

November 2nd, 2018

International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Subject: *Request for comments – Exposure Draft on Identifying and assessing the risks of material misstatement (ED-315)*

To the Members of the International Auditing and Assurance Standards Board (IAASB),

You will find attached my Office's comments to the IAASB regarding the *Request for comments in the Exposure Draft on Identifying and assessing the risks of material misstatement*.

As a legislative auditor, the Auditor general of the Ville de Montréal assists the City Council in the execution of its governance duties by keeping it updated on the diligent and optimal use of public funds by Municipal Administration.

Please take note that we only provided answers to some of the questions, as per our expertise.

I thank you for the opportunity provided to us to comment this Exposure Draft.



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MG/dds

**COMMENTS OF THE AUDITOR GENERAL OF THE VILLE DE MONTRÉAL –
EXPOSURE DRAFT ON IDENTIFYING AND ASSESSING THE RISKS OF
MATERIAL MISSTATEMENT (ED-315)**

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)?

The notion of control risk not taken into account in the definition of risk of material misstatement

Paragraph 4 is not consistent with paragraph 3.

In paragraph 3, it says that the risk of material misstatement consists of two components: inherent risk and control risk.

In paragraph 4, it says that the « [...] *identification of risks of material misstatement at the assertion level is performed before consideration of any controls. The auditor does so based on a preliminary assessment of inherent risk that involved identifying those risks for which there is a reasonable possibility of material misstatement.* » The notion of control risk is not taken into account, while this notion is at the heart of the definition of a risk of material misstatement.

Risk of material misstatement based solely on the assertions, rather than on the assertions for a specific class of transactions

According to us, the wording of the seventh phrase in paragraph 4 isn't clear. When reading, we understand that the assessment of the risk of material misstatement is performed only at the assertion level. It can't be so.

The assessment of the risk of material misstatement has to be performed considering the assertion and the significant class of transactions, significant balance account or significant disclosures, as indicated in paragraph 16h).

QUESTION 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 sized, complexities and circumstances?

Clarification needed in regards of the audit work to be done in order to monitor the effectiveness of controls in a substantive audit approach

In our opinion, the indications of the Exposure Draft should be clarified, because practice shows that auditors have different ways to address that matter.

In fact, discussions between several auditors representing various sectors of activities lead us to conclude that there is no consistency in the nature or extent of the audit work that is performed to assess the effectiveness of controls in a substantive audit approach (no reliance on controls). Some auditors were adamant about the fact that every process must be monitored, while others expressed the opinion that only significant processes or processes with significant risks should be monitored.

Furthermore, the scalability, as described in the Exposure Draft, might be subject to interpretation. We think that documenting an audit file with information the auditor doesn't intend to rely on is inefficient.

Moreover, it is stated in paragraph 6 of the Exposure Draft that: « *The auditor's understanding of the system of internal control forms the basis for the auditor's intentions about whether to place reliance on the operating effectiveness of controls.* » We believe the paragraph should also indicate that an auditor could decide not to rely on the controls, for efficiency purposes among other things.

QUESTION 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:

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?

Misuse of « significant »

In paragraph 16d), it says that the business risk is a « [...] risk resulting from significant conditions, events, circumstances, actions or inactions [...] ».

The term « significant » is used throughout the Exposure Draft as a synonym of « material ». We think that a different adjective should be used to qualify the conditions, etc., in order to prevent misinterpretation. We suggest the use of words like particular, out of the ordinary, major, etc.

No mention of the control risk in the assessment of the important risks

In paragraph 16k), the reference to the notions of « inherent risk » and « risk of material misstatement » is incorrect. It is stated that when there is a higher inherent risk (close the upper end of the spectrum of inherent risk), there is automatically a risk of material misstatement.

We disagree. The risk of material misstatement has to be assessed considering also the control risk.

We also note that it is particularly difficult to scale the inherent risk. We believe that a more precise definition is needed.