

(NBAA)

THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS

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Date: 2nd November, 2018

Chief Executive Officer,
International Federation of Accountants,
International Auditing and Assurance Standards Board,
529 5th Avenue
New York, New York 10017.

Dear Sir/Madam

RE: COMMENTS ON EXPOSURE DRAFT ON ISA 315 (REVISED).

Refer to the heading above.

NBAA as the PAO responsible for the professional training, development and regulation of the accountancy profession in Tanzania and as the member board of the International Federation of Accountants welcomes the opportunity to provide you with our comments on the Exposure Draft no. 64 on Leases.

In principle, we are supportive of all the requirements in the Exposure Draft. However, after going through it we came up with the following critical insights which we think can add value to ISA 315 (Revised).

Overall Questions

1. ED-315 is appropriately structured, clarified and modernized to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement.

Our suggestions:

(i) **Methods**

With respect to the method, we recommend that the auditor's further audit procedures should also address whether the source from which the method has been obtained is a reliable source.

(ii) **Significant assumptions**

With respect to significant assumptions, we recommend that the auditor's further audit should also address whether the significant assumptions provide an

appropriate reflection of the internal and external situations and conditions existing or expected to be existing.

(iii) **Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty**

We recommend that the auditor's further audit procedures should also address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to analyze the magnitude of discrepancies due to estimation uncertainty.

2. Scalability

The requirements and application material of ED-315 scalable, including the ability to apply ED-315 to the audits of entities with a wide range of sizes, complexities and circumstances.

Our Suggestion

We think there is a need at least to explain in the application guide, the most used estimation models which are currently prevailing in the environment of entities with complex and numerous transactions

3. We 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)?

Our Suggestion

Best Estimate

The best estimate should also be considered in relation to the inherent risk factors in the context of accounting estimates, as well guidance should be provided on the suitable characteristics to be reflected by the best estimates.

4. We agree with the proposals and thus they sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process, we also 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, we as well believe this clarification will further encourage professional skepticism

5. Auditor's understanding of the entity's system of internal control

- (a) 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 and it is also clear why the understanding is obtained and how this informs the risk identification and assessment process.

(b) **Our Suggestion**

We recommend to put examples of relevant controls to the audit for smaller and less complex size of operations.

- (c) We support the introduction of the new IT-related concepts and definitions and also 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 effect of the entity's use of IT on the identification and assessment of the risks of material misstatements.

6. The proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment,
 - (a) We support separate assessments of inherent and control risk.
 - (b) We support the introduction of concepts and definitions of 'inherent risk factors' to help identify risks of material misstatement and assess inherent risk as well there is sufficient guidance to explain how these risk factors are used in the auditor's risk assessment process
 - (c) We agree that 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) We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.
 - (e) **Our Suggestion**
The definition of significant risk should reflect the risk prioritized from (High Occurrence/High Magnitude) to (Low Occurrence/Low Magnitude).
7. 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 are helpful
8. 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 be retained because they indirectly help insisting the application of the concept of professional skepticism

Conforming and consequential amendments

- 9: With respect to the proposed conforming and consequential amendments to:
 - (a) ISA 200 and ISA 240, are appropriate to reflect the corresponding changes made in ISA 315 (Revised)
 - (b) ISA 330, the changes are 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, they are appropriate and complete
 - (d) ISA 540 (Revised) and related conforming amendments (as presented in the supplement to this exposure draft), they are appropriate and complete?

10: We 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

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

Our Suggestion

Translation should be allowed but the context should not be interpolated

(b) Effective Date

Our Suggestion

The effective date should at least be 24 months after the approval to ensure availability of adequate time period for auditors to get familiar with a number of new proposed requirements. Earlier adoption should be permitted and encouraged.

If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,



CPA Angyelile V. Tende

For: EXECUTIVE DIRECTOR