

October 31, 2018

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

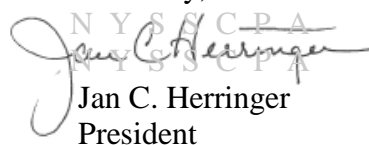
Submitted via IAASB [Submit Comment](#) link

Re: Proposed International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs

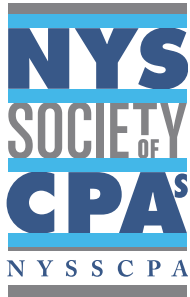
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Auditing Standards Committees deliberated the proposed international standard and prepared the attached comments. If you would like additional discussion with us, please contact Jonathan Zuckerman, Chair of the Auditing Standards Committee, at (212) 867-8000 or please contact Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,


Jan C. Herringer
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 315 (REVISED):
IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT
AND PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO
OTHER ISAs**

October 31, 2018

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New York State Society of Certified Public Accountants

Comments on

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 welcome the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB) invitation to comment on the Proposed International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs (ED-315).

We are generally supportive of the IAASB's exposure draft; however, the following matters should be reconsidered by the IAASB before issuing the final standard.

The questions raised in this exposure draft relate to matters that should have been addressed previously in the standards, especially those related to the role of information technology (IT) and data analytics (DA). Note that we are only responding to questions where we recommend that the IAASB further amend the proposed standard.

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) 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)?

The proposed changes in the exposure draft are clear and will allow auditors to better understand the identification of risks in the risk assessment process and the correlation of different risks. The discussion of potential risks and applicable controls identified in Section 3D provides a good example of what an auditor should be aware of in their risk assessment process. The illustration in paragraph 52 of the separate assessment of inherent and control risk at the assertion level provides value to the auditor; however, the implementation guidance is too limited to drive a change in auditor behavior. We recommend that the final standard provide more detailed illustrative examples, or in the event that such examples are not provided, that the IAASB issue supplemental guidance that would aid the auditor in documenting a more robust risk identification and assessment 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?

The revisions noted in the exposure draft will promote a more robust process as they address scalability and "...recognizes that the auditor's ability to serve the public interest includes the ability to apply the standard to the audits of financial statements for all entities, ranging from small, simple, non-complex entities to large complex, multinational entities" (paragraph 13). However, the extant standards do not address the evolving business environment and changes in economic, technological and regulatory changes over the years. We support the changes as to the modernization of the standards, which will provide a more relevant and robust risk identification and assessment process. Nevertheless, the risk identification and assessment process should provide for more frequent updates of the standards, since changes in technologies and impacts on global economies are accelerating.

Standards are generally neutral as to identifying specific applications, since technology changes so rapidly. Specifying how auditors should adjust their risk assessments to take into account exciting new technologies of the day is appealing; we suggest, however, that the Board adopt a more principles-based approach. This is because it is possible that the guidance relating to the most "new" technologies may become outdated by the time the standard is finalized and may never be implemented in the manner the Board intends. For example, we suggest that the standard explain that when new technologies are implemented that affect financial transactions and audit procedures, auditors should understand and document the following risks, for instance:

- Developer bias
- Inferences developed with inaccurate and incomplete information
- Automated decision making with invalid inferences
- Computer code and services that have misleading names are not what they purport to be, and may have fatal flaws that are not widely known and that result in irreversible material financial consequences.

(c) Are the new introductory paragraphs helpful?

Although we believe the new introductory paragraphs are helpful, we recommend the relevant requirements be indicated immediately following the introductory paragraphs.

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?

The requirements and application material in the exposure draft are relevant to most entities, regardless of size or complexity. The standards are far-reaching and relate to the overall considerations in a financial statement audit. The exposure draft does not discuss, on a detailed level, the complex processes an auditor may encounter in the audit of a larger organization; guidance, however, should be provided when such matters may be present.

- 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?*

See our response to question 1(b) regarding our position in enhancing ED-315, concerning significant and emerging technology changes.

Specific Questions

- 5) *Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks or material misstatement? Specifically:*
- 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?*

In our view, the requirements have been met. However, to provide further clarity, we recommend (before paragraph 29) that “The Entity’s Risk Assessment Process” be removed or incorporated into other internal control component headers. We also recommend (before paragraph 32) “The Entity’s process to monitor the system of internal control” be changed to “The Monitoring Process.”

- 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?*

We support the new IT-related concepts and definitions, except for the comments below as they relate to specific explanatory material:

As cited in Paragraph A181, “When an entity uses an IT application that is reputable, widely-used and considered reliable, is unable to change its programming, and maintains hard-copy accounting records, the auditor may determine that *there are no IT applications relevant to the audit (emphasis added)*.” The hard copy records are, in general, generated by the IT systems, so it is almost never the case where IT applications are not relevant to the audit.

We also note in Paragraph A181, “In such a case, the auditor is also likely to be able to obtain audit evidence about the completeness and accuracy of the information produced by the entity used as *audit evidence through substantive testing without the need to test controls over its production*”

(emphasis added).” If substantive testing relies on samples selected from data generated by the accounting system, then this would not be true.

Paragraph A184 states, “For system-generated reports to be used as audit evidence, the auditor may obtain audit evidence about the completeness and accuracy of the reports by *substantively testing the inputs and outputs* of the report. In other cases, the auditor may plan to test the operating effectiveness of the controls over the preparation and maintenance of the report, in which case the IT application from which it is produced is likely to be relevant to the audit (emphasis added).” This is not the case if substantive tests of inputs and outputs are performed by testing samples generated from a system-generated report.

In paragraph A188, we recommend removing the term “may be,” as other aspects of the IT environment are relevant. This doesn’t seem reasonable, as how could there be no IT applications relevant to the audit? This would only be the case in a business that maintains only hard copy records, has no accounting software, does not use email, has no internet connection, and does not use IT in its business. In today’s business environment, it is virtually impossible to operate under such conditions. We further recommend changing “often dependent” to “always dependent” or “almost always dependent.” Finally, the paragraph discusses “when an IT application interacts with vendors or external parties through the internet.” This example only relates to access to the network from the outside. It should also include the Local Area Network, which is always relevant to the audit.

Paragraph A193 states, “Identifying the risks arising from the use of IT and the general IT controls relevant to the audit is likely to require the involvement of team members with specialized skills in IT, other than for the *simplest* of IT environments (emphasis added).” How do firms determine this? What is the bright line below which IT audit involvement is not required? There is a gray area where it is difficult to determine if the IT environment is more complex or less complex. It takes an IT auditor to make this call.

Paragraph A237 says, “For example, the auditor may consider this to be the case in circumstances where a significant amount of an entity’s information is initiated, recorded, processed, or reported only in electronic form.” It is already the case that almost all financial information is initiated, recorded, processed, or reported only in electronic form. The paragraph also discusses the following:

“such as in an information system that involves a high-degree of integration across its IT applications. In such cases audit evidence *may* be available only in electronic form, and its sufficiency and appropriateness usually depend on the effectiveness of controls over its accuracy and completeness (emphasis added).”

This is already the case for almost all audits for companies of all sizes. This statement should be changed to “Audit evidence is generally available only in electronic form, and its sufficiency and appropriateness usually depend on the effectiveness of controls over accuracy and completeness.”

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) *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?*

We support the separate assessments of inherent and control risk at the assertion level other than in financial statement areas where the inherent risk for all assertions would be determined by the auditor to be the same, which generally are audit areas where inherent risk is low and control risk is high for all assertions.

b) *Do you support the introduction of the concepts and definitions of ‘inherent risk factors’ 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?*

We support the introduction of inherent risk factors to help identify risks of material misstatement and an auditor’s assessment of inherent risk. However, the exposure draft should provide additional examples and interpretive guidance for the practitioner. The inclusion of examples will lead to less confusion, ambiguity and misinterpretation of the final standard.

e) *Do you support the revised definition, 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?*

We support the revised definition of significant risks. However, if the likelihood of occurrence is considered to be remote, our concern is that the exposure draft, as currently written, may not be clear to all users and may result in misapplication of the standard. We would recommend that this paragraph be further clarified and addressed in a revised definition.

8) *What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either requirements be retained? Why or why not?*

Given the nature of the audit environment in the United States, we do not agree with the proposed revisions in paragraph 52. A class of transaction, account balance or disclosure that is quantitatively or qualitatively material should be considered significant. The extant standards provide further guidance on the most prominent significant audit areas as key audit matters. We find the ability to perform a stand-back early in the audit process to be contentious. Although conceptually a good idea, especially in regard to an initial audit, stand-backs in recurring audits are difficult to process, as once stand-backs are evaluated, they may become boilerplate in an organization’s subsequent audits. The completeness assertion is an important issue for auditors since it involves auditing from the appropriate population. In this case, the evaluation is being done on the identified population risks. We believe that such re-evaluations are done in the wrap-up

stages of the audit. The stand-back is too early in the process to perform a meaningful evaluation to meet the intended objectives. This is especially true with regard to financial statement disclosures.

We support the changes made to evaluate the response to risks that were identified as a result of paragraph 52 of ED-315 being implemented to proposed revisions of ISA 330.

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:

- b) Effective Date – Recognizing that ED-315 is a substantive revision, and given the need for national due process and translation and, 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 the final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient effective implementation of the ISA.*

We have no objections to the proposed effective date for audits of financial statements for periods beginning on or after December 15, 2020. We understand that there are multiple jurisdictions and languages involved; the translation and national due process that lengthen the implementation period will be longer when compared to other standards setters that are located in one jurisdiction or extant standards that are in one language. As a procedural matter, the United States Auditing Standards Board of the AICPA generally does not permit the early application of an auditing standard. The exception to this relates to the issuance of a new auditing standard that impacts auditor reporting.