



Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 10–11, 2020

Agenda Item

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Approved ISA 315 (Revised 2019),¹ *Identifying and Assessing the Risks of Material Misstatement* – Report Back

Objective of the Agenda Item

1. The objective of this agenda item is to receive a report back on comments of the CAG Representatives on this project as discussed at the September 2019 meeting.

Project Status

1. At its meeting in September 2019, the IAASB approved ISA 315 (Revised 2019), including the related conforming amendments to other International Standards on Auditing (ISAs). The revised ISA will be effective for audits of financial statements for periods beginning on or after December 15, 2021.
2. The standard was formally [released](#) by the IAASB on December 19, 2019, after receiving confirmation from the Public Interest Oversight Board's (PIOB) that due process was followed.
3. In finalizing ISA 315 (Revised 2019), the Board continued to focus on the understandability and complexity of the ISA, as well as the iterative nature of the standard. The Board continued to discuss the threshold for identifying risks of material misstatement and agreed the supporting guidance for this as a conforming amendment to ISA 200. The Board has also recognized that support for those initially applying the changes to ISA 315 (Revised 2019) is critical and will further consider the most appropriate actions in providing this initial support. The Board also acknowledged the need to monitor implementation challenges as they arise.
4. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Feedback

5. Extracts from the draft September 2019 IAASB CAG meeting minutes, as well as an indication of how the IAASB has responded to the Representatives' comments, are included in the table below.

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Representatives' Comments	Task Force/IAASB Response
REVISED DRAFTING APPROACH – PRESENTATION OF STANDARD	
<p>With regard to the ISA 315 Task Force's efforts to refine the requirements to be more succinct and understandable, Ms. Zietsman supported the changes that have been made, indicating that the efforts to streamline the drafting had made a complicated and long standard more digestible. However, Ms. Zietsman expressed concerns on the use of tables in the standard, noting that when firms, legislators or others using the standard incorporate the new requirements this may cause unintended consequences, including that the requirements may be read in a different way.</p>	<p>Point noted.</p> <p>Ms. Campbell noted that the tables were designed to help auditors better understand the requirements, in particular in relation to the understanding of each of the components of the entity's system of internal control. Acknowledging that not everyone may understand the intention of the tables, she also added that if the text in the tables were taken out of the table formats (and shown in a linear format as had been done in Agenda Item 2-G in the IAASB's papers), the articulation and understandability of those requirements remains unchanged.</p>
SIGNIFICANT RISK	
<p>Ms. Zietsman supported the new proposed wording for the definition of significant risk, in particular the change of the "... likelihood of a misstatement occurring or the magnitude of potential misstatement..." to "... likelihood of a misstatement occurring and the magnitude of potential misstatement...".</p>	<p>Support noted.</p>
<p>In relation to the changes made to the definition of significant risk, Ms. Zietsman:</p> <ul style="list-style-type: none"> Questioned whether it was the 'combination of' the magnitude and likelihood in the new proposed wording, as this together with where it was placed in the sentence may suggest that every inherent risk factor needed to be considered. Rather, she suggested that the previous language referring to the 'intersection' of the likelihood and magnitude was more appropriate, also noting that this is how it was explained in the application material, and was more helpful. In the explanation in the issues paper of the proposed changes to the definition of 	<p>Point noted.</p> <p>No change made to the description of a significant risk, but application material was added to further explain the interaction between magnitude and likelihood when assessing inherent risk, clarifying that it is the intersection of the magnitude and likelihood on the spectrum of inherent risk (see paragraph A213).</p> <p>Ms. Campbell indicated that the intention of "rare" was not to suggest "never," and that the ISA 315</p>

Representatives' Comments	Task Force/IAASB Response
<p>significant risk, questioned the “rare” circumstance where there would be no significant risks in an audit, and what those circumstance could be, if any. She encouraged that this be clarified in the application material.</p>	<p>Task Force would revisit if not clear within the standard.</p>
<p>INHERENT RISK FACTORS – FRAUD</p>	
<p>Mr. Dalkin and Ms. Zietsman expressed support for the new proposed wording for the way that fraud had been dealt with in the revised inherent risk factors:</p> <ul style="list-style-type: none"> Mr. Dalkin also acknowledged that these revisions made to the definition of the inherent risk factors with respect to fraud also addressed previous CAG concerns about duplicating what was already in ISA 240.² Ms. Zietsman also added that the change to “fraud risk factors” was helpful but suggested that this be linked to the identification and assessment of <i>inherent risk</i> to help clarify that it is not all the fraud risk factors that need to be considered. 	<p>Ms. Campbell thanked the Representatives for their views and noted that there appeared to be broad support for the new proposed definition.</p> <p>The definition of inherent risk factors was also amended to make clear that these relate to the identification and assessment of ‘inherent risk.’</p>
<p>REQUIREMENT TO IDENTIFY CONTROLS THAT ADDRESS RISK OF MATERIAL MISSTATEMENT (ROMM)-CONTROLS THAT ADDRESS RISKS THAT COULD BE BUT ARE NOT DETERMINED TO BE SIGNIFICANT RISKS (PARAGRAPH 39(A)(II))</p>	
<p>Mr. Dalkin supported a requirement to further consider other controls (to address risks of material misstatement) not specifically identified, but highlighted that the way the requirement had been articulated was confusing. He encouraged the ISA 315 Task Force to reconsider how it could be made clearer that auditor judgment would be used in considering whether there were any further controls that needed to be identified. However, Mr. Hansen questioned whether the requirement was</p>	<p>Point noted.</p> <p>The requirement to identify such controls was maintained but rearticulated (paragraph 26(a)(iv)) to make clear that the auditor’s judgment would be needed to identify these ‘other’ controls. Supporting application material was added to further clarify the intent of this new requirement (paragraph A165).</p>

² ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Representatives' Comments	Task Force/IAASB Response
<p>needed based on the other changes that had been made to identify controls. Messrs. Thompson, Hirai, Ruthman, Hansen and Bini also expressed concerns over the understandability of the new proposed wording, highlighting that this may result in inconsistencies in application. Ms. Zietsman noted a similar concern and added that the requirement is too complex to be operable.</p>	
<p>Messrs. Thompson and Hirai expressed the view that the proposed changes may significantly change this requirement from what had been exposed as this may require the auditor to document why risks had not been determined to be significant risks, and Mr. Ruthman questioned whether the new proposed wording would drive auditors away from identifying significant risks. Ms. Zietsman also added that the way that the requirement was now articulated narrowed the requirement which may also have unintended consequences.</p>	<p>Ms. Campbell explained that this had not been the intention and agreed that this requirement would need further consideration by the ISA 315 Task Force. Changes were made to make the requirement clearer and application material added to clarify the intention of the IAASB, which had not changed from what had been included in the Exposure Draft.</p>
<p>Messrs. Hirai and Bini both noted confusion with the inclusion of 'reasonable possibility' in this requirement, in particular:</p> <ul style="list-style-type: none"> • Mr. Hirai questioned the difference between the threshold for reasonable possibility in this context (i.e., linking reasonable possibility to when an identified risk is not a significant risk) and the threshold for material misstatement as explained in ISA 200. • Mr. Bini questioned whether 'reasonable possibility' considers the likelihood or magnitude of misstatement individually or the combination of the two. 	<p>Ms. Campbell responded that this particular paragraph had been challenging to articulate, and agreed that the ISA 315 Task Force would need to further consider how to more clearly explain what was intended by this requirement for the auditor to identify any other controls they may want to think about, such as controls for those for risks related to areas that are more complex but have not been determined to be significant risks.</p> <p>Changes were made to rearticulate the requirement and rather link this requirement to the objectives of identifying and assessing risks of material misstatement. The supporting application material was also enhanced to clarify the intent of the requirement.</p>

Representatives' Comments	Task Force/IAASB Response
THRESHOLD FOR ROMM	
<p>Mr. Dalkin supported the use of diagrams to explain concepts within ISA 315 (Revised). However, Ms. Zietsman noted that the diagram may not accurately reflect how the threshold has been articulated in ISA 200, noting that the revisions in ISA 200 were clearer. She encouraged the ISA 315 Task Force to further consider the diagram, in particular to make sure that the use of terminology was consistent, otherwise this may further confuse auditors and therefore result in inconsistency in practice. Mr. Thompson agreed that this was confusing and encouraged that further consideration be given to the use of the terms 'risks of material misstatement' and 'inherent risk' as appropriate, including in this area.</p>	<p>Point noted.</p> <p>Further changes were made to ISA 200, paragraph A15a, to clarify the threshold. The diagram was also revised during the Board meeting to better relate the diagram to the ISA 315 Task Force's proposed revised application material in paragraph A15a.</p>
CONSIDERATIONS OF RE-EXPOSURE	
<p>The majority of the Representatives agreed that re-exposure is not necessary:</p> <ul style="list-style-type: none"> • Messrs. Hansen, Hirai, Bradbury and Ms. Hansen noted that this project has been ongoing for several years, had followed due process and should move forward. • Messrs. Hansen, Bini and Ms. Meng noted that there is no standard that would satisfy all stakeholders in every way, and as such, the IAASB should move forward with finalizing the standard. • Ms. Yazar and Mr. Bradbury noted that no substantial changes had been made to the standard since exposure in their view, and Ms. Yazar noted that the proposed wording was to respond to feedback to address the complexity, understandability and scalability. • Mmes. McGeachy and Borgerth and Mr. Rees noted that a re-exposure would likely not provide the IAASB with new information 	<p>Points noted.</p> <p>It was agreed by the IAASB to not re-expose.</p>

Representatives' Comments	Task Force/IAASB Response
<p>and therefore re-exposure was not necessary.</p> <ul style="list-style-type: none"> Mr. Thompson agreed that re-exposure is not necessary, noting that his view is conditional on the basis that the Board monitored implementation and made adjustments if, and when, necessary. Ms. Robert agreed that re-exposure is not necessary but also conditional on the basis that the Board has the view that the proposed standard is scalable. 	
<p>Ms. Borgerth encouraged the ISA 315 Task Force to clearly articulate why a re-exposure is not necessary, to evidence that this part of the IAASB's due process is not being disregarded.</p>	<p>Point noted.</p> <p>Agenda Item 2-H for the September 2019 IAASB meeting set out the ISA 315 Task Force's reasons for not re-exposing the revised standard. The IAASB agreed to not re-expose.</p>
<p>There were a few Representatives that supported re-exposure:</p> <ul style="list-style-type: none"> Mr. Pavas noted concern about the complexity of this standard still, noting that this would impact the legislative process to adopt the standard and encouraged that further comment be sought on the complexity of the standard. Mr. Yurdakul noted that the new presentation is a conceptual change to the standard and that stakeholder views should be obtained. Given that ISA 315 (Revised) is a foundational standard and highly interrelated to other standards, Mr. Ruthman noted concern over the consistent understandability of the standard for all stakeholders. 	<p>Points noted – see above.</p> <p>With regard to further guidance, Ms. Campbell noted that the ISA 315 Task Force would continue to also further consider the content of the implementation guidance and what would be helpful to auditors in applying the revisions and changes in ISA 315 (Revised).</p>
<p>Messrs. Cela and James did not provide a view on re-exposure, with Mr. Cela noting that the decision should be deferred until progress had been made about the direction of the project on audits of Less</p>	<p>Ms. Campbell indicated that the LCE project is on a different timeline and it would not be in the public interest to wait any longer for the publication of the revisions to ISA 315 (Revised). Ms. Campbell also</p>

Representatives' Comments	Task Force/IAASB Response
Complex Entities (LCE), and Mr. James noting he needed to understand why one of the ISA 315 Task Force members wanted re-exposure.	noted that the ISA 315 Task Force (and Board) member who had the view that re-exposure is necessary, was because the changes that had been made since the Exposure Draft were, in their view, substantial enough to warrant re-exposure.
OTHER COMMENTS	
Mr. Thompson highlighted the need for support for operationalizing the revisions to the standard as the standard was written in a way that did not necessarily reflect how it would be implemented.	Ms. Campbell highlighted the focus on implementation activities, noting that it was important that these were undertaken in the first 6 to 9 months after finalization of the standard. She also highlighted that the flowcharts would form part of the guidance.
Ms. McGeachy encouraged the Board to make the period until the standard is effective longer as the standard is foundational to an audit. She noted a longer period would allow for effective implementation, and would also allow for a longer period for translation.	Point noted. The Board agreed to an effective date of periods beginning on or after December 15, 2021, which in its view, allowed sufficient time to implement the revised standard, while balancing that with supporting the changes that had been made to ISA 540 (Revised) ³ which were already effective.
Ms. Zietsman questioned the change relating to the definition of relevant assertions, and whether, in referring to the auditor's plans to test the operating effectiveness of controls it was intended to suggest that the auditor's assessment of control risk is linked.	Ms. Campbell noted that this was not the intention of the ISA 315 Task Force and suggested that this be revisited before finalization of the standard, with changes being made accordingly.
Ms. Zietsman also noted that the articulation of how inherent risk factors are taken into account in identifying the risks of material misstatement is not as clear as it is articulated in ISA 540 (Revised). ⁴	Ms. Campbell noted that this would be considered again, with changes made for consistency as appropriate.
PIOB OBSERVER'S REMARKS	
Ms. Pettersson expressed her strong support for the re-drafted standard, indicating that:	Support noted.

³ ISA 540, *Auditing Accounting Estimates and Related Disclosures*

⁴ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Representatives' Comments	Task Force/IAASB Response
<ul style="list-style-type: none"> • The PIOB had the view that the ISA 315 Task Force had achieved appropriate simplification to the standard while not weakening the requirements. • The main comments provided by the PIOB during the course of the project had been addressed. • Based on the analysis of the changes to the Exposure Draft, there was no substantial change from ED-315. • It is in the public interest to not delay this standard for another year or more, as due process has been followed. 	
<p>Ms. Pettersson also strongly supported the changes that had been made to the definition of the inherent risk factors with regard to the incorporation of fraud, highlighting that this had been an ongoing area of concern of the PIOB.</p>	<p>Support noted.</p>

Appendix A

Project Details and History

Project: ISA 315 (Revised)

Link to IAASB Project Page: [ISA 315 Project Page](#)

Task Force Members

At the time of approving ISA 315 (Revised 2019), the IAASB's ISA 315 (Revised) Task Force comprised of:

- Fiona Campbell, IAASB Member and Task Force Chair (supported by Denise Weber, IAASB Technical Advisor)
- Karin French, IAASB Member⁵
- Marek Grabowski, IAASB Member⁶ (supported by Josephine Jackson, IAASB Technical Advisor)
- Susan Jones, IAASB Technical Advisor
- Kai Morten Hagan, IAASB Member

Summary

	IAASB CAG Meeting	IAASB Meeting
Project commencement and preliminary discussions on audit issues relevant to ISA 315 (Revised)	March 2016	March 2016 June 2016
Discussion on the project proposal to revise ISA 315 (Revised)	September 2016	September 2016
Discussion on audit issues and recommendations for proposed changes to ISA 315 (Revised)	September 2016 March 2017 September 2017 March 2018 September 2018 March 2019	September 2016 December 2016 March 2017 September 2017 October 2017 December 2017 March 2018 June 2018 December 2018 March 2019

⁵ Karin French's term on the Board ended December 31, 2019

⁶ Marek Grabowski's term on the Board ended December 31, 2019

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IAASB CAG Discussions: Detailed References

Information gathering	<p><u>March 2016</u> See IAASB CAG meeting material and meeting minutes (Agenda Item C): http://www.iaasb.org/cag/meetings/paris-france</p>
Project Proposal	<p><u>September 2016</u> See IAASB CAG meeting material and meeting minutes (Agenda Item D) http://www.iaasb.org/cag/meetings/new-york-usa</p>
Development of Exposure Draft	<p><u>September 2016</u> See IAASB CAG meeting material (Agenda Item D) and meeting minutes (Agenda Item C) http://www.iaasb.org/cag/meetings/new-york-usa</p> <p><u>March 2017</u> See IAASB CAG meeting material (Agenda Item F) and meeting minutes (Agenda Item C) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u> See IAASB CAG meeting material (Agenda Item K) and meeting minutes (Agenda Item C) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2018</u> See IAASB CAG meeting material (Agenda Item G) and meeting minutes (Agenda Item A) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny</p>
Development of Final Standard	<p><u>September 2018</u> See IAASB CAG meeting material (Agenda Item J) and meeting minutes (Agenda Item A) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p> <p><u>March 2019</u> See IAASB CAG meeting material (Agenda Item B) and meeting minutes (Agenda Item A) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p> <p><u>September 2019</u> See IAASB CAG meeting material (Agenda Item B) and meeting minutes (Agenda Item A) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2</p>

