

Responses to ED-315¹
Comments on 'Conforming Amendments to ISA 200² and ISA 240³'
NVivo Report 1A
(FOR REFERENCE)

08. IRBA

The conforming amendments to ISA 200 and ISA 240 are appropriate.

11. Australian A&A Standards Board

Refer to Question 4. Using the term "sufficient appropriate audit evidence" in paragraph 17 is inconsistent with the definition of audit evidence in ISA 200. We believe the IAASB need to consider if paragraph 17 is appropriate, and the impact this has on ISA 200.

12. Canadian AASB

Yes, we believe these conforming amendments are appropriate and complete.

13. CNCC-CSOEC

The revision of ISA 315 will generate consequential amendments on other ISA. Therefore, we consider that before addressing the proposed conforming and consequential amendments from the revision of this standard, key issues in the ED-315 should be resolved as a priority. However as at today, we are supportive of the proposed conforming amendments.

15. IDW

We have no substantive comments on ISAs 200 and 240, other than those conforming amendments that would result from our comments on the draft of ISA 315.

17. Malaysian Institute of Accountants

We agree with the proposed conforming and consequential amendments.

18.NBA

It is rather confusing that part of the conforming amendments are presented in the ED and another part is presented in the Supplement to the ED which was issued later.

19. National Board of Accountants (Tanzania)

ISA 200 and ISA 240, are appropriate to reflect the corresponding changes made in ISA 315 (Revised)

¹ Exposure Draft International Standard on Auditing 315, *Identifying and Assessing Risks of Material Misstatement*

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing*

³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

20. NZ Auditing and Assurance Standards Board

The NZAuASB considers the proposed conforming amendments appropriate.

21. Altaf Noor Ali Chartered Accountants

We have not reviewed this in detail and are not in a position to make a meaningful comment.

22. BDO International

We are generally supportive of the conforming amendments included in ISA 200 and ISA 540.

With respect to ISA 240, one of the conforming amendments was to link the susceptibility to fraud and fraud risk factors to inherent risk factors (ISA 240, paragraph A25 and Appendix 1). ISA 240 describes fraud as 'events or conditions that indicate an incentive or pressure to perpetrate fraud, provide an opportunity to commit fraud, or indicate attitudes or rationalizations to justify fraudulent action'. We recommend the standard draw the auditor's attention to the fact that inherent and control risks may indicate the three elements of the "fraud triangle" necessary for fraud to be perpetrated may be present, with brief application material explaining this concept.

24. Crowe International

We agree with the conforming and consequential amendments.

25. Deloitte

DTTL is supportive of the changes made to ISA 200 and ISA 240 to reflect the changes in the proposed standard. As discussed in the cover letter and in question 6(b) above, DTTL believes that the consideration of fraud within ED-315 should be re-evaluated. To the extent that no further changes are made in response to the comments around management bias and fraud as an inherent risk factor, the IAASB should clarify the interaction between the evaluation of management bias and fraud as part of determining inherent risk in ED-315 and the evaluation of fraud risk factors within ISA 240.

Detail editorial suggestions

ISA 240.44	Clarify the wording as currently drafted. The auditor shall include the following in the audit documentation of the <u>auditor's</u> identification and the assessment of the risks of material misstatement required by ISA 315 (Revised):
ISA 240.A25	Fraud risk factors related to incentives, pressures or opportunities may arise from conditions that create susceptibility to misstatements due to management bias or fraud (which is an inherent risk factor). Alternatively, fraud risk factors may relate to conditions within the entity's system of internal control that provide opportunity to commit fraud or that may affect management's attitude or ability to rationalize fraudulent actions. <u>Fraud</u> Risk factors reflective of an attitude that permits rationalization of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such

	information through, for example, the required understanding of the entity's control environment. Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other risk factors may exist.
ISA 240.A32	It is therefore important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud. In identifying the controls relevant to the audit that address the risks of material misstatement due to fraud, the auditor may learn, for example that management has consciously chosen to accept the risks associated with a lack of segregation of duties. Information from identifying <u>the these</u> controls <u>management has designed, implemented and maintained to prevent and detect fraud</u> , and evaluating their design and determining whether they have been implemented, may also be useful in identifying fraud risk factors that may affect the auditor's assessment of risks that the financial statements may contain material misstatement due to fraud.

26. EY Global Limited

Yes

27. Grant Thornton International

We note that no consequential or conforming amendments have been proposed to ISA 200 in respect of the use of "considerations specific to smaller entities." However, the proposed amendment in paragraph A67a uses the proposed new term of "smaller and less complex entities." As such, this is creating inconsistencies rather than addressing them. Further, it does not acknowledge the statement in the Explanatory Memorandum, that considerations relating to smaller and less complex entities may also be applied to larger entities that are less complex.

28. KPMG IFRG Limited

Yes, we believe these are appropriate and are aligned to ED 315.

29. MNP LLP

We have no further comments with respect to the proposed conforming and consequential amendments.

30. PwC International

ISA 240

We continue to believe that the inclusion of both "susceptibility to misstatement due to management bias or fraud" and the fraud risk factors, and the notion that incentives, pressures or opportunities arise from conditions that create susceptibility, is potentially circular and confusing. We support retention of the fraud risk factors as defined in ISA 240 and do not support the proposed inherent risk factor in ISA 315. Consequently, we do not believe the proposed conforming changes are appropriate.

Detail editorial suggestions:

ISA 200.13 (n)(i) & A40	See ISA 315 paragraph 3 above.
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	<p>Para. 3:</p> <p>We suggest the definition of inherent risk could be simplified:</p> <p>"Inherent risk is described as the susceptibility, at the of an assertion level, about of 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."</p>
ISA 240.27 & A7	<p>See comments on "controls relevant to the audit".</p> <p>-</p>
ISA 240.44 (c) & A32	<p>See comments on "controls relevant to the audit". In this instance we suggest:</p> <p><i>"Controls identified to be relevant to the audit because they <u>that</u> address assessed risks of material misstatement due to fraud."</i></p>
ISA 240.A25 & Appendix 1 paragraph 2	<p>See response to question 9.</p>

31. RSM International

Question 9, 10 and 11(a)

We have no comment, other than in respect of paragraph 18 in ISA 330 as mentioned above in our response to questions 6d and 8.

32. Office of the Auditor-General of Alberta

We have no additional comments.

33. Office of the Auditor-General of Canada

We have no comments concerning conforming amendments identified for ISA 200. Conforming amendments to ISA 240.44 could be simplified by modifying paragraph c) since the auditor is required by ISA.27 to identify controls that address material misstatements due to fraud as relevant to the audit. Paragraph 44c) could read "Controls identified to address risks of material misstatement due to fraud."

35. US Government Accountability Office

We believe that the proposed amendments to ISA 200 and ISA 240 appropriately reflect the corresponding changes made in ISA 315 (Revised).

36. Swedish National Audit Office

We don't have any comments on the confirming and consequential revisions.

38. ACCA-CAANZ

We have no particular comments on this question.

39. Accountancy Europe

The revision of ISA 315 after the exposure period will have significant consequential bearing on the proposed conforming and consequential amendments moving forward. Therefore, before addressing the conforming and consequential amendments, key issues in the ED-315 are primarily to be resolved, such as unnecessary complex constructions, and the issues in applying scalability.

To address some of the specific aspects of this question, on point a) above, we consider the ISA 200 definition of 'small entities' to be sufficient for the time being, while on point b) above, we note that there is a lot more to be done to promote the use of data analytics as part of the revision of ISA 500.

40. AICPA

We are generally supportive of the proposed conforming amendments, however we offer the following changes:

The term 'internal control' was replaced by the term "system of internal control." Several conforming amendments were marked to ISA 210, Agreeing to the Terms of Audit Engagements, ISA 260, Communicating with Those Charged with Governance, and ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, and we agree with these conforming amendments. However, other ISAs in which the term is used (such as the 700 series) were not marked for conforming amendments. We recommend that the IAASB review the other uses of the term "internal control" within the ISAs to determine whether additional conforming amendments should be made to reduce the likelihood of confusion with respect to this critical concept.

43. CPA Australia

Yes, no concerns noted.

44. EFAA

We have no comments.

45. Finnish Association of Authorised Public Accountants

No comments

46. Fed of Prof Council of Economic Sciences

We believe that the changes are appropriate.

47. FSR Danske Revisorer

In our opinion, ED-315 needs to be redrafted to address the issues, already stated, connected with scalability and excessive complexity before it is possible to consider if the corresponding amendments are appropriate.

However, in our view, ISA 240 and ISA 330 should be redrafted to ensure that the risk assessment process is simplified and made more scalable as the standards overlap and create unnecessary complexity when they do not promote a clear and consistent process that covers both risk of error and fraud.

48. Interamerican accounting association

Yes, we understand that the adequacy proposal is consistent with the changes proposed in ISA 315 (Revised)

49. Instituto dos Auditores Independentes do Brazil

Yes.

51. Institute of Chartered Accountants in England and Wales

We note in our answer to Q6 above, our concerns about including susceptibility to the risk of fraud as an inherent risk factor. IAASB is proposing fairly minor amendments to ISA 240 and we remain unclear as to why it seems necessary to include considerations relating to the susceptibility to fraud in the context of risk assessment in two ISAs.

We have no comment on the proposed amendments to ISA 200.

52. Institute of Chartered Accountants (Ghana)

Yes they are. ISA 200 deals with the objectives of an independent auditor and the conduct of an audit in accordance with ISA's. The only change is the conduct of the audit and so some minimal changes (separate assessment of inherent risks from control risks; new concepts of inherent risk factors, spectrum of inherent risk, relevant assertions and SCOTABD) as noted are all that is needed for ISA 200. For ISA 240, the main change has been to explain the relationship between fraud risk factors and inherent risk factors. Controls over fraud risk factors are "Controls" relevant to the audit. Also, a slight clarification of the override of controls by way of journal entries.

53. Institute of Chartered Accountants of Pakistan

We are supportive of the principle of obtaining an appropriate base of evidence for risk assessment. However, we note that the term "sufficient appropriate audit evidence" (used in paragraph 17 of ED 315) is associated with drawing conclusions on the evidence collected on the financial statements as a whole and not during the risk identification and assessment phase. We have also noted that using this term in the proposed revised standard is inconsistent with the definition of audit evidence in ISA 200. Accordingly, we believe the IAASB need to consider if paragraph 17 is appropriate, and its impact on ISA 200.

54. Institute of Chartered Accountants of Scotland

In relation to the conforming amendments, at this stage it may be premature to consider these in detail on the basis of our initial remarks on the quality of the ED. However, in relation to ISAs 200 and 300, we reiterate our concerns about the introduction of a spectrum of risk and make reference to our observations in relation to the use of automated tools and techniques as part of the revision of ISA 500.

The revision of ISA 315 will have a significant impact on the revision of future standards. Therefore, before addressing the conforming and consequential amendments from the revision of this standard, our concerns regarding the current ED-315 need to be resolved such as its unnecessarily complex construction and the issues around scalability.

To address some of the specific aspects of this question, on point a) above, we consider the ISA 200 definition of 'small entities' to be sufficient for the time being, while on point b) above, we note that further work is required to promote the use of data analytics as part of the revision of ISA 500. We also reiterate our concerns regarding the introduction of the concept of a 'spectrum of inherent risk' in relation to conforming amendments to ISAs 200 and 300.

55. Institute of Chartered Accountants (Zimbabwe)

Yes, the new sections that are to be added will help to explain the purpose of the auditor's assessment and identification of risks of material misstatement. This is appropriate in reflecting the corresponding changes.

57. Institute of Public Accountants

Reference 1:

Inherent risk and fraud – the IPA is of the view that ISA 240 should reflect more clearly the motive to misstate arising from inherent risk factors when assessing fraud. Fraud is often narrowly considered by auditors to relate to misappropriation of assets with other types of fraud not given enough emphasis. The motive to misstate arising from the need to meet performance targets (either in terms of market expectations or in relation to performance related remuneration arrangements) should be more clearly articulated in ISA 240; together with the identification of the relevant inherent risk factors that give rise to such a risk. Similarly, the risk of regulatory fraud (i.e. the non-reporting of contraventions with regulation) should have more emphasis in ISA 240.

Reference 2:

Subject to the comments in the covering letter in relation to ISA 240, the IPA supports the proposed consequential amendments to ISA 200 and ISA 240.

59. Malaysian Institute of CPAs

Generally, MICPA notes that the proposed conforming and consequential amendments are appropriate.

61. PAFA

Yes, these are appropriate

62. SAICA

SAICA agrees with the amendments made to ISA 200 and ISA 240. We support the clarification in ISA 240 that controls that address risks of material misstatement due to fraud are relevant to the audit.

63. SMPC

In our opinion, the references to ISA 240 and conforming amendments appropriately underscore the importance of the consideration of fraud when identifying and assessing risks of material misstatement in accordance with ISA 315 (Revised) and no further changes are needed.

65. Chartered Accountants Academy (Zimbabwe)

Yes, these are appropriate to reflect the changes in ISA 315 (revised). The new sections that are to be added in help to explain the purpose of the auditor's assessment and identification of risks of material misstatement. This is appropriate in reflecting the corresponding changes.

66. FocusRoi Inc.

No comment

67. Lynessa Dias

The proposed conforming amendments as a consequence of the revisions in ISA 315, relating:

- to the separation of inherent risk and control risk compared to the combined risk of material misstatement in ISA 200 and 240;
 - to the spectrum of inherent risk, inherent risk factors, relevant assertions and significant classes of transactions, account balances and disclosures introduced in the revised standard and explained in paragraph A40 in ISA 200 and in paragraph A43a in ISA 330 to merge the meaning of the purpose of identification and assessment of risks of material misstatement at the assertion level;
 - to clarify the work effort related to understanding an entity's system of internal controls new paragraphs in ISA 240;
 - to new amendments in ISA 330 to reflect the concepts of significant classes of transactions, account balances and disclosures in the revised ISA 315;
 - to recognize that materiality relates to both quantitative and qualitative aspects in ISA 330; and
- other such changes are appropriately noted by the Board.

70. S Dianne Azoor Hughes

No matters arising in the context of the current drafting.

Amendments may not be complete to the extent they are impacted by better articulation of the auditor's examination of a company's risk management procedures in further revision to ED-315.