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

- CAG Meeting
- September 10th, 2019

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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)
• **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.
**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.
The threshold when identifying ROMM versus ROMM that exists

- **Identifying and assessing the risks of material misstatement (RoMM)**
- **Identified and Assessed RoMM**
- **Audit risk at an 'acceptably low level'**
  - The 'reasonably possible' threshold is lower or below the 'acceptable low' level - to allow for the aggregation of risks due to an imperfect risk assessment
  - Could be a RoMM - i.e. likelihood is 'reasonably possible' and it could be material (prior to assessment)

- **Assess inherent risk by assessing likelihood and magnitude of misstatement, taking into account IRPs**
- **If the auditor plans to test the operating effectiveness of controls, the auditor assesses control risk**

Risks of misstatement

- **Threshold for obtaining reasonable assurance on the financial statements**
- **Threshold for identifying RoMM at the assertion level**
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
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

IAASB approved ED–315

June 2018

Nov. 2, 2018

Comments closed

Development of final standard

Nov. 2018–Sept. 2019

[Planned effective date of standard] – Audits of financial statements for periods beginning on or after 18 to 24 months after approval

Sept. 2019

18-24 months

Further consideration by IAASB about implementation guidance

Targeted approval of final standard

Nov. 2018–Sept. 2019

18-24 months

Further consideration by IAASB about implementation guidance