Australian Government

Auditing and Assurance Standards Board

Staff Paper

ASA 315: SCALABILITY CONSIDERATIONS FOR AUDITS OF LESS COMPLEX ENTITIES

November 2021

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1. Introduction and Purpose of this Publication

In February 2020 the Auditing and Assurance Standards Board (AUASB) issued revised Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* (ASA 315) based on the International Auditing and Assurance Standard Board's equivalent Standard. ASA 315 was revised with the objective to:

- establish more robust requirements and application material to drive auditors to perform appropriate risk identification and assessment procedures in a manner commensurate with the size and nature of the entity;
- enhance the auditor's approach to understanding the entity, its environment (including its internal control) and risk assessment activities in light of the changing environment; and
- enable the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial and assertion levels, thereby providing an appropriate basis for designing and implementing responses to the assessed risks of material misstatement.

The operative date for ASA 315 is for financial reporting periods commencing on or after 15 December 2021, which means its effective as follows:

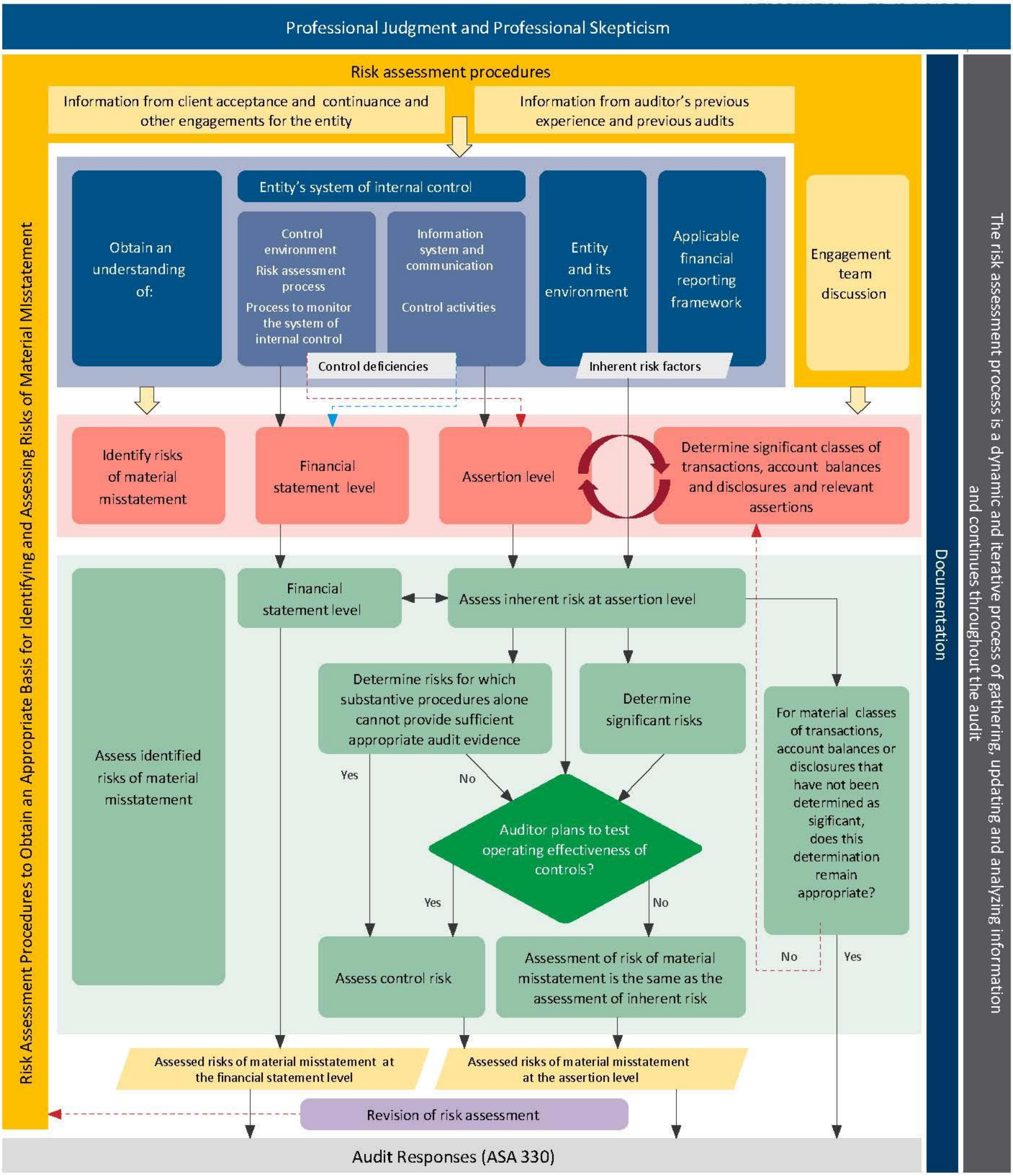
Standard Effective				
	Effective for December 2022 year ends			
		Effective for June 2023 year ends		
15 Dec 2021	**01 Jan 2022**	**01 Jul 2022**	**31 Dec 2022**	**30 Jun 2023**

ASA 315 is iterative in nature, and the auditor is required to exercise professional judgement in determining the nature and extent of the procedures to perform. The flowchart in figure 1 demonstrates the iterative nature of ASA 315.

ASA 315 is applicable to audits of all entities regardless of size or complexity, and the application material includes specific considerations for Less Complex Entities (LCEs) and entities that are more complex to assist auditors. However, as ASA 315 is long and complex, the AUASB has issued this Staff Paper to assist auditors of LCEs by highlighting how scalability has been considered in ASA 315.

Whilst this Staff Paper is not a substitute for reading and applying the new Standard, it provides a reference to support auditors in applying the revised version of ASA 315 on an LCE audit.

Figure 1: ASA 315 Overview of Risk Identification and Assessment Process[1]



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[1] Extracted from the IAASB's *Introduction to ISA 315: Identifying and Assessing the Risks of Material Misstatement*

2. What is Scalability?

The Auditing Standards are designed to be applied to a wide variety of entities with differing circumstances and sizes, ranging from those whose nature and circumstances are simpler and more straightforward (i.e. LCEs), to those entities whose nature and circumstances are more complex (for example, entities with more complex structures, more complex information systems or controls, or more complex transactions). Professional judgement is critical when accessing scalability and how to apply principles-based Auditing Standards. Principles-based Auditing Standards, rather than rules, allows the auditor to apply the Standards in multiple ways and for different circumstances, to achieve the same objective. The concept of scalability allows the Standards to be applied to audits of all entities regardless of whether their nature and circumstances are less complex or more complex. Importantly whilst size of an entity may be an indicator of its complexity, some smaller entities may be complex, and some larger entities may be less complex. Generally, the more complex an entity is the greater the work effort required by the auditor, due to complex structure and business model, multiple information systems, complex transactions, etc.

ASA 315 has been written with scalability in mind. The application and other explanatory material include "scalability" paragraphs with guidance and examples specifically addressing how to apply to LCEs including for owner-manager businesses.

2.1 How to Apply Scalability?

The fundamental principle to scalability is the ability to apply professional judgement to make informed decisions about the courses of actions that are appropriate in the circumstances of the engagement. For example, determining:

- when an Auditing Standard is 'relevant to the audit'.
- when and how, or when not to, apply mandatory / conditional requirements.
- how to choose from alternative approaches or procedures allowed by the Standards. For example, when and which controls to test.
- how to consider and apply explanatory guidance.
- which classes of transactions, account balances or disclosures contain a risk of material misstatement.
- whether sufficient appropriate audit evidence has been obtained.

All the decisions listed above, are examples of where auditors make professional judgements that will directly impact the nature, timing and extent of the audit procedures conducted throughout the audit. This is how an auditor can apply 'scalability'.

3. Applying Scalability to ASA 315

ASA 315 is relevant to all audits, and all the requirements are mandatory - i.e. they are not conditional based on an entity's size or nature. However, the work effort required to comply with all the requirements is dependent on the complexity, risk and circumstances of the entity.

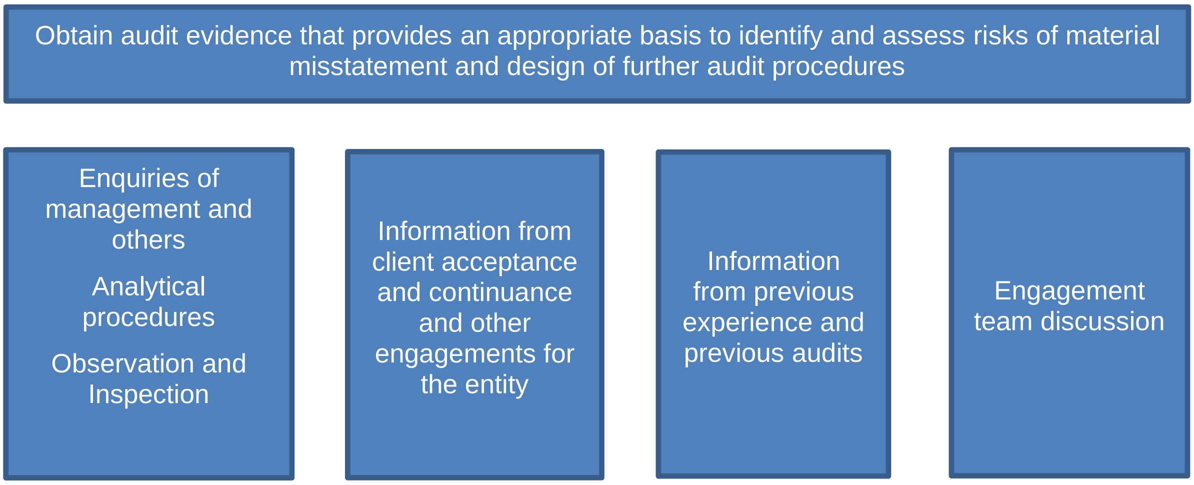
Professional judgement is critical when identifying and assessing the risks of material misstatement in the financial report. To assist auditors, ASA 315 includes Application and Other Explanatory Material (including examples) setting out matters to consider when auditing the financial report of an LCE. These paragraphs are identified by specific "Scalability" headings throughout the Standard.

Overall, the scalability paragraphs provide context for how to apply the requirements to all types of entities and support the exercise of professional judgment in determining the audit procedures to perform. Also, these paragraphs provide useful reminders that LCEs may have systems and processes that lack formality, and that various aspects of the LCE's system of internal control are affected by the direct involvement of the owner-manager of a business or the executive director of a not-for-profit organisation. The lack of formality and documented policies and procedures does not mean the internal controls are not effective, however the way the auditor obtains audit evidence may be different.

The key concepts describing how scalability guidance has been incorporated through ASA 315 is outlined below.

3.1 Risk Assessment Procedures and Related Activities

Figure 2: Overview of Risk Assessment Procedures and Related Activities



ASA 315 requires the auditor to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement and the design of further audit procedures[2]. The auditor uses professional judgement to determine the nature and extent of risk assessment procedures to perform to meet this requirement. Figure 2 depicts relevant requirements.

These procedures may be performed relatively simply for an LCE as follows:

- There is likely to be a smaller number of people that the auditor will need to make enquiries of, and there is unlikely to be an internal audit department.
- As the entity's operations are relatively simple the observation and inspection procedures may also be relatively simple.
- The entity may not have established structured processes and systems (especially for an owner-managed business e.g., a risk assessment process or a process to monitor the system of internal control) or may have established processes or systems with limited documentation or a lack of

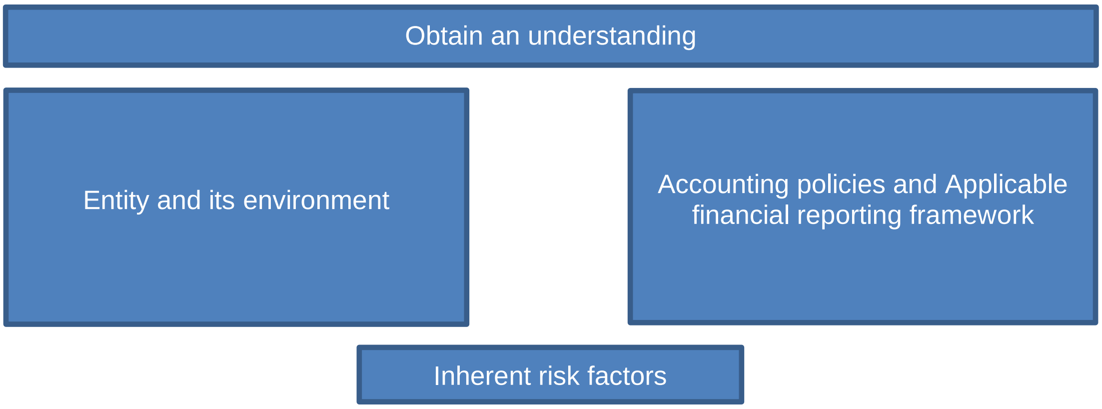
[2] ASA 315, paragraph 13

consistency in how they are undertaken. When systems and processes lack formality, the auditor may still be able to perform risk assessment procedures through observation and enquiry.[3]

- Analytical procedures are an important form of risk assessment procedure as they help identify inconsistencies, unusual transactions or events and other matters that may have audit implications. In the audit of many entities, including those with less complex business models and processes, and a less complex information system, the auditor may perform a simple comparison of information, such as the change in interim or monthly account balances from balances in prior periods, to obtain an indication of potentially higher risk areas.[4]
- The "engagement team discussion" where the engagement partner and other key engagement team members discuss the application of the financial reporting framework and the susceptibility of the financial report to material misstatement, is required regardless of the size or complexity of the entity. When the engagement is carried out by a single individual, such as a sole practitioner (i.e., where an engagement team discussion would not be possible), audit documentation nonetheless should evidence the consideration of where there may be risks of material misstatement. This evidence could be in the form of a simple memorandum or file note.

3.2 Obtaining an Understanding of the Entity and Its Environment and the Applicable Financial Reporting Framework

Figure 3: Overview of Understanding of the Entity and its Environment and the Applicable Financial Reporting Framework



An understanding of the entity and its environment is critical to enable the auditor to start identifying and assessing risks of material misstatement. This understanding includes matters such as: organisation structure, ownership, business models, industry, regulatory and other external factors as well as how the entity measures and assesses its own financial performance.

The nature and extent of the required understanding of the entity is a matter of the auditor's professional judgement and will vary from entity to entity based on the nature and circumstances, including:

- The size and complexity of the entity, including its IT environment.
- The auditor's previous experience with the entity.
- The nature of the entity's systems and processes, including whether they are formalised or not.
- The nature and form of the entity's documentation.[5]

Therefore, the auditor's procedures to obtain the required understanding may be less extensive in audits of LCEs than those for a more complex entity. The documentation of the required understanding may also be less extensive given that in an LCE there will often be simple ownership structures such as sole proprietors or small partnerships. LCEs seldom operate in more than one industry, nor do they

[3] ASA 315, paragraph A17

[4] ASA 315, paragraph A29

[5] ASA 315, paragraph A52

tend to organise themselves into complex business models. The extent to which they measure their financial performance will also lean towards a simple set of financial information.

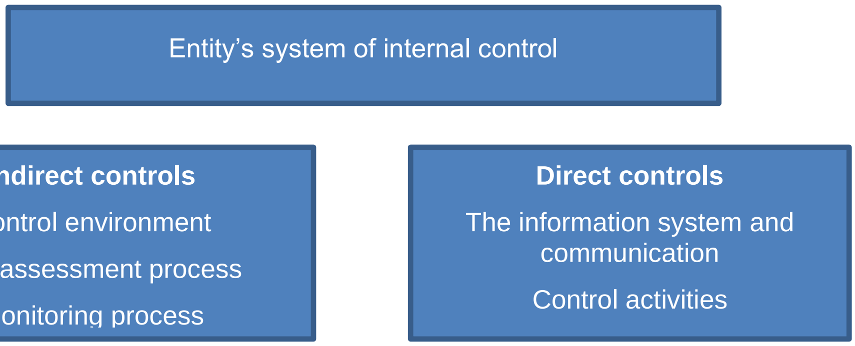
The auditor also obtains an understanding of the applicable financial reporting framework and the accounting policies and evaluates whether they are appropriate. The applicable financial reporting framework and accounting policies are likely to be relatively simple due to the nature of LCEs compared to a more complex entity. For example, the entity may be preparing financial statements which require less disclosures i.e. a special purpose or general purpose Tier 2 Simplified Disclosures framework. In addition, there is likely to be a relatively low number of complex transactions, revenue sources, and financial instruments etc. which require complex accounting policies and disclosure.

Through gathering this understanding, the auditor starts forming initial judgements about potential misstatements by considering how the inherent risk factors affect susceptibility of assertions to misstatement. Inherent risk factors may be qualitative or quantitative and include complexity, subjectivity, change, uncertainty, or susceptibility to misstatement due to management bias or other fraud risk factors as they affect inherent risk. The inherent risk factors are considered throughout the audit as a framework to identify and assess inherent risk.

Refer to ASA 315 Appendix 1 *Considerations for Understanding the Entity and its Business Model* and Appendix 2 *Understanding Inherent Risk Factors* for further guidance including examples of events or conditions that may give rise to the existence of risks of material misstatement which auditors may find useful.

3.3 Understanding the Components of the Entity's System of Internal Control

Figure 4: Overview of Understanding Components of Entity's System of Internal Control



ASA 315 includes extensive guidance on how to gather the required understanding of the components of an entity's system of internal control and why this is important. Appendix 3 *Understanding the Entity's System of Internal Control* is a useful resource to assist auditors.

ASA 315 includes a new definition for the *'System of Internal Control'*. In short, the system of internal control is a system designed, implemented and maintained by those charged with governance (TCWG) and management, which provides them with reasonable assurance that the entity is able to achieve its financial reporting objectives, effectiveness and efficiency of operations and compliance with laws and regulations.

The way in which the entity's system of internal control is designed, implemented and maintained varies with an entity's size and complexity. For example, LCEs may use less structured or simpler controls (i.e., policies and procedures) to achieve their objectives.[6]

The auditor is required to obtain an understanding of the five components of internal control. The requirement to understand (and therefore document) the specific components of the system of internal control are mandatory, however the required understanding is scalable and contextual, and is applied using the auditor's professional judgement as follows:

- The required understanding is limited to how the components of the system of internal control are relevant to the preparation of the financial report.

[6] ASA 315, paragraph A92

- The required understanding is directed towards specific aspects of the components (outlined in ASA 315 paragraphs 21 – 26).

The auditor determines the extent of audit procedures to perform in order to conclude whether the system of internal control is designed, implemented and maintained to achieve its objectives.

Control Environment

The control environment is important as it provides the overall foundation for the operation of the other components of the system of internal control. The control environment may also have a pervasive effect on the overall system of internal control and on the preparation of the financial report. Refer ASA 315 paragraph 21 for the understanding and evaluation required which in summary is to evaluate whether the control environment is appropriate considering the nature and complexity of the entity.

In considering this ASA 315 requires the auditor to understand and evaluate:

- How management's oversight responsibilities are carried out, such as the entity's culture and commitment to ethical values.
- When TCWG and management are separate, how TCWG provide oversight over the entity's system of internal control.
- How the entity assigns authority and responsibility.

The nature of the control environment in an LCE is likely to be relatively simple and audit evidence may not always be available in documentary form, in particular where communication between management and other personnel is informal, but the evidence may still be appropriately relevant and reliable in the circumstances. The auditor may evaluate the control environment through observation and enquiry of management and other personnel. The following is also relevant when understanding and evaluating the control environment for an LCE:

- The organisational structure may be relatively flat with a simple process of management oversight, and a small number of employees involved in roles related to financial reporting.
- There may not be a written code of conduct but, instead, a culture that emphasises the importance of integrity and ethical behaviour which is evident through oral communication and by management example. Consequently, the attitudes, awareness and actions of management or the owner-manager are important.
- There may be a dominant individual (particularly if an owner-manager business) whose actions and attitudes may have a pervasive effect on the culture of the entity and the control environment. This may be a positive or negative effect. For example, a dominant individual may oversee the business and provide strong oversight including performing and monitoring controls, however conversely there may also be an increased risk of management override of controls.
- TCWG may not include independent or outside members, and the role of governance may be undertaken directly by the owner-manager. Accordingly, some considerations about the entity's control environment may be less relevant or may not be applicable. For example, if the role of governance is undertaken directly by the owner-manager, the auditor may determine that the independence of TCWG is not relevant.[7]

Risk Assessment Process

Considering the nature of the entity, the auditor is required to understand and evaluate how the entity identifies, assesses the significance, and addresses business risks relevant to the preparation of the financial report[8]. The auditor evaluates whether the process is appropriate in the circumstances, also considering if there are risks of material misstatement that management failed to identify which may provide evidence that the process is not appropriate.

In some LCEs, and particularly owner-managed entities, an appropriate risk assessment may be performed through their direct involvement as they routinely monitor the activities of competitors and other developments in the marketplace to identify emerging business risks. The evidence of this risk

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[7] ASA 315, paragraphs A100

[8] ASA 315, paragraph 22

assessment occurring in these types of entities may not be formally documented but is evident through observation and enquiry that management are in fact performing risk assessment procedures.[9]

Monitoring the System of Internal Control

The auditor obtains an understanding and evaluates how management / TCWG monitor that the system of internal control is operating effectively. In an LCE, management (including owner- managers), are often directly and closely involved in the operations and this is how they monitor the system of internal control and would identify if there were weaknesses in controls which needed to be addressed. For example, management may receive complaints from customers about inaccuracies in their monthly statement that alerts the owner-manager to issues with the timing of when customer payments are being recognised in the accounting records.[10] Another common process for monitoring the system of internal control in an LCE, is management's periodic reviews of management accounting information that are designed to identify misstatements.[11]

Information System and Communication

The auditor obtains an understanding of the information system and communication process and evaluates whether it is appropriate to support the preparation of the financial report. In the Information system component, the auditor gains an understanding of how transactions and information are recorded and the financial reporting process used to prepare the financial report. Refer to ASA 315 paragraph 25 for the required understanding which in summary is:

- the processing activities for significant classes of transactions, account balances and disclosures;
- the financial reporting process;
- the relevant IT environment; and
- how significant matters which support the preparation of the financial report and other components of the system of internal control are communicated internally (between people within the entity and between management and TCWG) and with external parties such as regulatory authorities.

The information system and IT environment in LCEs is likely to be less sophisticated than in larger more complex entities, and therefore the required understanding may be achieved with less effort. However, it is just as important for an LCE as it provides an appropriate basis for the design of further procedures in an efficient and effective manner.

LCEs with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an audit of an LCE and may involve a greater amount of enquiry than observation or inspection of documentation.[12]

The auditor's understanding of the IT environment may focus on the specific applications and aspects of the IT environment that are relevant to flows of transactions and processing of information in the information system and supports the financial reporting process. An LCE is likely to have a simple IT environment comprising off-the-shelf commercial software packages with no or limited access to the source code to make any program changes. Also, as many LCEs will have a relatively simple financial reporting framework with less extensive disclosures there is likely to be less information obtained from outside of the general and subsidiary ledgers i.e. information disclosed in the financial report that has been obtained from models or other calculations used to develop accounting estimates or fair value information.

With respect to the communication of significant matters related to the preparation of the financial report, communication may be less structured (e.g., formal manuals may not be used) due to fewer levels of responsibility and management's greater visibility and availability.[13] Communication should

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[9] ASA 315, paragraph A113

[10] ASA 315, paragraph A114

[11] ASA 315, paragraph A115

[12] ASA 315, paragraph A131

[13] ASA 315, paragraph A145

facilitate the reporting of exceptions and issues that need to be addressed. The auditor evaluates if the entity's communication appropriately supports the preparation of the financial report.

Control Activities

The controls activities component includes controls such as authorisations and approvals, reconciliations, physical or logical controls. ASA 315 paragraph 26 requires the auditor to identify the following controls and evaluate the design, and determine the implementation:

- Controls that address significant risks;
- Controls over journal entries, including non-standard journal entities used to record non-recurring unusual transactions or adjustments.
- Controls for which the auditor plans to test operating effectiveness including those that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.
- Other controls that, based on professional judgment, are considered appropriate to meet the objectives of obtaining audit evidence that provides an appropriate basis for:
    - the identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
    - the design of further audit procedures in accordance with ASA 330.

Based on the controls identified, the auditor also identifies:

- The related IT applications and other aspects of the IT environment that are subject to risks arising from IT;
- The related risks arising from the use of IT; and
- The general IT controls which address such risks.[14]

For the purposes of scalability, the auditor applies their professional judgement when identifying these controls, and for an LCE there may not be many. For example, the entity's information system may not be complex, and the auditor may not plan to rely on the operating effectiveness of a large number of controls. In addition, in the judgement of the auditor there may not be any identified significant risks[15] or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such a low-risk audit, the auditor may determine that there are no identified controls other than the entity's controls over journal entries.[16]

Because of the way an LCE incorporates information from transaction processing into the general ledger ordinarily through the use of journal entries, whether standard or non-standard, automated or manual, controls over journal entries are identified for all audits. Such controls may include:

- Appropriate segregation of duties between the preparer and the approver of manual journal entries.
- Appropriate interface controls between sub-ledgers and the general ledger for automated journal entries.

Auditors should be cautious against not considering relying on controls as there may be many instances where it will be a more efficient and effective approach to test controls. For example, testing the operating effectiveness of controls over routine classes of transactions and where there are large volumes of homogeneous transactions, and over the completeness and accuracy of system-generated reports.

Lack of segregation of duties does not necessarily mean reliance on controls is not feasible. For many LCEs segregation of duties is not practical, cost effective, or feasible, and may be unnecessary due to the lower level of transactions and high oversight by management. In an owner-managed entity, the owner-manager may be able to exercise more effective oversight through direct involvement than in a larger entity, which may compensate for the generally more limited opportunities for segregation of duties. For example, management's sole authority for granting credit to customers and approving

[14] ASA 315, paragraph 26 (a) & (b)

[15] Except significant risks required by other Auditing Standards, for example those over identified risks of fraud

[16] ASA 315, paragraph A160

significant purchases can provide strong control over important account balances and transactions.[17] However auditors should always consider risk of management override of controls.

IT Applications and General IT Controls

One of the key enhancements to ASA 315 was to modernise the Standard specifically in relation to considerations in relation to IT. As detailed above, for IT applications (and other aspects of the IT environment) that are subject to risks from using IT (identified under control activities), the auditor must identify the related risks arising from the use of IT, and general IT controls that address those risks. This does not need to be complex and is dependent on the controls identified in the controls activities.

The extent of the auditor's understanding of the IT applications, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors.[18]

LCEs will likely have non-complex IT environments and management may not rely on many automated controls. In an audit of an LCE, it is possible that the auditor may not have identified any automated controls or other information processing controls, as they plan to directly test (i.e. they will substantively test) any information produced by the entity involving IT, and may not identify any IT applications that are subject to risks arising from the use of IT.

However, the greater the complexity and volume of data that supports a significant class of transactions, account balance or disclosure, the less likely it may become for the entity to maintain integrity of that information through manual information processing controls alone (e.g., input and output controls or review controls). It also becomes less likely that the auditor will be able to obtain audit evidence about the completeness and accuracy of such information through substantive testing alone when such information is used as audit evidence.

Obtaining an understanding of the entity's IT environment may be more easily accomplished for a LCE that uses commercial software and when the entity does not have access to the source code to make any program changes (for example, MYOB or Xero). An LCE may not have dedicated IT resources etc however may have an appropriate individual who manages granting employee access or installing vendor provided updates to the applications. Refer ASA 315 Appendix 5 paragraph 6 for matters the auditor may consider when obtaining an understanding of the nature of a commercial accounting software package.

In some circumstances, when volume and complexity of transactions are lower, management may have an information processing control that is sufficient to verify the accuracy and completeness of the data (e.g., individual sales orders processed and billed may be reconciled to the hard copy originally entered into the IT application). When the entity relies on general IT controls to maintain the integrity of certain information used by IT applications, the auditor may determine that the IT applications that maintain that information are subject to risks arising from the use of IT.

Example characteristics of an IT application that is likely not subject to risks arising from IT:

- Stand-alone applications.
- The volume of data (transactions) is not significant.
- The application's functionality is not complex.
- Each transaction is supported by original hard copy documentation.

IT application is likely not subject to risks arising from IT because:

- The volume of data is not significant and therefore management is not relying upon general IT controls to process or maintain the data.
- Management does not rely on automated controls or other automated functionality. The auditor has not identified automated controls in accordance with paragraph 26(a) of ASA 315.

[17] ASA 315, paragraph A156

[18] ASA 315, paragraph A170

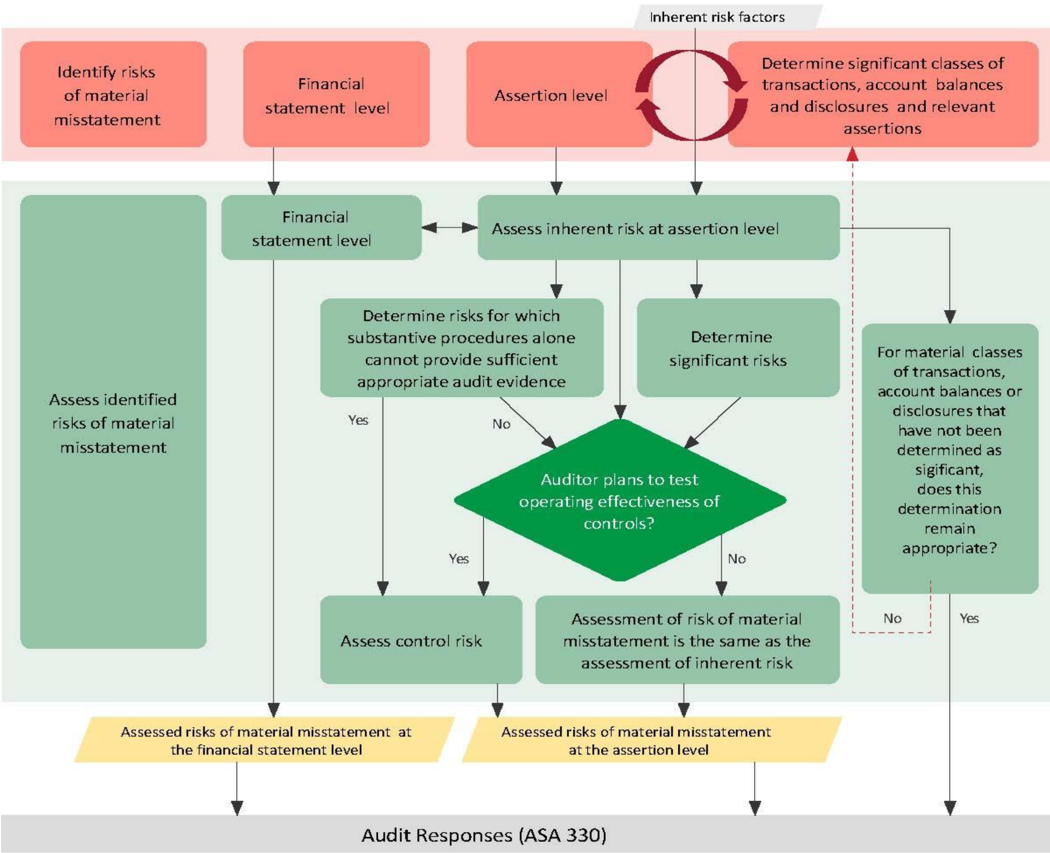
- Although management uses system-generated reports in their controls, it does not rely on these reports. Instead, it reconciles the reports back to the hard copy documentation and verifies the calculations in the reports.
- The auditor will directly test information produced by the entity used as audit evidence.[19]

ASA 315 includes extensive guidance in [Appendix 5 *Considerations for Understanding Information Technology*] which provides useful information on non-complex, moderately complex and complex IT applications, and scalability considerations.

In addition [Appendix 6 *Considerations for Understanding General IT Controls*] includes useful guidance and examples of general IT controls. This includes a table illustrating examples of general IT controls to address risks arising from the use of IT for different IT applications for non-complex, moderately complex and complex IT applications, and scalability considerations.

3.4 Identifying and Assessing the Risks of Material Misstatement

Figure 5: Overview of identification and assessment of risk of material misstatement[20]



Based on the understanding of the entity and its system of internal control, the auditor firstly identifies and then assesses risks of material misstatement. This is performed before the consideration of any related controls and is required at both the financial report and assertion level. Importantly [ASA 200] states that a risk of material misstatement exists when there is a reasonable possibility of a misstatement occurring and being material if it were to occur. This is important to scalability as a threshold for the identification of possible misstatement which is then the basis of the identification of relevant assertions and significant classes of transactions, account balances and disclosures.

[19] ASA 315, Appendix 5, paragraph 15

[20] Extracted from the IAASB's *Introduction to ISA 315: Identifying and Assessing the Risks of Material Misstatement*

The identification and assessment of risks of material misstatement is based on inherent risk. Specifically, how inherent risk factors affect susceptibility of misstatement, whether due to fraud or error, of an assertion about a class of transaction, account balance or disclosure.

The identification and assessment of the risks of material misstatement at the assertion level is used by the auditor to identify where potential misstatements may arise.

Returning to the principle of applying 'scalability' (discussed earlier in this document) when identifying and assessing the risk of material misstatement, the auditor applies their professional judgement when determining how the inherent risk factors affect the susceptibility of assertions to misstatement.

By their very nature the classes of transactions, account balances and disclosures within a financial report of an LCE are unlikely to be affected by inherent risk factors to the same extent as those within a more complex entity. Therefore, there is likely to be a smaller number of significant classes of transactions, account balances and disclosures, and relevant assertions, identified as containing a risk of material misstatement.

For example, in an LCE:

- Is grant revenue from the local government recognised on receipt and therefore not subject to uncertainty?
- Is property, plant & equipment limited to computer equipment and office furniture and therefore unlikely to be subject to complex depreciation and uncertainty regarding valuations?

An audit of an LCE is likely to have a low number of significant risks compared to an audit of a complex entity, as there will be less risks of material misstatement which have been assessed as being close to the upper end of the spectrum of inherent risk.

This demonstrates the risk-based (principles based) approach that ASA 315 adopts as the auditor of an LCE is only required to identify and assess the risks of material misstatement as they relate to that entity.

In addition:

- The auditor is not required to document how every inherent risk factor was considered in relation to each class of transaction, account balance or disclosure. However, audit documentation needs to be sufficient (NB: Refer to section 3.5. Documentation below for more detail).
- Control risk is only required to be assessed if the auditor plans to test the operating effectiveness of controls.

3.5 Documentation

ASA 230 *Audit Documentation* and ASA 315 both include mandatory documentation requirements which the auditor must comply with. For audits of LCEs, the form and extent of documentation may be simple and relatively brief. The form and extent of the auditor's documentation is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the course of the audit.

It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it. Key elements of understanding documented by the auditor may include those on which the auditor based the assessment of the risks of material misstatement. However, the auditor is not required to document every inherent risk factor that was considered in identifying and assessing the risks of material misstatement at the assertion level.

In audits of LCEs audit documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan. Similarly, for example, the results of the risk assessment may be documented separately or may be documented as part of the auditor's documentation of further audit procedures.[21]

[21] ASA 315, paragraph A241

4. Where to find further information

The AUASB Website includes a dedicated page with a wide range of ASA 315 support materials that will further assist auditors apply scalability when they implement the revised Standard. This draws upon materials not only produced by the IAASB but also other National Standard Setters from across the globe and will be updated as new materials become available.

Additionally, if you have any questions about applying the revised version of ASA 315 contact the AUASB at enquiries@auasb.gov.au.