

## ISA 315 (Revised)<sup>1</sup>—Proposed Changes to the Conforming and Consequential Amendments

### Objective of the IAASB Discussion

To consider:

- (a) Further proposed conforming and consequential amendments to the ISAs to address comments and concerns from the responses to ED-315 related to the proposed conforming and consequential amendments, as well as further proposed changes to conform with new changes being proposed to ISA 315 (Revised) since ED-315 – as the standard is progressed to finalization; and
- (b) Whether there are other areas that should be considered by the ISA 315 Task Force where conforming or consequential amendments may be needed.

### Introduction

1. ED-315 contained proposed conforming and consequential changes to various ISAs arising from the proposed changes to ISA 315 (Revised). A separate publication with proposed changes to ISA 540 (Revised)<sup>2</sup> was issued in a separate supplement, as ISA 540 (Revised) was also in the process of being finalized at the time.
2. The responses to the proposed conforming amendments in ED-315, as well as those to the separate consultation on proposed changes to ISA 540 (Revised), are summarized below. **Appendix 1** to this agenda item sets out the supplemental papers to support the analysis of the respondent's comments, as well as the NVivo reports.
3. The proposed changes identified in **Agenda Item 1-A** for this Board teleconference relate only to changes to proposed amendments to the requirements and application material in ISA 315 (Revised) already discussed with the IAASB through June 2019. However, as the Task Force continues to finalize the standard further conforming or consequential amendments may be necessary and these will be presented for discussion at the September 2019 IAASB meeting. Such potential changes include:
  - In relation to ISA 200,<sup>3</sup> the Task Force continues to consider possible changes in relation to the description of the risk of material misstatement relating to the 'reasonable possibility' of the occurrence of a misstatement (as discussed at the June 2019 IAASB meeting). Further considerations and proposals related to this will be presented to the Board for discussion at its September 2019 meeting and are not included for the purposes of this Board teleconference. The Task Force will also consider whether any further conforming amendments in other standards are needed, such as ISA 330,<sup>4</sup> as a result of any changes to ISA 200.

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<sup>1</sup> Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* (ED-315)

<sup>2</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>3</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

- In relation to ISA 200, changes to paragraph A42 explaining the separate assessments of inherent and control risk will likely be needed arising from new proposed changes to ISA 315 (Revised) to address Board comments relating to the assessment of control risk and how that is articulated in the revised standard.
- In relation to ISA 240,<sup>5</sup> the TF is further considering changes related to the relationship between fraud and the inherent risk factors in ISA 315 (Revised) which may result in further proposed conforming amendments
- In relation to ISA 330, further changes are expected to the application material to conform to additional changes that will be proposed to ED-315 application material relating to Information Technology (IT) as a result of Board comments received.
- In relation to ISA 330 and ISA 540 (Revised), further proposed conforming amendments are expected to conform to new changes being considered by the Task Force to the way that the auditor's consideration of the inherent risk factors is articulated within the requirements of ISA 315 (Revised).

## **Responses to ED-315 Relating to Conforming and Consequential Amendments**

### *Overall Comments*

4. Respondents who did not agree with certain conforming amendments either:
  - Did not agree with a proposed underlying concept or change in ED-315 and therefore did not agree with any related conforming amendments. For example:
    - There were mixed views from respondents about whether to include fraud as an inherent risk factor. Those who did not agree with including fraud as an inherent risk factor also did not agree to proposed conforming amendments related to this.
    - Respondents who did not agree with retaining paragraph 18 of ISA 330 (relating to performing substantive procedures for each material class of transactions, account balance or disclosure) also did not agree with any related conforming or consequential amendments.

The respondents' issues and concerns with the related concepts and changes in ED-315 are not dealt with in this paper, but rather have been addressed (or are being addressed) as the Task Force progresses the final proposed changes to the standard, and further conforming or consequential amendments may be needed (as noted above); or

  - Had the view that the conforming amendments are not sufficient because certain standards (such as ISA 240 and in particular ISA 330 (including 4 Monitoring Group members)) require a more comprehensive revision. As comprehensive revisions are not within the scope of this project to revise ISA 315 (Revised), no further action has been undertaken by the Task Force in respect of these comments.
5. There were also some comments that the conforming amendments should be reconsidered as the changes to ISA 315 (Revised) are being finalized (in particular in relation to ISA 540 (Revised)), including that there should be an avenue for raising further concerns. The Task Force continues to consider changes

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<sup>5</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

as needed as it finalizes the changes to ISA 315 (Revised) and will present these for approval to the IAASB with the final proposed standard (ISA 315 (Revised)) at the September 2019 IAASB meeting.

*Responses and Task Force Views to Proposed Changes to ISA 200 and ISA 240 Related to ED-315*

6. Respondents broadly supported the conforming and consequential amendments to ISA 200 and ISA 240, subject to the concerns that follow.
7. Concern was expressed that a change in ED-315 (paragraph 17) relating to obtaining 'sufficient appropriate audit evidence' was not consistent with ISA 200. Further reflection by the Task Force and Board in March 2019 resulted in the Task Force amending this proposed change in ED-315, such that the suggested inconsistency with ISA 200 has been removed.
8. In ISA 200, the proposed conforming amendments to ED-315 had inserted a new paragraph to further explain the presentation of matters relating to 'smaller and less complex entities' (in paragraph A67 of ED-315), and concern was expressed that this created inconsistencies. The intention of the new paragraph was to explain why similar considerations (about scalability) had been presented in ED-315 in a different manner than is described relating to the other ISAs. Further consideration about the presentation of the paragraphs that address scalability within ED-315 has resulted in the Task Force proposing further changes to ISA 200 – see ISA 200, paragraphs A65a to A66a in **Agenda Item 1-A**.
9. There was a call for more application material on the spectrum of inherent risk in ISA 200. However, the assessment of inherent risk is not addressed in ISA 200 and the Task Force is of the view that ISA 315 (Revised) is the appropriate standard to explain the concept of the spectrum of inherent risk and how it is applied in assessing risks of material misstatement at the assertion level.
10. Respondents' comments on the proposed conforming amendments to ISA 240 related mainly to fraud as an inherent risk factor (i.e., why fraud is an inherent risk factor, and the interaction between ISA 315 (Revised) and ISA 240 in relation to fraud as an inherent risk factor). The Task Force continues to consider how best to explain the inherent risk factors as they relate to fraud and will present updates to ISA 315 (Revised) for further discussion at the September 2019 IAASB meeting. Accordingly, there may be further conforming amendments in relation to this as ISA 315 (Revised) is finalized as described above.
11. There were also various suggestions relating to ISA 240 itself that could not be considered to be a conforming or consequential amendment from the project to revise ISA 315 (Revised). Therefore, there is no further action in relation to these comments.

*Responses and Task Force Views to Proposed Changes to ISA 330 Related to ED-315*

12. Respondents broadly supported the conforming and consequential amendments to ISA 330, subject to the concerns that follow.
13. In relation to paragraph 18 of ISA 330, respondents noted the following:
  - Disagreement with references to 'quantitatively and qualitatively material.' This has already been addressed and the Board agreed to remove 'quantitatively and qualitatively' material at the March 2019 IAASB Board meeting, and have been removed from the proposed conforming amendments.
  - Further application material is needed to address the extent of testing needed (e.g., whether *each* assertion applicable to a material class of transactions, account balance or disclosure are required to be subject to substantive procedures). This included concerns by 1 Monitoring Group member that the changes as to what was needed to be done were not clear enough in this regard. The Task

Force has clarified that not all assertions are required to be substantively tested (see ISA 330, paragraph A42a proposed change) and intends to develop some 'Frequently Asked Questions' guidance to further emphasize this point.

- Further application material is needed to distinguish *material* classes of transactions, account balances and disclosures, and *significant* classes of transactions, account balances and disclosures.
  - Further clarification of the purpose of ISA 330, paragraph 18 is needed if it is retained in addition to the new 'stand-back' in ISA 315 (Revised). The Task Force has reconsidered what more is needed, and on balance, has agreed that with the additional changes that have been made, as well as further guidance in this area (such as the implementation guidance developed by the IAASB for application of the revisions to the standard), that no further change is needed.
14. Other individual comments were made in relation to various requirements and application material within ISA 330, suggesting further conforming amendments were needed. The Task Force has worked through each of the comments and proposes no further changes because the Task Force considers that there was no inconsistency with the intent of the proposal in ED-315 or that the proposed conforming amendments in relation to ISA 315 (Revised) were already appropriate.

*Responses and Task Force Views to Proposed Changes to ISA 540 (Revised) Related to ED-315*

15. There was broad support for the proposed conforming and consequential amendments in the supplement to ED-315. The only comments received were as follows, and related to paragraph A39 of ISA 540 (Revised):
- The proposed amendment may be interpreted that evaluating the design and determining whether it has been implemented for controls related to an estimate of higher risk is always required, which is inconsistent with the proposed requirements of ISA 315 (Revised), or that if an evaluation of design and implementation of controls is undertaken, it provides audit evidence to reduce the level of substantive testing.
  - Whether the term 'higher' risk should be reconsidered as it is not used elsewhere.

The Task Force has reconsidered this paragraph in light of the changes being proposed in ISA 315 (Revised), and has made further proposed amendments (see **Agenda Item 1-A**) to delete some of the wording that is causing concern (it is the view of the Task Force that these matters are adequately covered in ISA 315 (Revised) and therefore it is unnecessary to repeat in ISA 540 (Revised)).

*Conforming Amendments to Other ISAs*

16. Other matters raised related to:
- A general call for more on technology in the ISAs, including in ISA 500.<sup>6</sup> This is outside the scope of the project to revise ISA 315 (Revised) so no further changes are needed within this project.
  - ISA 505, paragraph 15(a) and the way that risks of material misstatement has been articulated. The Task Force does not consider that a change is needed as this paragraph includes the assessment of control risk and is consistent with how risk of material misstatement is articulated in ISA 200.

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<sup>6</sup> ISA 500, *Audit Evidence*

- ISA 520,<sup>7</sup> paragraphs 5 and 6. No changes have been identified in relation to the changes being made in the ISA 315 (Revised) project.
- Further consideration of changes to ISA 402<sup>8</sup> and ISA 600. In relation to ISA 402, no changes have been identified. In relation to ISA 600,<sup>9</sup> as this standard is currently being revised, any further changes arising from the revision to ISA 315 (Revised) will be included in the proposed amendments to that standard.

### **Other Changes Proposed Arising from New Amendments to ED-315**

17. The following changes have been made throughout, as appropriate, for consistency with changes being made in ISA 315 (Revised):
- ‘Smaller less complex entities’ has been changed to ‘less complex entities.’
  - ‘Controls relevant to the audit’ have been changed to either ‘controls’ or ‘controls identified’ to conform to the revised terminology used in paragraph 39 of ISA 315 (Revised).
  - The term ‘events OR conditions’ v. ‘events AND conditions’ has been used inconsistently therefore changes have been made for consistency where this term has been used in an inconsistent manner.
  - “Quantitatively and qualitatively” have been removed throughout where they refer to materiality (see paragraph 13 above).

#### *Other Specific Changes to ISA 200*

18. Additional paragraphs have been developed to describe the drafting approach in ISA 315 (Revised), which is different from the other ISAs (see paragraphs A60–A61a, A65a, A66a and A67a of ISA 200 in **Agenda Item 1-A**).

#### *Other Specific Changes to ISA 330*

19. Paragraph 15—as this paragraph refers to the auditor’s intentions to test controls in the risk assessment process, changes have been proposed to align the language with the articulation of the auditor’s plans to test controls in paragraph 39 of ISA 315 (Revised).
20. Paragraph A4—Changes have been made to align to revised language in ISA 315 (Revised) relating to the risk assessment process, and how risks of material misstatement, and the relevant assessments, have been described.
21. Paragraph A10—the Task Force had the view that it would be helpful to clarify that the assessed risks would be lower when the ‘auditor plans to test’ the operating effectiveness of controls, to be consistent with the intent of the changes made in paragraph 39 of ISA 315 (Revised).
22. Paragraph A29b—with the reorganization and clarification of IT in the control activities component, further changes have been made to align ISA 330 with the revisions in ISA 315 (Revised). As noted previously there may be further conforming amendments proposed arising from changes relating to IT.

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<sup>7</sup> ISA 520, *Analytical Procedures*

<sup>8</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>9</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Group Auditors)*

## **Way Forward**

23. The Task Force will continue to consider whether further conforming amendments are needed as it progresses the changes to ISA 315 (Revised) to finalization. The final proposed conforming amendments will be presented to the IAASB for approval in September 2019.
24. It is noted that the presentation of the conforming amendments for approval at the September 2019 IAASB meeting will include all conforming amendments, including those only described in the Explanatory Memorandum to ED-315 (i.e., those proposed conforming changes that were considered more 'straightforward' throughout the ISAs presented in a tabular format rather than the actual proposed conforming amendments).

### **Matters for IAASB Consideration**

1. The Board is asked for its views on the proposed changes to the conforming and consequential amendments set out in **Agenda Item 1-A**.
2. The Board is asked whether there are any other conforming or consequential amendments, with the exception of those set out as still being under consideration in paragraph 3 of this paper, that the Task Force should consider as it finalizes the changes to the conforming and consequential amendments?

**Appendix 1**

<b>Description:</b>	<b>Question # in Explanatory Memorandum (EM)</b>	<b>NVivo Word Report Reference:</b>	<b>Excel Summary Sheet Reference:</b>
Proposed conforming amendments to:			
<ul style="list-style-type: none"> <li>• ISA 200 and ISA 240</li> </ul>	9(a)	1A	1B
<ul style="list-style-type: none"> <li>• ISA 330</li> </ul>	9(b)	2A	2B
<ul style="list-style-type: none"> <li>• Other ISAs as presented in Appendix 2 of EM of ED-315</li> </ul>	9(c)	3A	3B
<ul style="list-style-type: none"> <li>• ISA 540 (Revised)</li> </ul>	9(d)	4A	4B