Objective of the Agenda Item:
This paper sets out the ISA 315 Task Force’s initial views about the development of implementation guidance relating to the revised ISA 315 (Revised) for Board consideration.

1. The IAASB is currently developing its Strategy for 2020–2023, and one of the key themes relates to the timely and effective implementation of new and revised standards, both by the IAASB and others.

2. In light of this, and recognizing the importance of ISA 315 (Revised) as one of the foundational standards for an audit, the ISA 315 Task Force (Task Force) notes the importance of developing implementation guidance to assist with the effective and efficient implementation of the revisions to ISA 315 (Revised) once the changes to the standard have been finalized. To ensure timely development of such implementation guidance, the Task Force has started to consider what would be most useful—targeted specifically at the amendments that have been made to help stakeholders understand what has changed, and how they are intended to be applied.

3. Accordingly, the Task Force intends to start developing a ‘package’ of guidance material to assist with understanding what has changed, and guidance for implementing the changes. This ‘implementation package’ is likely to include the following:
   - An “at a glance” document—providing a very high-level summary of the changes that have been made. This document is not new and is currently provided with all new and revised IAASB standards.
   - Flowcharts—similar to what was provided with the exposure draft for ISA 315 (Revised). The overall flowchart presented as Agenda Item 2 for this meeting would form part of the package (the Task Force will further consider the most appropriate way to present the flowcharts). However, the Task Force has also been further considering other flowcharts for aspects where there are specific areas where the flows and interactions are important but not presented on the overall flowchart—such an example has been prepared by Staff in Appendix 1 to illustrate the interactions between understanding the information system and control activities components of the entity’s system of internal control, and the identification and assessment of risk requirements.
   - A “First-Time Implementation Guide”—a guide that presents a summary of the substantial changes that have been made, and that would be of help for auditors in implementing the revised standard and assist other stakeholders in understanding the concepts. This would include substantial new and revised concepts in the revised standard, but also more narrative about how certain aspects that the Task Force believes have now been clarified operate. Appendix 2 sets out initial thoughts about the outline of the content of this document.
   - Frequently Asked Questions—as the Task Force has developed the proposed changes, there are various aspects where no changes have been made within the standard but for which the Task Force believes additional clarification outside of the standard could be helpful, or a change has

1 Proposed International Standard on Auditing (ISA) 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

Prepared by: Bev Bahlmann (June 2019)
been made and the Task Force believes should be focused on. Appendix 3 sets out initial thoughts about examples of the different matters that will be further considered for FAQ's.

- Webinars explaining the changes.
- Additional consideration what, if anything, specific needs to be developed for less complex entities. this may involve the IAASB working with others, such as the International Federation of Accountants’ Small- and Medium-Practices Committee.

**Way Forward**

The Task Force will start to develop the First Time Implementation Guide and some of the FAQ’s for discussion with the Board, together with the final proposed changes to the standard, at the September 2019 IAASB meeting. The Task Force will also further consider whether there is any additional guidance needed.

**Matter for Board Consideration**

The IAASB are asked for views about the proposed implementation guidance as set out in paragraph 3 above, and whether there are any other matters the Task Force should consider as it develops further guidance.
Example Flowchart—Interactions between Information Gathering and Control Activities Components and the Identification and Assessment of the Risks of Material Misstatement

Information system

Control activities

For each control identified, evaluate the design and determine whether it has been implemented.

Determine relevant assertions and significant classes of transactions, account balances and disclosures

Assess inherent risk at assertion level

Inherent risk factors

Determine risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence

Determine significant risks

Auditor plans to test operating effectiveness

Yes

No

Para. 48

Para. 47

Para. 46

Para. 45(a)

Para. 45(b)

Para. 42

Para. 40

Para. 39

Para. 36

For IT applications subject to risks arising from IT, identify:
(a) Related risks arising from IT
(b) GITCs that address such risks

Identify controls that address risks of material misstatement:
(a) Controls that address significant risks
(b) Controls over journal entries
(c) Controls that are necessary for the auditor to achieve the objectives of paras. 17(a) and (b)
(d) Controls for which the auditor plans to test the operating effectiveness, including controls for risks for which substantive procedures alone do not provide sufficient appropriate audit evidence

Para. 22 and 22A

Engagement team discussion

Financial statement level

Yes

No

Para. 47(a)

Para. 49

Para. 50
First Time Implementation Guide for ISA 315
New & Revised Concepts

The following sets out some example of the types of matters that would be included in the ‘first time implementation guide’:

1. Summary of “new concepts and ‘plain english’ explanation about their effect and how to implement them:
   - Inherent risk factors (IRFs):
     - Why IRFs are important and how they should be implemented, including documentation.
     - Discuss why susceptibility to management bias and misappropriation of assets is an IRF and describe the behavioral elements to this IRF in particular.
   - Relevant assertions and significant account balances, classes of transactions and disclosures:
     - Purposes of identifying.
     - Interrelationship with the scope of the understanding of the information system.
     - Reconfirming initial expectations about significant classes of transactions, account balances and disclosures when performing the stand-back.
   - Spectrum of inherent risk:
     - The purpose of the spectrum of inherent risk and how it operates.
   - Controls
     - New definition highlighting that may be less formalized and the examples of what these may be
   - Direct and indirect controls
     - Illustration showing the components.
     - Why the distinction is made and the effect on the auditor’s work.
   - The difference between the stand-back in ISA 315 (Revised) and the ‘back-stop’ in ISA 330 paragraph 18.

2. Highlighting changes in existing concepts within extant ISA 315 (Revised):
   - Significant risks
     - Where is “close to the upper end”?  
       - General scale
       - It’s on the spectrum of inherent risk
       - Engagement specific
       - In some engagements there may be no significant risks except for those treated as significant risks by other ISAs (fraud, related parties, revenue)
       - In some cases (highly complex entities) may have several significant risks
In a few cases (rare) entities (e.g., less complex entity) may not have any significant risks

Using the inherent risk factors, and the likelihood and magnitude of an identified risk to help determine where on the spectrum of inherent risk an identified risk is

Examples illustrating how a particular risk could be significant for some entities and not others.

- What are the consequences of identifying a risk of material misstatement as a significant risk:
  - Increased partner/executive involvement
  - Increased likelihood of use of specialists
  - Increased extent of testing
  - Timing of substantive procedures at/near year end
  - Appointing an engagement quality reviewer (where required)
  - Increased technical consultation if complex
  - Understand controls by determining whether it has been designed effectively and evaluating whether implemented (D&I)
  - Substantive testing (and when substantive testing alone is not enough then include tests of detail)
  - Evidence obtained should be more persuasive
  - Required to communicate certain matters to those charged with governance
  - Consideration to include as a key audit matter for reporting purposes

- Financial statement level risks can never be a significant risk (because inherent risk is only ever at the assertion level)
Appendix 3

List of Possible FAQs

The following sets out possible questions that the Task Force will consider developing into a set of “frequently asked questions” (FAQ’s):

- How does professional skepticism drive action in the risk assessment phase of the audit?
- Why does the auditor understand the entity’s system of internal control when a fully substantive audit is planned?
- Why are risks for which substantive procedures alone are not enough identified?
- How is ISA 315 (Revised) scalable?
- How is likelihood and magnitude of risks of material misstatement at the assertion level evaluated, including for significant risks?
- How do the inherent risk factors effect the auditor’s identification and assessment of the risks of material misstatement?
- What is the difference between ‘significant’ versus ‘material’ for the purpose of ISA 315 (Revised) and ISA 330?
- Related to information technology and data analytics:
  - How are risks arising from emerging technologies addressed?
  - How can the auditor use Data Analytics in performing risk assessment procedures?
  - How are less complex entities affected by risks arising from IT?