

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

- CAG Meeting
- September 10<sup>th</sup>, 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

## Responses to ED-315 – Overall

### 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 in some aspects (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

### Revised drafting agreed to by IAASB in June 2019:

- **Requirements:**
  - Focus on “what” is required – more succinct requirements, while maintaining the robustness of the standard
  - Different presentation format – tables and boxes, headings and sub-headings
  - The “how” and the “why” largely relocated to application material, retained however where appropriate (e.g. essential criteria)

## Responses to ED-315 – Overall

### Revised drafting agreed to by IAASB in June 2019 (continued):

- **Application material:**
  - Developing and distinguishing ‘**why**’ paragraphs
  - Addressing **long, complex paragraphs** and using **simplified language** where possible
  - Use of **bulleted lists** where possible – easier to read
  - **Consistency** across sections where possible
  - Incorporating guidance in appendices, such as **internal audit** and **information technology**
  - Separately signposting “**scalability**” **paragraphs** and more clearly illustrating scaling up as well as down where appropriate
  - **Distinguishing examples** in a box

# Key proposals for CAG discussion – ISA 315 (Revised)

## Definition of significant risk

- ED–315 wording:

*Significant risk* – An identified risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which **one or a combination of** the inherent risk factors affect the likelihood of a misstatement occurring **or** the magnitude of potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other ISAs.

- New proposed wording:

*Significant risk* – An identified risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the **combination of the** likelihood of a misstatement occurring **and** the magnitude of **the** potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other ISAs.

## Key proposals for CAG discussion – ISA 315 (Revised)

### Definition of inherent risk factors – fraud

- ED–315 wording:

Characteristics of events or conditions that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or **fraud**.

- New proposed wording:

Characteristics of events or conditions that affect susceptibility to misstatement, **whether due to fraud or error**, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or **other fraud risk factors insofar as they affect inherent risk**. (*with reference to ISA 240*)

## Key proposals for CAG discussion – ISA 315 (Revised)

### ‘Catch-all’ requirement to identify controls that address ROMM (Para 39(a)(ii))

- ED–315 wording:

Controls that, in the auditor’s professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:

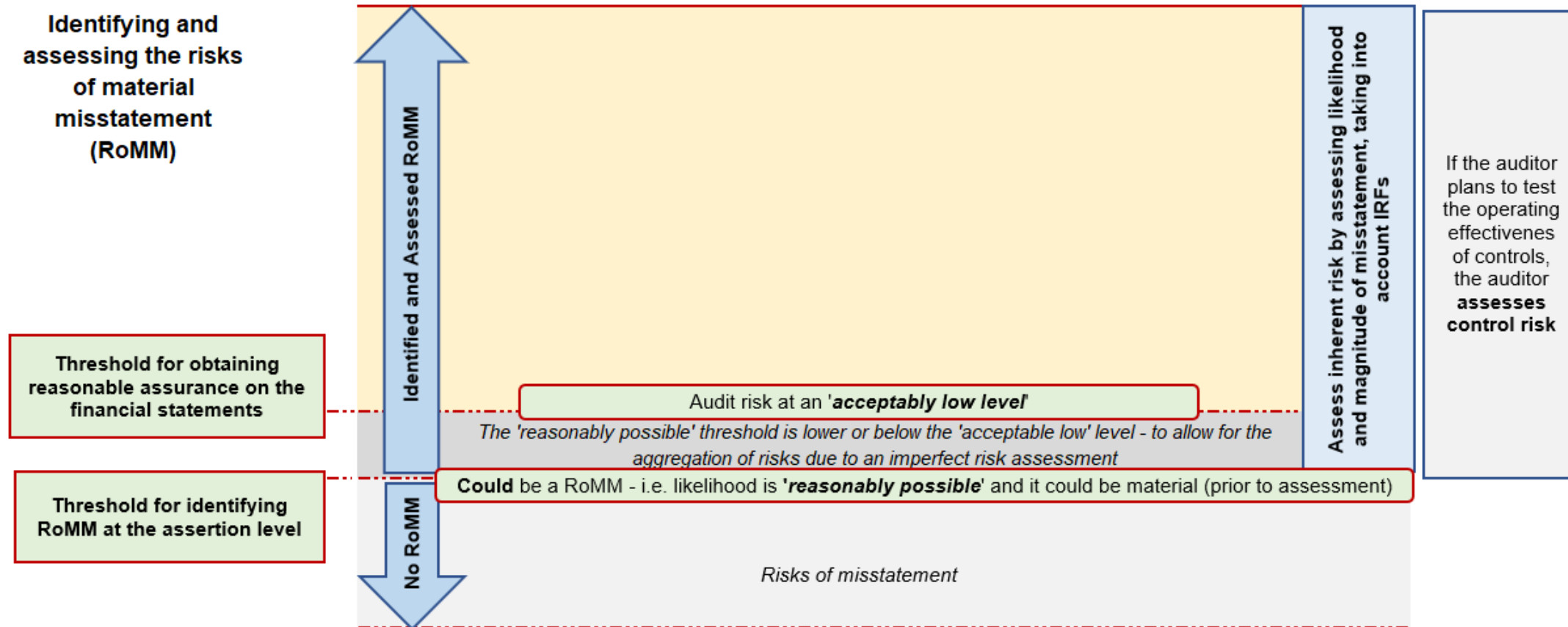
- (i) Identify and assess the risks of material misstatement at the assertion level; or
- (ii) Design further audit procedures responsive to assessed risks.

- New proposed wording:

Controls that address assessed risks for which the effect of the inherent risk factors on the assessment of inherent risk indicates that there is a **reasonable possibility that the assessed risks could be significant risks** but that the auditor **determines are not significant risks, based on the auditor’s professional judgment**

# Key proposals for CAG discussion – ISA 315 (Revised)

## The threshold when identifying ROMM versus ROMM that exists



## Key proposals for CAG discussion – ISA 315 (Revised)

### Presentation of the final standard and the question about re-exposure

When do we re-expose?

- **Substantial changes** arising from matters in ED – commentators views not known
- **New matters** that are **substantial**
- **Substantial** changes of **substance**

Task Force view – **changes do not warrant re-exposure:**

- Changes made to respond to comments
- Broadly no new concepts introduced – clarifications and enhancements to respond to comments
- Presentational aspects do not change meaning of underlying words
- One Task Force member does not agree

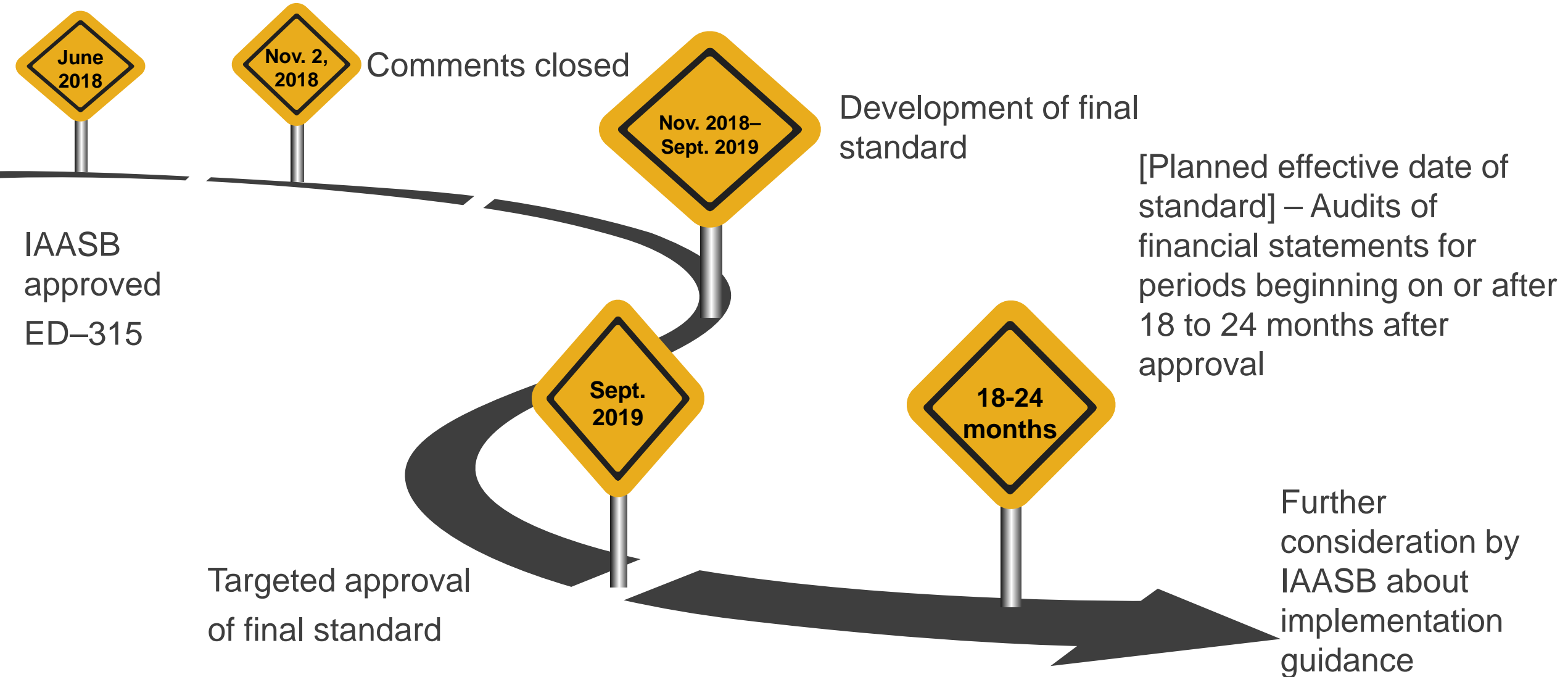


## Question 1

The IAASB CAG is asked to provide views on the key areas as discussed, and in particular on whether the Representatives believe there are any fatal flaws that may prevent the standard from being approved by the Board.



# ISA 315 (Revised) — The Way Forward





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