

November 13, 2018  
Ref.: SEC/096/18 - DN

International Auditing and Assurance Standards Board (**IAASB**)  
545 Fifth Avenue, 14th Floor  
New York, NY 10017  
USA

**Re.: ED ISA 315**

Dear Sirs,

We, Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the Exposure Draft of the Proposed International Standard on Auditing 315 (Revised). See our comments below.

**Question 1**

1. 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)?

*The overall requirements seem reasonable as it provides a more robust framework to perform the risk assessment of an entity. Our concern is that the complexity of the standard may result in a poor understanding of the requirements by auditors, and the quality of risk assessment may not improve due to the confusion caused by the standard. Without the flowcharts, it would be very difficult to understand the changes in the requirements fully. Thus, they should be included as appendices in the standard.*

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?

*Yes. However, due to the reasons mentioned in 'a' above, our concern is that the changes might cause inconsistencies in the risk assessment process.*

c. Are the new introductory paragraphs helpful?

*Yes, but the authority of these paragraphs can be questioned or might not be clear. So, we would suggest including references to the paragraphs in the standard that relates to the subject in each introductory paragraph.*

**Question 2**

2. 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?

*We recognize the efforts in incorporating the scalability throughout the standard. The number of paragraphs mentioning 'smaller and less complex entities' increased significantly, which is always*

*helpful to clarify the issues for these kind of entities. However, we are concerned that the overall length and complexity of the standard are barriers to its scalable application and we believe that additional non-authoritative guidance for smaller and less complex entities to support the implementation of ED-315 consistent with the IAASB's project proposal should be provided.*

**Question 3**

3. 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?

*Yes, we are supportive to the use of the term 'automated tools and techniques' to reflect a continually evolving environment. Recognising and embracing the opportunities that technology can bring to an audit of financial statements is critical to maintaining the relevance of the profession and driving audit quality in the future. However, making reference only to data analytics can be prejudicial in limiting further emerging technologies, such as artificial intelligence, drones, data mining etc. Thus, we suggest including just as examples in the application material.*

**Question 4**

4. 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?

*We are of the view that it is an appropriate approach to dealing with professional skepticism and reinforce the importance attached to the robust understanding of the entity. In relation to the use of the term 'sufficient appropriate audit evidence', we believe that the use of the word 'appropriate' is enough to cover the concept of sufficiency. However, it would not be an issue to keep this term considering that it is already used by auditors in practice.*

**Question 5**

5. 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?

*Yes. We support the requirements in relation to the understanding of the system of internal control in driving the nature and extent of the work effort required.*

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?

*Further guidance might be helpful on determining the controls relevant to the audit. For audit of smaller and less complex entities, we do not see any changes in the current audit approach, as it is already required to perform the understanding and evaluating of the D&I of controls relevant to the audit.*

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?

*The new requirements are helpful and reflect the fundamental importance of IT to financial reporting.*

**Question 6**

6. 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?

*Yes. The flowcharts are needed to facilitate the understanding of 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?

*We support the concepts and definitions of IRFs as it is already required in ISA 540 (Revised). However, there might have an overlap in definitions of IRFs and, if a separate consideration of each IRF is required, we struggle to be able to separately evaluate the impact of each one. Also, we understand that management bias and fraud should not be considered IRFs as they are a 'result' of the analysis of the other IRFs: complexity, subjectivity, change and uncertainty to each significant class of transactions, account balance and disclosure (SCOTABD).*

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?

*Using a spectrum of inherent risk will lead to risk assessments that better identify the reasons underlying inherent risk and enable auditors to design their responses more appropriately. It could lead to an improved outcome as it is more likely to reflect the reality of the entity aligned with the determination of RMM or SRMM.*

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?

*The concept of relevant assertions emphasize that the audit approach should be risk based. However, the complexity of the interaction of the proposed definitions of "relevant assertion" and SCOTABD and their relationship with the risk assessment requirements is not clear. In addition, the definition of a reasonable possibility of occurrence being 'more than remote' may lead to misinterpretation or may lead to more relevant assertions and FSAs being scoped in. So, more guidance may be necessary in determining what is considered 'more than remote' or even exclude this definition in the context of defining relevant assertions.*

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?

*The focus of the spectrum in 'likelihood or magnitude' should be changed to 'likelihood and magnitude', because auditors may struggle to understand the different application of each one and if both of the conditions need to exist in order to determine that there is an SRMM.*

**Question 7**

7. 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?

*The requirement to assess financial statement level risks is appropriate. However, more clarity is required in how to perform the assessment as it can be different from the assessment at an assertion level. We also support the focus on and clearer linkage between control deficiencies identified in the system of internal control and the implications for the audit in terms of designing and implementing overall responses.*

**Question 8**

8. 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 that a requirement for a stand-back procedure is not necessary because the risk assessment is an iterative process for which revisions are usually expected and performed during the course of the audit. Considering this, no changes are needed in paragraph 18 of ISA 330. If the requirement remains appropriate in IAASB's view, it is not clear what additional documentation should be prepared to demonstrate that.*

**Question 9**

9. 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)?

Yes.

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?

*Yes, except what is mentioned in question 8.*

c. The other ISAs as presented in Appendix 2, are these appropriate and complete?

Yes.

d. ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to this exposure draft), are these appropriate and complete?

Yes.

**Question 10**

10. 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 do not support the proposed revisions, except for the revision of paragraph 18. Please refer to response in question 8.*

**Question 11**

11. 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.

*Nothing to comment regarding translations issues.*

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.

*We support an effective date of periods beginning on or after 15 December 2020, on the assumption that the Board approves the revised ISA until June 2019 and that the usual ability to early adoption is maintained.*

Best Regards,



**Francisco A. M. Sant'Anna**  
President



**Rogério Hernandez Garcia**  
Technical Director