INTERNATIONAL FORUM OF INDEPENDENT AUDIT REGULATORS

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BY E-MAIL ONLY

International Auditing and Assurance Standards Board
To: Prof. Arnold Schilder (Chair)
529 Fifth Avenue
New York
10017 USA
Email: a.schilder@nba.nl

Date: October 30, 2018

Subject: COMMENTS ON THE EXPOSURE DRAFT ON THE PROPOSED INTERNATIONAL STANDARD ON AUDITING 315 (REVISED)

Dear Prof. Schilder,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Auditing and Assurance Standard Board (IAASB or Board)'s exposure draft on the proposed International Standard on Auditing 315 (Revised). The members of IFIAR share the common goal of serving the public interest and enhancing investor protection by improving audit quality globally, including through the promotion of high-quality auditing and professional standards and related pronouncements and statements.

2. IFIAR's objectives are as follows:

   - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
   - Promoting collaboration and consistency in regulatory activity.
   - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
   - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.

3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation.

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4. Where we did not comment on certain specific matters this should not be interpreted as either approval or disapproval by IFIAR.

5. Identifying and assessing the risk of material misstatement is an important foundational element of a quality audit. Deficiencies in risk assessment remain a frequent inspection finding across many IFIAR members as seen in the IFIAR Survey of inspection findings in the current and prior years. Accordingly, we support efforts to make improvements to ISA 315 with the objective to improve risk assessment by auditors.

Improvements to extant ISA 315

6. As a starting point, we are encouraged by some of the improvements seen in the proposed standard that have the potential to improve the auditor's risk assessment procedures including:
   (a) Clarification that the auditor should perform a separate assessment of inherent risk and control risk.
   (b) Additional emphasis in the standard and application guidance focused on obtaining a sufficient understanding of information technology.
7. In addition to these improvements we have noted below a number of areas that we encourage the Board to consider to improve the impact of the proposed standard.

Spectrum of risks including significant risks

8. We are supportive of the Board's introduction of the concept of a spectrum of risks. To support the application of this concept, we would suggest adding a requirement in the standard (and corresponding application guidance) to assess where each risk belongs in the spectrum of risks with appropriate documentation of this assessment.
9. Paragraph 16(k) defines a significant risk as a risk where the inherent risk is close to the "upper end of the spectrum". We recommend the Board provide additional guidance to assist auditors in understanding what is meant by "upper end of the spectrum" and to clarify that "upper end of the spectrum" would not mean that risks are considered significant in only rare circumstances.

Interaction with other standards

10. ISA 330 addresses the response to assessed risk of material misstatement. We note the current project recommends only minimal changes to ISA 330. Given the significance of changes made to ISA 315, we believe it is important that the Board begin a project to review and update ISA 330 with the objective to update the standard for current developments in auditing and to consider all follow on impacts resulting from the amended ISA 315. In particular, consideration should be given to the impact of the "spectrum of risk" and "inherent risk factors" on the auditor's response.

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11. We believe that overall risk assessment (required in ISA 315) and fraud risk assessment (required in ISA 240) are most effective when performed in an integrated fashion. We recommend the Board carefully consider how the assessments required by ISA 315 and ISA 240 can be best performed in a coordinated manner to avoid either the overall risk assessment or fraud risk assessment becoming separate compliance exercises. Areas to consider include a better integrated evaluation of the fraud risk factors outlined in ISA 240 and the inherent risk factors in ISA 315 (which we noted are discussed in the definitions but are not prominent in the core of the standard in ISA 315).

Professional scepticism

12. As audit regulators we continue to note instances where professional scepticism should be improved. The exposure draft provides limited coverage of the importance of the auditor exercising professional scepticism.
13. We recommend additional consideration of where the coverage of professional scepticism can be enhanced (see ISA 240 paragraphs 12-14). This could include additional material in the "Risk assessment and Related Activities" section.

Controls relevant to the audit

14. We believe paragraph 39(e) provides important direction to the auditor in identifying those controls that are relevant to the audit. As a result we recommend moving this criterion to the beginning of the paragraph to direct the auditor to start with a broader perspective on determining the controls relevant to the audit. Further we recommend removing the phrase "in the auditor's professional judgment" from the criterion in paragraph 39 (e) because we believe that the application of professional judgement is implicit in this requirement.

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

15. We support the inclusion of a requirement for the auditor to identify the risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence (in paragraph 51), but the major characteristics of those risks (including highly automated processes) should be detailed in the requirement rather than in application material. Provisions of extant paragraph 30 of ISA 315 need to be maintained in the requirements section of ISA 315.

Automated tools / data analytics

16. The use of automated tools and emerging technologies including data analytics will likely have a significant impact on risk assessment and other audit procedures in the future. We believe the standard should include additional discussion of their use in the application guidance to support the risk assessment process.

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17. We also note that paragraph A15 indicates that procedures performed for risk assessment, including data analytics, could also be considered substantive procedures or could be performed concurrently with substantive procedures. We are concerned that this statement on its own could lead to auditors erroneously considering risk assessment procedures to have provided substantive assurance.

Scalability / impact on smaller, less complex entities

18. The application material provides significant mention of different approaches that could be taken for smaller and less complex entities. Paragraph 13 also emphasizes this approach could also be applicable to the audits of larger and less complex entities.
19. We believe additional information would be helpful in providing examples of the types of entities that would be considered smaller and less complex entities. Specifically, more guidance would help auditors to understand whether and if so, when, listed companies could be considered less complex entities.
20. We also believe the standard should state that while the standard allows scaling down the risk assessment approach for smaller and less complex entities, auditors likewise would be expected to enhance their risk assessment for particularly large or complex entities.

Should you wish to discuss any of our comments, please do not hesitate to contact me or Marjolein Doblado, Chair of the IFIAR Standards Coordination Working Group.

Yours Faithfully,

Brian Hunt
IFIAR Chair

Cc: Frank Schneider, Vice Chair,
Marjolein Doblado, SCWG Chair,
Carl Renner, Executive Director