Objective of the Agenda Item:

To obtain IAASB views about proposed changes to ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* (ED-315) to respond to comments received on the Exposure Draft (ED-315). In particular, the ISA 315 Task Force is looking for Board member’s views about:

(a) The new approach in presenting the requirements and application material to broadly address complexity, and scalability and proportionality issues raised (see Sections II (requirements and definitions) and III (Application Material) of this Agenda Item); and

(b) The revised requirements, definitions and application material, including specific proposed changes to address comments and issues from the responses to ED-315 and Board comments from the March 2019 IAASB meeting.

I. Introduction and Approach to this Paper

1. Based on the feedback by the IAASB at its March 2019 meeting, the ISA 315 Task Force (the Task Force) has progressed changes to ISA 315 (Revised) by focusing its efforts on implementing the ‘new’ drafting style or approach, as agreed with the Board in March 2019, to address the overarching concerns in relation to the length and complexity of ED–315, as well as scalability and proportionality. The agenda items presented for discussion provide a substantially complete proposed revised standard for consideration by the Board at its June 2019 meeting.

2. This Agenda Item provides information and explanations of the matters presented for discussion at the June 2019 Board meeting. Broadly:

   (a) The requirements have been revised to reflect the new drafting approach (see paragraphs 12 and 20-21 of this paper) as well as changes to address individual issues (see paragraphs 24-31 of this paper). **Agenda Item 2-A** sets out the revised requirements in a tabular format to illustrate the movement of the requirements from ED-315 into this new format (see explanation in paragraph 4 below regarding a more detailed description of the content of Agenda Item 2-A). This table in Agenda Item 2-A will be used for the purposes of the Board discussions.

   (b) The definitions have been revised to reflect the changes arising from the new drafting approach (see paragraphs 13-19 of this paper) as well as other proposed changes to the definitions (see paragraph 23 of this paper). **Agenda Item 2-B** sets out a full list of all the definitions proposed for ISA 315 (Revised) (see explanation in paragraph 4 below regarding the content of Agenda Item 2-B).

   (c) The application material has been revised to reflect the new drafting approach (see paragraph 39 of this paper) as well as other specific changes. **Agenda Item 2-C** sets out a clean version of the application material (which will be used for the purposes of the Board discussion) and the **Supplement to Agenda Item 2-C** sets out the mark-up to ED-315 (this is for reference purposes only and will not be discussed at the Board meeting).

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1 Proposed International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*
The Appendices to ISA 315 (Revised) have been changed as explained in paragraph 4 below. Agenda Item 2-D sets out the revised Appendices.

3. The new approach to redrafting ISA 315 (Revised) employs substantial usage of definitions that underpin and maintain the rigor of the requirements. As such, the requirements need to be considered with any relevant supporting definitions, as well as the revised application material, which has also been enhanced in structure and content to provide enhanced support to the requirements. In developing the revisions to ISA 315 (Revised), the Task Force has been mindful of maintaining the rigor of the standard, while still achieving the objective of making the standard less complex, shorter and more understandable. In this context, the Task Force has focused on the content of the requirements (the 'what') alongside the development of supporting explanations of 'why' required procedures are performed (the explanations of "why" have mainly been presented and separately highlighted in the application material). The Task Force is of the view that the requirements, taken together with the related definitions and the supporting explanation of "why" a procedure has to be performed, forms the foundation for understandability about what and how much needs to be done, as well as consistent application. The application material and appendices also continue to provide explanatory guidance to support the auditor's further understanding of the concepts and how to apply them. The Table in Agenda Item 2-A presents the requirements, together with the relevant definitions, references to the "why" explanations if applicable, and references to supporting application material. The full set of definitions and the application material can be found in Agenda Items 2-B and 2-C, respectively.

4. The Agenda Items presented for Board discussions are detailed below:

<table>
<thead>
<tr>
<th>Agenda Item</th>
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| 2-A | **Requirements:**  
- Presented in a table illustrating how the content of the requirements from ED-315 has been categorized and distributed across the requirements, definitions, and application material, which forms the basis of the revised proposed standard, i.e., sets out how the Task Force has separated each requirement into the 'what,' 'why,' 'how' and matters that are definitional.  
- The table also includes the relevant definitions and references to application material.  
This table has been presented in marked to a version that the Board has previously received (Agenda Item 2-A explains the mark-up) |
| 2-B | **Definitions:**  
This Agenda Item sets out all the definitions proposed for the revised standard, including those resulting from the new drafting approach. The definitions have been marked for changes to the ED-315 definitions as appropriate. |
| 2-C | **Application material:**  
This Agenda Item sets out a clean version of the application material revised for the new drafting approach (the Board discussions will focus on the clean version). The Supplement to Agenda Item 2-C presents the revised application material marked to ED–315 (and is for reference purposes only and will not be discussed at the Board meeting).  
The application material as presented in Agenda Item 2-C represents the Task Force’s initial proposals for the new approach to drafting the application material, for Board
discussion focused on directional matters. Based on the outcome of the board discussions, the Task Force will proceed based on the direction given and make further changes as appropriate.

No changes have yet been made to address the paragraphs relating to public sector considerations; these will be presented for discussion in September 2019 (there are no significant matters expected to be changed with regard to these paragraphs).

No significant further changes have been made to the content of the paragraphs addressing ‘automated tools and techniques’, except for placing them under a dedicated heading. The Task Force will continue to coordinate with the Technology Working Group in making any revisions that are necessary, and the revised paragraphs will be presented for Board discussion in September 2019.

2–D Appendices:
This Agenda Item is presented marked to ED–315.

Paragraphs from the application material have been variously combined into existing or new Appendices as appropriate, (e.g. Appendices 4 and 5 regarding Internal Audit and Information Technology, respectively have been developed as new Appendices). The Task Force has not yet comprehensively reviewed the content of the Appendices, but does intend to revisit the Appendices before the targeted finalization of ISA 315 (Revised) in September 2019.

2–E Guidance:
• A draft outline of a ‘First Time Implementation Guide — New and Revised Concepts in ISA 315 (Revised)” (“first time guide”)
• Flowcharts
• A draft of a sample of Frequently Asked Questions. These have been presented to provide context to what the Task Force is thinking and will accompany the standard once it is finalized. However, further consideration needs to be given to the ‘implementation package’ that will need to be developed for release with the final standard. Accordingly, the Task Force is looking for high-level directional views on these documents.

2–F [Clean] Requirements, definitions, application material and appendices:
This Agenda Item sets out the ‘full’ standard presented in clean, which is for informational purposes only (this version will not be discussed at the Board meeting)

2–G Requirements:
This Agenda Item sets out a marked to extant ISA 315 (Revised) (for informational purposes only and will not be discussed at the Board meeting)

5. An addendum to this Agenda Item 2 setting out a summary of the matters not yet considered from the responses to ED-315, as well as how the Task Force has responded, will also be issued. A listing of the supporting NVivo reports and the corresponding Excel spreadsheets are set out in Appendix 2, with the reports and spreadsheets to be presented as Supplemental Documents to Agenda Item 2.

6. The Task Force has not yet considered respondents’ comments to ED-315 in relation to the conforming amendments arising from the proposed changes (with the exception of a new proposed change to ISA

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2 It is intended that the Board will be asked for editorial comments on the revised application material by 30 June 2019 to support the Task Force in finalizing the standard for September 2019.

3 ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
However, the Task Force envisages that one of the IAASB teleconferences in the third quarter of 2019 may be used for this purpose. A number of other matters raised by respondents that do not directly affect the planned discussions for the June 2019 IAASB meeting have also not yet been considered including:

- Effective date; and
- Translations.

These will be presented for discussion at the September 2019 IAASB meeting.

7. With regard to the introductory paragraphs (i.e., paragraphs 2 to 13 of ED-315) the Task Force has not yet considered revisions to these paragraphs, but will do so once the outcome of the proposed revised approach to drafting has been further discussed with the Board. The Task Force is considering whether some of the introductory paragraphs would be better placed in the “first time guide” but regardless, will bring proposed revisions to these paragraphs for discussion at the September 2019 IAASB meeting.

Task Force Activities and Outreach

8. The Task Force has met twice, as well as held three teleconferences, during the past quarter to further analyze the responses to ED–315 and discuss those matters that have not yet been addressed, and to further discuss and develop the revised draft of ISA 315 (Revised) using the new proposed drafting approach. The Task Force intends to perform outreach with the International Forum of Independent Audit Regulators (IFIAR), the IAASB’s Consultative Advisory Group (CAG) and the International Federation of Accountant’s (IFAC) Small- and Medium-Practices (SMP) Committee about the proposed changes to the drafting approach once Board views about this approach have been obtained.

9. The members of the Task Force and its activities since March 2019 have been noted in Appendix 3.

Approach to the Board Discussion

10. At the June 2019 Board meeting, the Task Force Chair will first ask for overall views about the approach with respect to the redrafted requirements, definitions and application material, and then will walk through the standard in the order of the proposed revised requirements (the related definitions and application material will be discussed with the relevant requirements as set out in the Table in Agenda Item 2-A). The Task Force Chair will then invite any general comments on the Appendices as well as the draft of the guidance that has been presented, as well as any other matters.

11. An extract of the draft minutes of the March 2019 IAASB meeting is set out in Appendix 1 of this paper.

II. Requirements and Definitions

Revisions Using the New Drafting Approach—Requirements

12. At its meeting in March 2019, the Board broadly agreed to the Task Force’s proposal to categorize the requirements in ED-315 into:

- ‘What’ the auditor is required to do. This has formed the basis of the new proposed requirements (amended where necessary).

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4 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*
• **Definitions**, describing the meaning of specific words or terms used within the standard, including common characteristics, which support the application of the requirements.

• ‘Why’ the auditor is required to perform the required procedure. The ‘why’ has been presented in the application material, except when the ‘why’ is a necessary threshold for the execution of the requirement in which case it is included in the requirement; regardless, the ‘why’ forms an integral part of the understanding of the requirements.

• ‘How’ the requirement should be applied. These aspects have been incorporated into the application material where they have been identified, with supporting revisions and enhancements to the application material as necessary.

as a way of addressing many of the broader, overarching concerns about complexity, length, scalability and proportionality that had been raised by respondents to ED-315. At the March 2019 IAASB meeting a section of the standard, “Understanding the Entity’s System of Internal Control” was presented for initial Board views, and the Board agreed that the Task Force should develop a draft of all the requirements in this way. The table in **Agenda Item 2-A** presents how the allocation to the categories has been made for the requirements in ED-315, (significant specific changes to the requirements are further explained below).

**Definitions**

13. In focusing on the “what,” and as introduced at the March 2019 IAASB meeting, certain aspects of the requirements that were considered to be criteria, or description, supporting a term or concept, or which are definitional in nature, have been moved to definitions.

14. This could be seen by some to be ‘weakening’ the requirements (i.e., making them less robust as part of the requirement is no longer “required.”) However, the view of the Task Force is that this new approach retains, if not enhances, the robustness of the requirements as they are kept focused while still clearly setting forth the work to be performed in relation to each requirement and are further supported through the use of detailed definitions (i.e., the underlying matters to be considered when applying the requirement scopes in the aspects that have been defined as they are integral to understanding how the requirement is to be applied).

15. For context, paragraph 19 of ISA 200 sets out that “The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.” (Ref: Para. A60–A68). Paragraph A64 of ISA 200 further describes how the definitions are to be applied:

**ISA 200, paragraph A64:**

An ISA may include, in a separate section under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the ISAs. These are provided to assist in the consistent application and interpretation of the ISAs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs. The Glossary of Terms relating to International Standards issued by the International Auditing and Assurance Standards Board in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC contains a complete
In considering whether the robustness of the ISAs has been retained, the Task Force considered whether changes may be needed to enhance the ‘authority’ of the definitions in ISA 200 to support the approach taken in proposed ISA 315 (Revised). On balance the Task Force has agreed that this needs further consideration by the Board as there may be unintended consequences for the other ISAs and how the definitions apply. The Task Force is looking for overall Board views on this matter, and will further consider whether a change will be proposed for discussion in September 2019.

There is already precedent within the ISAs for using definitions to define the specific matters that need to be considered by the auditor about how certain terms or concepts within the ISAs are to be applied. Examples include:

- ‘Significant risk’ in ISA 315 (Revised) – the definition is used by practitioners as the source about how to apply this concept.
- ‘Accounting records’ in paragraph 5(a) of ISA 500 (i.e., the definition) describes the types of documents that would comprise the accounting records.
- ISA 550, paragraph 10(b) defines a ‘related party’ and sets out the criteria for a related party.
- ‘Fraud’ in ISA 240, paragraph 11 (a), which defines those characteristics that are embodied in fraud for the purposes of the ISAs.

As the application of definitions in the performance of requirements is already well-established, it is expected to drive the behaviors and related outcomes in relation to ISA 315 (Revised). In addition, there is always an opportunity to further explain within the application material the expectations with regard to these definitions. The placement of the definitions within the standard also mean that the details previously included in requirements that are now described within the definitions, are still given prominence. As the standards continue to evolve, the Task Force is of the view that this is ‘unburdening’ (i.e., it is a clearer, more understandable presentation) and is not weakening the standards.

In light of the use of definitions to describe terms or concepts set out in the requirements, the Task Force further considered how to not broaden the scope of what needs to be done beyond the scope of the understanding required in extant ISA 315 (Revised). Accordingly, the Task Force have proposed:

- Introducing the phrase ‘relevant aspects’ to the requirement to obtain an understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, highlighting that particular matters need to be understood to support the identification and assessment of the risks of material misstatement.
- Describing within each definition of the term or concept to be understood what is meant by those ‘relevant aspects.’ For example, the definition of ‘relevant aspects of the control environment’ in

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5 ISA 500, Audit Evidence
6 ISA 550, Related Parties
7 ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements
8 Agenda Item 2-G sets out the proposed revised requirements using the new approach to drafting compared to the extant requirements to help identify any areas that may have been weakened from this process.
paragraph 16(gb) in Agenda Item 2-B describes the scope of the control environment that the auditor is required to understand in order to support the identification and assessment of the risks of material misstatement. In the view of the Task Force, this will also help clarify the scope of the efforts that will be required, which was one of the objectives of the project.

The Task Force is of the view that this approach should help promote consistency in the obtaining the understanding required and scope the understanding to that which is relevant for the purposes of the audit.

The “Why” and the “How”

20. The Task Force has moved (or will move) the “why” and the “how” from the majority of the requirements to application material, an appendix or guidance. The Task Force is of the view that this approach has strengthened the standard as there is greater clarity about what the auditor is required to do. The Table in the Appendix to Agenda Item 2-A further explains how the “why” and the “how” have been dealt with in the standard.

21. In undertaking this exercise, the Task Force agreed that further explanations of “why” would achieve greater clarity about the objectives of the requirements, and correspondingly this will enhance consistent application and scalability. As noted, the Task Force has added further descriptions of the “why” within the application material to further support the changes that are being proposed. Where a “why” has been presented, it has been placed first in the related section of the application material under a heading that describes the specific rationale being provided.

Specific Changes to the Requirements and Definitions

22. The Task Force has also further considered changes to the requirements and definitions to respond to Board comments at the March 2019 IAASB meeting, which are explained further below.

Definitions

23. With regard to the definitions (in addition to the overall explanations provided above):

(a) The information system and communication definition has been amended to clarify that the entity’s information system is the information processing activities, including its data, information, the resources (including human resources) used in such activities and the policies that define the flows of transactions and financial reporting process. The Task Force has made changes to distinguish the controls within the information system that are policies from the controls in the control activities component, that are procedures to implement the entity’s policies that relate to the information system and communication, and other components of the system of internal control. The ‘communication’ aspect has been separately addressed in the definition.

(b) ‘Application controls’ (see paragraph 41 of this paper).

(c) A new definition has been added to describe ‘other relevant sources of audit evidence’ to support a streamlining change made to the requirements (i.e., the requirement for the auditor to take into account information from the client acceptance or continuance procedures, and the requirement to consider information from other engagements performed by the partner for the entity, have been combined into one requirement for the auditor to consider ‘other relevant sources of information’).
(d) A new definition for risks arising from IT has been added (see paragraph 43).

(e) Explanatory material related to the definition of the inherent risk factors has been moved to a new appendix on the auditor’s considerations relating to the inherent risk factors, because in the view of the Task Force this material was supplemental information to help understand what each of the inherent risk factors is, rather than essential explanatory material to a definition (see Agenda Item 2-D, Appendix 2). This is also consistent with how this has been shown in ISA 540 (Revised).9

(f) Other editorial changes to ensure that the definitions are consistent with the proposed amended requirements, including in relation to general IT controls (GITCs) (see paragraph 44 below).

Requirements

24. Set-up or sign posting paragraphs (such as those in ED-315 paragraphs 25, 26 and 38) have been deleted as they only repeated what was already required and as a result were found to be confusing.

25. The requirement to evaluate whether the entity’s accounting policies are appropriate and consistent with the applicable financial reporting framework has been separated from the requirement to obtain an understanding of the applicable financial reporting framework, and presented separately, in the same way as this distinction has been made for the requirements to understand and evaluate the components of the entity’s system of internal control (see Agenda Item 2-A, paragraph 24).

26. The auditor’s initial consideration of the inherent risk factors has moved to the required understanding of the entity and its environment, because it is at this stage that the auditor will consider the events and conditions to which the inherent risk factors relate. The related application material has also been enhanced to explain how the inherent risk factors are considered when the auditor obtains an understanding about how the applicable financial reporting framework is applied, giving rise to the auditor’s understanding about whether classes of transactions, account balances or disclosures are subject to, or affected by, the inherent risk factors.

27. With regard to obtaining an understanding of the entity’s system of internal control:

(a) For each of the individual components, the requirement to ‘obtain an understanding’ of each component has been deleted. Rather, a broad requirement to obtain an understanding of the relevant aspects of the components of the entity’s system of internal control has been combined with the requirement to obtain an understanding of the entity and its environment, and the applicable financial reporting framework (see Agenda Item 2-A paragraph 23 of proposed ISA 315 (Revised)). Application material explains that the understanding is obtained by focusing on the relevant aspects of each component, with the relevant aspects that are required to be understood for each component now defined.

(b) Although the overall requirement to obtain an understanding of the entity’s system of control has now been combined into one requirement (as explained in (a) above), the evaluations for each of the components have been kept separate (however, the entity’s process to monitor the system of internal control and the entity’s risk assessment process have been combined as they are similar in nature). Application material has been added to make clear that the broader

9 ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures
term “understanding” means to obtain an understanding of the relevant aspects of that component (implicitly referring to the definition which contains the ‘relevant aspects’ to be understood) AND to perform the evaluation of the component as set out in each section. It is this ‘understanding’ that provides the basis for the identification and assessment of the risks of material misstatement.

(c) New sub-headings have been added to distinguish the components where the auditor’s evaluations are expected to mainly influence the identification and assessment of risks of material misstatement at the financial statement level (i.e., control environment, the entity’s risk assessment process, and the entity’s process to monitor the system of internal control), from those components that the evaluations are expected to mainly influence the identification and assessment of risks of material misstatement at the assertion level (i.e., information system and communication, and control activities). Application material has been added to support the distinctions, as well as a “why” the required understanding is needed. Application material to explain the distinction between direct and indirect controls has been added to the essential explanatory material for the definition of control activities (see Agenda Item 2-C, paragraph A2a).

(d) To support the auditor’s required understanding, including evaluation, of each of the components of the system of internal control, the related application material is organized by individual component and includes guidance related to both the understanding and evaluation of each component so as to distinguish the unique aspects of the auditor’s consideration of each component of the system of internal control.

(e) The evaluation of the information system and communication component has been amended to distinguish this evaluation from that required from the evaluation required for controls in the control activities component (i.e., evaluating whether the policies that define information processing activities in the entity’s information system appropriately support the preparation of the financial statements versus evaluating whether identified controls in the control activities component are designed effectively and determining their implementation (D&I)).

(f) The auditor’s considerations relating to the entity’s internal audit function (where relevant) have now been incorporated in the definition of the entity’s process to monitor the system of internal control, and therefore deleted as a separate requirement. The Task Force is of the view that internal audit is a relevant aspect of the entity’s process to monitor the system of internal control and therefore in streamlining the requirements had the view that the auditor’s consideration of the internal audit function would still be appropriately addressed if such a change were proposed. In addition, some of the related application material has been moved to a separate new appendix (see Agenda Item 2-D, Appendix 4) (which has the same authority as the application material) where all the relevant considerations can be found together (except where the Task Force believed that explanatory material should remain in the application material such as the “why” the understanding is obtained).

(g) The Task Force has further clarified the ‘judgmental’ category of controls required to be identified in the controls activities component (see Agenda item 2-A, paragraph 39(c)), by relating the decision about which controls needed to be identified to where the related risk lies on the spectrum of inherent risk (i.e., it is those controls over risks that are assessed as ‘higher’ inherent risks (and are not determined to be significant risks for which controls are separately required to be identified).
(h) The requirements related to information technology (IT) have been streamlined and combined (see Agenda Item 2-A, paragraph 40) (also see paragraph 44 below).

(i) The requirement for D&I has been simplified to apply to the identified controls in the control activities component, including GITCs, so that it is clear for which controls D&I is required.

(j) The various requirements to determine whether control deficiencies exist within the components of the entity’s system of internal control have now been combined into one requirement (see Agenda item 2-A, paragraph 43) based on the Board’s direction at the March 2019 IAASB meeting. This approach avoids repetition of the same requirement for each component of the entity’s system of internal control. In addition, the Task Force is of the view that ISA 315 (Revised) does not need to repeat the requirement to determine whether the deficiencies are a significant deficiency because this requirement already exists in ISA 265\textsuperscript{10} (and is already referenced to ISA 265 within the application material).

Identifying and Assessing the Risks of Material Misstatement

28. With regard to identifying and assessing the risks of material misstatement:

(a) The requirement to identify risks of material misstatement has been simplified to make clear what needs to be identified and removing the “how.”

(b) The order for determining the relevant assertions and significant classes of transactions, account balances and disclosures has been reversed to be consistent with how the definitions interact. Changes were also proposed to the definition of relevant assertion in March 2019 which have been carried forward (see also paragraph 33(a) below).

(c) The inherent risk factors have been deleted from the identification of the risks of material misstatement at the assertion level, and only presented as part of the assessment of the risks of material misstatement at the assertion level, because the Task Force believes that it is at this stage that the auditors consideration of the inherent risk factors is of greater importance when determining where inherent risk is assessed on the spectrum of inherent risk.

(d) To address the concerns about assessing control risk at maximum when the auditor has no intention to test the operating effectiveness of controls, the Task Force has proposed that the requirement to assess control risk is conditional on the auditor’s intent to test the operating effectiveness of controls. If there is no such intention, the assessment of the risks of material misstatement is based on inherent risk (i.e., control risk is not taken into account). This would therefore eliminate the need to assess control risk at the “maximum.” The related application material has been amended accordingly.

(e) The requirement regarding the revisions of risk assessment if new, inconsistent information is obtained has been made conditional (see Agenda Item 2-A, paragraph 53).

Professional Skepticism

29. The Task Force has proposed two new requirements to further emphasize the importance of professional skepticism. A new ‘hanging’ paragraph has been added to the overall requirement for the auditor to perform risk assessment procedures to obtain evidence to provide an appropriate basis for the identification and assessment of the risks of material misstatement, and designing further audit

\textsuperscript{10} ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, paragraph 8
procedures, in paragraph 17 of Agenda Item 2-A. This new paragraph is based on similar revisions made to ISA 540 (Revised) and emphasizes the need to not bias the auditor’s work toward obtaining corroborative evidence.

30. Relevant application material has also been added to support this new requirement (see paragraphs A15a and A15c in Agenda Item 2-C). This new application material is also consistent with ISA 540 (Revised). An additional new requirement has been added for the auditor to consider all audit evidence obtained from performing risk assessment procedures, whether corroborative or contradictory, at the end of the risk identification and assessment process (see paragraph 51A of Agenda Item 2-A).

Matters Where No Further Changes Have Been Proposed

31. The Task Force considered whether other changes were needed to various aspects but agreed that no further changes would be proposed. Matters discussed included:

(a) Moving the requirement for the engagement team discussion to after the requirement to obtain an understanding of the various aspects related to the entity, as this was the logical place that the discussion would likely take place. However, it is noted that this discussion may take place at various points as information is gathered, therefore it was appropriate to leave the engagement team discussion as a risk assessment procedure more generally and not prescribe at which point in obtaining the required understanding the discussion is required.

(b) Whether more would be required in relation to the specific documentation requirements. The Task Force continues to be of the view that this requirement is adequate taking into account the requirement in ISA 230 to document ‘significant matters arising during the audit.’ However, the Task Force acknowledges that further guidance (in the form of implementation materials) may still be needed and will further consider specific guidance on documentation based on feedback received at this June 2019 IAASB meeting.

Other Relevant Matters Related to the Requirements

32. The Task Force has continued to discuss the ‘threshold’ when identifying the risks of material misstatement, which form the basis for the determination of the relevant assertions, and how to appropriately reflect this in the standards.

33. At the Board meeting in March 2019 it was initially agreed:

(a) To change the definition of ‘relevant assertion’ to instead link the threshold to an identified risk of material misstatement, a concept already existing within the ISAs (and therefore remove the concepts of ‘reasonable possibility’ and ‘more than remote’ from the definition of relevant assertion (see Agenda Item 2-B, paragraph 16(h)), both of which had been noted as problematic for varying reasons in the responses to ED-315).

(b) That no changes would be made to the definition of the risk of material misstatement in ISA 200 to incorporate ‘reasonable possibility’ of the occurrence of a misstatement.

(c) To explain in the application material of ISA 200 the relationship of the ‘could,’ to the ‘acceptably low level’ concept (i.e., if there is a risk that a misstatement could occur and be material, audit risk is not at an acceptably low level and further audit procedures are required). It was agreed that this

11 ISA 230, Audit Documentation, paragraph 8(c)
was better placed in ISA 200 and not ISA 315 (Revised) because ‘reasonable possibility’ is intended to clarify the meaning of ‘could’ within the definitions of risk of material misstatement in ISA 200, it is therefore best placed in context of that definition.

34. Accordingly, a conforming amendment to ISA 200 would be needed and the Task Force has further deliberated how to articulate this proposed conforming amendment. The purpose of identifying risks of material misstatement is to help the auditor focus on performing the procedures necessary to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

35. In identifying risks in a reasonable assurance engagement, there is an infinite amount of possible risks. However, the auditor is not required to identify *all* of these risks to perform procedures to reduce audit risk to an acceptably low level; but applies a ‘threshold’ to the risks that need to be identified. In identifying the risks that the auditor is interested in, out of all the possible risks, the auditor identifies those that could be material if they were to occur (i.e. the auditor thinks about the magnitude of the misstatement), and that ‘could’ occur (i.e. the auditor thinks about the likelihood of them occurring). As discussed with the Board in March 2019, the likelihood threshold that the auditor uses when determining which risks ‘could’ occur is ‘reasonable possibility’ of occurrence.

36. It is for these risks that the auditor is required to respond to (i.e., undertake audit procedures), therefore there is no need for the auditor to identify those risks of material misstatement that are already below an acceptably low level. Put another way, the auditor has to identify those risks of material misstatement that are not acceptably low as further work is required to reduce audit risk to an acceptably low level.

37. In identifying such risks, the auditor may focus on the inherent risk component of the risk of material misstatement, because if the risk is not below an acceptably low level without the consideration of the entity’s controls, this is a risk that requires further audit procedures (which may involve tests of controls) to reduce the risk to an acceptably low level. Taken from another perspective, if the auditor believes the risk is only below an acceptably low level after taking account of the entity’s controls (or expectations about the entity’s controls) to address the risk, the risk requires identification.

38. Therefore, the Task Force continues to be of the view that the ‘acceptably low’ threshold can be linked to a combination of the likelihood threshold of ‘reasonably possible’ and the magnitude threshold of ‘material’ for the purposes of guiding the auditor’s identification of the risks of material misstatement, but the Task Force still needs to continue to progress its thinking on how this link can best be articulated in the application material of ISA 200. The Task Force also plans to include this topic in its implementation materials where a fuller explanation may be able to be provided. The existing relevant references, as well as some initial thoughts on drafting are presented for Board discussion.

### Possible Conforming Amendment to ISA 200:

**Definitions**

13(c) Audit risk – the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk

13(e) Detection risk – The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
13(n) Risk of material misstatement

The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(a) Inherent risk—The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk—The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control.

... 

Application Material

Definitions

Risk of Material Misstatement (Ref: Para. 13(n))

A15a. In determining identified risks of material misstatement, the auditor considers those risks for which a misstatement could be material, and the likelihood that the risk could occur (i.e., whether there is a reasonable possibility that the risk could occur). If there are risks that could result in a material misstatement and have a reasonable possibility of occurrence and that have not been addressed by the auditor’s procedures, then audit risk is not at an acceptably low level. The auditor's judgment is necessary to identify which risks are identified risks of material misstatement.

III. Changes to the Application Material

Revisions Using the New Drafting Approach—Application Material

39. The Task Force reconsidered all the application material by applying the following principles, as agreed at the March 2019 IAASB meeting. Accordingly, proposed changes in the application material in Agenda Item 2-C reflects the following broad changes (more specific changes have been further explained below):

(a) Where appropriate, a “why” has been added to help practitioners understand the objective of the requirement.

(b) Separate scalability paragraphs have been presented, under a heading entitled “scalability”, to illustrate the proportionality and scalability of the standard. Where appropriate, examples to illustrate the scalability (i.e., both sides of the complexity spectrum) have been added.

(c) Separate headings to highlight matters related to the auditor’s considerations when using automated tools and techniques have been added.

(d) Examples have been separately identified in a box and enhanced as appropriate.

(e) Material that relates to further explanatory material relating to the entity (rather than the auditor’s considerations) has been largely moved to the Appendices. This has resulted in some new appendices and other changes and enhancements to the existing appendices (see Agenda Item 2-D).
(f) Redundant or repetitive text has been removed, and some explanations which are more ‘explanatory guidance’ in nature have either been moved to an Appendix as explained above or have been identified to be included in guidance. In addition, where the application material repeats the wording of a requirement, this has been removed.

(g) Long and complicated sentences and paragraphs have been reconsidered and amended where appropriate, including more use of bullet points where appropriate.

(h) Sections have been set out in a consistent way so that users of the standard are able to more easily navigate the standard, for example the ‘whys’ generally feature first and references to the Appendices are consistent throughout (these have been placed upfront in a box to indicate that further related matters can be found in a specific Appendix for that section).

(i) Cross-referencing within the text has only been retained where absolutely necessary.

The Task Force is mindful that further changes may be needed but is looking for Board views as to whether this new way of drafting the application material should be pursued further.

Specific Changes to the Application Material

40. In addition to the changes to the application material noted above, and in relation to IT as explained in Section IV, the application material has been enhanced to further explain the judgments made by the auditor in relation to the magnitude and likelihood when determining significant risks (pursuant to the Board agreeing at the March 2019 IAASB meeting to change the definition of significant risks to include the magnitude AND the likelihood) (see paragraphs A229 and A229a in Agenda Item 2-C).

IV. Information Technology

Definitions

41. The Task Force has acknowledged concerns about the scope of application controls and has proposed to change the term to ‘information processing controls.’ Although aspects of the definition of ‘application controls’ have been maintained, the proposed definition is based on the COSO definition of transaction controls and therefore also specifically acknowledges that such controls may be automated or manual. The Task Force selected the term “information processing controls” instead of “transaction controls” to appropriately reflect the control activities related to the information system, which are not limited to control activities related to the flows of transactions. The financial reporting process includes processing of information from sources other than transactions.

42. Based on the proposal to replace the term ‘application controls’ with ‘information processing controls,’ conforming changes were made to the definition of GITCs. In addition, the definition of GITCs has been further enhanced to improve alignment to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) definition of ‘general technology controls’ and by adding wording to explain what is meant by the ‘integrity of information’ (i.e. the completeness, accuracy and validity of information).

43. Recognizing concerns in relation to the lack of clarity in the concept of ‘risks arising from IT,’ the Task Force has proposed a definition of this term with the objective to also drive consistency in application. This
definition explains the concept in the context of risks to the effective design and operation of information processing controls. As such, the Task Force is of the view that these risks affect control risk.

Requirements, Application Material and Appendices

44. To address the concerns around the lack of clarity in the IT-related requirements in ED-315 that addressed the auditor’s understanding of the IT environment relevant to the information system, the identification of IT applications and other aspect of the IT environment relevant to the audit, and the identification of risks arising from the use of IT as well as the identification of general IT controls that address such risks, the following clarifications and enhancements have been made:

- With the changes to the IT-related definitions to better reflect the interrelationship of the concepts of the IT environment, risks arising from the use of IT, and general IT controls, the requirements in paragraphs 40 and 41 have been streamlined and merged.

- The revised requirement in paragraph 40 refers to ‘based on the identified controls’ to clarify that the controls identified in paragraph 39 are taken into account in addressing the revised requirement. The application material has been enhanced to describe, in narrative form, the prior four criteria included in paragraph 40 of ED-315 (i.e., automated controls, and controls related to system-generated reports, integrity of information, and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence).

- The prior reference to ‘relevant to the audit’ has been removed and replaced with IT applications and other aspects of the IT environment ‘that are subject to risks arising from the use of IT’.

- Clearer delineation has been made in the application material between the respective work efforts for understanding the IT environment as part of the understanding of the information system and the requirements to identify and address risks arising from IT related to the IT applications and other aspects of the IT environment. Sections have been added to explain the purpose of these requirements through “why” sections in the application material. The ‘why’ section related to the revised requirement in paragraph 40 includes specific examples of the possible effects of this work on the auditor’s identification and assessment of the risks of material misstatement.

- Scalability sections have been created in the application material with contrasting examples that address less complex and more complex IT environments.

45. Consistent with the overall approach to streamlining the application material, the application material to the IT-related requirements has been streamlined to focus on the understanding required and decisions to be made by the auditor with respect to identifying and addressing risks arising from the use of IT. Guidance that includes details about an entity’s IT environment and the varying complexities thereof, as
well as detailed guidance about the effects of these specific characteristics on the audit have been relocated to a new IT Appendix (see Agenda Item 2-D, Appendix 5).

46. To address calls for further supporting guidance to aid consistent understanding and application of the requirements, guidance has been relocated from the application material, expanded and enhanced such that the newly developed Appendix 5 also includes:

- Examples of matters that the auditor may consider in obtaining the understanding of the IT environment and contrasting examples of typical characteristics of IT environments with three different degrees of complexity
- A scalability section that includes a detailed contrasting example of how the auditor considers the characteristics of an IT application in determining whether it is subject to risks arising from IT.

47. To address requests for guidance on specific topics, the following enhancements have been made:

(a) **Outsourcing and third-party hosting of data** – The application material has been enhanced to refer to an entity’s use of ‘internal and external service providers’ for aspects of the IT environment, with third-party hosting included as an example. The Task Force is of the view that the reference to service providers more broadly reflects that any aspects could be outsourced and that includes internally to shared-service centers, which may be the case in a group (see paragraphs A49 and Appendix 5 paragraphs 4 and 6).

(b) **Cybersecurity** - Paragraph 17 in Appendix 5 has been added to address the auditor's consideration of unauthorized access by external parties (e.g., often referred to as cyber risks). This paragraph also notes that an entity may be subject to data protection legislation and considering the entity’s compliance with that legislation in accordance with ISA 250 (Revised)\(^{12}\) may involve understanding the entity's IT processes and general IT controls that address such compliance.

48. The Task Force also plans to expand and enhance Appendix 6, which was included in ED-315 to provide further explanation of the nature of the general IT controls typically implemented for different aspects of the IT environment. These enhancements will be focused on illustrating scalability of the risks arising from the use of IT and general IT controls for IT environments of varying complexity. Further consideration will be given to enhancements related to outsourcing and cyber risks, as well. The revised Appendix 6 will be provided to the Board in September 2019.

49. With respect to requests for further guidance on the extent of the auditor's work effort when less complex entities use commercial or ‘off-the-shelf’ software, the Task Force is of the view that the several enhancements made to address scalability in the application material and the appendices are useful and

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\(^{12}\) ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*
are of an extent that is appropriate for inclusion within the standard. The Task Force plans to develop further guidance on this topic in its implementation materials ‘package.’

Matters for IAASB Consideration

Paragraph 8 of this Agenda Item sets out the general approach to the Board discussions.

1. The IAASB is asked for its views about:
   (a) The new approach for presenting the requirements and application material;
   (b) The proposed changes to the requirements, definitions and application material in the proposed revised ISA 315 ((Revised), including whether there is anything that should be further considered by the Task Force as it finalizes the standard for discussion in September 2019;
   (c) The revised Appendices, in particular the new appendices that have been added;
   (d) The proposed conforming amendment to ISA 200 sets out in paragraph 38 above; and
   (e) The flowcharts and proposed outline of the guidance.

2. The IAASB are asked whether there are any other matters that the Task Force should consider as it progresses the final changes to the revised standard, including:
   (a) Whether changes are needed to ISA 200 to enhance the ‘authority’ of the definitions within the standards (as set out in paragraphs 13–19 of this paper).
   (b) Board views on the documentation requirements (see paragraph 31(b) of this paper, and if so, in which specific areas.
Extract from draft IAASB minutes – March 2019

ISA 315 (Revised)

Ms. Campbell provided an overview of the ISA 315 Task Force’s initial views to address specific responses to ISA 315 (Revised) Exposure Draft (ED–315), as set out in Agenda Items 4 and 4A.

APPROACH TO ADDRESS THE LENGTH AND COMPLEXITY OF THE STANDARD

The focus of the Board’s discussions was on addressing broad concerns raised by respondents to ED-315 in relation to the length and complexity of the standard. For this purpose, the Board considered an alternative approach about how to present the requirements for the auditor’s understanding of the entity’s system of internal control, with a view that this approach to drafting would then be applied to the rest of the standard.

In relation to the proposed new drafting approach, and acknowledging that the new approach to drafting would not necessarily address scalability, the Board:

- Supported the focus on the “what” in the requirement, and keeping the requirements at a principles level.
- Generally supported the use of definitions but this was subject to seeing how the whole standard would be drafted in this style, as there were concerns about maintaining the robustness of the standard.
- Encouraged the ISA 315 Task Force to further explore the “why’s,” i.e., to further consider whether more were needed and also where they were best placed within the standard.
- Liked the flow, noting it was more understandable.

However, concern was expressed by a few Board members:

- That this approach may result in making the application of the standard more difficult because it would require moving between different sections of the standard for a full understanding of what is required.
- That the changes were largely cosmetic and did not address the real issues related to complexity.

On balance, and subject to maintaining the robustness of the standard, the Board agreed to continue exploring this approach moving forward.

The Board also encouraged the Task Force to continue to consider the work effort that would be required to implement the standard as revised. Although generally supportive of further exploring the new drafting approach, the Board also noted that a full set of the requirements and application material would better help the Board to fully assess or evaluate the consequences of such an approach.

OVERARCHING REQUIREMENT TO PERFORM RISK ASSESSMENT PROCEDURES

The Board broadly supported the proposed revisions to paragraph 17 of ED–315 that explains the overarching objective of risk assessment procedures, as presented in Agenda Item 4-A Updated. However, some Board members recommended that the wording ‘shall design and perform risk assessment

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13 Draft minutes are still subject to IAASB review and may therefore still change
procedures’ (i.e. the “how”) should remain in the requirement itself, as this provides the necessary obligation or requirement to perform risk assessment procedures.

OVERARCHING APPROACH TO OBTAIN AN UNDERSTANDING OF THE ENTITY’S SYSTEM OF INTERNAL CONTROL

The Board broadly supported the proposed revisions to the overarching requirement to understand the system of internal control (paragraph 25 of ED–315, as presented in Agenda Item 4-A Updated). In particular, the Board welcomed the removal (from the requirement) explaining that the understanding provides a basis to identify and communicate control deficiencies to management and those charged with governance in accordance with ISA 265.14 The Board expressed concern that this may be interpreted too narrowly as being the primary objective of the understanding of the system of internal control. The Board agreed that this material is better suited in the application material. In addition:

• Some Board members expressed concern that the revision may be construed as stand-alone requirement to understand the system of internal control and is therefore independent from risk assessment procedures. Accordingly, the Task Force was asked to consider bringing back the wording ‘perform risk assessment procedures, in accordance with paragraphs 27 to 38’ (i.e. the ‘how’) into the requirement, to clarify the link to risk assessment procedures, as initially presented in Agenda Item 4-A.

• It was also suggested that the Task Force further consider whether the proposed revisions to this requirement are consistent with the auditor’s responsibility in relation to the system of internal control as set out in the auditor’s report in accordance with ISA 700 (Revised).15

Mixed views were expressed by the Board on the proposed deletion of the ‘set-up’ or ‘signposting’ requirement (paragraph 26 of ED–315) to identify controls that require an evaluation of its design and a determination of whether it has been implemented (D&I procedures).

TERMINOLOGY AND STRUCTURAL CHANGES RELATED TO THE UNDERSTANDING OF THE ENTITY’S SYSTEM OF INTERNAL CONTROL

On balance, the Board supported the following terminology changes:

• Replacing the term ‘controls relevant to the audit’ with ‘controls,’ subject to clarification about which controls would require D&I procedures.

• Replacing the reference to ‘relevant to financial reporting’ with language that requires the auditor to understand how the entity’s system of internal control ‘supports the preparation of the financial statements,’ although one Board member expressed concern that this may weaken the extant requirement.

• When evaluating the entity’s risk assessment process, replacing the term ‘including its formality’ with ‘including the extent to which it is formalized’ (paragraph 31(a) of ED–315).

INDIVIDUAL ASPECTS WITHIN THE COMPONENTS OF THE ENTITY’S SYSTEM OF INTERNAL CONTROL

In discussing the structure of the requirements in relation to the components of the system of internal control, the Board supported a flow that commences with the understanding of each component followed by the auditor’s evaluation of the outcome of the procedures performed. In addition, the Board broadly supported the proposed changes and agreed with:

14 ISA 265, Communicating Deficiencies in Internal Control To Those Charged With Governance and Management
15 ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
• The proposed revisions to simplify specific aspects of the control environment that have to be considered in obtaining the required understanding by the auditor;

• The proposal to add a requirement for the auditor to evaluate the entity’s process to monitor the system of internal control;

• Proposals to clarify or distinguish between the evaluation of information system controls and the evaluation of controls in the control activities component.

• Maintaining paragraph 39 that lists those controls that require D&I procedures. However,
  o The Board remained concerned over the scope or meaning of those controls that ‘are necessary’ to be identified for D&I procedures in identifying and assessing risks of material misstatement (paragraph 39(c) of Agenda Item 4-A). One Board member acknowledged that although there has to be an element of judgment, further clarification is required as the current wording may lead to varying interpretations in identifying the nature and extent of such controls. Ms. Campbell acknowledged that the identification of such controls have always been controversial and is best likely to be addressed through an example in the application material or in another form of non-authoritative guidance.
  o One Board member questioned whether the requirement to always consider D&I procedures for a significant risk is appropriate.

SEPARATE ASSESSMENT OF INHERENT AND CONTROL RISK

The Board broadly supported the proposed editorial change to clarify that the identification of risks of material misstatement at the assertion level for classes of transactions, account balances and disclosures is based on inherent risk (paragraph 45 of ED–315). However, the Board expressed concern as to whether the change is sufficient or has gone far enough in relation to how the auditor considers the combination of inherent and control risk in order to identify or assess the risks of material misstatement. Ms. Campbell reiterated that the proposal only intended to address the identification of risks of material misstatement, and noted that the other aspects of the identification and assessment of risks of material misstatement still requires further consideration by the Task Force.

SIGNIFICANT CLASSES OF TRANSACTIONS, ACCOUNT BALANCES AND DISCLOSURES

• The Board supported the proposal to leave the definition of ‘significant classes of transactions, account balances and disclosures’ unchanged.

• The Board supported the proposed change to the definition of ‘relevant assertions.’ Based on concerns that the threshold of ‘more than remote’ is too low, there was particular support for the removal of language that clarified that the threshold of ‘reasonable possibility’ is equal to or the same as ‘more than remote.’
  o One Board member cautioned that by continuing to use the term ‘reasonable possibility,’ the connotation or relationship with the threshold of ‘more than remote’ will remain due to the interpretations or definitions of the US Public Company Accounting Oversight Board (PCAOB).
  o Another Board member questioned whether there is still a need for a definition of ‘relevant assertions’ and whether it is possible to combine this concept with ‘significant classes of transactions, account balances and disclosures.’

• The Board expressed various views on the alternative options or proposals to reconcile the threshold of ‘reasonable possibility’ with aspects of the definitions of the ‘risk of material misstatement’ and
'detection risk' in accordance with ISA 200. However, on balance it was agreed that the explanation of 'reasonable possibility' should be clarified through the enhancement of application material in ISA 200, and not by changing the definition of 'risk of material misstatement' in ISA 200.

SIGNIFICANT RISKS

Strong support was expressed by the Board for proposals to:

- Change the definition of significant risk, which clarifies that the auditor has to consider the 'likelihood of misstatement occurring' and 'the magnitude of potential misstatement' in determining whether an inherent risk is close to the upper end of the spectrum of inherent risk. Notwithstanding this support, concern was expressed with this change, noting that this could result in the determination of fewer significant risks.

- Retain the description of significant risks as being 'close to the upper end of the spectrum of inherent risk.' The Board further agreed that the change in the definition of a significant risk would be helpful in determining when an inherent risk is 'close to the upper end of the spectrum of inherent risk.'

- Add application material to clarify that in rare circumstances there may be an entity that does not have a significant risk. However, one Board member cautioned that when translated, the term 'rare' is often interpreted as meaning 'never,' and requested the Task Force to consider an alternative term.

ISA 330 PARAGRAPH 18 AND THE STAND-BACK REQUIREMENT

Support was expressed by the Board for:

- The proposal to retain both paragraph 18 of ISA 330 as well as the stand-back requirement in paragraph 52 of ED–315, in particular as they serve different purposes. In this respect, the Board recommended that the application material should clarify that ISA 330 paragraph 18 is not a 'stand-back,' but rather a 'safety net' that requires the auditor to perform substantive procedures over all material account balances in the financial statements.

- The proposal to remove ‘qualitative’ and ‘quantitative’ in paragraph 18 of ISA 330 as materiality could only be those two things.

- The proposed redrafting of the stand-back requirement in ED–315 (paragraph 52).

SPECTRUM OF INHERENT RISK

The Board supported the proposal to keep the concept of the ‘spectrum of inherent risk’ and adding application material to make it clear that where a risks falls on the spectrum of risk is a matter of professional judgment, rather than a matter capable of precise measurement. In light hereof, the Board further agreed that a supporting requirement to assess where each risk of material misstatement belongs on the spectrum of inherent risk, would be inappropriate.

SUFFICIENT AND APPROPRIATE AUDIT EVIDENCE FOR RISK ASSESSMENT PROCEDURES

The Board supported the proposal to change the purpose of risk assessment procedures to be ‘to obtain audit evidence that provides an appropriate basis for the identification and assessment of the risk of material misstatement’ (paragraph 17 of ED–315). However, one Board member still noted concern with the

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16 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraphs 13(e) and 13(n)(i)

17 ISA 330, The Auditor’s Responses to Assessed Risks
inclusion of the term ‘audit evidence,’ observing that it may imply a certain threshold in determining an appropriate basis, which is not clear.

APPLICATION MATERIAL

The Board broadly supported the proposals for redrafting the application material. In addition:

- Mixed views were expressed regarding the utilization of flowcharts. Some Board members noted that the flowcharts are extremely helpful in navigating through the standard, while other Board members cautioned that the need for flowcharts supports the notion that the structure or language of the standard is too complex.

- One Board member encouraged the Task Force to explore technology solutions to enhance the presentation or navigation of the standard.

- Given that ED–315 is an inherently a complex standard, one Board member echoed calls that some requirements or principles justify more detailed or comprehensive explanatory material. Under these circumstances, the objective to achieve clarity should weigh more than efforts to reduce the length of the standard.

- The Board supported the proposal to separate scalability and proportionality considerations.

IAASB CAG CHAIR REMARKS

Mr. Dalkin noted by e-mail continuing support for progress being made to revise ISA 315 (Revised). Particular support was expressed for the ‘overall approach’ in presenting the requirements (the ‘what’) and the relocation of criteria or matters that describe certain words to definitions. In addition, Mr. Dalkin further encouraged the Board to consider other guidance (authoritative) such as interpretations, guides or tools to help reduce the volume in the standard itself. This would allow the standard to focus on the requirements and be less procedural.

PIOB REMARKS

Ms. Stothers questioned the proposed deletion of the overall requirement (paragraph 26 of ED–315) to identify controls that require D&I procedure, noting that this may weaken the robustness of ED–315. Ms. Stothers also expressed concern with the proposal to change the definition of significant risk (‘likelihood’ and ‘magnitude’), noting that this may create an opportunity to manipulate the interpretation of the definition. However, she agreed that this concern could be addressed through clearly articulated application material, by explaining that in some circumstances, either a high likelihood or a high magnitude can cause the determination of a significant risk.

Ms. Stothers further acknowledged the challenges in addressing the varying needs of different stakeholders, in particular in finding the right balance in responding to broad concerns in relation to complexity and scalability. However, Ms. Stothers cautioned against proposals that may weaken the robustness of the standard or are detrimental to the public interest. She noted that public interest matters would remain the key focus area of the PIOB as the standard is revised, and accordingly, she recommended that the Task Force reaches out to Monitoring Group members to engage in dialogue prior to the next round of substantive drafting.
### Appendix 2

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\(^{18}\) This report presents respondents’ comments to question 4 of ED–315, and specifically on whether the proposals support the appropriate exercise of professional skepticism throughout the risk identification process. Note that the 2\(^{nd}\) part of question 4 also requested feedback on the reference to ‘sufficient appropriate audit evidence’ in paragraph 17 of ED–315. Specific comments to this question are excluded from this report, as it was separately presented to the Board in March 2019 (NVivo report 10A).
Appendix 3

ISA 315 Task Force and Details of Meetings

Task Force Members and Activities Including Outreach

1. The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 315 (Revised) project, since March 2019. The Task Force consists of the following members:
   
   • Fiona Campbell – Chair (supported by Denise Weber)
   • Karin French
   • Marek Grabowski (supported by Josephine Jackson)
   • Susan Jones
   • Kai Morten Hagen

   Further information about the project can be found here.

Task Force Activities since the March 2019 IAASB Discussion

2. The ISA 315 Task Force has met twice in person and held 3 teleconferences since the last IAASB discussion in March 2019.

Outreach

3. 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.

4. 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.

5. 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.