



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

November 2, 2018

International Auditing and Assurance Standards Board

529 Fifth Avenue  
New York, New York 10017  
UNITED STATES OF AMERICA

Re: Exposure Draft – Proposed International Standard on Auditing 315 (Revised)

Thank you for the opportunity to provide feedback on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

Our response to the specific questions posed in the Exposure Draft is provided below.

Sincerely,

A handwritten signature in black ink that reads 'Stuart Barr'.

Stuart Barr, CPA, CMA  
Assistant Auditor General

cc. Johanna Field, CPA, CA  
Principal, Auditing and Assurance Standards Board  
Auditing and Assurance Standards Board

Question 1

- a) Yes, we find the proposed standard has been appropriately modernized and important improvements to clarity have been achieved. Proposed changes and resulting flowcharts are helpful in understanding the risk identification and assessment process.

Further improvements to the understandability of the proposed standard could be made. Specifically, requirements to identify relevant assertions (which are those assertions where the likelihood of material misstatement is more than remote) appear to unnecessarily complicate the basic risk assessment process. An alternative approach would define relevant assertions as assertions related to classes of transactions, account balances or disclosure that are quantitatively or qualitatively material. This approach would, in our view, simplify the standard and result in more consistent understanding of the requirements and application in practice.

We would caution against including “policies” within the definition of controls in the context of this standard as policies are statements of what should or should not be done, but are not actions to achieve control objectives. It is unlikely a policy could be concluded to be a control relevant to the audit.

- b) Yes, we believe the revisions to the standard will promote a more robust process for the identification and assessment of the risks of material misstatement addressing the public interest issues outlined in paragraphs 6-28.

- c) Yes, new introductory paragraphs are helpful in introducing the key concepts in this ISA. We would suggest the Board consider whether it would also be helpful to present the audit risk formula to reinforce the basic concept.

Question 2 – Yes, we believe the requirements and application material to be sufficiently scalable and wish to acknowledge the presence of relevant public sector considerations throughout the standard.

Question 3 – Yes, we found the references to automated tools and techniques, including data analytics, appropriate and relevant. Other areas where automated tools and techniques are used in audit is in understanding and evaluating the design of general IT controls.

Question 4 – Yes, we believe professional skepticism is adequately addressed.

However, we do not support the proposed change for the auditor to obtain “sufficient appropriate audit evidence” through the performance of risk assessment procedures. ED paragraph 17 properly states that risk assessment procedures, by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion. Therefore, we find it unnecessary and potentially confusing to refer to sufficient appropriate audit evidence as an outcome of risk assessment.

#### Question 5

- a) Yes, the requirements related to the auditor's understanding of each component of the entity's system of internal control are clear with the exception of paragraph 36 which states the auditor "shall evaluate the design of the information system controls relevant to financial reporting".

This requirements appears to introduce a need to evaluate control design as part of gaining an understanding of the information system controls. Design and implementation is evaluated for controls identified as relevant to the audit in accordance with paragraph 42. In our view, the reference to design evaluation in paragraph 36 is not clear given it is the same terminology (design evaluation) expressed in paragraph 42. We would suggest further clarifying the requirements of paragraph 36.

- b) Yes, the requirements related to the auditor's identification of controls relevant to the audit have been appropriately enhanced and clarified, with the exception noted in our response to question 5a) above. It is clear how controls relevant to the audit are identified, regardless of the type of entity subject to audit.
- c) Yes, we support the new IT-related concepts and definitions. The enhanced requirements 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.

We suggest the following further improvements:

- The enhanced application guidance found in Appendix 4 – Considerations for Understanding General IT Controls of the proposed standard offers only introductory level insight as to the matters the auditor may consider in understanding general IT controls – additional guidance would be helpful.
- The definition of General IT Controls could explicitly state these controls are indirect in nature, as confirmed by paragraph A197.

#### Question 6

- a) Yes, we support the separation of the assessments of inherent and control risk at the assertion level and believe this will improve the quality of risk assessments and planned audit approaches. We found the revised requirements and guidance appropriately supportive of this change.
- b) Yes, we are supportive of the concepts and definitions provided for inherent risk factors. The guidance as to their use is sufficient.
- c) No. In our view, the introduction of the "spectrum of inherent risk" will not result in consistency due to the extensive use of professional judgment in performing and concluding on risk assessment activities.

- d) Yes, we are supportive of the new concepts and related definitions and we believe the guidance is sufficient to explain the concepts.

As noted in our response to question 1a) above, the approach could be simplified.

- e) Yes, we support the revised definition and related material on the determination of significant risk. Given the degree of professional judgment involved in concluding where on the spectrum of inherent risk an assertion should be assessed, we feel the definition of significant risk provides the latitude necessary to properly conclude.

Question 7 – Yes, in our view, additional guidance and examples of risks of material misstatement at the financial statement level would improve the auditors understanding of how to meet the requirements expressed in paragraph 47 to identify and assess risks at the financial statement level.

Question 8 – In our view, the stand-back provisions set out in paragraph 52 would not be required in a simplified standard as proposed in our response to Question 1a). Given the construct of the standard as set out in the Exposure Draft, a stand-back provision becomes necessary. ISA 330.18 ensures each material class of transaction, account balance, and disclosure is subject to at least some form of substantive procedure irrespective of risk assessment and should be retained.

Question 9

- a) We have no comments concerning conforming amendments identified for ISA 200. Conforming amendments to ISA 240.44 could be simplified by modifying paragraph c) since the auditor is required by ISA.27 to identify controls that address material misstatements due to fraud as relevant to the audit. Paragraph 44c) could read “Controls identified to address risks of material misstatement due to fraud.”
- b) We have no comments concerning conforming amendments identified for ISA 330.
- c) Other ISA conforming amendments - We have no comments concerning other conforming amendments.
- d) ISA 540 conforming amendments - We have no comments concerning conforming amendments identified for ISA 540.

Question 10 – Yes, we support the proposed revisions to ISA 330.18.

Question 11

- a) Translation – The proposed standard refers to significant classes of transactions, account balances and disclosures as distinct from material classes of transactions, account balances and disclosures. We wish to point out the French translation of material is “significatif”. This may

impact the choice of English terminology in order to allow sufficient distinction of concepts in French translations of the final ISA.

- b) We believe the proposed effective date of financial reporting periods beginning at least 18 months after the approval of the final ISA appropriately reflects the significance of revisions being proposed.