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Dear Sir/Madam

ICAZ SUBMISSION ON:- Proposed International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs

In response to your request for comments: **Proposed International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs**: attached is the comment letter prepared by the Institute of Chartered Accountants of Zimbabwe. The comment letter is a result of deliberations of the Auditing and Professional Standards Committee (APSC), which comprises members from reporting organisations, regulators, auditors and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

M Debeer
Chairperson of the APSC

Cleopatra Woneyika
Project Director

Cc: Matthews Kunaka (ICAZ C.E.O)

Comment letter on exposure draft: Proposed International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs

Overall questions

1. Has ED-315 been appropriately restructured, clarified and modernised in order to promote a more consistent and robust process for the identification and assessment of the risk 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 are they iterative in nature)?**

Yes. The consideration of IT and data analytics assists in ensuring that the risk assessment process is robust and up to date with trends emerging in the market currently. This enhances the basis upon which auditors design and perform audit procedures that are responsive to the risks of material misstatement, leading to the attainment of sufficient appropriate audit evidence.

The flowcharts are useful in the understanding of the risk identification and assessment process. The risk identification and assessment processes are iterative in nature from the gathering process and analysing of information.
 - 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 .

The issues have been addressed due to its scalability considerations. The proposed revisions to enhance the specific considerations relevant to audits of public sector entities will go a long way in addressing and protecting public interests.
 - c. **Are the new introductory paragraphs helpful?**

Yes,

These are helpful as they provide useful guidance on the application material for risk assessment processes. They also help clarify what is meant to be iterative and dynamic. This should help with regards to understanding of the standard on the part of the users even before they dig into the deeper more specific concepts.
2. **Are the requirements and application material of ED-315 sufficiently scalable, including the ability to apply ED-315 to audits of entities with a wide range of sizes, complexities and circumstances?**

Yes, the requirements are scalable and the application guidance which will be for audits of smaller entities which are also less complex, should help the auditor to further scale the standard from the application of more complex and larger audits

- 3. Do respondents agree with the approach taken to enhancing ED-315 in relation to automated tools and techniques, including data analytics, through 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

With the evolution of technology globally and impact on financial reporting and controls this moves auditing to an advanced level and places a further expectation on the part of the auditor. The IAASB does need to ensure that the examples cover a wide array of scenarios in which automated tools are used covering different industries.

There were no other areas that require further guidance in relation to automated tools and techniques were noted.

- 4. Do the proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and risk 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?**

Yes

In order to deliver due care in an audit, there is need for that critical assessment in gathering audit evidence and a questioning mind. With this in mind, ED-315 has proposed for the emphasizing the importance of exercising professional skepticism in the introductory paragraphs.

We support the proposed changes regarding the use of risk assessment procedures to provide evidence which then serves as the basis for the identification and assessment of risks of material misstatement.

Specific Questions

- 5. Do the proposals made relating to the auditor's understanding of the entity's system of internal control assist with the understanding the nature and extend of work effort required and the relationship of the work effort to the identification and assessment of the risks of 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.**

The requirements related to the auditor's understanding of each component of the entity's system of internal control have been clarified by the flow charts. The five components of the system of internal control process have been identified and guidance has been provided in the flow chart.

- 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 audits of smaller and less complex entities?**

Yes

The flow chart clearly gives guidance on what to do, which includes among others the identification of risks of material misstatements at the financial statements level.

- 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?**

Yes, the IT -related concepts and definitions are useful in the auditor's understanding of the IT environment. The auditor can sceptically identify risks (what can go wrong) within the internal control environment and perform risk assessment effectively.

- 6. Will the proposed enhanced framework for 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 separate assessments of inherent and control risk at assertion level are useful in the risk assessment process and the guidance provided is appropriate as ISA 330 requires the separate assessment of inherent risk and control risk.

- 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?**

Yes

The introduction of the concepts and definitions of inherent risk are helpful and provide necessary guidance, given that the same concepts are to be applied to both private and public sector entities.

- c) In your view, will the introduction of the 'spectrum of inherent risk'(and related concepts of assessing the likelihood of occurrence, and magnitude of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks?**

Yes

The new proposal provides guidance on how the degree to which inherent risk varies, creating a framework for auditors to refer to at any point in time.

- 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 guidance on how relevant assertions are identified is appropriate and all requirements are complied with and the auditor clearly understands the client's internal control based on the assessed risks. When guidance is provided, the expectations from the auditor are clear in the risk assessment process.

- 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?**

Yes

The new definition will include additional risks that were once scoped out due to the definition. By inclusion of the term spectrum in the definition, the likelihood of occurrence and magnitude is also considered in coming up with a significant risk.

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 assertion level?**

Yes

The guidance provided in the application material is appropriate especially given the pervasive nature of risks at financial statements level which have more than one assertion affected.

8. **What are your views about the proposed stand-back requirement in paragraph 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 both requirements should be retained because they complement each other. Requirements of ED-315 further enhances risk assessment procedures and ISA 330 safeguards against imperfect risk identification.

Conforming and Consequential Amendments

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,

The new sections that are to be added will help to explain the purpose of the auditor's assessment and identification of risks of material misstatement. This is appropriate in reflecting the corresponding changes.

- 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,

As a result of changes in the risk assessment process, it is vital that the responses also change and encompass professional scepticism.

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

Yes, they are appropriate and complete. The key standards which are affected are mentioned.

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

Yes. They highlight important amendments regarding the auditing of estimates including fair value estimates and related disclosures. This is a fairly risky area and as such the amendments are appropriate.

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

Yes, we support the proposed revisions to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315. This provides coverage of all the sections to be audited

11. General Comments

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 note in reviewing the ED – 315

None Noted

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 a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Appropriate effective date for financial reporting periods beginning at least 18 months after the approval of a final ISA is sufficient to allow for due process. It should allow auditors to train personnel and make the necessary methodology amendments.