



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	3(e).1
Meeting Date:	17 April 2018
Subject:	Update on ISA 315 following the IAASB's March 2018 meeting
Date Prepared:	9 April 2018

Matters discussed at the AUASB March 2018 meeting:

- There are extensive redrafting and restructuring changes to the proposed standard from the last IAASB meeting.
- Whilst no concerns with the overall direction of the standard there are a few matters detailed below to be forwarded to Lyn Provost. The following is a summary of the changes and matters to discuss with the AUASB:
 - New introductory paragraphs to provide context and the interaction with ISA 200 and ISA 330 have been added which are a good addition but could be shortened.
 - Changes to and new definitions ie. controls, general IT controls and application controls relevant asserts, significant risks.
 - ◆ Qualitative Inherent Risk Factors changed to Inherent Risk Factors (IRF). IRF now incorporates qualitative and quantitative factors before consideration of controls. Impact is that IRF now includes the size of the class of transaction, account balance or disclosure relative to performance materiality. Issue – does a large transaction have a high IR? Do not agree.
 - ◆ Within the definition of IRF, fraud is now replaced with management bias as the Task Force believe this is consistent with the concept of IRF. This is a change. Do we agree with?
 - ◆ New definition of reasonable possibility raises a concern that low risk material balances may become significant which will increase work effort where not considered necessary.
 - ◇ Significant class of transaction, account balance or disclosure is where there is a relevant assertion. Definition of relevant assertions is when there is a reasonable possibility of a material misstatement. Reasonable possibility defined as where the likelihood of a material misstatement is more than remote. Remote is lower than reasonable. This is an issue – scalability.
 - ◆ Need definitions of class of transaction and account balances as there is a risk auditors will disaggregate items.

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- The Task Force have redrafted and re-ordered requirements and related application material:
 - ◆ Identifying and Assessing the Risks of Material Misstatement – clarified that when the operating effectiveness of controls are not tested the auditor shall assess controls risk at the maximum.
 - ◆ Paragraph 25 – It indicates at the end of this paragraph that the separate assessment of inherent risk and control risk applies to ROMMs at the assertion level. Does this mean that this is not the same approach/requirement for FS level ROMMs?
 - ◆ Paragraph 25B(b)(i) – refers to identifying FS level ROMMs “by determining whether the identified risks relate more pervasively to the financial statements as a whole and potentially affect many assertions” – a ROMM at the assertion level can affect many assertions also. Isn’t it more aligned within affecting many ABCOTDs?
 - ◆ Paragraph 30 – based on the amendments to the wording of this paragraph there doesn’t seem to be an action or outcome with respect to the fact that the auditor would need to identify and test relevant controls (OE) to address the ROMMs. So could refer to 330 or include it in 315.
 - ◆ Added a new requirement (30A / B) in relation to classes of transactions, account balances and disclosures that are not significant, but are quantitatively or qualitatively material. Issue –Is this necessary given the existing requirement in ASA 330 paragraph 18?
- The following is still in development:
 - ◆ the application material relating to public sector will be updated after planned outreach in March 2018.
 - ◆ the scalability of the standard as it further refines the proposed changes.
 - ◆ the application material related to information technology considerations as well as general IT controls.
 - ◆ further consideration of automated tools and techniques ie. data analytics however likely to require further amendments.
 - ◆ Conforming amendments will be presented at the June 2018 IAASB meeting, except for those relating to ISA 330 paragraph 18 which are included in agenda item 3.

Update from IAASB March 2018 based on notes from Roger Simnett (attended as an observer) and Lyn Provost (IAASB member)

- The Board continues to support the general direction of the proposed changes, but the overall feedback was that the flow of the standard remains complex, and that further clarity is needed. Suggestions included a flowchart to provide additional guidance on the flow of the standard.
- There also remains continuing concerns about how to operationalise some of the concepts, and how to address scalability.

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- The issues the AUASB had identified were discussed as follows:
 - Agreement that the introductory paragraphs to be shorter and less reference to other standards.
 - Discussion on IRF, both qualitative and quantitative, and including management bias to replace fraud. Mixed views.
 - Discussion on relevant assertions, “more than remote” seems low. Needs to be clarified
 - Para 30A / B. Lots of discussion and confusion but overall support for the stand back requirement. Needs to be simplified and the link to ISA 330 clearer. Significant and material confusing.
- The task force will continue to draft and present a draft standard at the June IAASB meeting which may be approved an ED.

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