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Keith Billing
Project Director
Financial Reporting Council
8th Floor, 125 London Wall,
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Our ref Jh/288

2 April 2020

Dear Mr Billing

Re: Proposal to revise ISA (UK) 315 (Revised June 2016) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

We appreciate the opportunity to comment on the above proposal issued by the FRC.

In formulating our response we referred to the extensive comments provided by KPMG IFRG Limited in their response to the Exposure Draft issued by the IAASB in respect of ISA 315 (Revised) to which KPMG LLP contributed. We are pleased to note that the revised International Standard reflects the majority of comments raised in that response.

Overall we are supportive of the proposal to adopt the revisions to the underlying international standard and related conforming amendments to other ISAs. Our responses to the specific questions raised in the consultation paper follow:

Q1. Do you agree that ISA (UK) 315 (Revised June 2016) and other ISAs (UK) should be revised to adopt the revisions to the underlying international standard and the related conforming amendments to other ISAs? If not, please give your reasons and explain what action, if any, that you believe should be taken to update the ISA (UK) in relation to identifying and assessing the risks of material misstatement.

We agree that ISA (UK) 315 (Revised June 2016) and other ISAs (UK) should be revised to adopt the revisions to the underlying international standard and the related conforming amendments to other ISAs.

We would like to draw attention to the following points raised as part of the KPMG IFRG response to the international ISA which we believe would benefit from further clarification as part of subsequent publications:

Control activities

We are unclear as to the intended scope of the requirement at paragraph 26(a)(iv). As drafted, with reference to professional judgement, it may be read as a “catch all” to capture any other controls that may be relevant to our identification and assessment of risk of material misstatement. The related application paragraph A165 includes examples which are potentially helpful but there is no context provided for why an apparently broad set of example controls might be considered. For example, we note that one of the examples is “controls that address risks assessed as higher on the spectrum of inherent risk but have not been determined to be a significant risk”. We would appreciate additional clarification being added to paragraph A165 providing context to why it is intended that such controls might be relevant to consider. This will assist auditors with identifying the potential population of such controls in other specific scenarios.

Scalability

As noted in KPMG IFRG’s to the IAASB in response to the ISA 315 (revised) ED of July 2018, we are supportive of the overall approach taken regarding scalability of the ISA, i.e. the establishment of principles-based requirements, supported by illustrative application material, including guidance and examples as to how to apply the requirements across entities that vary significantly in terms of size and complexity.

However, we note that application of ISA 315 (revised) is particularly challenging for small and less complex entities and we would encourage the FRC to continue to support the IAASB’s Less Complex Entity Taskforce in developing further guidance and examples to support such entities in the application of ISA 315 (revised).

Q2, If you agree that the ISAs (UK) should be revised to adopt the revised ISA 315 and conforming amendments, do you agree that the UK supplementary material can be limited to that shown in the exposure draft? If not, please give your reasons and explain what supplementary material, if any, you believe should be added.

We agree that the UK supplementary material can be limited to that shown in the exposure draft subject to the changes we outlined above.



Q3. Is the proposed effective date (audits of financial statements for accounting periods beginning on or after 15 December 2021), which is consistent with the effective date of the IAASB's revised ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

We believe this is a reasonable implementation period.

If you have any questions about our response or wish to discuss any of our observations in more detail, please contact Jon Holt on +44 (0)207 311 1000.

Yours sincerely

KPMG LLP