



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

29 October 2018

Mr Matt Waldron

Technical Director, International Auditing and Assurance Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, 10017 USA

Dear Matt,

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)  
EXPOSURE DRAFT, PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 315  
(REVISED), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL  
MISSTATEMENT**

The Auditing and Assurance Standards Board (AASB) of the Malaysian Institute of Accountants (MIA or the Institute) welcomes the opportunity to provide its comments on the International Auditing and Assurance Standards Board's (IAASB's) proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, and conforming and consequential amendments.

The attachment sets out our responses to the questions contained in the Exposure Draft.

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**DR. NURMAZILAH DATO' MAHZAN**

Chief Executive Officer

Our comments to the questions are as follows:

**Q1. Has ED-315 been appropriately restructured, clarified and modernized 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)?
- 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?
- c. Are the new introductory paragraphs helpful?

- a. The ED-315 is an improvement from the existing standard in terms of the overall flow and understandability of the standard. The flowcharts are helpful in illustrating the iterative nature of the standard and how the various sections of ED-315 interconnect. We would recommend the flowcharts to be included in the final standard.
- b. The revision would emphasise the need for a robust identification and assessment of risks of material misstatement and should address the relevant public concerns. Enhancements to the auditor's consideration of information technology as part of the risk assessment process are particularly relevant given today's business environment where information technology has a major impact on businesses.
- c. The 'Key Concepts in this ISA' introductory paragraphs are helpful in providing context to the standard. This section also provides auditors with an overview of the flow of risk assessment process and structure of the standard.

**Q2. 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?**

Many auditors of smaller entities often struggle to apply the standard appropriately due to their lack of understanding of the standard, which is further aggravated by the length and complexity of the standard. We recognise that the flowcharts provide a better understanding of the standard. It would be helpful for the IAASB to consider providing further examples to scalability in ED-315 such as on paragraph A106 regarding control environment relating to smaller and less complex entities and the extent of understanding appropriate in those circumstances.

Providing greater clarity around the significant judgements that should be documented together with what is envisioned as "key aspects" of the auditors' understanding would assist in the scalability of documentation.



- Q3. Do respondents 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 (see Appendix 1 for references to the relevant paragraphs in ED-315)? 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?**

We agree with the adopted approach taken in relation to automated tools and techniques. We recommend that the IAASB consider providing guidance on the need to gather an understanding of the data sources and the underlying reliability of the data sources.

We also urge the IAASB to expedite revisions to other auditing standards to acknowledge how an auditor may use automated tools and techniques, including data analytics, to obtain substantive audit evidence.

- Q4. 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?**

The proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process through the performance of risk assessment procedures. Regarding the proposed change for the auditor to obtain 'sufficient appropriate audit evidence', it should be noted that the term 'audit evidence' is defined in the Glossary of Terms as "information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information". Linking the risk assessment procedures performed to sufficient appropriate audit evidence may contradict the definition of 'audit evidence'. Accordingly, we propose to replace the term 'audit evidence' with 'information'.

- Q5. 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 or material misstatement? Specifically:**
- a. Have the requirements related 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?**
  - 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 audit of smaller and less complex entities?**



Comments (continued)

- 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?**
- a. The requirements related to the auditor's understanding of each component of the entity's system of internal control are clear, including the reason for the required understanding and how it informs the risk identification and assessment process.
- b. The inclusion of a list of controls that are relevant to the audit in paragraphs 39 to 41 are helpful. It is clarified that controls relevant to the audit are primarily direct controls and are primarily controls in the control activities component. Further, we also support the inclusion in paragraph A166 that there may be direct controls that exist in the control environment, the entity's risk assessment process or the entity's process to monitor internal control components.
- c. We support the introduction of the new IT-related concepts and definitions. The enhanced requirements and application material 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 are appropriate.

Paragraph 40(b) requires the auditor to consider whether the IT applications include or address maintenance of the integrity of information stored and processed in the information system that relates to significant classes of transactions, account balances or disclosures. 'Integrity of information' is not defined in ED-315. We recommend for ED-315 to include a definition or description of 'integrity of information' to clarify the auditor's consideration when identifying the IT applications that are relevant to the audit.

As more entities are moving towards outsourcing its IT infrastructure or cloud-based IT infrastructure, auditors may face practical difficulties in accessing information on the general IT controls, IT infrastructure or IT applications of a cloud-based service provider. Guidance in relation to the auditor's consideration for such circumstances would be useful.

In addition, it would also be useful if ED-315 can be enhanced to provide examples of IT control deficiencies that may exist and the auditor's consideration in evaluating and responding to the risk arising from those deficiencies.

**Q6. Will the proposed enhanced framework of 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?
  - 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?
  - 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, or a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatements, including significant risks?
  - d. Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, 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?
  - 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?
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- a. We support the separate assessments and consider the revised requirements and guidance to be appropriate.
  - b. We support the introduction of the concepts and definitions of 'inherent risk factors' to help identify risks of material misstatement and inherent risk assessment.
  - c. We believe the introduction of the 'spectrum of inherent risk' will drive a more consistent and focused approach to help identify and assess risks of material misstatement, including significant risks. The introduction of the concepts of likelihood of occurrence and magnitude of a possible misstatement assist in assessing the risk of misstatement.
  - d. We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions. We agree that defining significant classes of transactions, account balances and disclosures can assist the auditor's identification and responses to the risks of material misstatement. In view that there appears to be concerns that 'reasonably possible' does not equate to "more than remote" for the definition of "relevant assertions", we recommend that IAASB provide more guidance on how to assess this probability.



Comments (continued)

- e. We support the revised definition and related material on the determination of 'significant risks' in that they focus on the substantive nature of the risk itself rather than response to the risk. The use of the word 'or' and not 'and' broadens the identification of 'significant risks' for the auditor to have increased focus not only on risks of material misstatement that are 'high likelihood, high magnitude' but also 'low likelihood, high magnitude'. This has the consequence of widening the identification of significant risks thereby resulting in auditors expending additional audit effort on areas where the auditors would otherwise only perform normal audit procedures. Accordingly, we believe that auditors should have increased focus on risks for which there is both a high likelihood and high magnitude of material misstatement.

**Q7. 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?**

We consider this additional guidance useful.

**Q8. 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?**

We believe both requirements should be retained. It is an important step or stage to exercise in having an overall view of whether there is potential risk of material classes of transactions or account balances that were not scoped in earlier.

Further, it would also be helpful for IAASB to consider providing guidance to clarify the extent of audit procedures for significant and material classes of transactions, account balance or disclosure versus non-significant and material classes of transactions, account balance.

**Q9. 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)?
- 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?
- c. The other ISAs as presented in Appendix 2, are these appropriate and complete?
- d. ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to this exposure draft), are these appropriate and complete?

We agree with the proposed conforming and consequential amendments.

Comments (continued)

**Q10. Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosure that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?**

We support the proposed revisions to paragraph 18 of ISA 330.

**Q11. In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matters set out below:**

- a. ***Translations***—recognizing 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 may note in reviewing the ED-315.
  - b. ***Effective Date***—recognizing 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 the final ISA. Earlier adoption would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.
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- a. Not applicable.
  - b. As there are substantive revisions to the standard, the proposed effective date is reasonable and provides a sufficient period to support effective implementation of the final revised standard.

