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Financial Reporting Council

AAT@frc.org.uk

Dear Sirs

Proposal to revise ISA (UK) 315 (Revised June 2016): Identifying and Assessing the Risks of Material Misstatement through Understanding of the Entity and its Environment

Introduction

Kreston Reeves LLP appreciates the opportunity to respond to the consultation on the proposed revisions to ISA (UK) 315 (Revised June 2016), published in January of this year.

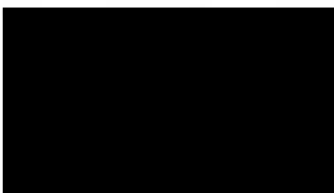
Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 25 largest firms in the United Kingdom. Based in London and the South East, we predominantly operate in the SME market providing audit and other accountancy services. Our client portfolio does though extend to include AIM-listed companies. We are a member firm of Kreston International, a global network of independent accounting firms. We are also a member of the Association of Practising Accountants and the Forum of Firms.

Overall, we are supportive of the FRC's proposal to issue a revised version of ISA (UK) 315, adopting the changes made by the IAASB to ISA 315 and the conforming amendments to other ISAs. In particular, requiring the auditor to understand the entity's use of IT in its business, the related risks and the systems of internal control addressing these risks and the improvements to the related application material should assist the auditor in achieving high quality audits. Also, the new provisions designed to enhance the use of professional scepticism throughout the risk assessment process are welcomed along with the new requirement for the auditor, towards the end of the risk assessment process, to consider all audit evidence obtained from performing risk assessment procedures, whether corroborative or contradictory.

Our detailed responses to the questions raised in consultation are contained in Appendix 1.

If you have any questions on the contents of this letter then please contact Peter Manser at the address shown or at peter.manser@krestonreeves.com.

Yours faithfully



Appendix 1

Proposal to revise ISA (UK) 315 (Revised June 2016): Identifying and Assessing the Risks of Material Misstatement through Understanding of the Entity and its Environment

Responses to specific questions

Question 1

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 ISAs (UK) in relation to identifying and assessing the risks of material misstatement.

Given the investment that the FRC has made to date in relation to the international standards on auditing, it would seem appropriate that the UK auditing standards continue to be compliant with the ISAs to ensure international harmonisation of auditing standards.

The revisions aim to drive better quality and more consistent risk assessments, as well as promote the exercise of professional scepticism. Combined with the updates relating to understanding the entity's use of IT in its business, the related risks and the system of internal control addressing such risks, along with the inclusion of specific application material reflecting the increasing use of automated tools and techniques, this should establish a more robust and consistent risk identification and assessment.

Question 2

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 note that it is proposed to retain the small amount of supplementary material, in the form of two footnotes (10a and 30a), included in the current ISA (UK) 315 (Revised June 2016) as it clarifies who are those charged with governance in a UK context and identifies they are the appropriate persons to provide critical written representations. We are in agreement that the UK supplementary material can be limited to these footnotes.

Question 3

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.

Given that other recently revised ISAs (ISA (UK) 540 and ISA (UK) 570) are both effective for accounting periods beginning on or after 15 December 2019, at first sight, a two year differential in implementation date would appear to be excessive. However, having seen the substantial proposed changes to the standard and given that firms will need time to update their methodologies and audit tools, develop training materials and train their staff to reflect the changes introduced by the revised standard, the proposed effective date seems reasonable.

We do however note that ISA (UK) 540 (Revised December 2018) is now effective and introduced amendments to the risk assessment process for accounting estimates related to the revisions made in ED-315. Therefore, it is important to reduce the amount of time between when ISA (UK) 540 (Revised December 2018) became effective and the proposed revisions to the current ISA (UK) 315 being finalised. We further note that ISA (UK) 540 (Revised December 2018) will have further conforming edits in the requirements and application material arising from the revised ISA (UK) 315.

We understand that focused education sessions were to be held across all geographic regions from March to June 2020, targeted at national standard setters, regulators and software providers involved in making changes to audit software methodologies and that an implementation plan has been developed which lays out the planned activities and estimated timing. Given the current climate and the spread of Coronavirus (COVID-19) presumably this timetable is likely to slip. However, hopefully all parties involved, can work together to meet the original implementation date.