

**Comments of the Auditing and Assurance Standards Board of ICAI on the Exposure Draft of ISA 315(Revised) issued by IAASB**

The Auditing and Assurance Standards Board of ICAI is pleased to have the opportunity to comment on the Exposure Draft of ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement (ED-315) issued by the International Auditing and Assurance Standards Board (IAASB).

We are supportive of the IAASB's overall approach in revising ISA 315 in order to provide more robust framework for the identification and assessment of risks of material misstatement and to deal with the challenges arising from evolving business environments.

Our comments on ED 315 are provided below. We hope that our comments will be helpful to you in your deliberations.

**Specific Responses to some Questions given in ED of ISA 315(Revised)**

**Question 1:** Has ED-315 been appropriately restructured, clarified and modernized in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:

- (a) Do the proposed changes help with the understandability of the risk identification and assessment process? Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)?
- (b) Will the revisions promote a more robust process for the identification and assessment of the risks of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6–28?
- (c) Are the new introductory paragraphs helpful?

**Response:**

The proposed changes help with the understandability of the risk identification and assessment process and promote a more robust process for the identification and assessment of the risks of material misstatement.

However, the length of the standard is a concern.

The flowcharts given alongwith ED 315 are helpful in understanding flow of the standard. We suggest that flowcharts should be included in application material of the Standard.

New introductory paragraphs 2 to 13 are included in ED 315 explaining key concepts of this ISA. In our view, these paragraphs are quite helpful.

**Question 2:** Are the requirements and application material of ED-315 sufficiently

scalable, including the ability to apply ED-315 to the audits of entities with a wide range of sizes, complexities and circumstances?

**Response:**

We appreciate that IAASB recognizes that the auditor's ability to serve the public interest includes the ability to apply the standard to the audits of financial statements for all entities, ranging from small, simple, non-complex entities to large, complex, multinational entities and has been explained clearly in the Explanatory Memorandum.

However, we are of the view that detailed requirements for Scalability should be inbuilt within the 'Key concepts in this SA' section of the standard. In addition to paragraph 13 of ED, it may also be clarified that considering the different requirements applicable in different jurisdictions, the requirements contained in ISA may not be applicable to smaller and less complex entities. Also in various countries, e.g. India, there is a mandatory audit requirement for all companies including private and unlisted public companies.

Further, the following sentence in paragraph 13 may be amended as below:

This ISA is intended for audits of all entities, regardless of size or complexity. However, the requirements of this ISA can be scaled for audits of small and less complex entities considering the jurisdictional requirements in accordance with the guidance given in application material of this ISA.

**Question 6:** Will the proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment? Specifically:

a) Do you support separate assessments of inherent and control risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments'?

**Response:**

We support separate assessments of inherent and control risk at the assertion level. However, we are not in agreement with the requirement of adjusting risk of material misstatement based on the auditor's expectation of operating effectiveness of controls. The Standard presumes that the auditor would be able to develop a valid expectation about operating effectiveness of controls just by testing the design and implementation of controls.

b) Do you support the introduction of the concepts and definitions of 'inherent risk factors' to help identify risks of material misstatement and assess inherent risk? Is there sufficient guidance to explain how these risk factors are used in the auditor's risk assessment process?

**Response:**

Inherent risk is understood as a risk inherent in class of transactions, account balances or disclosures that could lead to a material misstatement in financial statements. Classifying the inherent risk based on the degree or any magnitude would not lead to more clarity in risk assessment procedures or assessment of inherent risk.

c) In your view, will the introduction of the 'spectrum of inherent risk' (and the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement) assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks?

**Response:**

In our view, the introduction of the 'spectrum of inherent risk' **will bring inconsistency** in the identification and assessment of the risks of material misstatement, including significant risks.

When a significant risk is identified, the auditor would be required to design audit procedures for obtaining sufficient appropriate audit evidence in relation to the risks at the assertion level. These procedures are likely to be similar/ same irrespective of where the risk is placed on the spectrum of inherent risk.

d) Do you support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions? Is there sufficient guidance to explain how they are determined (i.e., an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to that assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

**Response:**

We support the introduction of the new concepts and related definitions of significant classes of transactions, account balances and disclosures, and their relevant assertions.

e) Do you support the revised definition, and related material, on the determination of 'significant risks'? What are your views on the matters presented in paragraph 57 of the Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?

**Response:**

We do not support the revised definition, and related material, on the determination of 'significant risks'. The risks potentially low in likelihood, but for which the magnitude could be very high, should be allowed to be covered under stand-back procedures and should not be included in the definition of significant risks.

**Question 8:** What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?

**Question 10:** Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315?

**Response of Questions no. 8 and 10:**

In our view, the requirements with regard to 'stand-back' should be retained both in ISA 330 and ED of ISA 315. We agree with the views of the IAASB that proposed changes in ISA 315 would drive an evaluation of the completeness of the significant classes of transactions, account balances and disclosures identified by the auditor. The stand-back requirements will also enable the auditor to focus on material classes of transactions, account balances or disclosures (that have not been determined to be significant i.e., the auditor has not identified any risks of material misstatement that are reasonably possible and therefore for which there are no relevant assertions).

We noted that proposed revisions to paragraph 18 of ISA 330 has been made to apply to classes of transactions, account balances or disclosures that are 'quantitatively or qualitatively material' to align with the scope of the proposed stand-back in ED-315 and has also updated the related application material to explain the interaction of the requirement with the new concept of significant classes of transactions, account balances and disclosures.

We are of the view that the expansion of description of definition of the term 'material' to include both 'quantitatively or qualitatively material' in both ED of ISA 315 and proposed revised paragraph of ISA 330 will be useful for the auditors.

Therefore in our view revised paragraph 18 of ISA 330 should be retained as both will serve the purpose to safeguard against imperfect risk identification and assessment. Also paragraph 18 of ISA 330 would be necessary to prevent situations in which further audit procedures for a material class of transaction, account balance or disclosure would only include tests of controls.

It is suggested that cross reference of ISA 315 can be made in ISA 330 in paragraph 52 of the ED. The identification and evaluation of classes of transactions, account balances or disclosures that are quantitatively or qualitatively material but have not been determined to be significant classes of transactions, account balances or disclosures to be carried out in accordance with ISA 315. However, audit procedures to address such identified classes of transactions in accordance with ISA 315 are addressed in ISA 330.

The stand back provision may operate as an effective mechanism to overtly emphasise the application of professional scepticism. That said, we believe that additional application guidance may be included in ISA 315 to provide auditors with practices they

may consider employing in performing the stand back review in order to best demonstrate professional scepticism.