

Audit & Assurance Alert

CANADIAN AUDITING STANDARDS (CAS)

SEPTEMBER 2018

Exposure Draft on Identifying and Assessing the Risks of Material Misstatement – Comments due November 2, 2018

The purpose of this *Audit & Assurance Alert* is to raise awareness of the recent Exposure Draft approved by the Auditing and Assurance Standards Board (AASB) in July 2018, highlighting significant changes in identifying and assessing risks of material misstatement in financial statement audits.

The International Auditing and Assurance Standards Board (IAASB) is revising International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. The AASB adopts ISAs as Canadian Auditing Standards (CASs), therefore the AASB's Exposure Draft mirrors that of ISA 315, with additional questions for Canadian stakeholders posed by the AASB.

Why should I read the Exposure Draft?

This Exposure Draft impacts all auditors because it proposes changes to the foundational audit standard, CAS 315. Canadian practitioners have an ability to influence the development of the ISAs so the standard will be clear, understandable, and can be practically applied to audits in Canada (e.g., are the proposals scalable for audits of small entities?). Practitioners are strongly encouraged to read the Exposure Draft to familiarize themselves with the proposed changes and to consider and provide feedback directly to the IAASB and the AASB on how these changes will be applied in practice.

What is the deadline for providing comments?

Comments to both the IAASB and AASB must be received by **November 2, 2018**. If you would like your response letter to be considered by the AASB when drafting its own response to the IAASB's Exposure Draft, please submit it early, on or before October 1, 2018.

What is included in the Exposure Draft and where can it be found?

The Exposure Draft consists of:

- an explanation of why change was needed
- key public interest considerations
- proposed changes
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum
- a description of the AASB's process for adopting ISAs
- a discussion of proposed significant Canadian amendments
- a proposed effective date.

The Exposure Draft, including a list of questions for practitioners, can be found at:

www.frascanada.ca/CAS315ED

What are the proposed changes to CAS 315?

The Exposure Draft proposes several key changes, which include:

- focusing on the applicable financial reporting framework when identifying and assessing the risks of material misstatement
- updating the understanding of the system of internal control, including clarifying the work effort for understanding each of the components of internal control and clarifying “controls relevant to the audit”
- updating aspects relating to IT, in particular to the IT environment, the IT applications relevant to the audit and general IT controls relevant to the audit
- introducing the new concepts of:
 - inherent risk factors
 - relevant assertions
 - significant classes of transactions, account balances, and disclosures
 - the spectrum of inherent risk
- enhancing application material to further explain how work performed on the design and implementation of controls relevant to the audit interacts with the auditor's assessment of control risk
- separating the assessment of inherent risk and control risk in relation to risks of material misstatement at the assertion level
- enhancing the requirements for the auditor's identification and assessment of risks at the financial statement level and the relationship of these risks to the risks of material misstatement at the assertion level
- updating the definition of “significant risks”

- introducing a stand-back requirement for the auditor to evaluate whether all the significant classes of transactions, account balances and disclosures, and their relevant assertions, have been identified.

Other Resources

1. [AASB Exposure Draft, *Identifying and Assessing the Risks of Material Misstatement*](#)
2. [FRAS Canada Identifying and Assessing the Risks of Material Misstatement Landing Page](#)
3. [IAASB Exposure Draft, *Identifying and Assessing the Risks of Material Misstatement*](#)
4. [AASB webinar, “Identifying and Assessing the Risks of Material Misstatement: Explore the AASB’s Exposure Draft”](#)
5. [AASB video conference discussions on the CAS 315 \(Revised\) Exposure Draft](#)

Comments

Comments on this *Audit & Assurance Alert*, or suggestions for future *Alerts* should be sent to:

Yasmine Hakimpour CPA, CA

Principal, Audit & Assurance

Research, Guidance and Support

Chartered Professional Accountants of Canada

277 Wellington Street West

Toronto ON M5V 3H2

Email: yhakimpour@cpacanada.ca

DISCLAIMER

This paper was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

Copyright © 2018 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact permissions@cpacanada.ca