

**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

San Juan, Puerto Rico, November 1st, 2018

Members of the Board

International Auditing and Assurance Standards Board (IAASB).

529 5th Avenue, 6th Floor

New York, New York 10017

REF: Proposed International Standard on Auditing 315 (Revised)

Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs

Dear Members of the Board,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the 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**

This reply summarizes the views of different member countries of the IAA, according to the following due process:

Due process:

The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members

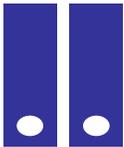
General comments:

We decisively support the IAASB initiative on this important issue, considering the educational issue as fundamental in the formation and exercise of the accounting and auditing professional.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

Cornelio Porrás Cuellar
PRESIDENT



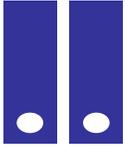
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Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to; “Proposed International Standard on Auditing 315 (Revised) - Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs”.

We have answered the questions of the document in accordance with the provided instructions. Please see our answers and related comments below.

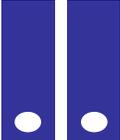
Overall Questions

- 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) *We understand that the proposals regarding the new structure, clarification and modernization of ED-315 are oriented to promote a more consistent and solid process for the identification and evaluation of the risks of material errors that the current Revised ISA 315, valid since December 15, 2013*
 - (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)?
 - A) *Yes, they are helpful. We understand that the improvement that is intended to be introduced helps in a very positive way to broaden and facilitate the comprehensibility of the process, not only to identify and assess the risk, but also to understand its impact on the financial statements and its possible effects on the opinion of the independent auditor. The form of presentation, the description and the explanatory materials are useful to understand the interdependence of the required requirements and their repetitive nature in the text of the standard, which is corresponding to the same nature of the risks in the different facets of the business process .*
 - (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?
 - A) *Yes, we understand that the proposed amendments as revisions of the standard will trigger a strengthening process for the identification and evaluation of significant risks and we believe that such improvement proposals address in a determined manner, in accordance with the purposes and purposes of the IAASB. Also encourages a strong and consistent profession, the public interest issues cited in the Explanatory Memorandum to ED-315 (Revised), such reviews will allow to clarify and substantively improve the identification and evaluation of the risks of material error and would lead to a significant improvement in the quality of the audit of financial statements.*
 - (c) Are the new introductory paragraphs helpful?
 - A) *Yes, they are very illustrative and will be very useful for the auditors to better understand the new version of the Revised ISA 315, since, comparatively with the current version (2013) of two paragraphs devoted to introduction it goes to 15, in fact 14 because 15 corresponds to the*



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effective date, like paragraph 2 of the current edition.



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- 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?
- A) ***Yes. The requirements incorporated in the project as additional to those already considered in the current version of ISA 315 (Revised) that is being modified, we understand that they have sufficient capacity to increase the identification and evaluation of the relevant risks in the audit of financial statements of diverse nature, size, complexities and circumstances of entities and the diversity of their activities.***
- 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?
- A) ***Yes, we agree with the approach adopted in the improvement of ISA 315 (Revised), including the analysis of data through the illustrative examples that are presented especially in Appendix 1; Moreover, we understand that the incorporation of technology, especially automated techniques, is an imposition of its application in full fact, since nowadays a high percentage, around 20% of global audits are being conducted with the robotics help, be understood by audit software.***

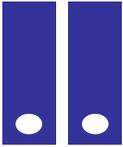
Definitely, there are other areas such as planning, the determination of materiality (in its various classes), programming, data capture (not only the analysis) and the preparation of the audit report require the assistance of automated techniques.

- 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'³⁶ 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?
- A) ***No. We understand that the proposals do not sufficiently support the proper exercise of professional skepticism. Skepticism is achieved with a wide effective practice in the audit, we understand that the proposals have this intention, but we believe that more illustrative examples that improve the formation of professional skepticism in the auditors of financial statements is lacking. Additionally, the auditor must maintain and exercise his professional skepticism, not only during the whole risk identification and evaluation process, but throughout the entire audit process, from planning to the final issuance of his reports.***

Regarding the proposed changes, yes, we fully support that the auditor should obtain sufficient appropriate audit evidence by all means available to him, in particular, through risk identification and assessment procedures, which alone are not sufficient for such obtaining of appropriate evidence, but linked to other procedures, such as nouns. Regarding that this proposed

Specific Questions

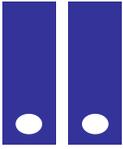
- 5) Do the proposals made relating to the auditor's understanding of the entity's system of internal control³⁷ assist with understanding the nature and extent of the work effort required and the



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relationship of the work effort to the identification and assessment of the risks or material misstatement? Specifically:

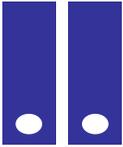
- A) *Yes, we understand that the proposals made in the draft amendments to ISA 315 (Revised) will help deepen the auditor's understanding of the different elements of the entity's internal control to further understand the nature and scope of the work to be undertaken. by the auditor, referred to the identification and determination of the risks of material error for the purposes of an audit of financial statements. Specifically regarding the following matters:*
- 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?
- A) *Yes, the profound changes proposed in the draft have ostensibly improved and adequately clarified the requirements necessary for understanding the components of the internal control system related to the financial statements of the entity. The reasons why the auditor needs to obtain an understanding of such internal control elements and their impact on the financial information to be audited, with the proposed changes, are clearer than in the current ISA 315 (Revised), and it is more understandable through the flowcharts of how understanding the internal control system helps the auditor to understand more clearly the process of identifying and subsequently evaluating significant risks for their audit of financial statements, to determine which tests to apply, in what time and with what scope, in order to obtain supporting evidence of quality to sustain their reports.*
- b) Have the requirements related to the auditor's identification of controls relevant to the audit³⁸ 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?
- A) *Yes, the necessary requirements to identify and evaluate the relevant controls for an audit of financial statements by the auditor have been improved and clarified in a comprehensible manner. The clarity and details of the proposals will positively assist independent auditors, especially small, medium and large less complex entities, to identify those relevant controls for the purposes of issuing an opinion on the financial statements of such 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?
- A) *Yes, we fully support the introduction and the corrections proposed as new concepts and definitions related to IT; we understand that such incorporations are not complete, but for now they are sufficient, the immediate future and the accelerated application of artificial intelligence in the audit of financial statements will force the creation of new concepts and definitions related to IT and their incorporation in the ISA. We consider that the improved requirements and the application material that are intended to be incorporated into the NIA to be modified are related to the understanding of the IT environment, but to our point of view it would be necessary to link them with the general objectives of IT, not only with computer controls general however, we understand that for now they are sufficient to support the consideration of the effects of the use of IT by auditors in the entity, whose financial*



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statements have been audited, have done for quite some time, in the evaluations of material errors related to the use of IT by entities.

- 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) *Yes, the identification and evaluation of the relevant risks through the improved ISA will allow a more robust risk assessment than with the current standard.***
- 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'?³⁹
- A) *Yes, we partially support. We believe that it is irrelevant to evaluate separately or concomitantly. However, if the separate form is approved, we believe that the proposed requirements and guidance will support the evaluations thus made.***
- b) Do you support the introduction of the concepts and definitions of 'inherent risk factors'⁴⁰ 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?
- A) *Yes, we support. They are very illustrative and will help a lot in the identification of the risks of material error in the evaluation of the inherent risk. We understand that the orientation is sufficient for its purpose.***
- 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?
- A) *Yes, we understand that it will positively help that purpose. Having a clear view of the inherent risk and considering the possible occurrence of a misstatement of significant magnitude will help the auditor to achieve greater connection between the two interdependent elements, identifying and evaluating the risks of material errors.***
- 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),⁴¹ and how they assist the auditor in identifying where risks of material misstatement exist?
- A) *Yes, we support.***
We understand that the proposed guidance to explain how material risks are determined is sufficiently illustrative, and there is no doubt that it will help the auditor to locate the areas in which the risks of material errors could be found.
- e) Do you support the revised definition,⁴² 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?
- A) *Yes, we support. The spectrum mentioned in the question of letter c) of this point 6, mentioned in paragraph 57 of the Explanatory Memorandum to ED-315 (Revised), from our***



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point of view, of how the significant risks in said spectrum are determined for the inherent risk it is appropriate from the guiding perspective. We agree with the position of the IAASB that the significant risk could be considered as possible from the point of view of the occurrence of a misstatement or the magnitude of such a possible misstatement.

- 7) Do you support the additional guidance in relation to the auditor's assessment of risks of material misstatement at the financial statement level,⁴³ including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?
- A) Yes, we support. We understand that the additions to the requirements in paragraphs 25 and 26, and A118 to A131 of the current ISA 315 (Revised) will greatly improve the auditor's performance in determining and assessing risks at the assertion level.**
- 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?
- A) We do not identify in ED-315, paragraph 52, reference to the proposed backwardness requirement.**

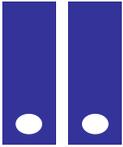
Regarding paragraph 18 of ISA 330, the proposal is more explicit than the current version when treating materiality as qualitative and quantitative, which the current one does not distinguish. Both requirements should be considered. Our recent experience in an audit of financial statements to an entity that questioned our materiality by the amount we justify our position that materiality not only depends on that attribute but also the qualitative nature of the error, independently, position accepted by the entity.

Conforming and Consequential Amendments

- 9) With respect to the proposed conforming and consequential amendments to:
- a) ISA 200⁴⁴ and ISA 240, are these appropriate to reflect the corresponding changes made in ISA 315 (Revised)?
- A) Yes, we understand that the adequacy proposal is consistent with the changes proposed 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?
- A) Yes, we believe that the proposed changes to NIA 330 are adequate for the introduction of aspects related to IT, included as a draft amendment to ISA 315 (Revised), but new concepts and definitions with their corresponding requirements may be incorporated to the extent that IT advances in the practice of independent audit.**
- c) The other ISAs as presented in Appendix 2, are these appropriate and complete?
- A) Appropriate yes, complete no. We believe that the changes to be submitted to the application will require adjustments that could involve the incorporation of illustrative examples and other explanatory material-**

There will always be new requirements for requirements imposed by the paradigm changes in business and the advances in technology and communication

- d) ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to



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this exposure draft),⁴⁵ are these appropriate and complete?

A) We did not identify the Supplement to ED-315 (Revised) or ISA 540 (Revised) referring to the proposed amendments to said ISA.

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?

A) Yes, we fully support.

We understand that it is an obligatory adaptation due to the changes proposed to NIA 315 (Revised), it is a necessary and required agreement. The auditor, in all cases, must obtain appropriate evidence for each transaction, balance of accounts and disclosure if it is material, individually or with other components, qualitatively or quantitatively, in order to support his opinion on the financial statements taken as a whole. ; in consideration that the determination and consequent evaluation or weighting of the risks that the auditor performs in any way is conclusive and absolute, as there may be material errors not identified or valued in an inaccurate manner, in addition to the limitations of the controls, aggravated because of the latent possibility of management's dishonest actions.

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:

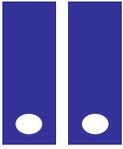
(a) Translations—recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-315.

A) For Latin America, in particular for the countries of South America, translation has always been a difficulty, above all because of the little use of the official language of the NIA, English, and the very particular variation of Spanish in each country. We understand that an important advance to alleviate the problem would be for the IAASB to lead the official translation of all its standards in the main languages, in such a way to maintain the authenticity of the standards in different languages. An appropriate mechanism could be through the constitution of a committee for translation and revision of standards composed of professionals from different Spanish-speaking countries, in the case of translation into Spanish, active in the audit of financial statements.

(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.

A) Agree. We understand that the 18-month period is appropriate for the due process of understanding the scope and application of the substantive changes that the IAASB intends to incorporate into ISA 315 (Revised), and its anticipated application would be consistent with the general practice of other standards. issued.

Conclusion, based on the answers to the general, specific questions and on amendments, we conclude that the proposed changes to ED-315 (Revised) and the adjustments to other standards,



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except those referred to in ISA 540 (Revised), are clear, understandable and practical for the future application of ISA 315 (Revised) when it is in effect.