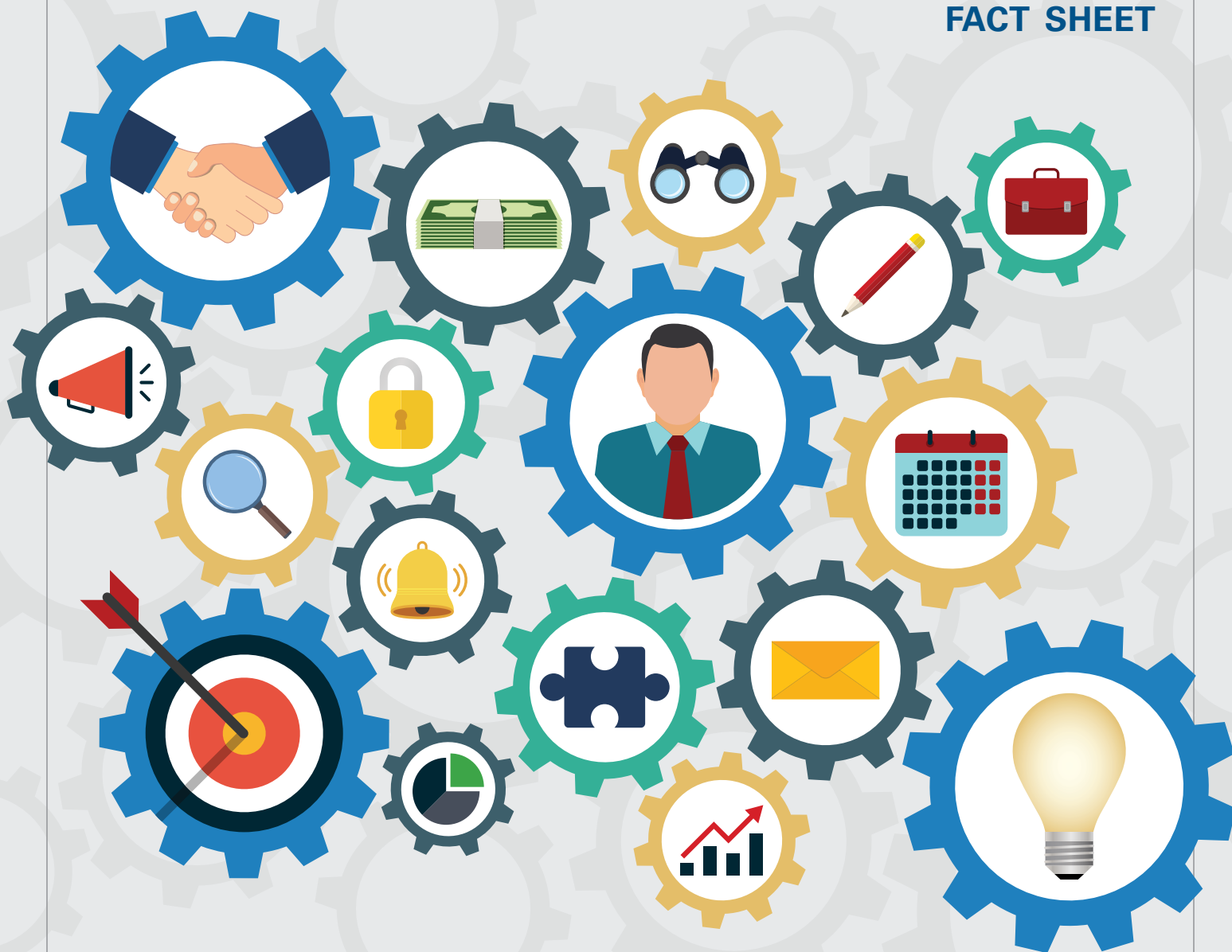


DECEMBER 2019

INTRODUCTION TO:
ISA 315 (REVISED 2019)
*Identifying and Assessing the
Risks of Material Misstatement*

FACT SHEET



INTRODUCTION



WHAT?

Identifying and assessing the risks of material misstatement is foundational to the audit. **ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement***, has been revised to require a more robust risk identification and assessment, thereby promoting better responses to the identified risks.



The standard will be effective for periods beginning on or after December 15, 2021



HOW?

The standard has been revised to respond to challenges and issues with the current ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* by making changes for clarity and consistent application. The revised requirements focus on 'what' needs to be done, and the application material enhanced, modernized and reorganized to describe 'why' and 'how' procedures are to be undertaken.



WHAT OUTCOME IS THE REVISED STANDARD SEEKING TO ACHIEVE?

Through revising, reorganizing and enhancing the extant standard, the changes are intended to:

- Promote consistency in application of procedures for risk identification and assessment.
- Make the standard more scalable through revised principles-based requirements.
- Reduce the complexity and make the standard more usable by auditors of all entities, whatever the nature or complexity.
- Encourage a more robust risk assessment thereby more focused responses to those identified risks.
- Support auditors using the standard by incorporating guidance material that recognizes the evolving environment, including in relation to information technology.



The standard is iterative in nature, and the auditor is required to exercise professional judgment in determining the nature and extent of the procedures to be undertaken.





WHAT ARE THE SIGNIFICANT CHANGES?

OBTAINING AN UNDERSTANDING



- Enhanced requirements relating to exercise of professional skepticism
- Clarification that the risk assessment process provides the basis for the identification and assessment of the risks of material misstatement, and the design of further audit procedures
- Separate focus on understanding the applicable financial reporting framework



The Entity's System of Internal Control

- Distinguishing nature of, and clarifying extent of, work needed for indirect and direct controls in the system of internal control
- Clarifying which controls need to be identified for purpose of evaluating the design of a control, and determining whether the control has been implemented (D&I)

OTHER ENHANCEMENTS



Scalability

- Principles-based requirements focused on 'what' needs to be done
- Application material highlights proportionality and scalability considerations under a separate heading, illustrating scaling up for more complex situations and scaling down for less complex situations



Using Technology in the Audit

- Considerations for using automated tools and techniques incorporated within the application material
- Supporting Q&A from IAASB's Technology Working Group



The audit risk model has not changed. However, enhancements and clarifications help auditors in applying the audit risk model when identifying and assessing the risks of material misstatement.



WHAT ARE THE SIGNIFICANT CHANGES? (con't)

IDENTIFYING AND ASSESSING RISK OF MATERIAL MISSTATEMENT

New Concepts and Definitions

'Significant classes of transactions, account balances and disclosures' and 'relevant assertions'

to assist with the identification and assessment of the risks of material misstatement

'Spectrum of inherent risk'

to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement

'Inherent Risk Factors'

to focus the auditor on the susceptibility of assertions to misstatement. These include: complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

RISK IDENTIFICATION AND ASSESSMENT

- Separate assessment of inherent risk and control risk
- Revised definition of '*significant risk*' for those risks close to the *upper end of the spectrum of risk*
- If the auditor does not contemplate testing the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk

OTHER CHANGES

- New 'stand-back' to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process
- Standard modernized and enhanced to include auditor considerations in relation to IT, including new and updated appendices for understanding IT and IT general controls



Documentation - Strengthened documentation requirements relating to the exercise of professional skepticism



Clarification of the 'threshold' for identifying 'possible' risks of material misstatement in ISA 200



TOOLS

Tools to support implementation will be available in 2020 at <https://www.iaasb.org/consultations-projects/isa-315-revised>.

Stay tuned for fact sheets, a 'first time implementation guide' providing further detail on the significant changes noted above, and some frequently asked questions!