02. Committee of European Auditing Oversight Body

Reference 1:

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).

Reference 2:

Flowchart

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’.

04. IAASA

Reference 1:

Paragraph 51 requires the auditor to determine the risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. However, this is a general requirement that requires further clarification 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 to the application material paragraphs A 236 and A 237.

1 Exposure Draft International Standard on Auditing 315, Identifying and Assessing Risks of Material Misstatement
2 Risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence
Reference 2:
Flowchart:

We believe that the risks for which substantive procedures alone are insufficient should be located below the significant risk and other risk of material misstatement to avoid any interpretation that this represents a third type of risk.

06. IFIAR

We support the inclusion of a requirement for the auditor to identify the risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence (in paragraph 51), but the major characteristics of those risks (including highly automated processes) should be detailed in the requirement rather than in application material. Provisions of extant paragraph 30 of ISA 315 need to be maintained in the requirements section of ISA 315.

12. Canadian AASB

In reviewing ED-315, we have identified a few examples of situations we believe require new application material or non-authoritative guidance in order to promote a more consistent and robust process to identify and assess the risks of material misstatement.

Substantive procedures alone not sufficient (paragraph 51) – Two situations where additional application material is needed include:

- more modern examples of when the auditor may find themselves in this situation (e.g., without mentioning specific companies, describing a business model such as Uber that has no physical assets and all transactions are completed on-line), and
- what does the auditor do if they find themselves in a situation where controls are not operating effectively? Paragraph A239 points the auditor to testing controls, but if controls are determined to be not effective, should the auditor express a modified opinion? We believe the application material should address the next step.

16. JICPA

Significant risks, risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and significant classes of transactions, account balances or disclosures are all determined based on the assessment of inherent risk. Additionally, controls relevant to the audit are identified based on the determination of significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. However, in the requirement section, the term “significant classes of transactions, account balances and disclosures” mentioned in paragraph 35 may give an impression to some readers that the term is introduced without appropriate explanation as the determination of significant classes of transactions, account balances and disclosures is described in the following paragraph 46 which states that “The auditor shall determine significant classes of transactions, account balances and disclosures, and their relevant assertions, based on the identified risks of material misstatement.” Additionally, paragraph 35 is located before paragraphs 49 and 51 on the determination of significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. The purposes of ED-315 include clarifying when controls are considered to be relevant to the audit, and determining the risk of material misstatement more consistently and effectively. To achieve these purposes, we believe that ED-315 should describe the risk assessment process in such a way that the identification
of controls relevant to the audit generally comes after identification of significant classes of transactions, account balances or disclosures, and determination of significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, which are all based on the assessment of inherent risk.

Paragraph 49 in the explanatory memorandum in ED-315 describes that “the IAASB acknowledges that the order in which the requirements related to the identification of the risks of material misstatement are to be applied should not be prescribed.” We understand that the IAASB’s intent is to ensure flexibility in practice. However, we believe that ED-315 should be based on the conceptual flow of the auditor’s risk assessment process. Flexibility can be explained in the application materials.

Therefore, we suggest that the requirements for the assessment of inherent risk, and also the determination of significant classes of transactions, account balances or disclosures, significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence should be moved before the requirements relating to obtaining an understanding of controls at the assertion level (i.e., before paragraph 35) or paragraph 25, which requires obtaining an understanding of the entity’s system of internal control.

18. Nederlandse Beroepsorganisatie van Accountants

Reference 1:
The ISA explains that in certain situations substantive procedures alone are not enough and the auditor should test the effectiveness of internal controls. We feel that it is necessary to better explain this concept in the standard.

Reference 2:
It is not clear what should be done in the case when substantive procedures alone are not sufficient and controls are not operating effectively. We recommend to provide guidance in this area.

25. Deloitte

Reference 1:
As technology utilized by entities continues to evolve, DTTL believes that it is important that additional application material be provided including more examples relating to risks for which substantive procedures alone do not provide sufficient audit evidence.

Reference 2:
DTTL is supportive of the changes included in paragraphs A29a and A30, which draw linkage to data, reports and substantive procedures alone being drivers for IT application and general IT control relevancy and paragraph A29b, which provides guidance on how the auditor can complete additional procedures to determine if an IT risk has been exploited or identify and test appropriate alternate controls if a deficiency exists in general IT controls. See responses to questions 8 and 10 for comments on ISA 330 paragraph 18.
27. Grant Thornton International

We are of the view that paragraph A29a of the proposed conforming and consequential amendments to ISA 330 lacks clarity and would appear to suggest that the performance of control testing in circumstances where substantive procedures alone cannot provide sufficient appropriate audit evidence is optional. This clearly contradicts the requirement in paragraph 8(b) of ISA 330 to perform tests of controls in such circumstances.

29. MNP LLP

For the most part, we think that ED-315 has been sufficiently modernized for an evolving business environment. In today’s world it is becoming more and more common for companies to implement fully automated components of their business processes. We therefore recommend expanding the application material that supports paragraph 51. More specifically, we recommend that the standard provide guidance to address the impact on the audit approach when it is determined that the controls relating to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence are not effective (i.e., the controls are not designed or implemented appropriately). We believe that such added guidance would help to improve consistent application of the requirements by auditors dealing with this scenario.

40. AICPA

Paragraph A168 — This paragraph, which is application material for paragraph 39(a), relates to controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence. However, it appears to simply reiterate the requirement and connect it to the requirement to test the operating effectiveness of controls in ISA 330. To help auditors understand when this situation may arise, we believe it would be helpful if paragraph A168 provided one or two examples of when that condition may be present.

43. CPA Australia

Reference 1:

Whilst the requirements and application material in this ED are much more extensive than the extant standard, they do provide assistance in articulating what should be considered. However, we suggest that it would be helpful to state in the introduction or in the objective of the standard that the purpose of the risk assessment is to identify:

- risks of material misstatement at the financial statement level,
- significant risks,
- other assessed risks of material misstatement; and
- risks of material misstatement for which substantive procedures alone do not provide sufficient appropriate audit evidence

on which to base the audit response in ISA 330.

This is clear from the risk assessment flowchart, but is not easily understood from the requirements, partially because the standard is so voluminous.
Reference 2:

We welcome the introductory paragraphs which provide context and an overview of the approach within the standard. However, we suggest that the relevance “significant risks” and “risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence” needs to be addressed in the introduction and how the response to these will differ from “other assessed risks of material misstatements”. It would be helpful if this was covered in paragraph 7 and if paragraph 11 was removed as it does not put these risks into context.