

**Task Force Analysis of Due Process Related to Re-Exposure****Overview**

1. If the Board votes to approve proposed ISA 315 (Revised),<sup>1</sup> then a separate affirmative vote of the Board is required on whether the ISA should be re-exposed. Based on the changes proposed in **Agenda Items 2-A to 2-D**, and prior to any changes proposed at the September 2019 IAASB meeting, and with the exception of one Task Force member (further explained below), the ISA 315 Task Force (the Task Force) believes that proposed ISA 315 (Revised) does not warrant re-exposure.
2. This paper sets out the Task Force's analysis of the provisions of the due process related to whether an approved ISA needs to be re-exposed.

**What Does the Due Process Require?**

3. Appendix A includes relevant extracts from the IAASB's due process. The principal consideration in the due process is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The related working procedures, which support the due process, include three examples of situations that may constitute potential grounds for a decision to re-expose:
  - (a) Substantial change to a proposal arising from matters not aired in the exposure draft (ED) such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
  - (b) Substantial change arising from matters not previously deliberated by the IAASB; or
  - (c) Substantial change to the substance of a proposed international pronouncement.

The Task Force notes that there will almost always be changes to standards between an ED and final standard to be appropriately responsive to comments received on exposure— and this is true for proposed ISA 315 (Revised). In forming its view on re-exposure, the Task Force has considered the reasons for re-exposure set out above and focused on these in determining its views for the purpose of this paper.

**Considerations Relevant to the Development of the Task Force's View on Re-Exposure**

4. The objectives of the project to revise 315 (Revised) were to:
  - (a) Establish more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures in a manner commensurate with the size and nature of the entity. It was anticipated that the revisions would focus on enhancing the auditor's approach to understanding the entity, its environment (including its internal control) and risk assessment activities in light of the changing environment.
  - (b) Determine whether and how ISA 315 (Revised), in its organization and structure, could be modified to promote a more effective risk assessment.
  - (c) Propose conforming and consequential amendments as appropriate.

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<sup>1</sup> Proposed International Standards on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

- (d) Determine whether non-authoritative guidance and support tools should be developed by the IAASB, or others, to supplement the revisions to ISA 315 (Revised) thereby aiding its effective implementation.
5. The key elements addressed in the Exposure Draft of ISA 315 (Revised) (ED-315) were highlighted in the Explanatory Memorandum to ED-315. These included:
- (a) Building on the foundational concepts relating to an audit of financial statements in ISA 200<sup>2</sup> (such as audit risk, identifying risks at the financial statement and assertion levels, and the definitions of inherent risk and control risk) by clarifying and improving certain aspects to drive better risk assessments. In undertaking the revision of extant ISA 315, the IAASB did not seek to fundamentally change the key concepts underpinning audit risk<sup>3</sup> as the IAASB continued to have the view that the audit risk model is fundamentally sound.
  - (b) Focusing on changes to enhance the scalability of the standard, including application material focused on applying the standard to smaller and less complex entities.
  - (c) Developing introductory paragraphs and flowcharts to illustrate the interconnected and iterative nature of the standard.
  - (d) Modernized and updated the standard for an evolving business environment, including substantial changes in relation to the auditor's considerations related to the entity's use of information technology (IT). ED-315 also included specific considerations around the auditor's use of automated tools and techniques.
  - (e) Strengthened the standard through the emphasis of the exercise of professional skepticism in the introductory paragraphs, clarified the importance of a thorough and robust understanding as required by ED-315 as a foundation for being able to exercise professional skepticism throughout the rest of the audit, and other changes to encourage the exercise of professional skepticism in the risk assessment process.
  - (f) Focusing the auditor on considerations about fraud (as appropriate), however being mindful of the separate standard that more thoroughly addresses the auditor's considerations about fraud (ISA 240).<sup>4</sup>
6. To facilitate both the Task Force's and the Board's consideration of the changes since ED-315, **Agenda Item 2-G** compares the requirements in ED-315 with **Agenda Item 2-A** (as well as to extant ISA 315 (Revised)). Paragraph 9 below includes a detailed summary of the changes made to the requirements.
7. While there was support for many of the individual elements of the proposals in ED-315, there was also an overarching message about the complexity, understandability and length of the new proposed standard. The Task Force has therefore spent significant time addressing these broader overarching concerns in developing the changes, including thinking more broadly about the presentational aspects of the standard to address these comments. At the same time, the key elements identified in paragraph 5 have been retained, with modifications and clarifications in response to comments

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>3</sup> Audit risk is a function of the risks of material misstatement (i.e., inherent risk and control risk) and detection risk.

<sup>4</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

received on exposure, in arriving at the draft presented for discussion at the September 2019 IAASB meeting. In the Task Force's view, the proposed changes have clarified but not substantially altered the key elements of the proposed revised ISA, nor have they resulted in a departure from the objectives of the revision.

8. Notwithstanding that these key elements have not substantially changed, the Task Force considered the nature and extent of the changes made since ED-315 to evaluate whether those changes are of such significance that re-exposure may be necessary.

#### *Changes to the Requirements and Application Material*

9. The Task Force notes the following changes from ED-315:
  - (a) To respond to concerns from respondents to ED-315 about the complexity, length and understandability of ED-315, the Task Force:
    - Made broad changes to focus the requirements on “what” is required to be done. As a result, certain aspects of the requirements in ED-315, either relating to “why” a procedure is undertaken or “how” to apply the requirement, have been moved to application material, for example paragraphs 18, 23, 25, 39 and 53 of ED-315. However, in the view of the Task Force, the robustness of the requirement has been maintained as the “what” still remains.
    - With regard to understandability, developed paragraphs within the application material to explain “why” certain procedures are required where the Task Force believed it would help auditors in applying the relevant requirement appropriately.
    - Rearticulated certain requirements to make them more succinct, direct or understandable, including the following paragraphs of ED-315: 19-20 (now combined; paragraphs 27-29 and 31-42 of ED-315 (relating to obtaining the required understanding of each of the components of the system of internal control, which have also now been presented in a tabular format); and 43, 45, 47-50, 52-53 and 54(b).
    - To remove unnecessary complexity and length:
      - (i) Removed requirements (or aspects thereof) that were explanatory cross-references to other requirements and instead explained the interaction of the requirements in application material, as necessary, for example the following paragraphs of ED-315: paragraphs 17(a)-(c), 25, and 26.
      - (ii) Removed aspects of requirements in paragraphs 43 and 44 that are redundant to the requirements of ISA 265.
  - (b) The Task Force further considered whether substantive changes should be made to the requirements, to respond to concerns from respondents about the iterative nature of the standard and the order in which it has been presented. However, the Task Force agreed on balance to maintain the structure proposed in ED-315, but to provide enhanced application material to address the concerns raised. In particular, the application material has been enhanced to explain the interdependencies between the auditor's identification of risks, assessment of risks and understanding of the information system and control activities (e.g., in determining significant classes of transactions, account balances and disclosures, significant

risks, or risks for which substantive procedures alone do not provide sufficient appropriate audit evidence).

(c) To respond to concerns from respondents to ED-315 about the scalability of the standard, the Task Force:

- Rearticulated certain requirements to emphasize their conditionality (i.e., they are only applied where a condition exists), in paragraphs 22A, 31A(a)(ii) and 51. For example, paragraph 51 separately addresses how to assess control risk conditional on whether the auditor does or does not plan to test the operating effectiveness of controls. In circumstances where the auditor does not plan to do so, the assessment of control risk is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk (however, this does not negate the need for the auditor to understand the entity's system of internal control, which is emphasized within the new "why" paragraphs).
- Where appropriate, provided additional examples in the application material of considerations for auditors in applying certain requirements to better illustrate the scalability of the requirement. The examples in some cases were enhanced to illustrate both scaling down as well as scaling up.

(d) The Task Force has revised specific aspects of the standard, to respond to respondents' comments about those aspects, where it was considered appropriate, including by adding relevant application material. These matters have been presented for discussion at the March, June or September 2019 Board meetings. The more significant changes include:

- Further clarifying the work effort in relation to the auditor's understanding of the system of internal control, including focusing on the difference between the information system and communication, and the control activities component, as well as adding an evaluation of the entity's process to monitor the system of internal control to be consistent with the evaluations required for the other components. The Task Force has also further clarified which controls are required to be identified and made a stronger link to the required evaluation of those controls.
- Further clarifying the interaction of significant classes of transactions, account balances and disclosures, and relevant assertions.
- Further clarified how the inherent risk factors are taken into account in the understanding of the entity and its environment as well as the risk assessment process.
- Enhanced aspects of the standard related to the auditor's identification of risks of material misstatement and assessment of inherent risk, in particular how the assessments of likelihood and magnitude relate to the spectrum of inherent risk and the determination of significant risks.

(e) Added a paragraph to paragraph 17 and added paragraph 51A

The IAASB received comments on exposure that the standard still needed more regarding behavioral changes for the exercise of professional skepticism in the risk assessment process.

In response, the Task Force made the following revisions:

- Similar in nature to changes made in ISA 540 (Revised),<sup>5</sup> added:
  - A ‘hanging paragraph’ to paragraph 17 to reinforce that the risk assessment procedures should be designed in a way that is not biased towards evidence that is corroborative or contradictory to management’s assertions.
  - Paragraph 51A to evaluate that sufficient evidence has been obtained to provide an appropriate basis for the risk identification and assessment at the end of the risk assessment process.

*Further Changes to Address Length, Complexity and Understandability*

10. In addition to the changes explained above, to respond to concerns from respondents to ED-315 about the length, complexity and understandability of the proposed revisions, the Task Force has considered what further could be done to further enhance understandability and readability. For example, some of the requirements have been presented in tabular format (an approach which is already used in ISAE 3000),<sup>6</sup> the examples have been presented in boxes and new headings and sub-headings to enhance readability (for example to highlight application material that addresses scalability considerations or the use of automated tools and techniques). This does not change the nature of the requirements – they would read the same without the tables (as has been presented in **Agenda Item 2-G**) and have been drafted using the same drafting conventions as other ISAs (i.e., principle-based standards, similar style and articulation etc.). The basic components of the standard are the same as other ISAs, (i.e. objective, definitions, requirements, application material and appendices) and the authority of each of these components is as set in ISA 200.<sup>7</sup>
11. In the view of the Task Force, these matters relate to the presentation of the standard, do not represent substantial changes to the standard and are not therefore pertinent to a discussion about the robustness of the final standard, and whether the revised standard needs to be re-exposed as part of the ISA 315 (Revised) project.
12. The Task Force acknowledges that there is a broader conversation that certain Board members would like to have about the changes to the presentation to the standard and whether this needs to be replicated in (a) the ISAs currently being revised; and (b) all of the ISAs. In the view of the Task Force, this question is not one that should be addressed as part of the ISA 315 (Revised) project but should rather be dealt with more broadly as a separate topic for discussion by the IAASB. In addition, it is likely that any decision as to the extent to which the presentation style used in ISA 315 (Revised) can

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<sup>5</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>6</sup> International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>7</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 21, 22 and A60–A65, and A66 as revised in the proposed conforming amendments set out in **Agenda Item 2-I**

or should be used in other standards must be made in context of the other individual standards (i.e., not all features may make sense for all ISAs).<sup>8</sup>

13. Furthermore, notwithstanding that the presentation of ISA 315 (Revised), as further revised, may appear differentiated from other ISAs, the presentational devices used are not individually unique to this standard and will not hinder its application in the same way as extant ISA 315 (Revised) or other ISAs.
14. Accordingly, the Task Force has continued to focus the question of re-exposure on the merits of the specific changes as discussed in paragraph 9 above.

*Task Force Views on Whether the Changes Necessitate Re-Exposure*

15. The Task Force has analyzed the relevant due process requirements and made the following observations:

- (a) Have the key elements of the ISA changed, or have the objectives of the project changed?

The Task Force has responded to the comments from the specific questions asked in ED-315, for example specific questions were asked about understandability. While there have been many changes to the ISA, the key elements of ED-315 have been retained but modified and clarified in response to comments received on exposure as explained above. Therefore, the Task Force believes that there have not been any substantial changes to key elements of the ISA, from ED-315. In addition, the Task Force believes that the changes made since ED-315 do not change the objectives of the revision of ISA 315 (Revised).

- (b) Have significant new concepts been introduced?

The Task Force does not believe so. The Task Force considered the changes from ED-315, and determined that there were no significant new concepts introduced by the changes. The changes were largely to clarify the proposals in ED-315, and make them more understandable. The new paragraph introduced in paragraph 17 and the new paragraph 51A are to respond to specific comments received on ED-315 and focuses on professional skepticism. This is not a new concept to the standard and was already embedded within the application material (the Explanatory Memorandum to ED-315 set out all the references to professional skepticism in a separate Appendix and a specific question was asked regarding the adequacy of the standard in addressing the exercise of professional skepticism). The Task Force therefore does not believe that any substantial new concepts have been introduced that warrant re-exposure.

16. The Task Force also considered whether there were other relevant factors that could be taken into account in determining whether re-exposure is necessary. These included:

- (a) Whether the IAASB will become aware of any new concerns by re-exposing ED-315.<sup>9</sup>

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<sup>8</sup> Recognizing that ISA 315 (Revised) will look slightly different to many of the ISAs once it becomes effective (proposed for late 2022), the Task Force believes that the discussions related to the Audits of Less Complex Entities (LCE) work could also incorporate this discussion (because one of the alternative actions for the IAASB within the Discussion Paper includes a broad rewrite of the ISAs), or this could warrant a separate workstream for the Board.

<sup>9</sup> By way of information, this is a relevant factor for the IASB in deciding whether to re-expose a standard. See paragraph 6.26 of their Due Process Handbook.

- (b) The public interest considerations in delaying improvements to the risk assessment process, which is foundational to the audit process with enhancements aimed at improving audit quality.
  - (c) That ISA 540 (Revised) is now effective, which introduces some of the new concepts incorporated within the revision to ISA 315 (Revised), and although not essential to the operation of ISA 540 (Revised) does reinforce some of the new concepts introduced in that revised standard.
17. The Task Force believes that re-exposing proposed ISA 315 (Revised) will not result in new information or concerns that have not been aired already through the comment letters on ED-315 or the subsequent outreach and consultation activities. The Task Force also notes that re-exposure of proposed ISA 315 (Revised) would delay the implementation of ISA 315 (Revised) significantly, which would be contrary to the public interest in driving improvements in audit quality as this foundational standard drives the rest of the audit.

#### *Alternative View Regarding Re-Exposure*

18. One member of the Task Force does not agree with the other Task Force members' conclusion that re-exposure is not necessary.
19. The Task Force member believes that the Task Force has been as responsive as possible to the comment letters and acknowledged the efforts to 'strike the right balance' on the issues and concerns raised by the respondents to ED-315. However, the Task Force member sees the approach to addressing understandability and complexity as more integral to the decision about re-exposure. Because the views about understandability, complexity and length were so strong and pervasive within the comment letters to ED-315, the Task Force member believes that the extent of change to address these concerns is great enough to warrant re-exposure.
20. The Task Force member also believes that this standard is so fundamental to the audit that the IAASB should make sure that it has successfully improved the understandability of the standard. In addition, the Task Force member is of the view that scalability may continue to be an issue and that further views about the revised standard with regard to scalability are needed

#### **Implementation Recommendations**

21. The Task Force recognizes that the changes proposed in Agenda Item 2-A do not eliminate all implementation challenges that would have arisen from the implementation of ED-315. While the Task Force does not believe these challenges are a reason for re-exposure, the Task Force believes that they give rise to a need for a strategic approach to implementation support, specifically:
- (a) The establishment of an implementation working group, if necessary, to provide a resource to respond to practical challenges encountered in the implementation of the revised ISA;
  - (b) The issuance of additional non-authoritative guidance material, including: (a) a "first-time implementation guide" explaining the significant changes from the extant standard, and incorporating diagrams and flowcharts as developed during the course of this project to illustrate the iterative nature of the standard, and how all of the new concepts are intended to operate within the revised risk assessment process; and (b) Frequently asked questions relating to concepts that are within ISA 315 (Revised) today, that have not changed within the revised standard, and for which the Task Force believes further explanation of the intent would

- be helpful. **Agenda Item 2-F** sets out the Task Force's views about the initial implementation package to accompany the new revised standard once it is published.
- (c) A post-implementation review of ISA 315 (Revised) two to three years after the effective date of the ISA.

## Appendix A

### Relevant Extracts from the IAASB's Due Process

The IAASB's Due Process is available on the IAASB's website.<sup>10</sup> The relevant material is paragraph 23 and A40–A42.

23. After approving the final revised content of an exposed international pronouncement, the PIAC<sup>11</sup> votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)

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Re-Exposure (Ref: Para. 23)

- A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.
- A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.
- A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

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<sup>10</sup> [www.ifac.org/system/files/uploads/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](http://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf)

<sup>11</sup> Public Interest Activity Committee, i.e. the IAASB.

## Appendix B

### Outreach and Consultation Activities Since ED-315 was Published

In addition to regular updates to the IAASB's Consultative Advisory Group (March and July 2019), the Task Force (or IAASB representatives) met with representatives of the following stakeholders (As of August 31<sup>st</sup>, 2010):

1. Fiona Campbell (IAASB Deputy Chair and Chair of the ISA 315 Task Force) presented on ED-315 during a World Bank Virtual Learning Workshop on September 5, 2018.
2. After the publication of the ED, the IAASB hosted two 90 minute webinars led by the Task Force Chair:
  - [August 8, 2018](#): Explaining the key revisions to the auditor's risk assessment procedures, as introduced through the ED.
  - [October 3, 2018](#): Responding to specific questions posed by stakeholders on the ED.
3. During the September IAASB Consultative Advisory Group (CAG) meeting, Ms. Zietsman (Task Force member and IAASB deputy chair) provided an update to Representatives about the finalization of the ED in June 2018.
4. The Deputy Chair of the IAASB provided an update on ISA 315 (Revised) Exposure Draft to members of the Basel Committee's Audit Subgroup. In particular, Ms. Zietsman highlighted:
  - Broad messages of concern and support based on the feedback received from respondents to the exposure draft.
  - The initial views of the Task Force to address concerns raised by the Board and respondents.
5. Rich Sharko (IAASB member and ISA 540 Task Force Chair) provided an IAASB update to the Basel Committee on Banking Supervision's Audit Subgroup in April 2019. This update included a summary of the overarching concerns in relation to ED-315, as well as the proposed way forward, based on the direction given by the Board at its meeting in March 2019.
6. The IAASB Chair and Deputy Chair provided an IAASB update to the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group meeting in March 2019. The presentation included an overview of the responses to ED-315, with specific reference to matters that were raised by IFIAR and how the IAASB intended to address such matters.
7. The new approach to drafting was briefly explained by the Task Force Chair at the IAASB's recent conference on Audits of Less Complex Entities in Paris, France, in May 2019.
8. Fiona Campbell (IAASB Deputy Chair and Chair of the ISA 315 Task Force) provided an update to the Small and Medium Practices Committee (SMPC) meeting in June 2019. The new drafting approach was presented and matters related to scalability of the requirements and application materials were discussed.
9. Fiona Campbell (IAASB Deputy Chair and Chair of the ISA 315 Task Force) provided an IAASB update by teleconference to the IAASB's Consultative Advisory Group (CAG) in July 2019. The presentation included the new drafting approach, to address the CAG's concerns with the length, complexity and understandability of the standard.

10. Fiona Campbell (IAASB Deputy Chair and Chair of the ISA 315 Task Force) provided an IAASB update to representatives from the International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group meeting in July 2019. The presentation included the new drafting approach, with specific reference to matters that were raised by IFIAR and how the IAASB intended to address (or has addressed) such matters.