



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

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Prof. Arnold Schilder,  
Chairman  
International Auditing and Assurance Standards  
Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, New York  
10017 U.S.A.

RE: Exposure Draft, proposed ISA 315 (revised), *Identifying and Assessing the Risks of Material Misstatements*

Submitted via IAASB website

Dear Professor Schilder:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Auditing and Assurance Standards Board's (IAASB) Exposure Draft, proposed ISA 315 (revised), *Identifying and Assessing the Risks of Material Misstatements* (ED).

The IAIS is supportive of the IAASB's initiatives on improving the auditor's risk assessment procedures. These improvements are particularly important in the following areas:

- Introduction of new concepts of inherent risk factors and spectrum of risks.
- Clarification that the auditor should perform a separate assessment of inherent risk and control risk.
- Additional emphasis in the standard and application guidance focused on obtaining a sufficient understanding of information technology.
- Additional requirement regarding approach to be based on controls when it is not possible to perform only substantive procedure.
- Reference to the use of automated tools and techniques including data analytics to perform risk assessment procedures.

However, the IAIS has concerns with the following subjects:

- In the paragraph A 229 it is noted "Routine, non-complex transactions that are subject to systematic processing are less likely to give rise to significant risks because these are

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likely to give rise to risks of material misstatement at the assertion level that are assessed as close to the lower end on the spectrum of inherent risk.” This could suggest that routine non complex transactions would not be able to raise significant risk and would not require testing the controls in the current period (paragraph A231 and the corresponding flowchart). While we agree that if the volumes are stable and the controls are good then the likelihood of a misstatement might be diminished, the IAASB should ensure that a high volume of transactions that might give rise to a material item is adequately dealt with between ISA 315 and ISA 330.

- The application material explicitly and rightly acknowledges how auditors may use automated tools and techniques including data analytics, to perform risk assessment procedures. The IAIS believes these tools and technologies will likely have a significant impact on the result of the risk assessment and consequently on the audit procedures. Thus, we believe that the application material could include additional guidance regarding their use.
- While we welcome the increased emphasis on professional scepticism in the draft standard, we think the requirements could be further enhanced. Professional scepticism as a concept does not have great prominence within the overall standard, notwithstanding the sentence in paragraph 2 and the additional application material, yet is a key requirement for auditors. At the planning stage, when identifying potential areas of material misstatement, the auditors should not be bound by prejudice or unconscious bias, and should be prepared to challenge and critically evaluate all the information.
- The consultation document identifies paragraphs in the application material to the effect that the auditor should obtain and consider contradictory information. The recent revisions to ISA 540 included some of this language in the standard itself - see for example para 34 of ISA 540. Adding narrative to the standard would reinforce professional scepticism and establish a stronger standard against which to judge the audit. The standards should also be consistent in form and presentation.
- There is also little to suggest that the auditor should critically assess and challenge the information they receive from management. More language to this effect in the application material (e.g. in A21) would also reinforce professional scepticism.

Considering the significance of changes made to ISA 315 in the ED, the IAIS believes that it is important to review ISA 330 with the objective to take into account all the changes introduced in proposed ISA 315 as well as the current developments in the auditing techniques.

This response letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG`s membership represents a subset of all IAIS members. If you have further questions regarding this letter, please contact Jay Muska at the IAIS Secretariat (tel: +41 61 280 8953; email: [jay.muska@bis.org](mailto:jay.muska@bis.org)) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: [markus.grund@bafin.de](mailto:markus.grund@bafin.de)).

Yours sincerely,



Victoria Saporta Chair, Executive Committee



Elise Liebers, Chair, Policy Development Committee