

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARDS CAS 315, Identifying and Assessing the Risks of Material Misstatement

May 2020

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard [\(CAS\) 315, Identifying and Assessing the Risks of Material Misstatement](#).

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following:

- (a) A Basis for Conclusions prepared by International Auditing and Assurance Standards Board (IAASB) staff for International Standard on Auditing (ISA) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, and related conforming amendments to other international standards is available on the IAASB website. It provides information on how the IAASB dealt with comments received in response to its Exposure Draft, "Proposed International Standard on Auditing 315 (Revised) Identifying and Assessing the Risks of Material Misstatement" (ED-ISA 315), issued in 2018.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, "Proposed Canadian Auditing Standard Identifying and Assessing the Risks of Material Misstatement" (ED-CAS 315) is set out below.

Background

In July 2018, the IAASB issued its ED-ISA 315. At its meeting in September 2019, the IAASB approved its final ISA 315 (Revised 2019), and related conforming amendments to other International standards. This approval was subject to the Public Interest Oversight Board's confirmation that the IAASB followed due process. In November 2019, the IAASB received this confirmation.

In September 2018, the AASB issued its ED-CAS 315. AASB staff held consultation sessions with various stakeholders to seek input on ED-CAS 315, including field testing some of the proposed requirements on a retrospective basis against a completed file.

At its December 2019 meeting, the AASB approved [CAS 315](#). The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in the development of this CAS prior to its issuance in the CPA Handbook – Assurance.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. The AASB did not propose any Canadian amendments in ED-CAS 315, as no situations met the amendment criteria as stated in [Appendix 1](#) to the Preface to the CPA Canada Handbook - Assurance. Also, there were no public interest considerations identified particular to Canada that would require a Canadian amendment. The Board reviewed the changes made from the Exposure Draft to the final standard and concluded the changes would not require a Canadian amendment. Therefore, [CAS 315](#) contains no amendments to the ISA wording.

Other

Significant Concerns over Operationalizing the Requirements

2. During the AASB's consultations on ED-ISA 315, several stakeholders had concerns with using the proposed requirements in a way that would achieve consistency of practice and reflect appropriate use of professional judgment. The following summarizes the significant concerns, including those from stakeholders, the Board raised in its response letter to ED-ISA 315: 1
 - It was unclear how the auditor evaluates the control components "Control Environment" and "The Entity's Risk Assessment Process" or whether controls and control deficiencies were expected to be identified.
 - ED-ISA 315 provided little guidance and there were very different interpretations of the following proposed requirement: Identify controls relevant to the audit that, in the auditor's professional judgment, are appropriate to assist in identifying and assessing the risks of material misstatement at the assertion level; or designing further audit procedures responsive to assessed risks.
 - It was unclear:
 - o what type of controls fit into the "information system and communication" component of internal control;
 - o the extent of understanding required; and

- o how these controls would differ from those identified under the requirement to perform design and implementation procedures over controls relevant to the audit.
 - There was concern with defining significant risk as the magnitude "or" likelihood of a misstatement. Some interpreted the situation of high magnitude but low likelihood as always being a significant risk while others interpreted it as a rare circumstance. This could result in an inconsistency in practice. Also, an unintended consequence might be an increase in the number of significant risks identified on each audit, where attention may not need to be directed. Stakeholders believed the definition should instead refer to magnitude "and" likelihood.
3. Other respondents to ED-ISA 315 shared similar concerns. The IAASB carefully considered these matters when finalizing ISA 315, as discussed in its Basis for Conclusions for ISA 315 (Revised 2019). The AASB believes that the final ISA 315 includes improvements to ED-ISA 315 that address the concerns listed above raised by Canadian stakeholders.

Summary of Participants in Webinar

Attended "Live"	Attended "On Demand"	Total
780	620	1,400

Summary of Participants in Other Consultations

		Large firms	SMPs 2	Public sector	Regulators	Academics	Provincial institutes / Ordre members
Format		Number of participants					
1	Virtual – Regulators	0	0	0	1	0	0
2	In person – Large firms & legislative auditors field testing debrief	6	0	4	0	0	0
3	Virtual – SMP's field testing debrief	0	5	2	0	0	1
4	Virtual – open registration	0	3	0	0	0	0
5	In person – Quebec CPA Ordre working group on assurance and reporting	1	6	0	2	1	4
TOTAL		7	14	6	3	1	5

Footnotes

1. Canadian stakeholders may have raised other concerns directly with the IAASB.
2. Small and medium-sized practices

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