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International Auditing and
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IAASB
529 Fifth Avenue
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31st October 2018

Re.: Comment letter relating to the IAASB's Exposure Draft – ISA 315

Dear Sirs,

1. IAASA appreciates the opportunity to comment on the IAASB's ("Board") exposure draft on proposed International Standard on Auditing (ISA) 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement, issued in July 2018.

2. IAASA is a member of the Committee of European Audit Oversight Bodies and has contributed to the comment letter from CEAOB. This letter reiterates our agreement with points raised by CEAOB and additionally, provides some further comments we wish to raise individually.

General comments

3. We support the project to revise ISA 315 to improve audit quality and we note that the figures from the database maintained by audit regulators of the CEAOB reveals high numbers of inspection findings on this topic. We support the amendments made and believe that the Exposure Draft ('ED') presents an improvement on the extant standard. However, we have a number of suggested points for improvement discussed below.

4. Overall, we have some concerns about the flow and understandability of the standard. We note the IAASB's Clarity Project, which sets an intention to be understandable and clear, to set objectives and establish the auditors' obligations in relation to that objective. Some specific examples are provided below.

5. The ED introduces the concept of a spectrum of risk. This is defined, but not mentioned elsewhere in the requirements. We would support adding a requirement in the standard for the auditor to assess where each risk belongs in the spectrum of risks with appropriate documentation of this assessment.

6. The ED also introduces the concept of inherent risk factors; however this is not prominent in the core requirements. We would support an additional requirement for the auditor to identify the inherent risk factors (as opposed to taking the inherent risk factors into account). Such a requirement would be consistent with paragraph 24 of ISA 240.

7. We note that revision of ISA 330 is not part of the IAASB work plan. We believe it is vital that ISA 330 is reviewed in light of amendments to ISA 315 given the linkages between the two standards. We note that conforming amendments are proposed but do not feel these sufficiently address new concepts including 'spectrum of risk' and 'inherent risk factors'.

Scalability

8. We note that one of the objectives of the standard is to be scalable. However, we believe that this will be difficult to achieve in practice. We believe that it is important that the standard be clear that the extent of work performed can be expanded for larger or more complex entities.

Key concepts

9. In paragraphs 9 and 10, we suggest that these paragraphs include the relevant assertions in addition to the potential risks of material misstatements and significant classes of transactions.

Definitions

10. We have some concerns about the articulation of the new definition of significant risks and the link to other ISAs. In particular, given the reference to the upper end of the spectrum of inherent risk in the definition of significant risk, the distinction between the "higher assessed RMM" as referred to in ISA 701 and 'significant risks' may cause confusion. We encourage IAASB to consider the purpose of having two different concepts and if deemed necessary to have both, to clarify the difference.

Risk assessment procedures and related activities

11. Paragraph 17 requires auditors to design and a perform risk assessment procedure to obtain an understanding of the items mentioned. We believe that this is a procedural requirement and that the requirement would be better aimed at achieving a particular outcome – i.e. the requirement should be to obtain the understanding.

Risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence

12. Paragraph 51 requires the auditor to determine the risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. However, this is a general requirement that requires further clarification as to when this situation is applicable and the impact it has on the audit approach and testing operating effectiveness. In particular, for a relevant understanding and application by auditors, it appears important to maintain the reference to the situations of high volume transactions where this is the case, as stated in extant ISA 315 (routine and significant classes of transactions or account balances with highly automated processing and little or no manual intervention). Consequently, we do not support the transfer of the requirements of the extant standard to the application material paragraphs A 236 and A 237.

Revision of risk assessment

13. We believe that there should be a requirement, or reference to a requirement, to consider whether there is evidence of risks being different to the original assessment immediately prior to finalising the audit.

Comments on flowchart

14. We believe that the risks for which substantive procedures alone are insufficient should be located below the significant risk and other risk of material misstatement to avoid any interpretation that this represents a third type of risk.

15. We suggest that materiality should be assessed after the audit procedures in paragraphs 23-44 but before the audit procedures required in paragraph 45 onwards, given that the auditor will need to know the materiality in order to determine the magnitude of the inherent risk.

IT

16. Given the increased use of IT in audit, we believe it is vital that the standards provide appropriate requirements and guidance in this area, without mandating the use of IT where it is not appropriate for a given audit. We have a number of specific comments on the ED relating to IT.

17. The system of internal control as well as the financial reporting process may include relevant tools or files under the responsibility of end users. A definition of 'End User Computing' may therefore be beneficial.

18. The terms automated controls, application controls and automated application controls are used. The terminology used should be consistent and defined.

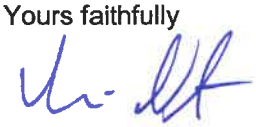
19. Paragraph A160 states that 'Such controls consist of application controls and general IT controls, both of which could be manual or automated'. We believe that this is unclear, as application controls cannot be automated.

20. Appendix 4 2 (c) 'Intrusion detection' could be extended to 'Intrusion prevention and detection' to also include preventative protection of the IT environment. The auditor should ensure that mechanisms such as firewalls are in place to protect the entity's Local Area Network.

21. Paragraph A148 and A189 may benefit from the inclusion of cloud computing, considering growing use of this technology. The auditor should identify which type of cloud computing services the client is using, to identify potential risks.

I hope that you find the comments useful. Please do not hesitate to contact me if you have any questions.

Yours faithfully



Kevin Prendergast

Chief Executive Officer