



COMMITTEE OF  
EUROPEAN  
AUDITING  
OVERSIGHT  
BODIES

International Auditing and  
Standards Assurance Board  
IAASB  
529 Fifth Avenue  
New York, 10017  
USA

29 October 2018

## **Comment letter relating to the IAASB's Exposure Draft – ISA 315**

Dear Sirs,

1. The CEAOB appreciates the opportunity to comment on the IAASB's ("Board") exposure draft on proposed International Standard on Auditing (ISA) 315 (Revised) – Identifying and Assessing the Risks of Material Misstatement, issued in July 2018.
2. As a body regrouping European audit regulators, the CEAOB considers it is important to pursue continuing improvement of standard setting for the audit profession.
3. The content of this letter has been discussed and agreed upon by its members. The comments in this letter reflect matters agreed within the CEAOB. Nevertheless, the comments hereafter are not intended to include all comments that might be provided by the individual regulators that are members and their respective jurisdictions.

### *General comments*

4. We support the IAASB project to revise ISA 315 to improve audit quality, since we note that the database maintained by audit regulators of the CEAOB reveals high numbers of inspection findings on this topic. We believe that the ED presents improvements on the extant standard, for instance a separate assessment of inherent and control risk. However, we have identified a number of comments and points for improvement which are presented below.

### *Flow of the standard, key concepts, definitions and link with other standards*

5. Overall, we have some concerns about the flow and understandability of the standard: The increased number of concepts and definitions used in the standard creates sometimes difficulties to follow the steps to be taken and action required.
6. We suggest that the "definition" section is reviewed to ensure that all concepts are clearly linked with the requirements of the standard. For example – the "spectrum of inherent risks" is mentioned in the definition section to explain what a "significant risk" is (in paragraph 16.k), but does not appear throughout the rest of the standard. We would expect a further requirement in the standard for the auditor to assess where the identified





risks are in this spectrum, for the purpose of determining “significant risks” (mentioned in paragraph 49).

7. The ED also introduces the concept of “inherent risk factors”, however this concept is not prominent in the core requirements. We would support an additional requirement for the auditor to identify the inherent risk factors, as opposed to taking the inherent risk factors into account (as mentioned in paragraph 45 b).
8. We have some other concerns about the articulation of the new definition of significant risks and the link to other ISAs. In particular, given the new reference to the upper end of the spectrum of inherent risk in the definition of significant risk, the distinction between the “higher assessed risk of material misstatement” as referred to in ISA 701 (paragraph 9 a) and “significant risks” may cause confusion. We encourage the IAASB to consider the purpose of having two different concepts or to clarify the difference.
9. We note that revision of ISA 330 is not part of the IAASB current work plan. We believe it is important that ISA 330 is reviewed in light of amendments to ISA 315 given the linkages between the two standards. In particular it is important to make sure that all new concepts of ISA 315 are consistently used and aligned in ISA 330 or other standards dealing with risks assessment or their implications (like ISA 240 for instance). We note, for instance, that conforming amendments are proposed on ISA 330, but that they do not address all new concepts, including ‘spectrum of risk’ and ‘inherent risk factors’ (see our comments in paragraphs 6 and 7 of this letter as well).

#### *Scalability*

10. We concur with the intention for the standard to be scalable. However, we believe that auditors might find it difficult to scale their work on risk assessment in the absence of further material in the standard in this regard. We believe that it is important that the standard be clear on the fact that the extent of work performed, in compliance with this ISA, needs to be adapted to the size and complexity of the audit, and that it may need to be increased for larger or more complex entities.

#### *Obtaining an understanding*

11. Paragraphs 29 and 35 require an auditor to “obtain an understanding” of various components “by understanding (...)” – we believe further clarity is required to set an expectation for the auditors’ work under those paragraphs. We recommend removing the second reference to ‘understanding’ and better describing the actions to be taken by the auditor to obtain the necessary understanding.

#### *Risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence*

12. We concur with the need for the auditor to determine the risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. However, paragraph 51 needs further clarification or explanation as to when





this situation is applicable (and the impact it has on the audit approach and testing operating effectiveness). In particular, for a relevant understanding and application by auditors, it appears important to maintain the reference to the situations of high volume transactions where this is the case, as stated in extant ISA 315 (routine and significant classes of transactions or account balances with highly automated processing and little or no manual intervention). Consequently, we do not support the transfer of the requirements of the extant standard (paragraph 31) to the application material (paragraphs A 236 and A 237).

#### *Revision of risk assessment*

13. We concur with the requirement relating to a revision of risk assessment included in the ED, (paragraph 53) to revise the risk assessment where there is new information or new audit evidence. We believe this requirement could be enhanced by noting that the auditor should in all cases reconsider the initial risk assessment prior to finalising the audit.

#### *Information Technology (IT)*

14. Given the increased use of IT in audit, we believe it is important that the standards provide appropriate requirements and guidance in this area, without mandating the use of IT where it is not appropriate for a given audit. We noted some instances however where the terminology in the standard was not used in a consistent way. This applies for instance to the terms automated controls, application controls and automated application controls.

#### *Flowchart*

15. We believe the flow charts are useful to aid the understanding of the standard, which seems to be difficult at a first read (see also our comment, paragraph 5 of this letter). However, we are unclear as to the authority of the accompanying flowchart(s), compared to the content of the requirements. We have the following issues the IAASB should revisit regarding the flowcharts:

- the placement of 'risks for which substantive procedures alone are insufficient';
- the placement of the 'assessment of materiality'.

The CEAOB appreciated the opportunity provided to comments on this exposure draft. Please do not hesitate to contact me if you have any questions on the content of this letter.

Yours faithfully,

Ralf Bose  
*Chairman*

