

ISA 315 (Revised) – Exposure Draft

- World Bank Virtual Learning Event
- September 5th, 2018

Fiona Campbell

ISA 315 (Revised) Task Force Chair

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

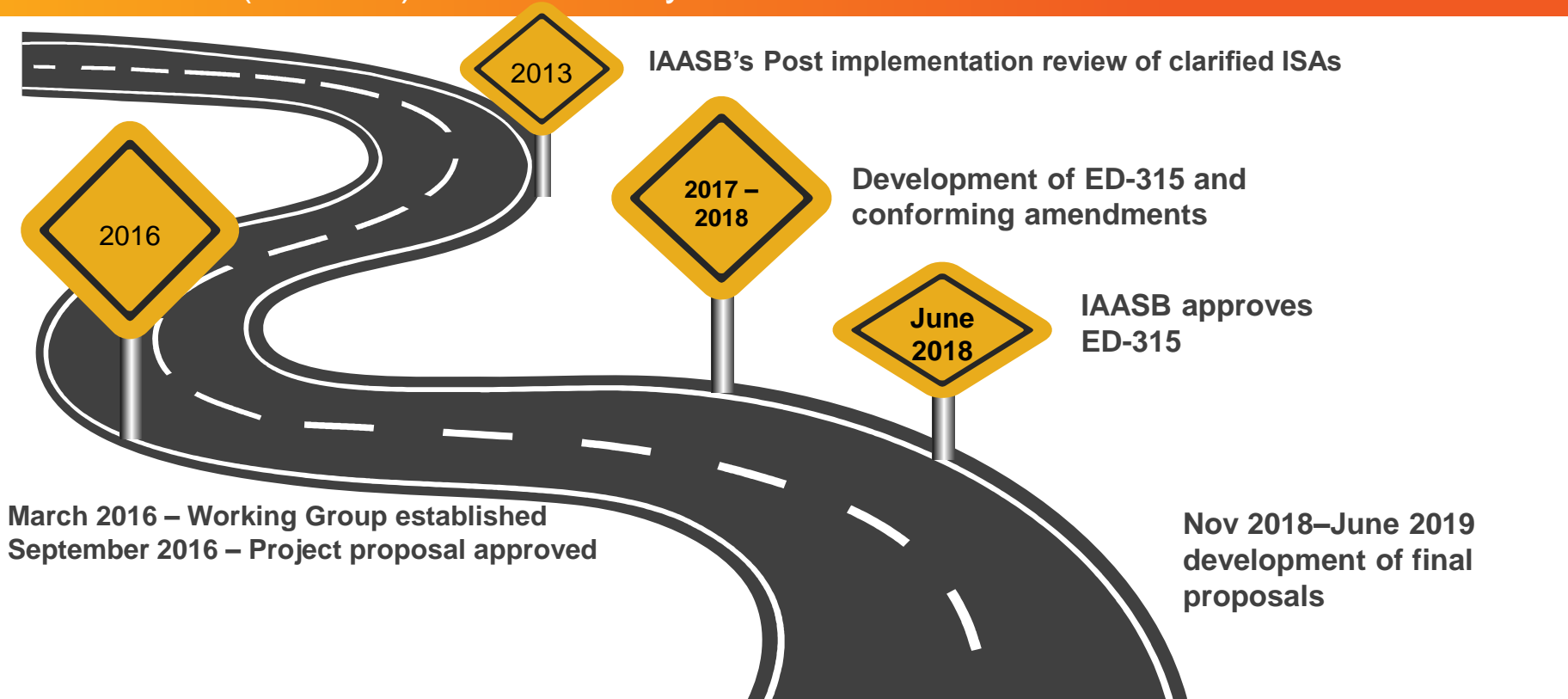
and

Proposed Consequential and
Conforming Amendments to
Other ISAs

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

- ISA 315 (Revised) Exposure Draft (ED–315) approved in June 2018
 - Includes conforming amendments to other ISAs – conforming amendments to approved ISA 540 (Revised) posted in August 2018
 - Comments close **November 2, 2018**
- Project objectives:
 - To establish a **more appropriate risk assessment**, including a **focus on scalability**
 - To deal with **rapidly changing business and audit environment** (technology)
 - To **enhance the application of professional skepticism** when performing risk assessment procedures
 - To clarify the **nature and extent of the auditor’s understanding of internal control**
 - Development of **non-authoritative guidance / tools to support implementation** (as appropriate)

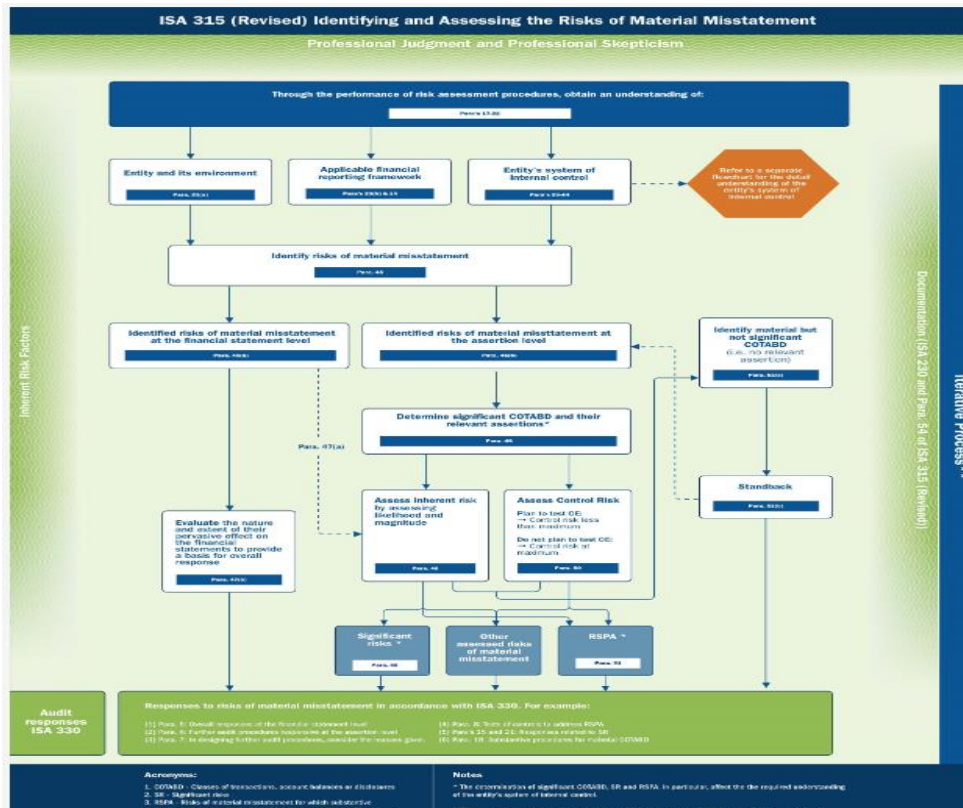
ISA 315 (Revised)—The Journey So Far



ISA 315 (Revised) – What Should I Know

- Iterative nature of standard
 - ISAs are written in linear manner – many aspects of ED–315 interconnected and often performed by auditors in an iterative manner
 - Firms may have different approaches – for example, the order in which risks of material misstatement, the significant classes of transactions, account balances or disclosures, and relevant assertions are identified
- New introductory paragraphs provide a summary of the flow of the standard, also highlighting its iterative nature
- Flowcharts have been developed as guidance for the flow of the standard – IAASB website

ISA 315 (Revised) – Overall Flowchart



ISA 315 (Revised) – Overall

- **General**
 - **Scalability**
 - Application material included for entities that are both ‘smaller and less complex’
 - Removed specific ‘considerations specific to smaller entities’ – built into text as appropriate
 - **Automated tools and techniques** (including data analytics)
 - Application material provide examples of how automated tools and techniques are being used
 - The broader term ‘automated tools and techniques’ is used versus ‘data analytics’
 - **The auditor’s considerations relating to fraud**
 - Throughout the standard
 - New introductory paragraphs highlights and included in new concept of *inherent risk factors*
 - **Professional skepticism**
 - ED–315 includes key provisions to enhance the auditor’s exercise of professional skepticism

ISA 315 (Revised) – Key Enhancements

Risk Assessment Procedures

- Performed to provide a ‘sufficient and appropriate’ audit evidence as the basis for identifying and assessing risks of material misstatement

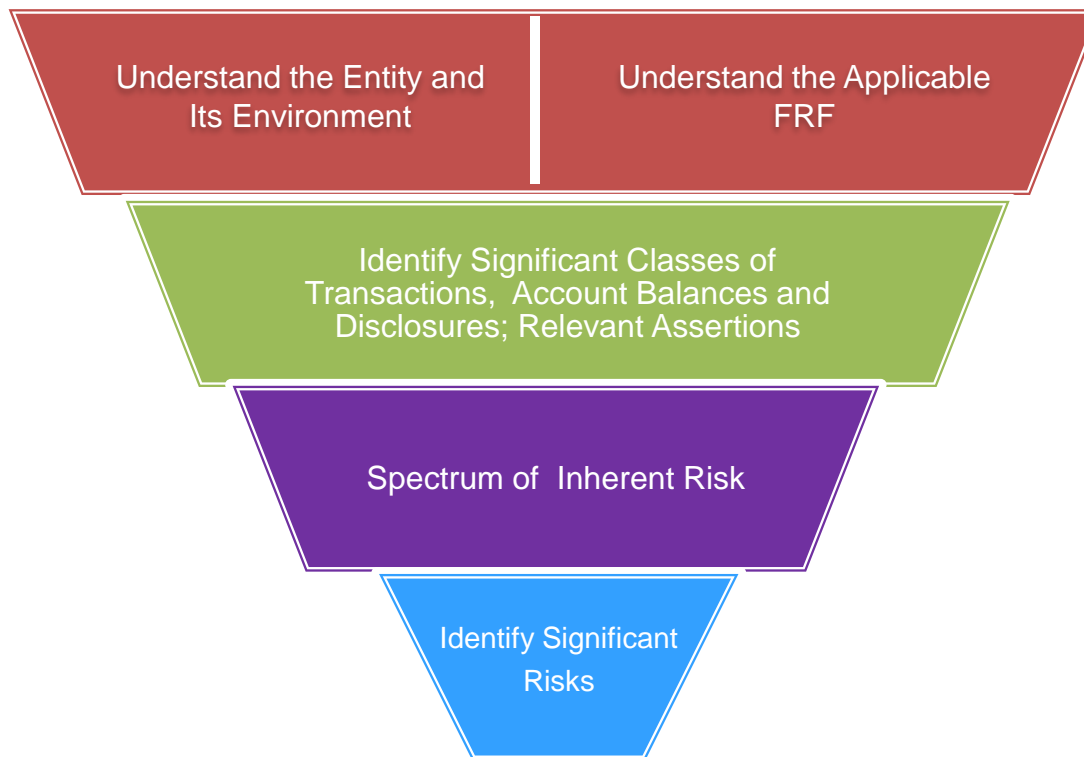
Understanding the Entity and its Environment

- Enhanced understanding, more focus on the entity’s
 - Business model
 - Use of IT
- Interaction of this understanding with *inherent risk factors*

Understanding the Applicable Financial Reporting Framework

- Greater focus on importance of financial reporting in identifying risks of material misstatement

ISA 315 (Revised) – Overview of the Inherent Risk Assessment Process



ISA 315 (Revised) – Understanding the Entity's System of Internal Control

Definitions

New	Revised
Application controls	Controls
General IT controls	Access controls (glossary)
IT environment	

Components of Internal Control

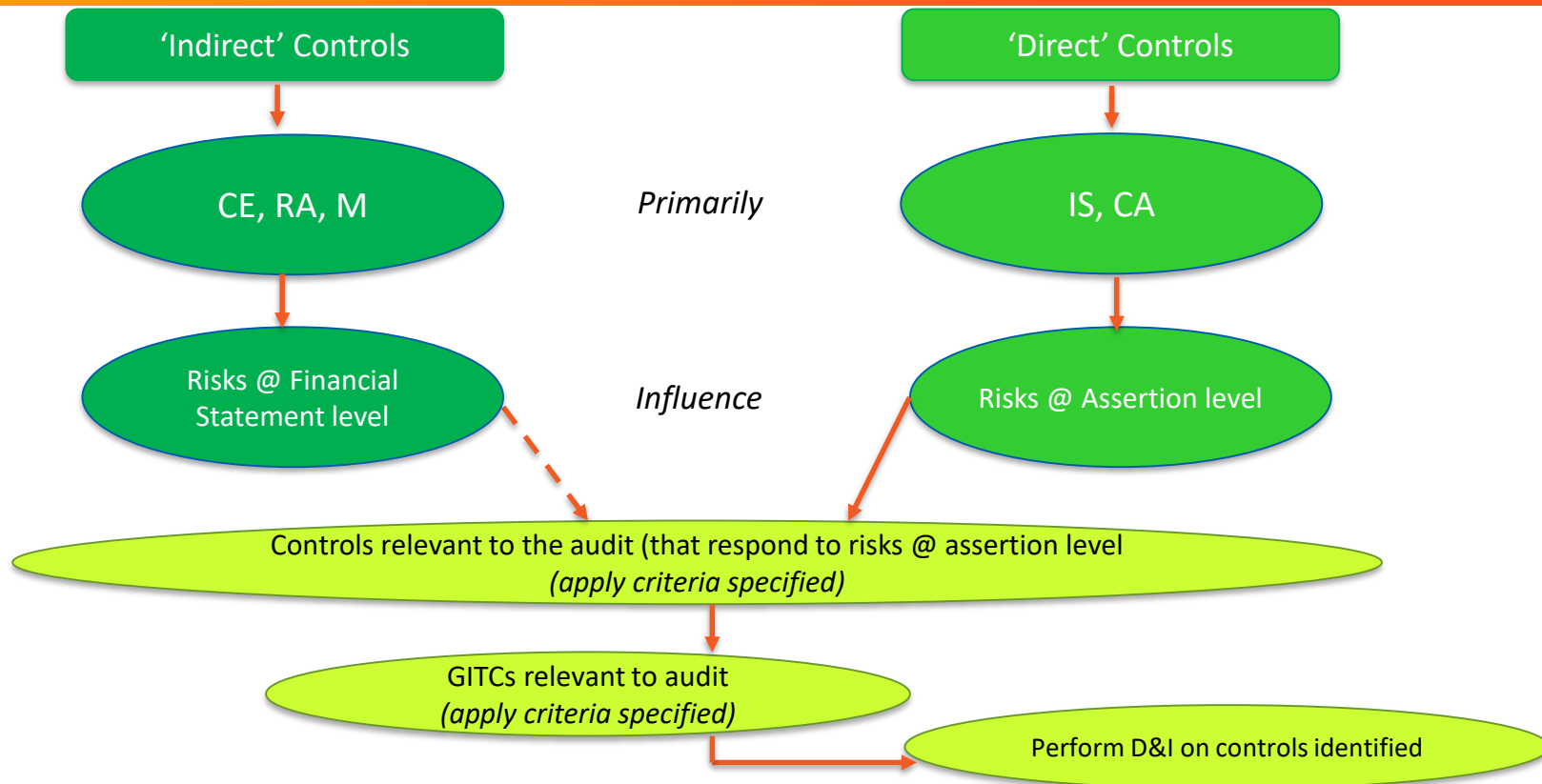
1. Control environment
2. The entity's risk assessment process
3. The entity's process to monitor the system of internal control
4. The information system and communication
5. Control activities

- Maintained the 5 components of internal control
 - Enhanced as necessary to align with COSO
- Controls definition
 - Recognizes 'less formalized' policies and procedures (scalability)

ISA 315 (Revised) – Understanding the Entity’s System of Internal Control

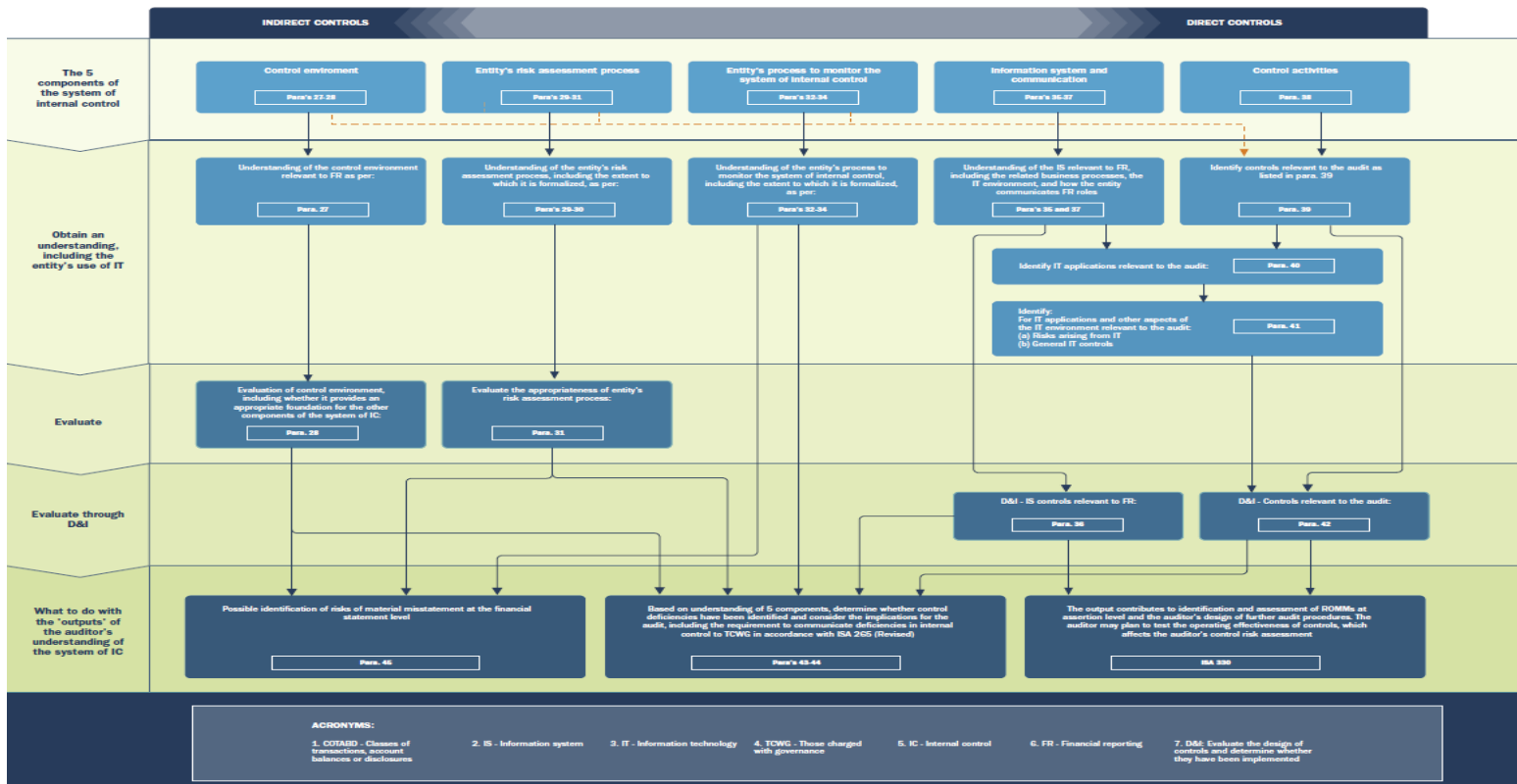
- More specificity about what ‘*controls relevant to the audit*’ means
 - Clarifying when **evaluating the design of controls and determining whether implemented** (D&I) is required
- Clarified the work effort in relation to:
 - Understanding each component of the system of internal control
 - Understanding the information system, including information system controls relevant to financial reporting
 - Application material provides guidance to distinguish ‘information system controls’ from ‘controls relevant to the audit’
 - Application controls and general IT controls relevant to the audit
- Enhanced responsibility to identify and determine further action if necessary relating to deficiencies in the system of internal control in relation to all the components

ISA 315 (Revised) - Understanding the Entity's System of Internal Control

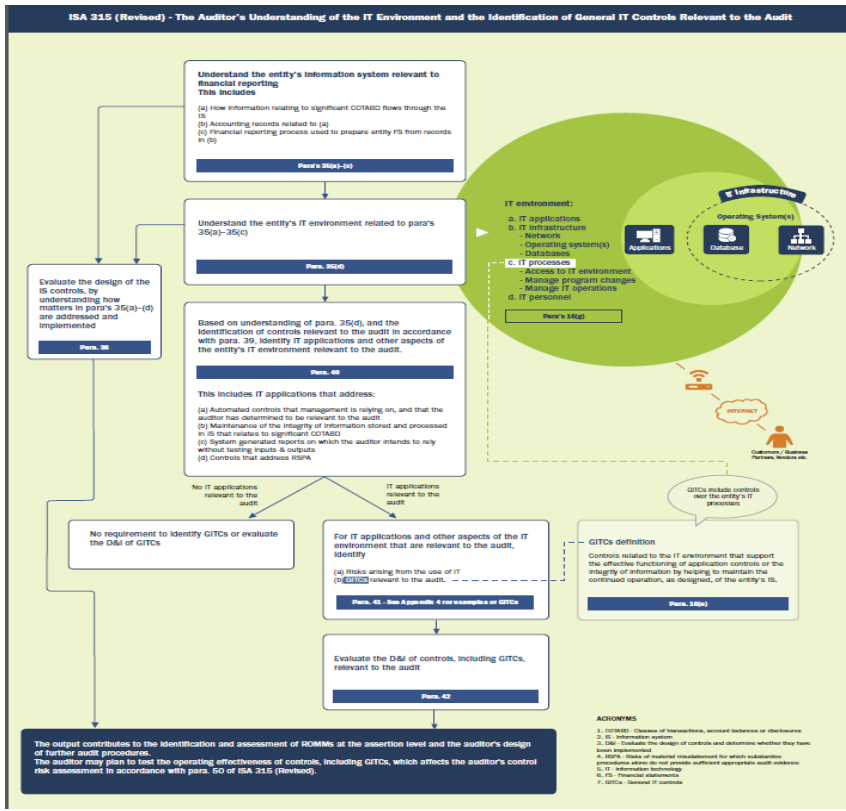


ISA 315 (Revised) – Understanding the System of Internal Control Flowchart

Obtaining an Understanding of the Entity's System of Internal Control – ISA 315 (Revised) Para. 25–44



ISA 315 (Revised) – Understanding the IT Environment Flowchart



ISA 315 (Revised) – Identifying and Assessing Risks of Material Misstatement

Definitions

New	Revised
Inherent risk factors	Assertions
Relevant assertion	Significant risk
Significant classes of transactions, account balances or disclosures	

Inherent risk factors include:

1. Complexity
2. Subjectivity
3. Uncertainty
4. Change
5. Susceptibility to misstatement due to management bias or fraud

Key change in assessing risk of material misstatement

Separate assessment of inherent risk and control risk

Concept of 'spectrum of inherent risk'

The degree to which inherent risk varies, is referred to as the 'spectrum of inherent risk' – consider likelihood and magnitude of material misstatement to determine where on the spectrum the risk lies

ISA 315 (Revised) – Significant Risks

Significant risk definition – 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



Significant risks – Other ISAs

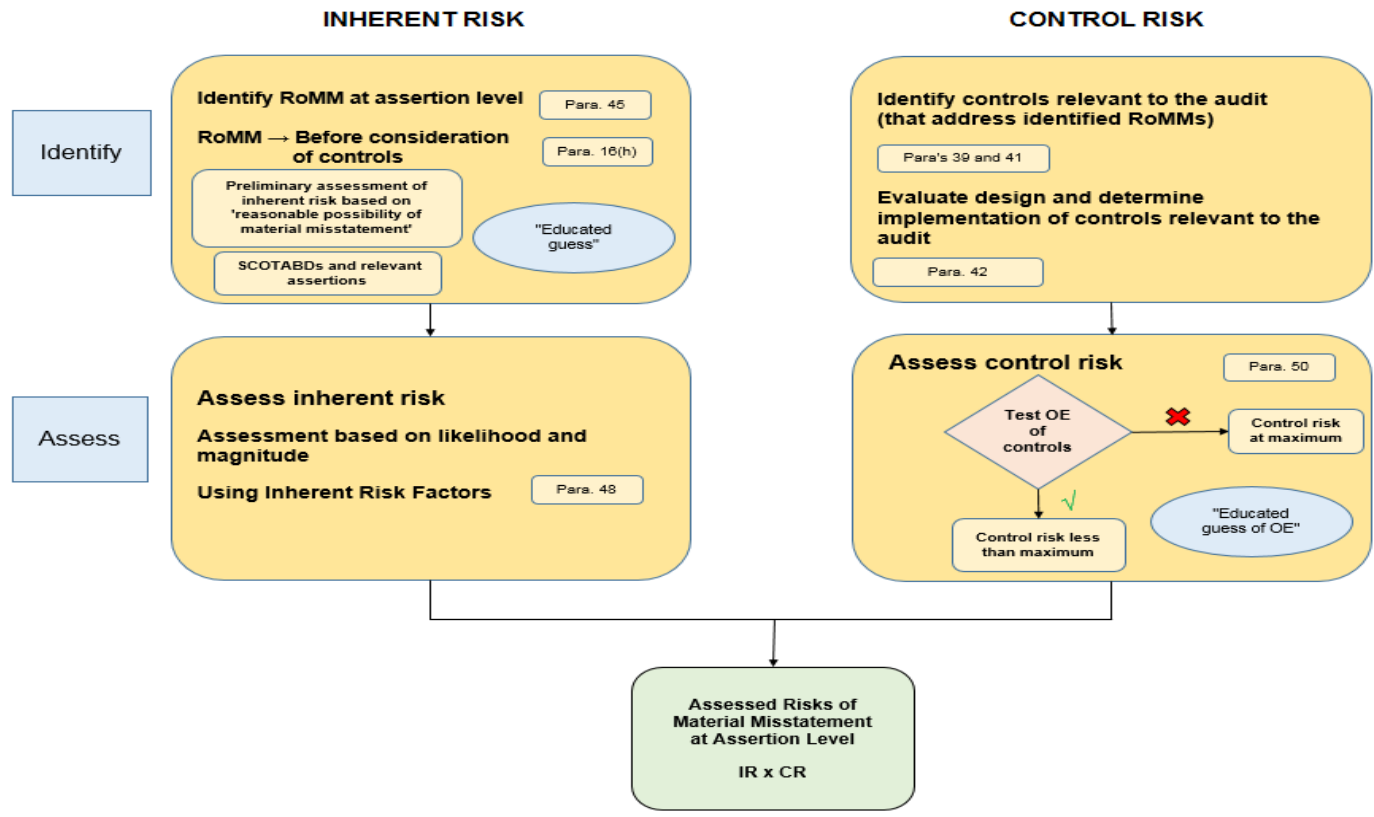
ISA 240 – para. 27

Presumption that there is a risk of fraud in revenue recognition

ISA 550 – para. 18

Identified significant related party transactions outside the normal course of business

ISA 315 (Revised) – Identifying and Assessing Risks of Material Misstatement



ISA 315 (Revised) – Identifying and Assessing Risks of Material Misstatement

What else is new or revised?

- NEW stand-back requirement – i.e., no relevant assertion(s) for a class of transaction, account balance or disclosure
- Material classes of transactions, account balances or disclosures
 - ISA 330 para. 18 maintained; linked to stand back on non-significant classes of transactions, account balances or disclosures
 - Conforming amendments to ISA 330 paragraph 18
 - Specific question in ED-315 whether still need this requirement
- Application material explains interaction of relevant assertions and significant classes of transactions, account balances or disclosures and how they are used in identifying risks

ISA 315 (Revised) – Other Matters

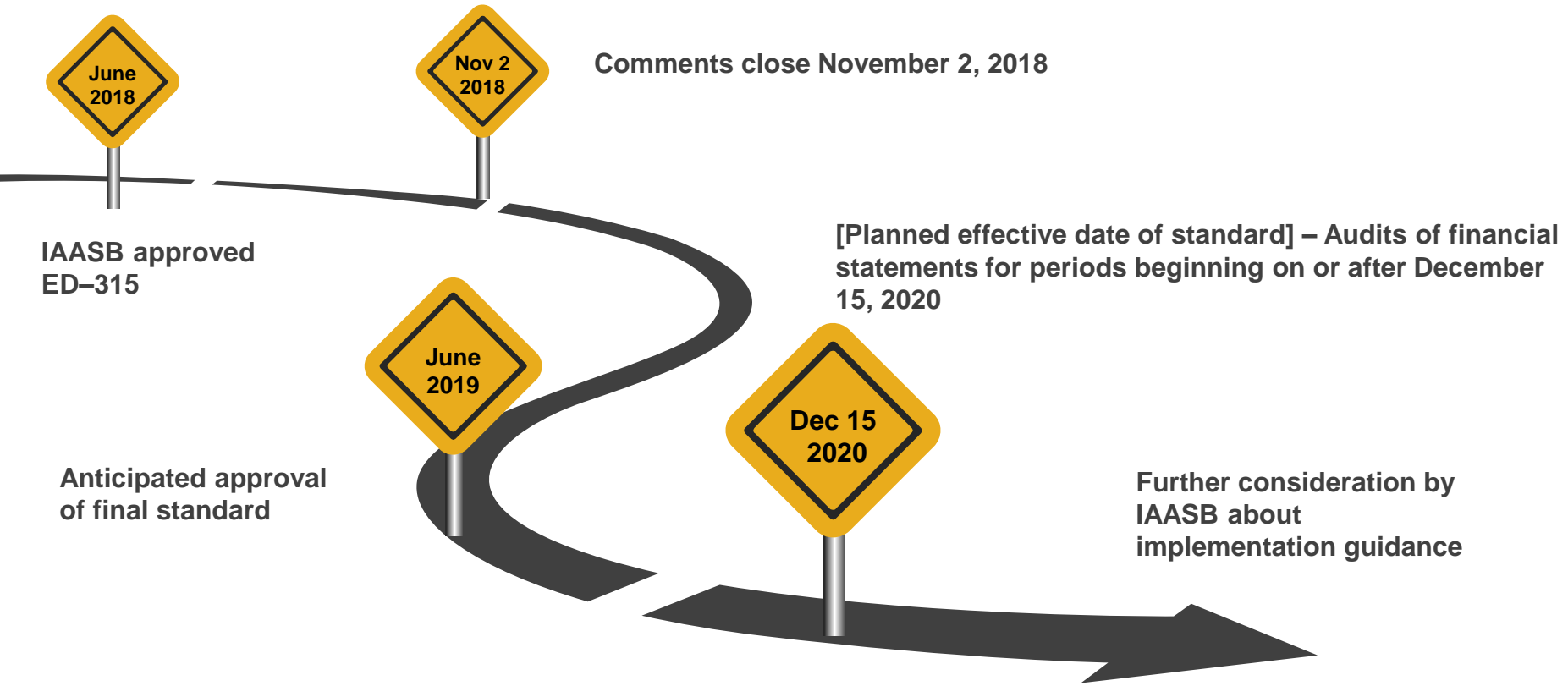
- Documentation
 - More specificity relating to controls relevant to the audit
 - Identified and assessed ROMM – including significant risks and the rationale of related significant judgments
 - Although limited changes to documentation requirements, IAASB of the view that enhanced requirements will require more specific documentation, as a result of the requirements of ISA 230

ISA 230 paragraph 8:

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
- (b) The results of the audit procedures performed, and the audit evidence obtained;
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

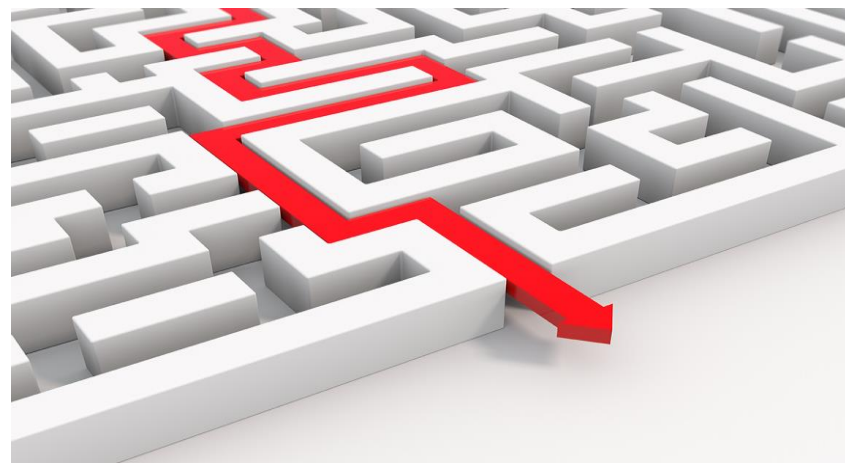
ISA 315 (Revised) – The Way Forward



ISA 315 (Revised) – Identifying and Assessing Risks of Material Misstatement

Next ISA 315 (Revised) webinar

- When?
 - October 3rd, 2018
- Time?
 - 7:00am – 8:30am EDT





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