their preference to retain the requirement in ED-ISA 315, but to remove the requirement in ISA 330; and
 - **16%** (16/100) indicated that the stand-back provision in ED-ISA 315 could be removed, but the requirement in ISA 330 should be retained.
89. There are probably two main reasons for supporting that both requirements (i.e. ED-ISA 315, paragraph 52 and ISA 330, paragraph 18) should be retained, although it would be interesting to consider the other comment letters and the arguments that may be presented to retain one, but not the other, or even not to retain either.
- The purpose of the requirements in ED-ISA 315, paragraph 52 and ISA 330, paragraph 18 is aligned in terms of providing a catch-all to safeguard against an imperfect risk identification and assessment process. However, ISA 330, paragraph 18 serve an additional purpose related to guarding against an approach to further audit procedures that includes only tests of controls, because there are inherent limitations of controls, including management override.
 - The manner in which the stand-back provision in ED-ISA 315, paragraph 52 has been set up, could potentially have the following outcome: The auditor identifies a material COTABD that was not initially identified as a SCOTABD (paragraph 52(a)), and the auditor performs the evaluation as required by paragraph 52(b) and concludes that the original conclusion that there are no relevant assertions remains appropriate. If ISA 330, paragraph 18 was to be removed, it will result in an instance such as this where no substantive procedures are performed in relation to a material COTABD.

90. Lastly, we wished to explore survey respondents' understanding that the introduction of the stand-back requirement in ED-ISA 315 and the conforming amendments to ISA 330, paragraph 18, have certain implications in terms of designing and performing substantive procedures, namely: The auditor will, as normal, design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level (i.e. in terms of ISA 330, paragraph 6). In addition, the following will apply in terms of ISA 330, paragraph 18, irrespective of the assessed risks of material misstatement – Survey respondents were asked to indicate the extent to which they agree with these outcomes:

- If a COTABD was identified as a significant COTABD in terms of ED-ISA 315, but the further audit procedures included only tests of controls, the auditor shall also design and perform substantive procedures for that item.

73% (71/97) of the survey respondents predominantly agree with this outcome.

This seems to indicate a general understanding amongst survey respondents that the auditor should not apply an approach where audit evidence may be obtained by performing only tests of controls. Some of the text comments provided by respondents who do not agree with this outcome, express their strong belief that sufficient appropriate audit evidence is possible by way of tests of controls only in certain instances, and even that this may be the most appropriate approach in certain instances. Regrettably these respondents did not provide reasons for their views and it is also not clear whether this may be influenced by specific audit methodologies that have been adopted.

- If a COTABD was not identified as a significant COTABD in terms of ED-ISA 315, but it is nevertheless quantitatively or qualitatively material, the auditor shall design and perform substantive procedures for that item.

85% (82/97) of survey respondents predominantly agree with this outcome.

There clearly exists strong support that sufficient appropriate audit evidence overall is not possible if there are certain COTABD which are quantitatively and qualitatively material, without any substantive procedures having been performed in relation to such items.

91. SAICA supports the stand-back provision, but recommends based on the discussion held with its members that it should be emphasised that this is an iterative process and the order of the requirements are not prescribed as it seemed to members that the stand-back provision was very late in the process.

92. In addition, we propose the following change in the wording of ED-ISA 315, paragraph 52(b), since it does not appear that the words in brackets add any value to the requirement and may also be confusing when compared to the definition of relevant assertions: "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."

93. A matter that requires further clarification, is the extent of substantive procedures or the level of assurance that is required from substantive procedures when material classes of transactions, account balances and disclosures are identified in terms of ISA 330.18. Normally the extent of further audit procedures is based on the assessed risk of material misstatement. It is further not clear whether substantive procedures should be performed for each assertion under ISA 330.18. As the substantive procedures to be performed are not based on assessed risks how should the auditor decide which assertion(s) to test if the intention is not to test all assertions? Although we appreciate that ISA 330, paragraph A42a

attempts to provide a solution to some of these issues, we have a sense that the users of these standards require more guidance in this regard.

94. In relation to the application of ED-ISA 315, paragraph 52, the resultant risk response in terms of ISA 330 appears to be less of an issue as the auditor is now treating a material COTABD as a SCOTABD owing to specific assertions having been identified as relevant assertions, for which inherent risk and control risk would have been assessed.

Question 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)?

95. SAICA agrees with the amendments made to ISA 200 and ISA 240. We support the clarification in ISA 240 that controls that address risks of material misstatement due to fraud are relevant to the audit.

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

96. Overall, we are supportive of the conforming amendments to ISA 330. We have provided specific comments in relation to the proposed amendments to paragraphs 18, A42 and A42a. Refer to questions 8 and 10 in this regard.

97. The expansion of the application material in paragraphs A29a and A29b in relation to the controls in an entity's IT environment, including general IT controls, is a positive contribution to improving the standard and providing clarity regarding the interplay between testing general IT controls and achieving the requirements with respect to the design and performance of tests of controls in paragraph 10.

(c) The other ISAs as presented in Appendix 2, are these appropriate and complete?

98. We believe these amendments are appropriate and complete.

(d) ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to the exposure draft), are these appropriate and complete?

99. SAICA agrees with the amendments made to ISA 540 (Revised).

Question 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 ED-315?

100. Yes, SAICA believes this is appropriate as it clarifies that when the ISAs refer to 'material' it means in quantitative or qualitative respects.
101. Also refer to our comments to **question 8**, above, relating to the interaction between the stand-back provision in ED-ISA 315, paragraph 52 and the conforming amendments to ISA 330.18. In particular, ISA 330, paragraph A42a should be further refined to better describe the work effort required.

Question 11

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

(a) Translations – recognising 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.

102. The IAASB's pronouncements are not translated in South Africa.

(b) Effective date – Recognising 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.

103. 77% (79/103) of the survey respondents agreed with the effective date proposal. Mixed commentary were received from survey respondents. There was a view that small and medium-sized practices might benefit from a period longer than 18 months as they are often dependent on external methodology/ software providers. Some respondents were of the view that a longer period is necessary due to the significant changes, while others agreed with a sooner application as the changes improve the standard and will improve audit quality.

104. SAICA believes that the proposed effective date of 18 months after the IAASB's final approval of the ISA, with an option of early adoption, is appropriate. The reality is that time will be required to incorporate the changes into audit methodologies, to update audit enablement tools (e.g. software and templates) and to roll out training across firms.

Additional questions regarding documentation

105. The SAICA survey also included two additional questions regarding the documentation requirements in ED-ISA 315, paragraph 54.

106. A vast majority [76% (74/98)] of survey respondents predominantly agree that it is unnecessary for more detailed documentation requirements to be included in the standard due to the overall documentation requirements in ISA 230.

107. Furthermore, 75% (72/96) of the survey respondents predominantly support the inclusion in paragraphs 54(c) and (d), respectively, of additional documentation requirements in respect of controls identified to be relevant to the audit and the rationale for significant judgements made in identifying and assessing risks of material misstatement.
108. Even though the survey respondents agreed as indicated in the above two paragraphs, the comments relating to clarifying the level of documentation in some of the previous questions should also be considered.