



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	3(a) (i)
Meeting Date:	13 June 2018
Subject:	<i>ISA315_AUASB Technical Group's analysis</i>
Date Prepared:	6 June 2018

Purpose and structure of this paper and agenda item

1. This paper provides the matters the AUASB Technical Group (ATG) have identified in draft ISA 315, to bring to the attention to the AUASB.
2. This paper is set out as follows:
 - Section 1 – High level overview of the changes to draft ISA 315 since the March 2018 IAASB meeting
 - Section 2 – Matters identified by the AUASB on previous drafts of ISA 315 and the status of these.
 - Section 3 – Key features of draft ISA 315
 - Section 4 – Specific questions for the AUASB as identified by the ATG.
 - Section 5 – Next steps

Section 1 – High level overview of the changes to draft ISA 315 since March 2018 IAASB meeting

3. The Task Force have continued drafting and restructuring draft ISA 315 as a result of feedback from the IAASB and continued outreach, as well as adding new content on areas not complete at the March 2018 meeting as follows:
 - the application material relating to public sector
 - the scalability of the standard has continued to be considered.
 - the application material related to information technology considerations as well as general IT controls
 - further consideration of automated tools and techniques ie. data analytics
 - conforming amendments.

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Section 2 Matters identified by the AUASB on previous drafts of ISA 315

Matter	Status
<ul style="list-style-type: none"> New introductory paragraphs to provide context and the interaction with ISA 200 and ISA 330 have been added which are a good addition however could be shortened. 	<ul style="list-style-type: none"> Introductory paragraphs have been redrafted and introduce key concepts to help with the understanding of the standard. The key concepts includes: <ul style="list-style-type: none"> a separate assessment of inherent risk and control risk is now required; introduces a spectrum of inherent risk when assessing inherent risk, based on inherent risk factors. control risk assessment is impacted on whether test of control effectiveness is performed or not ie. maximum if not tested, less than maximum if it is. No issues noted.
<ul style="list-style-type: none"> Inherent risk factors (IRF) (which are used when assessing inherent risk) incorporates qualitative and quantitative factors. Impact is that IRF now includes the size of the class of transaction, account balance or disclosure relative to performance materiality. Concern that this may result in low risk large items being identified as a significant account. 	<ul style="list-style-type: none"> Still relevant. Explanatory material AOd – AOe provide guidance including that the quantitative significance of a class of transaction, account balance or disclosure in relation to performance materiality, is a IRF. Refer section 4.
<ul style="list-style-type: none"> IRFs - include management bias and not the more broad concept of fraud. 	<ul style="list-style-type: none"> IRF now include management bias and fraud. ATG agree with this.
<ul style="list-style-type: none"> Definitions - 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 <u>remote</u>. More guidance required on more than remote as risk of increased work effort where not considered necessary. ie. may result in more significant accounts. 	<ul style="list-style-type: none"> Still relevant. Extract from IAASB March 2018 minutes: Board still had concerns that the definition of 'relevant assertions' needing clarifying to explain that the threshold of '<i>more than remote</i>' was not different to '<i>reasonably possible</i>' Refer section 4.
<ul style="list-style-type: none"> Consider whether definitions of class of transaction and account balances is required as there is a risk auditors will disaggregate items. 	<ul style="list-style-type: none"> Still relevant. Refer section 4.

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<ul style="list-style-type: none"> • New requirement which is a stand back provision (30A/B) in relation to classes of transactions, account balances and disclosures that are not significant, but are quantitatively or qualitatively material, and whether they do have relevant assertions, and should be a significant account. Concern this was not necessary given the existing requirement in ASA 330 paragraph 18. The Task Force have added this to ISA 315 to require auditors to consider the risk of the item, not just the size. 	<ul style="list-style-type: none"> • This requirement has been re-worded however still included. The requirement now is to identify classes of transactions, account balances and disclosures which are quantitatively or qualitatively material, and that have not been identified as significant, and re-assess if this is appropriate. • This is in effect a double check that the risk assessment has been performed properly. In response to concerns about the performance of risk assessment • Note that ISA 330 has a similar purpose however will only result in substantive procedures being performed on any material class of transaction, account balance, or disclosures which haven't been tested. • Refer section 4.
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Section 3 – Key features and ATG observations in relation to draft ISA 315

4. The following is an overview of the key features of draft ISA 315 to assist the AUASB in understanding the flow of the standard and key changes.
5. There has been extensive changes to definitions. No issues noted except for the matters previously identified.
6. Requirements
 - Paragraph 5 – Design and perform risk assessment procedures
 - Similar to extant.
 - Note requires the auditor to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement (ROMM). This is a change from the extant and the objective of this is to explain the purpose of risk assessment procedures. Note to avoid confusion this paragraph also explicitly states risk assessment procedures do not by themselves provide sufficient appropriate audit evidence. No concerns with this.
 - Understanding the entity and its environment and the applicable financial reporting framework – no issues noted (paragraphs 11 – 11A)
 - Understanding of the entity's system of internal control (Paragraphs 12 – 21D)
 - Components of internal control similar to extant.
 - Clarifies that the auditor is required to understand the IT environment and to identify IT applications and other aspects of the IT environment that are relevant to the audit (paragraphs 18(d) and 21A) ie. links to general IT controls relevant to the audit.
 - Paragraph 20 more clearly identifies the types of controls relevant to the audit than in the extant.

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- Paragraphs 21C and 21D consolidates into one requirement if control deficiencies are identified and refers to ISA 265.
- Identifying and Assessing Risk of Material Misstatement (Paragraphs 25 - 31) splits identifying and assessing ROMM.
 - ◆ ROMM identified at the financial statement level and assertion level.
 - ◆ New requirement to separately identify inherent and control risk at the assertion level.
 - ◆ Control risk impacted by the testing of operating effectiveness of controls. Now explicitly requires the auditor to assess controls risk as maximum if not testing operating controls.
 - ◆ Identify significant risks based on the assessment of inherent risk and ROMM.
- Explanatory and other material
 - Extensive new and redrafted.
 - More on public sector entities considerations have been added after the Task Force have consulted with the INTOSAI¹ to ensure the public sector references in the extant are relevant and appropriate. Have added additional application material from ISSAI² Practice Note 1315.
 - More extensive guidance on controls relevant to the audit including IT and general IT controls (A100 and following), identifying and assessing risk if material misstatement (A126 – A127), identifying significant risks and the impact for the audit (A140 – A144), and assessing control risk (A150).
 - Two new appendices. Appendix 1 Considerations for Understanding the Entity and its Business Model, and appendix 2 Consideration for Understanding General IT Controls. A good addition to assist auditors understanding.
- Scalability
 - Changed the term from “smaller entities” in the extant ISA 315, to “smaller and less complex entities” acknowledging that complexity is a key to scalability. Note that the Task Force considered “smaller or less complex” however determined “and” to be appropriate, as smaller is not defined, and therefore the definition is considered flexible to result in identification of the right entities. Refer to section 4.
 - There is extensive additional guidance throughout the application material for smaller and less complex entities.
- Data Analytics / automated tools and techniques
 - The Task Force have been working with the Data Analytics Working Group. There isn’t a specific section on DAs, however there are additional references on how technology may be used in the risk assessment process throughout the application material.

¹ The International Organisation of Supreme Audit Institutions – Financial Audit and Accounting Sub-Group

² The International Standards of Supreme Audit Institutions

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- Appendix 3, Table 4 in Agenda item 3(a) (ii) IAASB Agenda item 3 - ISA 315 (Revised) – Issues and Recommendations, details the paragraphs where references are made to automated tools and techniques.

Section 4- Questions for the AUASB to consider

7. Whilst supportive of draft ISA 315 there are a number of matters which impact scalability. There is a concern that draft ISA 315 will result in more significant accounts and more significant risks which will impact the work effort.
 - a) Do you agree with the inclusion of quantitative factors as an IRF?
 - b) With respect to the determination of a Significant Risk, do you agree that in instances where there is a very high magnitude, even though there is a low likelihood that the related risk could still represent a “Significant Risk”?
 - c) Do you agree with the definition of relevant assertion including the use of the term “less than remote”?
 - d) Do you agree definitions of “class of transaction and account balances” would be helpful as they are key terms within the standard and may help avoid the risk auditors will disaggregate items to avoid significant risks?
 - e) Do you agree with the term smaller and less complex, or do you think smaller OR less complex would be appropriate. Concern “and” is restrictive and would result in medium / larger however less complex entities wouldn’t follow this guidance.
 - f) Do you agree that ISA 315 should have a stand back provision? Or is ISA 330 (18) sufficient?
 - g) Any other matters the AUASB have identified to feedback to the IAASB?

Section 5- Next steps

8. Assuming that draft ISA 315 is approved for issue as an ED at the June IAASB meeting, the Task Force are proposing:
 - a. an exposure period ending 31 October 2018 ie. approx. 100 days
 - b. an effective date of audits of periods commencing on or after December 15 2020.

Question for the AUASB: Do you agree with exposure period and / or effective date?

9. As agreed at the AUASB meeting on 17 and 18 April 2018, the AUASB will issue an ED consecutive with the IAASB. The following is an estimate of the timetable based on the assumption of requiring to submit to the IAASB by 31 October 2018.

<i>Date (approximate)</i>	<i>Action</i>
23 June	IAASB approves ISA 315 ED and conforming amendments
16 July	IAASB releases ISA 315 ED
30 July	AUASB technical group circulates Australian ED to AUASB

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3 August	Teleconference: AUASB approves EDs for issue for 75 day period. (closing approx. 12 October)
1 – 12 October	Outreach
Week beginning 22 October	AUASB teleconference – review of comments received and AUASB submission to the IAASB.
31 October	AUASB submission to IAASB

Question for the AUASB: Do you agree with proposed timetable?

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