

5 September 2018

The Chair  
Auditing and Assurance Standards Board  
PO Box 204,  
Collins Street West  
Melbourne Victoria 8007

Dear Professor Simnett,

The Institute of Internal Auditors – Australia (IIA-Australia) is pleased to comment on Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

In the Explanatory Memorandum on Exposure Draft 01/18: *Proposed Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement* in relation to Australian specific questions on page 8, the question is posed “Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?”

To the first part of this question, IIA-Australia believes that there are current internal audit principles and practices that should be acknowledged in this revised standard, which would enhance and improve the application of ASA 315.

We believe a critical change would enable external auditors to confidently exercise professional skepticism in identifying and assessing the risks of material misstatement, particularly in relation to internal controls and in their dealings with the internal audit function. Paragraph A19 states “Regardless of the source of information, the auditor considers the relevance and reliability of the information to be used as audit evidence in accordance with ASA 500”.<sup>1</sup>

As you would be aware, ASA 500 *Audit Evidence* is considered by the auditor when assessing the relevance and reliability of the information to be used. Paragraph 7 of ASA 500 states in part “... the auditor shall consider the relevance and reliability of the information to be used as audit evidence.”<sup>2</sup> Paragraph 8 goes on to say “If information to be used as audit evidence has been prepared using the work of a management expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes: (a) Evaluate the competence, capabilities and objectivity of that expert ...”<sup>3</sup>

---

<sup>1</sup> Exposure Draft ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, A19, p 26

<sup>2</sup> Auditing Standard ASA 500 *Audit Evidence*, May 2017, p 9

<sup>3</sup> Ibid, p 9

**Connect** ▶ **Support** ▶ **Advance**

IIA-Australia contends that, for consistency with ASA 500, ASA 315 could be improved by having the external auditor satisfy him or herself that the internal auditor that they are dealing with is competent, capable and objective.

IIA-Australia believes that guidance is needed to enable the auditor to form a proper judgement. This can be achieved by the auditor asking a threshold question: “Has the work performed by the internal audit function conformed to the International Internal Auditing Standards contained in The IIA’s International Professional Practices Framework?”

Conformance with the International Internal Audit Standards indicates that the internal audit function is competent, capable and objective. If an internal audit function cannot provide this assurance, then the ability to rely on the work of that internal audit function should be open to question and doubt.

Our key message here is that you can rely on the work of internal auditors if they conform to the International Internal Audit Standards as issued, from time to time, by the International Internal Audit Standards Board.

In Exposure Draft 315, paragraph A28 states “Appropriate individuals within the internal audit function with whom enquiries are made are those who, in the auditor’s judgement, have the appropriate knowledge, experience and authority, such as the chief audit executive or, depending on the circumstances, other personnel within the function.”

Exposure Draft 315 does not provide guidance for the auditor to evaluate whether an internal auditor is knowledgeable and how the work was performed. Currently it is left entirely to the auditor to form a judgement about, the internal audit function, and with which he or she is unlikely to be familiar. IIA-Australia maintains that this is a fundamental weakness that should be addressed in the Exposure Draft.

We believe that all internal audit practitioners should be knowledgeable about their trade. Knowledge can be demonstrated by the head of the internal audit function, or someone they have access to, if they have successfully completed and hold the Certified Internal Auditor® designation, or the Australian Graduate Certificate in Internal Auditing qualification, or having been made a Professional Member of the Institute Internal Auditors – Australia (PMIIA). IIA-Australia believes this should be written into the revised ASA 315, or at the very least footnoted.

In summary, IIA-Australia believes that audit quality can be improved in Australia by having the auditor satisfy him or herself that the internal auditor that they are dealing with is competent, capable and objective (in accordance with ASA 500). To this end, the following wording should be added as follows:

1. Add to the end of paragraph A19: “In respect of the internal audit function, conformance with the International Internal Audit Standards indicates that the internal audit function is competent, capable and objective. If an internal audit function cannot provide this assurance, then the ability to rely on the work of that internal audit function should be open to question and doubt.”

**Connect > Support > Advance**

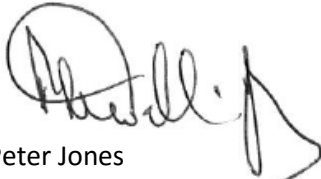
Level 7, 133 Castlereagh Street, Sydney NSW 2000 | PO Box A2311, Sydney South NSW 1235  
T +61 2 9267 9155 F +61 2 9264 9240 E [enquiry@iia.org.au](mailto:enquiry@iia.org.au) [www.iia.org.au](http://www.iia.org.au)

ABN 80 001 797 557

IIA-Australia believes that Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* can be improved with the addition of the following:

2. Paragraph A28: Add after the first sentence “Knowledge can be demonstrated by the head of the internal audit function, or someone they have access to, if they have successfully completed and currently hold the Certified Internal Auditor® designation, or the Australian Graduate Certificate in Internal Auditing qualification, or having been made a Professional Member of the Institute Internal Auditors – Australia (PMIIA).”

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Jones', written over a white rectangular area.

Peter Jones  
Chief Executive Officer

**Connect › Support › Advance**

Level 7, 133 Castlereagh Street, Sydney NSW 2000 | PO Box A2311, Sydney South NSW 1235  
T +61 2 9267 9155 F +61 2 9264 9240 E [enquiry@iia.org.au](mailto:enquiry@iia.org.au) [www.iia.org.au](http://www.iia.org.au)

ABN 80 001 797 557