



Response to IAASB Request for comments on revised ISA 315

The Swedish National Audit Office would like to take the opportunity to congratulate the IAASB for the excellent work done so far on revising ISA 315. The risk assessment process is one of the most important and challenging phases in the audit process and it is important to ensure that the audit focuses on the material risks. We believe that the new revised version (presented as Exposure draft) is a step towards a more robust and thorough risk assessment process. We would like to take the opportunity to comment on the Exposure draft as a support for the direction taken by the IAASB. Our comments are structured according to the questionnaire included in the exposure draft documents.

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Response to IAASB Request for comments on revised ISA 315

Overall questions

1. Generally, we are very supportive to the changes proposed including the inclusion of flowcharts, although we find that the flowcharts need some clarifications when it comes to IT related audit. We also believe that the revisions suggested will promote a more robust and transparent risk assessment process. The introduction paragraphs are helpful and should be kept.
2. We agree on the ambition to enhance the scalability of the standard. We believe that the usefulness of the guidance provided will be determined by the practical application and it is difficult to foresee whether the proposed changes are enough to achieve the desired scalability. The revised ISA 315 allows for the auditor to consider issues related to scalability, but we believe it would be helpful to provide more practical guidance and perhaps update the already existing guidance provided by IFAC/IAASB (Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities)
3. Yes, we agree with the approach taken. Considering the evolving nature of this area, we also believe it might be the only relevant approach.
4. Yes, we believe that the proposal sufficiently supports the exercise of professional skepticism throughout the risk identification and assessment process.

Specific questions

5. We believe that the proposals relating to understanding the entity's system of internal controls overall will assist the auditor in understanding the nature and extent of the work required. Though we find some areas to be too detailed and less principle-based while others (IT part) need to be clarified to ensure consistency in practice.
 - a) **Clear understanding of auditor responsibilities to understand each component of IC?** Yes, we agree, but find the requirements to some extent

too detailed, for example in paragraph 27, where d. and e. will be better suited in the application material.

- b) **Controls relevant to the audit.** We are struggling with understanding the relations between paragraph 36, 38 and 39. All three discuss relevant controls and we find it difficult to see the distinction, especially between paragraph 36 and 38.
- c) **The introduction of the new IT-related concepts.** We support the approach taken and the use of flowchart to enhance the understanding. There are some areas that would benefit from some clarifications to ensure a more consistent understanding and approach by auditors:
- ✓ Paragraph 36. IS controls has a separate flow in the flowcharts – the purpose and impact of the separate flow is unclear. For example, the distinction between the definition of IS controls compared with the “controls relevant for the audit” is not clear (also refers to our comment under b).
 - ✓ Application controls. We believe it is an advantage having one common term for all “process level controls”. It might be confusing to use the term “application controls” also for controls that are manual (with no automated component). We believe that the common use today of the term “application controls” refers to controls that are either automated or manual with an automated component, therefore, we find the new definition confusing. We would for example suggest using the term “process level controls”.
 - ✓ Paragraph 40 d) There is a need to clarify why “controls that address RSPA” is a separate category. Does this category create specific requirements, or would it not already be covered in one of the categories paragraph 40 a-c)?
 - ✓ Paragraph A 103. We believe there is a need to clarify the concept of “direct GITC”?
6. We agree with the IAASB that the proposed enhanced framework for the identification and assessment of the risk of material misstatement will result in a more robust risk assessment process. There are some issues the IAASB may consider clarifying, as addressed below.

- a) Yes, we support the separate assessment of inherent vs. control risk and we find the guidance in the application material to be robust enough.
- b) Yes, in general we agree with the introduction of general inherent risk factors. We do struggle with the statement that the inherent risk factors may be quantitative or qualitative (paragraph A5). Paragraph A5 lists all the inherent factors considered to be “qualitative”. In our opinion there is no need to refer to inherent risk factors as being quantitative or qualitative, we simply have different factors that drives the inherent risk. We suggest removing the reference to qualitative and quantitative and instead use a more neutral approach.
- c) The introduction of the concept “spectrum of inherent risk” may to some extent assist in achieving greater consistency, though we question whether there is a need of introducing the use of the word “spectrum”. We understand this term refers to a scale of higher or lower risk of inherent risk. Less concepts would keep the standard clear, concise and easier to translate into other languages. We support the related concepts of magnitude and likelihood.
- According to paragraph A221 the inherent risk factors influence the auditor assessment of the likelihood and magnitude of misstatement for the identified risk of material misstatement at the assertion level. The assessment is supposed to be based on the inherent risk only, without considering the control risk (which could affect the assessment of likelihood). We suggest a further clarification that control risk should not be considered when assessing magnitude and likelihood, in paragraph A221.

Paragraph A222 states that when considering the magnitude of the misstatement, the quantitative and qualitative aspects of the potential misstatement *may* be relevant. Our understanding is that these two aspects are the only aspects and the inclusion of “may” is to some extent confusing. If there are other aspects it needs to be addressed in the guidance. Further on it is not clear to us how to define qualitative aspects. Whether qualitative aspects only refer to non-financial information or if it should be interpreted broader (as for example account balances which may not be quantitatively

material, but still considered as relevant for the users or related to factors as risk of fraud) is not clear.

The revised ISA 315 uses the concepts of quantitatively vs. qualitative frequently and from different perspectives, for example the inherent risk factors and evaluation of the magnitude etc., but it never actually defines the meaning of “qualitative”.

We also encourage IAASB to provide more examples and guidance on how to consider magnitude and likelihood as these will be the main drivers for assessing the risk of material misstatements, to ensure the intended purpose of ensuring greater consistency.

- d) Yes, we support the introduction of the new concepts and definition of significant transactions etc.
 - e) Yes, we support the new definition of significant risk.
7. **Risk of material misstatement on financial statement level.** We would suggest a reference to paragraph 44 instead of 43 in paragraph A218. We also noticed that paragraph 44 is silent on evaluating any effects on the risk of financial statement level when there is a control deficiency (those deficiencies that may have an impact on the financial statements as a whole). Some guidance in this area may be considered by the IAASB.
8. **Stand-back requirement paragraph 52 and ISA 330 paragraph 18.** We believe that paragraph 52 in revised ISA 315 would benefit from some clarification of the meaning of being qualitatively material. We support the inclusion of paragraph 52 in ISA 315 and paragraph 18 in ISA 330. Auditors may not always have all the relevant information, (due to many reasons) which could affect the relevance and quality of the risk assessment. By adding paragraph 18, the auditor will at least do some procedures which will lower the audit risk. The extent to use such procedures would be a matter of professional judgement.

agree that auditors in the public sector often have additional responsibilities, instead we would prefer using the word “may”.

- Paragraph A46. We find this paragraph to be more of a compliance audit matter than financial audit. Our suggestion would be to delete it, if not thoroughly explained.
- Paragraph A50. Consider shortening the paragraph.
- Paragraphs A63, A68, A78, A210. We are questioning the added value of these paragraphs for a public-sector auditor and suggest deleting them as we are struggling with understanding their purpose.
- Paragraph A82. The last sentence in this paragraph is not relevant as it relates to the ability to assess accountability. This issue is not relevant in this context, and probably more relevant when assessing the applicability of the financial reporting framework itself.
- Paragraph A96. We do not agree with the statement that public sector auditors often have additional responsibilities, instead they “may” have. We also find that this paragraph is out of the scope of a regular audit of financial statements as it rather refers to a compliance audit which is quite common in the public sector context. Our suggestion would be to delete the paragraph.
- Paragraphs A210 and A228. We suggest deleting these paragraphs as we find them to be out of the scope of an audit of financial statements. This refers more to compliance audit.