

ISA 315 (Revised) – Responding to Comments to the Exposure Draft

- CAG Meeting
- March 5th, 2019

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ISA 315 (Revised), Deputy Chair of
the IAASB and Chair of the ISA 315
Task Force

Exposure Draft
July 2018

Comments due: November 2, 2018

International Standard on Auditing

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 — Understanding the Entity's System of Internal Control

Definitions

New	Revised
1. Application controls	1. Controls
2. General IT controls	2. Access controls (glossary)
3. IT environment	

- Maintained the 5 components of internal control
 - Enhanced as necessary to align with COSO
- Controls definition
 - Recognizes 'less formalized' policies and procedures (scalability)

Components of Internal Control

1. Control environment
2. The entity's risk assessment process
3. The entity's process to monitor the system of internal control
4. The information system and communication
5. Control activities

ED-315 — Identifying and Assessing Risks of Material Misstatement

Definitions		Inherent risk factors <u>include</u> :
New	Revised	
1. Inherent risk factors	1. Assertions	1. Complexity
2. Relevant assertion	2. Significant risk	2. Subjectivity
3. Significant classes of transactions, account balances or disclosures		3. Uncertainty
		4. Change
		5. Susceptibility to misstatement due to management bias or fraud

Key change in assessing risk of material misstatement

Separate assessment of inherent risk and control risk

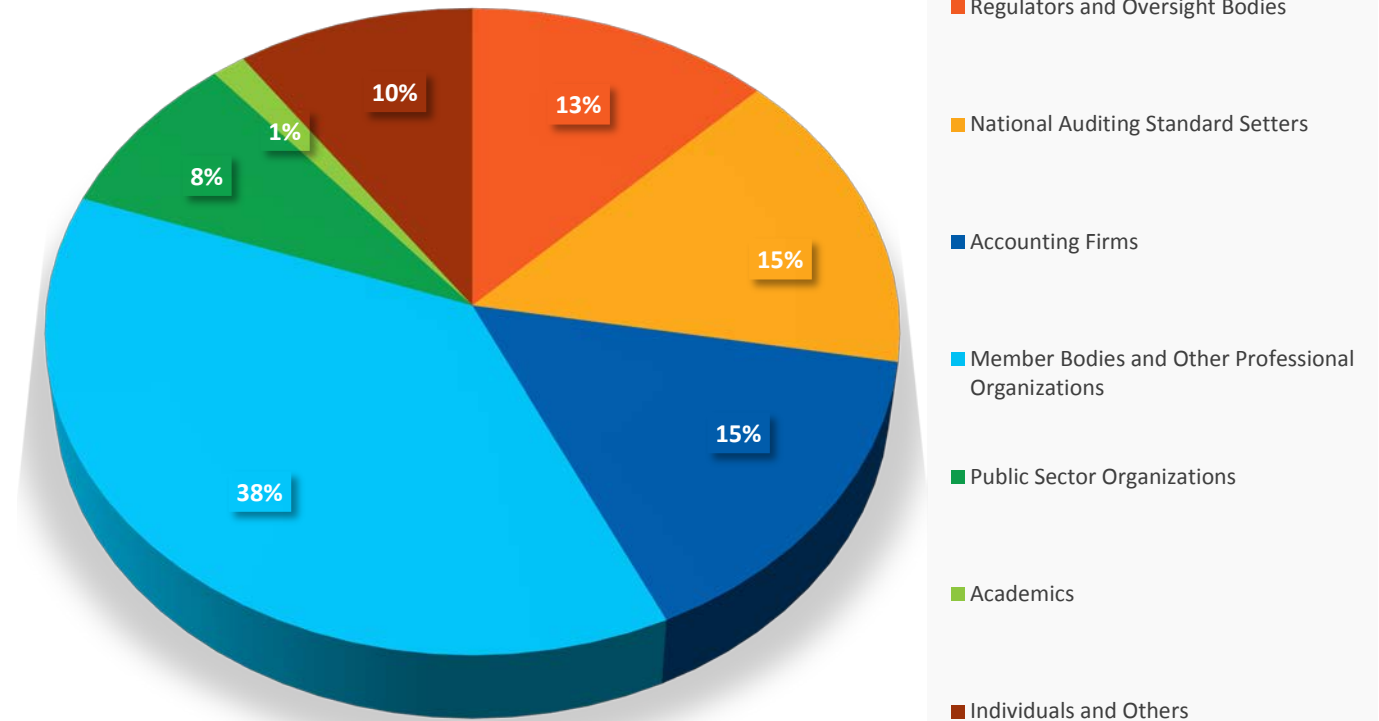
Concept of ‘spectrum of inherent risk’

The degree to which inherent risk varies, is referred to as the ‘spectrum of inherent risk’ – consider likelihood and magnitude of material misstatement to determine where on the spectrum the risk lies

Responses to ED-315

Respondents (by type)

Total	72
Member Bodies and Other Professional Organizations	27
National Auditing Standard Setters	11
Accounting Firms	11
Regulators and Oversight Authorities	9
Individuals and Others	7
Public Sector Organizations	6
Academics	1



Responses to ED-315

Overarching concerns:

- Broad concerns about the **complexity** and **length** of the proposed standard; as well as **scalability/proportionality**. Concerns included:
 - Standard too prescriptive/ detailed and over-engineered for SMEs (flow not clear)
 - Iterative nature of the standard not clear, some areas noted as being circular
 - Introduction of many new definitions and concepts; more clarity needed

BUT, support for individual aspects, such as:

Flowcharts

Introductory paragraphs

Separate assessment of IR and CR

Automated tools and techniques

Inherent risk factors (except fraud)

Spectrum of inherent risk

Responses to ED–315

Mixed views:

- Addition of obtaining ‘*sufficient appropriate audit evidence*’ as the basis for risk identification and assessment
- Various aspects of ‘controls relevant to the audit’ (e.g., specifying which controls are relevant to the audit; those that are designated in the auditor’s judgment)
- ‘Susceptibility to fraud’ as an inherent risk factor
- Enhancements made regarding financial statement level risks
- In definition of relevant assertion – where there is a ‘reasonable possibility of a misstatement’ and how it relates to a possibility that is ‘more than remote’ – view that these are not the same
- Definition of significant risk
- New stand-back and ISA 330 para 18

Task Force Action – Overall Response

- Calls from respondents to:
 - Maintain ‘**principles-based**’ standards
 - Use **simpler language** and reduce **overall complexity** within the requirements
 - Maintain **robustness** of requirements
 - Enhance **consistency** of application
- Recognition of complexity and scalability/proportionality concerns → **Focus area for IAASB**
- IAASB to discuss ‘overall’ response to broad concerns at March 2019 meeting
 - Alternatives presented for discussion relating to “understanding the system of internal control”
 - Same outcome
 - Option 1: address concerns and issues by providing further clarity in requirements
 - Option 2: largely based on Option 1 requirements, but presented differently (e.g., some detail now in definitions) therefore is shorter

Task Force Action – Changes to the Application Material

- Task Force to consider application material once approach to requirements agreed on
- Proposals to:
 - Address **long, complex paragraphs**
 - **Simplify language** where possible
 - Use **bullet lists** where possible – easier to read
 - **Consistency** across sections where possible
 - Should the guidance be maintained in application material or elsewhere?
 - Distinguishing **separate “scalability” paragraphs**
 - **Distinguish examples** e.g., in a box or indented

Question 1



In relation to the **ISA 315 Table of Drafting (Agenda Item B.2)**, consider the 2 different alternatives in presenting the requirements of the standard:

Alternative 1:	Alternative 2:
Column 3 – Option 1	Column 4 – Option 2

Representatives are asked whether the broad approach to apply an ‘overall response’ (column 4 – option 2) to draft the requirements could be an effective way to address the overarching comments from respondents relating to complexity and scalability / proportionality? If not, why not?

Task Force Action – Revisions to ED-315 (Column 3)

Understanding the System of Internal Control

- Overarching requirement to obtain an understanding of the system of internal control
 - Overall purpose added
- Terminology changes
 - Controls relevant to the audit
 - Relevant to financial reporting
 - Formality / formalized
- Individual components restructured
 - Consistency between components
 - Prominence to purpose of understanding
 - Clarity of work
- Stronger distinction between information system and control activities
- Clarifications re D&I

Question 2

Consider the proposed revisions to '*Understanding of the Entity's System of Internal Control*' – **Agenda Item B.2** (Column 3). Representatives are asked for their views on the proposed changes

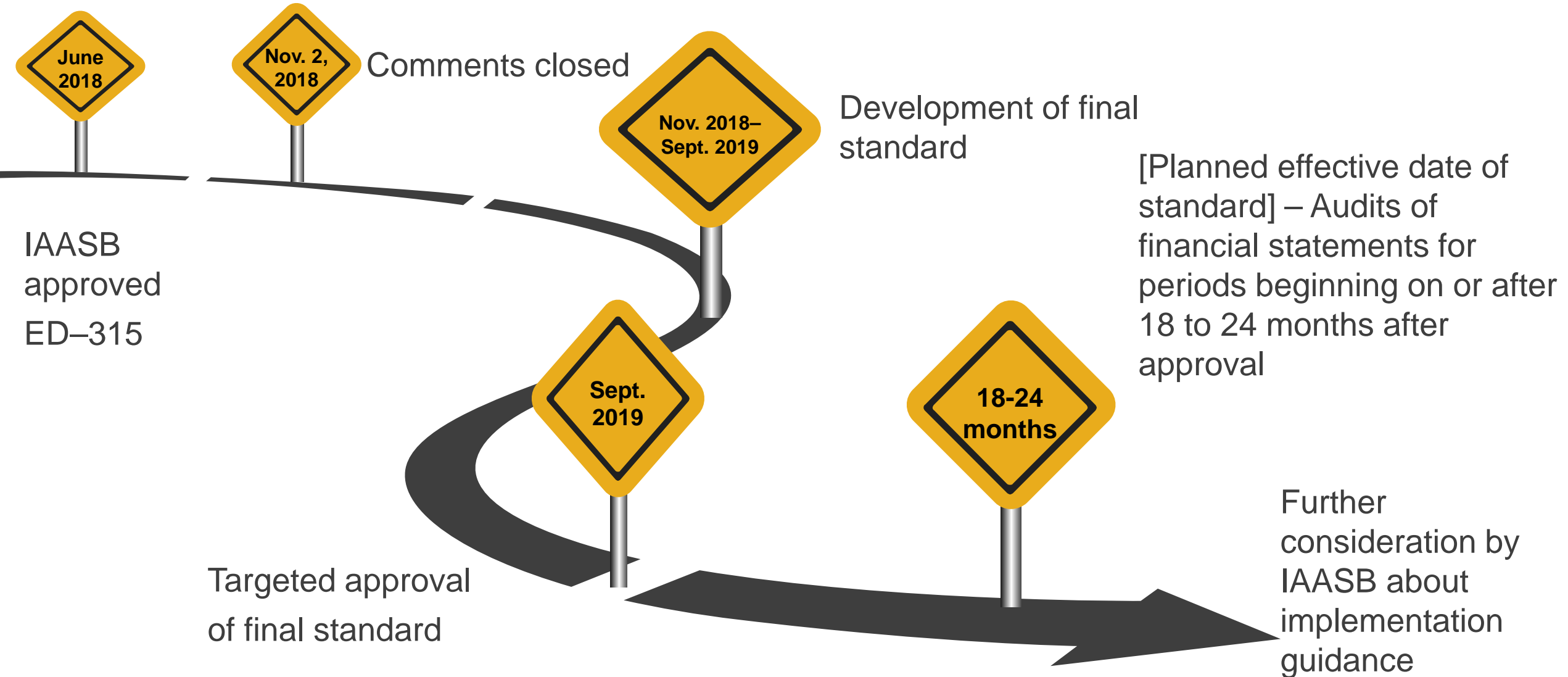


Task Force Action – Revisions to ED–315

Identifying and Assessing the Risks of Material Misstatement (Individual Issues)

- Addition of obtaining ‘*sufficient appropriate audit evidence*’ as the basis for risk identification and assessment — proposal to change to *provide a basis for...*
- ‘Susceptibility to fraud’ as an inherent risk factor – Task Force still considering how to address
- Enhancements made regarding financial statement level risks – Task Force still considering how to address
- In definition of relevant assertion – where there is a ‘reasonable possibility of a misstatement’ and how it relates to a possibility that is ‘more than remote’ – view that these are not the same
 - Proposal to remove ‘more than remote’
 - Further consideration about how to explain the ‘threshold’
- Definition of significant risk – proposal to change to ‘AND’ – will scope out those with low likelihood of occurrence
- Whether to keep new ‘stand-back’ or ISA 330 para. 18, or keep both, or not have either
 - On balance Task Force proposes to keep both

ISA 315 (Revised) — The Way Forward



Any Other Matters?

- Are there any other matters that the Task Force should consider as it progresses the changes to ED-315?





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