

November 1, 2018

The IAASB Task Force Chairman  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5<sup>th</sup> Avenue, 6<sup>th</sup> Floor  
New York  
New York 10017  
United States of America

Via Online Submission

Dear Ms Fiona Campbell

**COMMENTS ON IAASB 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**

We thank you for the opportunity to comment on IAASB 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*.

In this regard, we are pleased to attach the Institute's comments as set out in Appendix I for your consideration.

Please do not hesitate to contact the undersigned or the Institute's Senior Technical Manager, Ms Hoh Kim Hyan, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully



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Chief Executive Officer

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**International Auditing and Assurance Standards Board**

**Proposed International Standard on Auditing (ISA) 315 (Revised),  
*Identifying and Assessing the Risks of Material Misstatement and Proposed  
 Consequential and Conforming Amendments to Other ISAs***

**Questionnaire**

The IAASB welcomes comments on the clarity, understandability and practicality of application of the requirements and related application material of ED-315. In this regard, comments will be most helpful if they are identified with specific aspects of ED-315 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestion for improvement.

**Overall Questions**

**Question 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)?
- (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?

**MICPA's Comments:**

- (a) Flowcharts, by their nature, do communicate effectively in most, if not all, cases and it is no different for ED-315. Hence, MICPA finds the three (3) flowcharts very helpful and the IAASB should consider incorporating those charts in the final standard by way of appendices perhaps. However, the issuance of the flow charts and the need to include them to improve the understandability of the standard is itself indicative that the standard is complex.
- (b) With more elaboration and clarification, MICPA believes the revisions should be able to promote a more robust process for the identification and assessment of the risks of material misstatement.
- (c) Yes, MICPA finds the new introductory paragraphs helpful indeed as they set the scene upfront on what to expect from ED-315 and the context of the standard.

In this regard, the Institute is of the view that ED-315 has been appropriately restructured, clarified and modernized in most parts to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement particularly with respect to the understanding of the entity's IT environment and related GITCs to better reflect the increasing use of technology.

## Questions 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?

### **MICPA's Comments:**

MICPA understands that, as in most other ISAs, ED-315 is principle-based and has provided a robust framework in understanding the entity's business and system of internal control.

However, there is a concern whether the detailed requirements may imply a rigid approach to the application of the framework as it is not clear in the standard where the auditor could do less and under which circumstances doing less is appropriate. This is particularly in 'smaller and less complex' audits, the planned audit approach would be significantly substantive in nature with no or little reliance on controls. Accordingly, more guidance and greater clarity on what may be appropriate under these circumstances will greatly improve the scalability and practical application of this standard to audits of a wide range of sizes, complexities and circumstances.

## Questions 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?

### **MICPA's Comments:**

Yes, the Institute welcomes the inclusion of guidance, through the use of examples, on the use of automated tools and techniques, a term which is broader than mere "data analytics".

ED-315 does not require auditors to use automated tools and techniques. However, if they choose to do so the examples provided in the application material should suffice to guide accordingly.

## Questions 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'<sup>1</sup> 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?

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<sup>1</sup> See paragraph 27 of this Explanatory Memorandum and paragraph 17 of ED-315

### **MICPA's Comments:**

Being principle-based, professional judgement is required in applying the various aspects of ED-315 which in turn requires the exercise of professional skepticism.

In this regard, there appears to be sufficient emphasis on the exercise of professional skepticism throughout the risk identification and assessment process which we are supportive of.

In relation to the proposed change in Para 17 for the auditor to obtain "sufficient, appropriate audit evidence", we are of the view linking the risk assessments procedures performed to the concept of sufficient appropriate audit evidence is not appropriate. The standard needs to be explicit in defining the threshold or how much evidence is enough in the procedures the auditors must perform to have obtained sufficient appropriate audit evidence to avoid differing interpretation.

## **Specific Questions**

### **Questions 5**

Do the proposals made relating to the auditor's understanding of the entity's system of internal control to 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<sup>2</sup> 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?
- (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?

### **MICPA's Comments:**

(a) Yes, the requirements related to the auditor's understanding of each component of the entity's system of internal control have been appropriately enhanced and clarified. It is clear why the understanding is obtained and how this informs the risk identification and assessment process.

(b) The requirements related to the auditor's identification of controls relevant to the audit have been appropriately enhanced and clarified. However, as indicated in our response to Question 2, we are concerned about the scalability of this standard when applied to smaller or less complex audits in particular when the auditor does not plan to

<sup>2</sup> ED-315, paragraphs 39-40 and paragraphs 37-40 of the Explanatory Memorandum

obtain audit evidence from evaluating the design and operating effectiveness of the controls. This may have significant cost implications in performing such audits.

- (c) Yes, MICPA supports the introduction of the new IT-related concepts and definitions as that would help auditors to better appreciate the issues relating to an IT environment which is evolving at a fast pace. And 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 are 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.

Overall, the proposals made relating to the auditor's understanding of the entity's system of internal control, as set out in Para 25-44, do 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. The usefulness of the guidance materials could be enhanced if examples of the nature and extent of the understanding of the system of internal control for smaller entities with less sophisticated IT systems and informal documentation around the system of internal control can be provided.

## Questions 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?<sup>3</sup>
- (b) Do you support the introduction of the concepts and definitions of "inherent risk factors"<sup>4</sup> 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, of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, 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),<sup>5</sup> and how they assist the auditor in identifying where risks of material misstatement exist?
- (e) Do you support the revised definition,<sup>6</sup> 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?

<sup>3</sup> Paragraphs 45-50 and A201-A235 of ED-315

<sup>4</sup> See paragraph 48 of this Explanatory Memorandum and paragraphs 16(f), A5-A6 and A83-A88 of ED-315

<sup>5</sup> See footnote 26 of this Explanatory Memorandum

<sup>6</sup> Paragraphs 16(k) and A10, and A229-A231, of ED-315

**MICPA's Comments:**

- (a) Yes, MICPA supports separate assessments of inherent and control risk at the assertion level based on the rationale spelt out in the Explanatory Memorandum and agrees that the revised requirements and guidance are appropriate to support the separate assessments.
- (b) Yes, MICPA supports the introduction of the concepts and definitions of “inherent risk factors” to help identify risks of material misstatement and assess inherent risk as that would align with ISA 540 (Revised). The guidance to explain how these risk factors are used in the auditor’s risk assessment process is reasonably comprehensive.
- (c) Introduction of any new term will invariably require some time for auditors to be familiar with and apply, hence time will tell if the introduction of the “spectrum of inherent risk” (and the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement) will assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks.
- (d) Yes, MICPA supports the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions and opines that there is sufficient guidance to explain how they are determined and how they assist the auditor in identifying where risks of material misstatement exist.
- (e) We do not support the revised definition of “significant risks”, which is defined by reference to likelihood or magnitude. Under the revised definition, it would be implied that any material balance (say a significant PPE) on the financial statements would be in the upper end of the spectrum of inherent risk simply because if the balance is misstated, the financial statements could be materially misstated notwithstanding that the risk of misstatement of that balance is remote or low. This would inevitably scope in more ‘significant risks’ which will result in greater audit efforts to dispose of such risks

**Questions 7**

Do you support the additional guidance in relation to the auditor’s assessment of risks of material misstatement at the financial statement level,<sup>7</sup> including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

**MICPA's Comments:**

We support the additional guidance which would be useful 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.

<sup>7</sup> ED-315, paragraphs 47 and A215-A220

## Questions 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?

### **MICPA's Comments:**

The proposed stand-back requirement in Para 52 serves as a reminder to auditors to take a step back to evaluate whether their conclusions about significant classes of transactions, account balances or disclosures in accordance with Para 46 remain appropriate and not miss out on any significant classes of transactions, account balances or disclosures which may lead to a possible incorrect risk assessment of material misstatements.

In this regard, MICPA believes Para 52 and revision to Para 18 of ISA 330 should be retained.

## Conforming and Consequential Amendments

### Questions 9

With respect to the proposed conforming and consequential amendments to:

- (a) ISA 200<sup>8</sup> 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),<sup>9</sup> are these appropriate and complete?

### **MICPA's Comments:**

Generally, MICPA notes that the proposed conforming and consequential amendments are appropriate.

### Questions 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?

### **MICPA's Comments:**

Yes, as per our response to Question 8, MICPA supports the proposed revisions to Para 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.

<sup>8</sup> Conforming amendments to ISA 200, paragraph A42 will be presented with the conforming amendments to ISA 540 (Revised)

<sup>9</sup> To be published in late July 2018

## Request for General Comments

### Questions 11

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

- (a) Translations – recognising 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 – recognising 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.

#### **MICPA's Comments:**

- (a) No comment
- (b) The proposed effective date for the standard to be applied for financial reporting periods beginning at least 18 months after the approval of a final ISA appears reasonable.