



Crowe Global
488 Madison Avenue, Suite 1200
New York
NY 10022-5734
USA
+1.212.808.2000
+1.212.808.2020 Fax
www.crowe.com/global
david.chitty@crowe.org

2 November 2018

Professional Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
NY 10017
USA

Dear Professor Schilder

Proposed International Standard on Auditing 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*

Crowe Global welcomes the opportunity to comment on the Exposure Draft for Proposed International Standard on Auditing 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement*. Crowe Global is a leading global network of audit and advisory firms, with members in some 130 countries.

We broadly agree with the approach proposed in the Exposure Draft. A revision of ISA 315 has long been needed and we welcome IAASB's efforts to improve the content of the standard. This in term should help the delivery of quality audits that serve the public interest.

Our responses to the questions in the Explanatory Memorandum are given in the Appendix to this letter. We particularly draw attention to the following:

- The flowcharts are helpful;
- We welcome the efforts to address scalability. It is important that IAASB effectively communicates the efforts to help with the delivery of "audits of smaller and less complex entities" when the time comes to implement the standard;
- We are pleased to the adoption of the term "automated tools and techniques" and the recognition in the Exposure Draft of the impact of change in technology on the approach to the audit;
- The tables in Appendix 1 to the Explanatory Memorandum are very helpful and ought to be used as the basis for development for support materials to assist the implementation of the issued standard; and
- We agree with the new definition of "significant risk".

We trust that our comments assist the IAASB in its standard setting activities and we look forward to the progression to an issued standard. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive, flowing style.

David Chitty
International Accounting and Audit Director

Appendix – Responses to Request for Comments

Question	Response
<p>Overall Questions</p>	
<p>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:</p> <p>(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)?</p> <p>(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?</p> <p>(c) Are the new introductory paragraphs helpful?</p>	<p>We welcome the revised presentation of ISA 315, and generally consider that the Exposure Draft has achieved IAASB’s specified objectives.</p> <p>The proposed changes help with the understandability of the risk identification and assessment process. The process is clearer and is likely to be enhanced through the modernisation of the language, definitions and approach.</p> <p>The flowcharts are helpful.</p> <p>The risk identification and assessment process should be improved.</p> <p>The public interest issues are addressed.</p> <p>Yes. These are a very clear summary of the approach of the standard.</p>
<p>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?</p>	<p>We welcome the efforts to address scalability. We note that “considerations applicable to smaller entities” have been removed and that IAASB has adopted a new approach to the presentation of material relevant to “audits of smaller and less complex entities”. If IAASB is committed to retaining this format for the final standard then it is important that IAASB gives prominence to this change in style to avoid any misunderstanding. The table in Appendix 1 to the</p>

	Explanatory Memorandum is helpful and could be appended to the issued standard.
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?	<p>We agree with the adoption of the term “automated tools and techniques”. The development of new audit applications is changing the way that audit is conducted, and further rapid change can be envisaged. Whatever applications are applied, it is critical that audit fundamentals are respected.</p> <p>Taking account of this, we welcome the table in Appendix 1. It is important that the standard illustrates how applications can be used to support the application of the fundamentals of the standard. That said, as IAASB formed a data analytics group in 2015, we might have expected the content of this table to be more extensive. We recommend that after the comment period closes, IAASB takes the opportunity to discuss with auditors how applications are currently being applied to enable the examples in the final standard to be more extensive and reflective of how auditors are working at the time the standard is issued.</p>
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?	<p>The proposals do sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process. The table in Appendix 1 in the Explanatory Memorandum is helpful, and could be developed into support material to help auditors with their implementation of the standard.</p> <p>Obtaining “sufficient appropriate audit evidence” makes sense and provides a clear objective for process. This should encourage the exercise of professional skepticism and enhancement of audit quality.</p>

Specific Questions	
<p>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:</p> <p>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?</p> <p>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?</p> <p>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</p>	<p>The section on the auditor's understanding of the entity's system of internal control appears to be much improved.</p> <p>The requirements are clear and are effectively supported by the paragraphs that explain how auditors use the information obtained about the five components in the risk assessment process.</p> <p>The requirements related to "controls relevant to the audit" are clearly presented.</p> <p>There is an area where more application guidance is needed to help with applying the requirements of the standard to audits of smaller and less complex entities. "Controls relevant to the audit" are becoming more important on these engagements because of advances in technology and expectations driven by developments such as tax digitalisation. Whilst IAASB's forthcoming project on the audit of SMEs might help in this year, IAASB ought to expand this section to more fully show that there are "controls relevant" on smaller and less complex audits.</p> <p>We support these improvements and they should improve the application of the standard.</p>

material misstatement?	
<p>5) Will the proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment?</p> <p>Specifically:</p> <p>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'?</p> <p>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?</p> <p>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, of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks?</p> <p>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</p>	<p>We note the efforts that IAASB has made to improve the part of the standard that addresses identifying and addressing the risks of material misstatement. We consider that the result should be a more effective risk assessment.</p> <p>We support separate assessments of inherent risk and control risk at the assertion level.</p> <p>The revised requirements and guidance are appropriate.</p> <p>We support the introduction of the concepts and definitions of "inherent risk factors". This is a good development that is properly supported in the application guidance.</p> <p>The inclusion of the "spectrum of inherent risk" is logical and helpful. This will help with the practical application of risk assessment concepts. It also helps reconcile the standards to "small, medium, high" language that is often used in proprietary audit solutions. However, IAASB should reflect on the practical implications of implementing the "spectrum" approach. Guidance ought to be developed to assist with the development of practical audit solution and to avoid the unintended consequence of crude solutions being developed that are too simplistic or shortcuts.</p>

<p>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?</p> <p>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?</p>	<p>We support the introduction of these new concepts and definitions. The guidance is sufficient, but has to be supplemented with case studies and other materials after the standard has to be published.</p> <p>The new definition of “significant risk” is an important improvement that will help auditors apply the standard. We agree with the connection that has been given between a significant risk and the spectrum.</p>
<p>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?</p>	<p>The additional guidance is welcome and practical, and will assist the application of the standard.</p>
<p>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?</p>	<p>We agree with taking a “stand back” approach that evaluates the completeness of the risk assessment.</p>

Conforming and Consequential Amendments	
<p>9) With respect to the proposed conforming and consequential amendments to:</p> <ul style="list-style-type: none"> 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? 	<p>We agree with the conforming and consequential amendments.</p>
<p>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?</p>	<p>We agree with this proposed agreement, as we agree with the proposed stand-back in ED-315.</p>
Request for General Comments	

11) In addition to the requests for specific comments above, the IAASB is also seeking comments on the 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 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 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.

We have no translation issues.

We agree with the proposal regarding the effective date of the standard.

IAASB outreach about the implementation of the standard during this period is essential.