

ISA 315 (REVISED)—TABLE OF PROPOSED CHANGES

ISA 315 (Revised) Requirement	Changes to ISA 315 (Revised)	Project Proposal	Board Decisions / Board Discussions to Date ¹	References to Issues Paper – Agenda Item K.1
Title Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	Title Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment			
Scope	Scope			
1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.	1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.			Paragraphs 7–12
Effective Date	Effective Date			
2. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2013.	2. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2013 <u>20xx</u> .			

¹ Dates in this column refer to approved Minutes for the relevant Board meeting summarizing decisions made and matters for further consideration.

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Objective	Objective			
3. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement	3. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.		<ul style="list-style-type: none"> Existing audit risk model retained (Sep 2016) 	Paragraphs 7–12
Definitions	Definitions			
4. For purposes of the ISA, the following terms have the meanings attributed below:	4. For purposes of the ISA, the following terms have the meanings attributed below:			
(a) Assertions – Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.	(a) Assertions – Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur. <u>The set of statements that need to be valid, in all material respects, in order for the</u>			Paragraphs 16–19

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	<u>financial statements to be free from material misstatement. If an assertion that needs to be valid is not valid to a material extent, the financial statements are materially misstated with respect to the applicable financial reporting framework.</u>			
	[NEW] <u>Relevant assertions² – an assertion is relevant to a class of transactions, account balance or disclosure when the nature and circumstances of that item are such that there is more than a remote likelihood that a misstatement of the item may be material, individually or in combination with respect to that assertion.</u>			Paragraphs 16–19
	[NEW] <u>Relevant class of transactions, account balance or disclosure – a class of transactions, account balance or disclosure for which there is at least one relevant assertion.</u>			
(b) Business risk – A risk resulting from significant conditions, events,	(b) Business risk – A risk resulting from significant conditions, events, circumstances, actions			

² This new definitions have been presented in this order to facilitate discussions. The definitions will be reordered to alphabetical order for the purposes of presenting the exposure draft for discussion.

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circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.	or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.			
(c) Internal control – The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.	(c) Internal control <u>(or system of internal control)</u> – The process <u>system</u> designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control. <u>For the purposes of the ISAs, internal control is divided into five inter-related components:</u> <ul style="list-style-type: none"> • <u>Control environment.</u> 	Clarify concept of internal control (PP para 50(a)) Language used not clear (PP para 57)		Paragraphs 42–46

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	<ul style="list-style-type: none"> • <u>The entity's risk assessment process.</u> • <u>The entity's process to monitor controls.</u> • <u>The information system, including the related business processes, relevant to financial reporting, and communication.</u> • <u>Control activities relevant to the audit.</u> 			
	[NEW] <u>Controls – policies or procedures, which are embedded in each component of the system of internal control, that are designed to achieve the control objectives of management or those charged with governance. Policies are statements of what should be done to effect control. Procedures are required actions to implement policies.</u>			Paragraphs 42–46
(d) Risk assessment procedures – The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal	(d) Risk assessment procedures – The audit procedures designed performed to obtain an understanding of the entity and its environment, including the entity's internal control, to			Paragraphs 22–23

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control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.	identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.			
(e) Significant risk – An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration	<p>(e) Significant risk – An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.</p> <p><u>An identified risk of material misstatement:</u></p> <ul style="list-style-type: none"> • <u>For which the assessment of inherent risk is higher due to the impact of one or a combination of the qualitative inherent risk factors; or</u> • <u>That is to be treated as a significant risk in accordance with the requirements of other ISAs.</u>³ 	<p>Whether to retain concept of significant risk (PP para 43)</p> <p>Enhance work effort with respect to risk assessment and appropriately tailor risk assessment (PP para 22)</p> <p>Too much subjectivity in the determination of what a significant risk is in practice (PP para 26)</p> <p>How to use the information obtained from the understanding in identifying and assessing risk – provide auditor with factors to consider (PP para 36)</p>	<ul style="list-style-type: none"> • Board agreed to retain concept (March 2017) • Various comments regarding 'working definition' (March 2017) including: <ul style="list-style-type: none"> ○ Consideration should be given to including 'judgment' in the working definition. ○ Introducing the concepts of magnitude and likelihood should help with the identification of SR. ○ The auditor's consideration 	Paragraphs 86–87

³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 27 and ISA 550, *Related Parties*, paragraph 18

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			of the qualitative inherent risk factors relating to the identification of the risks (i.e., the nature of the risk) should be reflected in the working definition.	
	[NEW] <u>Qualitative Inherent Risk Factors – Characteristics of events or conditions relating to a class of transactions, account balance or disclosure that impact the susceptibility of an assertion about the item to a misstatement. Such characteristics include complexity, ambiguity, change, and uncertainty.</u>			Paragraphs 24–27
Requirements	Requirements			
Risk Assessment Procedures and Related Activities	Risk Assessment Procedures and Related Activities			
5. The auditor shall perform risk assessment procedures to provide a basis for the identification and	5. The auditor shall perform risk assessment procedures <u>sufficient</u> to provide a basis for the identification and assessment of risks of	Scalability (sufficient basis for identification and assessment of ROMM) (PP para 17)		Paragraphs 28–34

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assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1–A5)	<p>material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. The <u>risk assessment procedures include:</u></p> <p>(a) <u>Obtaining an understanding of:</u></p> <p>(i) <u>The entity and its environment (see paragraph 11(a)); and</u></p> <p>(ii) <u>The applicable financial reporting framework (see paragraph 11(b));</u></p> <p>(b) <u>Obtaining an understanding the entity's internal control (see paragraphs 12–24)</u></p> <p>(c) <u>Identifying and assessing the risks of material misstatement (see paragraphs 25A–25D).</u></p>	How to use the information obtained from the understanding in identifying and assessing risk (PP para 36)		
6. The risk assessment procedures shall include the following:	6. The risk assessment procedures shall include the following:			Data analytics to be considered in development of

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(a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6–A13) (b) Analytical procedures. (Ref: Para. A14–A17) (c) Observation and inspection. (Ref: Para. A18)	(a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (b) Analytical procedures. (c) Observation and inspection.			application material.
7. The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying risks of material misstatement.	<u>7. In identifying risks of material misstatement</u> the The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying risks of material misstatement.			
8. If the engagement partner has performed other engagements for the entity, the engagement partner	8. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether			

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shall consider whether information obtained is relevant to identifying risks of material misstatement	information obtained is relevant to identifying risks of material misstatement.			
9. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (Ref: Para. A19–A20)	9. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit.			
10. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members	10. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to			

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not involved in the discussion. (Ref: Para. A21–A24)	engagement team members not involved in the discussion.			
The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control	The Required Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework including the Entity's Internal Control	Address more specifically evolving operational models and related entity structures, such as the use of shared service centers and other evolving business models, and integrated IT systems (PP para's 54–55)		
<i>The Entity and Its Environment</i>	<i>The Entity and Its Environment</i>			
11. The auditor shall obtain an understanding of the following:	11. The auditor shall obtain an understanding of: the following (a) <u>The entity and its environment, including:</u> (i) <u>The business and operations of the entity, including its business model;</u> (ii) <u>Relevant industry, regulatory and other external factors; and</u> (iii) <u>The measures used, internally and externally, to assess the entity's financial performance.</u>	Scalability (sufficient basis to enable the auditor to understand the classes of transactions, account balances and disclosures) (PP para 17) Professional skepticism (PP para's 61–62)	Board agreed to separate "Including the applicable financial reporting framework" to give more prominence (Sep 2016)	Paragraphs 35–41 IT aspects outstanding

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	<p>(b) <u>The applicable financial reporting framework, including the entity's accounting policies and any changes thereto.</u></p> <p>to enable the auditor to understand the classes of transactions, account balances and disclosures to be expected in the financial statements.</p>			
(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30)	(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.			
(b) The nature of the entity, including: (iv) its operations; (v) its ownership and governance structures; (vi) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and	(b) The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and			

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(vii) the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: Para. A31–A35)	(iv) the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.			
(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: Para. A36)	(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. <u>11A.</u> The auditor shall evaluate whether the entity's accounting policies are appropriate for its business, taking into account the industry in which it operates, and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.			
(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37–A43)	(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.			

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(e) The measurement and review of the entity's financial performance. (Ref: Para. A44–A49)	(e) The measurement and review of the entity's financial performance.			
The Entity's Internal Control	The Required Understanding of the Entity's Internal Control			Paragraphs 47–76
12. The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. (Ref: Para. A50–A73)	12 The auditor shall obtain an understanding of <u>the system of internal control relevant to the audit, through understanding controls relevant to the audit in each of the components of internal control. For this purpose, the auditor shall perform the procedures set out in paragraphs 14 to 24 of this ISA.</u> Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.	<ul style="list-style-type: none"> Obtaining understanding of IC relevant to the audit may be difficult to apply in practice (para 27) Clarify why an understanding of internal control is required, including the extent to which an understanding of each of the five components of internal control is relevant in all audits (paragraphs 47 and 50(a)) Clarifying why it is necessary to understand controls if a fully substantive approach is to be undertaken (paragraph 49) 	<ul style="list-style-type: none"> Important for standard to explain why obtaining an understanding of internal control is relevant (March 2017) Develop examples and guidance to illustrate how understanding can be obtained in different circumstances (e.g., through examples to illustrate difference between complex systems with lots of controls versus simpler systems with less controls) (March 2017) There should be a clear link between 	Paragraphs 47–51 IT aspects outstanding

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		<ul style="list-style-type: none"> Explore interactions of para 12 and 18 (PP para 50(e)) 	the requirement to understand internal control in par 12 (extant Standard) and the requirements related to understanding each of the individual components of internal control (Sep 2016).	
Nature and Extent of the Understanding of Relevant Controls	Nature and Extent of the Understanding of Relevant Controls			
13. When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref: Para. A74–A76)	13 When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.	<ul style="list-style-type: none"> Clarifying what it means to evaluate the design and implementation of controls relevant to the audit (and how this can be effectively achieved for each of the components of internal control) vs testing of controls (paragraphs 49 and 50(c)) 		
Components of Internal Control	<i>Components of Internal Control</i>	<ul style="list-style-type: none"> Providing further guidance about the extent of work to 	<ul style="list-style-type: none"> Making clear that all components of control are relevant 	Paragraphs 52–57

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		understand the five components of internal control (paragraph 49)	<p>where they exist (June 2016) – emphasize importance of understanding all components</p> <ul style="list-style-type: none"> • Requirements to understand internal control to be made more scalable – provide clarity as to why the understanding is needed (Sep 2016) • Need to clarify work effort for evaluating components of internal control (especially for SMPs who may implicitly rely on these components) (Sep 2016) • Stronger link between overall requirement and each of the components, and make clear that interconnected (Sep 2016) 	

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Control environment	Control <u>E</u> nvironment			
<p>14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: Para. A77–A87)</p>	<p>14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment.</p> <p><u>The auditor shall identify controls within the control environment that are relevant to the audit, and evaluate the design of those controls and determine whether they have</u></p>		<ul style="list-style-type: none"> Describe impact of a different control environment will have on auditor's work on control activities, and that this is reflected in the examples and guidance developed. (March 2017) 	<p>Paragraphs 58–60</p> <p>IT aspects outstanding</p>

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	<p><u>been implemented; such controls are those designed to:</u></p> <p>(a) <u>Maintain a culture of honesty and ethical behavior; and</u></p> <p>(b) <u>Provide an appropriate foundation for internal control.</u></p> <p><u>[NEW] 14A The auditor shall evaluate whether the control environment is appropriate to the entity's circumstances and determine if there is a significant deficiency in internal control with regard to the control environment. If a significant deficiency in internal control is identified, the auditor shall consider the implications on the audit, including on the overall response of the auditor to identified risks of material misstatement as required by ISA 330.⁴</u></p>			

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

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The entity's risk assessment process	The E ntity's R isk A ssessment P rocess			
15. The auditor shall obtain an understanding of whether the entity has a process for: <ul style="list-style-type: none"> (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks. (Ref: Para. A88) 	15 The auditor shall obtain an understanding of whether the entity has a process for: If the entity has established a risk assessment process, the auditor shall identify controls within the entity's risk assessment process that are relevant to the audit, and evaluate the design of those controls and determine whether they have been implemented; such controls are those designed to: <ul style="list-style-type: none"> (a) Identify business risks relevant to financial reporting objectives; (b) Estimating <u>Assess</u> the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to <u>Address</u> those risks. 			Paragraphs 61–64 IT aspects outstanding
16. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was	16 If the entity has established such a process (referred to hereafter as the "entity's risk assessment process"), the auditor shall obtain an			IT aspects outstanding

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<p>an underlying risk of a kind that the auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process.</p>	<p>understanding of it, and the results thereof. If the entity has not established a formal risk assessment process, the auditor shall understand the extent to which the entity has controls to:</p> <p>(a) <u>Identify risks relating to financial reporting objectives and how these are met;</u></p> <p>(b) <u>Assess the significance of the risks, including the likelihood of their occurrence; and</u></p> <p>(c) <u>Address those risks.</u></p> <p><u>[NEW] 16A When the entity has not established a formal risk assessment process, the auditor shall:</u></p> <p>(a) <u>Evaluate whether this is appropriate considering the nature and size of the entity; and</u></p> <p>(b) <u>Determine whether it represents a significant deficiency in internal control.</u></p>			

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	<p><u>[Previously in para 16]</u></p> <p><u>16B.</u> If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process.</p>			
17. If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the	<p>17. If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the</p>			

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absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: Para. A89)	absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: Para. A89)			
Monitoring of controls ⁵	Monitoring of The Entity's Process to Monitor Ceontrols⁴			
22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. (Ref: Para. A110–A112)	22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. The auditor shall identify controls within the entity's process to monitor controls that are relevant to the audit, and evaluate the design of those controls and determine whether they have been implemented; such controls are those that relate to the			Paragraphs 65–69 IT aspects outstanding

⁵ Note the sections on the components of internal control have been restructured but the numbering has been maintained from the extant ISA 315 (Revised)

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	<u>entity's identification and remediation of deficiencies in internal control.</u>			
23. If the entity has an internal audit function, ⁶ the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed. (Ref: Para. A113–A120)	23. If the entity has an internal audit function, ⁷ the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.			
24. The auditor shall obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: Para. A121)	24. The auditor shall obtain an understanding of the sources of the information used in the entity's <u>process to monitor controls</u> monitoring activities , and the basis upon which management considers the information to be sufficiently reliable for the purpose.			

⁶ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the ISA.

⁷ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the ISA.

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The information system, including the related business processes, relevant to financial reporting, and communication ⁴	The Information System, Including the Related Business Processes, Relevant to Financial Reporting, and Communication ⁴			
18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. A90–A92 and A95–A96)	18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: <u>The auditor shall identify controls within the information system, including the related business processes, relevant to financial reporting, and evaluate the design of those controls and determine whether they have been implemented; such controls are relevant to the audit and include controls related to:</u>	<ul style="list-style-type: none"> Clarification on when information that is outside the general and subsidiary ledgers becomes part of the entity's information system , and to what extent the auditor needs to understand the nature and source of the information (paragraph 40) Explore interactions between paragraphs 12 and 18 (paragraph 50(e)) 	<ul style="list-style-type: none"> Requirements to understand processes separate from requirements for understanding controls (June 2016) 	Paragraphs 70–72 Data analytics to be considered in development of application material. IT aspects outstanding
(a) The classes of transactions in the entity's operations that are significant to the financial statements;	(a) The <u>identification of</u> classes of transactions in the entity's operations that are <u>relevant</u> significant to the financial statements;			
(b) The procedures, within both information technology (IT) and manual systems, by	(b) The procedures, within both information technology (IT) and manual systems, by which			

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which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;	these relevant classes of transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;			
(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form	(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;			
(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements	(d) How the information system captures events and conditions, other than transactions, that are significant <u>relevant to the financial statements reporting</u> ;			

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(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and	(e) The financial reporting process used to prepare the entity's financial statements, including <u>relevant</u> significant accounting estimates and disclosures; and			
(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93–A94)	(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. [MOVED TO Para. 20]			
This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers	<u>In identifying, and evaluating the design and determining the implementation of the controls relevant to financial reporting in the information system, including related business processes, the auditor</u> This understanding of the information system relevant to financial reporting shall include controls relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside			

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	of the general and subsidiary ledgers.			
19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (Ref: Para. A97–A98)	19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:			
(a) Communications between management and those charged with governance; and	(a) Communications between management and those charged with governance; and			
(b) External communications, such as those with regulatory authorities	(b) External communications, such as those with regulatory authorities.			
Control activities relevant to the audit	Control A activities relevant to the audit			
20. The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design	20. The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures	<ul style="list-style-type: none"> Guidance on identifying controls that are relevant for the purpose of identifying and assessing the risks of material 		Paragraphs 73–76 Data analytics to be considered in development of application material.

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<p>further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: Para. A99–A106)</p>	<p>responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. <u>The auditor shall evaluate the design of the controls relevant to the audit within the control activities component, and determine whether those controls have been implemented, being those controls:</u></p> <p>(a) <u>That are relevant to a significant risk;</u></p> <p>(b) <u>That are relevant to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;</u></p> <p>(c) <u>That the auditor plans to test the operating effectiveness of;</u></p> <p>(d) <u>Over journal entries, including non-standard journal entries used to record non-recurring,</u></p>	<p>misstatement (paragraph 49)</p> <ul style="list-style-type: none"> • The extent of the evaluation of the design and implementation of general IT control activities required when performing a wholly substantive audit (paragraph 51) • Better linkage between the relevance of general IT controls and control activities (paragraph 51) • Clarify the importance of the auditor understanding the relationship between general IT control activities and audit evidence (paragraph 51) 		<p>IT aspects outstanding</p>

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	<p><u>unusual transactions or adjustments; and</u></p> <p>(e) <u>For which the evaluation of the design and determination of implementation, in the auditors' judgment, are appropriate to identify and assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks.</u></p>			
21. In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: Para. A107–A109)	21. TBD	<ul style="list-style-type: none"> Modernizing ISA 315 (Revised) for developments in IT, including outsourcing but also other developments in IT (paragraph 54) Exploring how the complexity of the entity's IT system affects the auditor's understanding and subsequent identification and assessment of risks of material misstatement when the system is 	<ul style="list-style-type: none"> Clarify work effort needed in relation to IT, in particular in relation to the evaluation of the implementation and design of general IT controls. Include demonstration of how applied to "off the shelf packages" versus large complex systems. (March 2017) Impact of artificial intelligence should 	IT aspects outstanding

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		<p>complex (paragraph 55)</p> <ul style="list-style-type: none"> • Clarify extent of evaluation and design and implementation of general IT control activities (paragraph 51) • Better linkage between relevance of general IT controls and control activities (paragraph 51) • Distinguishing the work effort from simple IT systems from complex IT systems (paragraph 52) 	<p>be acknowledged. (March 2017)</p> <ul style="list-style-type: none"> • Clarify understanding of ITGC needed, even where a simple IT system such as an off-the-shelf package (March 2017) • Important to illustrate the scalability of complex versus non-complex IT systems in AM (March 2017) • Will be helpful to describe benefits of understanding IT system – will help auditor understand why this is needed (March 2017) • Maintain balance re new material for IT – principle-based and focused on where ROMM – otherwise may result in unnecessary 	

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			<p>complexity (March 2017)</p> <ul style="list-style-type: none"> IT – emphasize need to consider whether an IT expert is needed (March 2017) 	
Identifying and Assessing the Risks of Material Misstatement	Identifying and Assessing the Risks of Material Misstatement	<ul style="list-style-type: none"> Separate vs combined assessment of inherent and control risk (paragraph 35) How information obtained in understanding entity and its environment is used in identifying and assessing risks of material misstatement (paragraph 36) Developing factors to improve auditor's identification of risks and enhance quality of risk assessment (paragraphs 36–38) Consider whether contextual factors from AQ Framework 	<ul style="list-style-type: none"> Separate identification and assessment of inherent and control risk, including changes to ISA 200 (March 2017) Task Force cautioned about being too prescriptive in requirements for identifying inherent and control risk when clarifying (June 2016) 'Two filters' approach not supported Proposed factors to help identify inherent risk helpful (complexity, 	<p>Paragraphs 77–87</p> <p>IT aspects outstanding</p>
<p>25. The auditor shall identify and assess the risks of material misstatement at:</p> <p>(a) the financial statement level; and (Ref: Para. A122–A125)</p> <p>(b) the assertion level for classes of transactions, account balances, and disclosures, (Ref: Para. A126–A131)</p> <p>to provide a basis for designing and performing further audit procedures</p>	<p>25. <u>Based on understanding the entity and its environment, the applicable financial reporting framework and the entity's internal control,</u> The auditor shall identify risks, and assess the risks of material misstatement at:</p> <p>(a) the financial statement level <u>by evaluating whether the identified risks relate more pervasively to the financial statements as a whole and potentially affect many assertions;</u> and</p> <p>(b) the assertion level for classes of transactions, account balances, and disclosures,</p>			

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	<p>to provide a basis for designing and performing further audit procedures.</p> <p><u><i>Inherent Risk</i></u></p> <p><u>25 A. In identifying the risks of material misstatement at the assertion level and assessing inherent risk as required by paragraph 25(b), the auditor shall, taking into account the qualitative inherent risk factors and:</u></p> <p>(a) <u>Identify relevant classes of transactions, account balances and disclosures, and their relevant assertions.</u></p> <p>(b) <u>Assess inherent risk for each relevant assertion, which shall include considering the likelihood and magnitude of a misstatement related to the assertion, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement.</u></p>	<p>need to be added (paragraph 39)</p>	<p>ambiguity, change and uncertainty); further consideration to be given to susceptibility to fraud (Dec 2016); further consideration whether to add 'source of data' and 'management bias' (Sep 2016)</p>	

	<p><u>[Previously paragraphs 27 and 28]</u></p> <p><u>25B.</u> As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. <u>The auditor shall determine whether the assessed inherent risks are, in the auditor's judgment, significant risks, taking into account the impact of the qualitative inherent risk factors on the assessed inherent risks.</u></p> <p>In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:</p> <p>(a) Whether the risk is a risk of fraud;</p> <p>(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;</p> <p>(c) The complexity of transactions;</p>			
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ISA 315 (Revised) Requirement	Changes to ISA 315 (Revised)	Project Proposal	Board Decisions / Board Discussions to Date ¹	References to Issues Paper – Agenda Item K.1
	<p>(d) Whether the risk involves significant transactions with related parties;</p> <p>(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and</p> <p>(f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A141–A145)</p> <p><i>[Previously paragraph 29]</i></p> <p>25C. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding identify the entity's controls, including control activities, relevant to that risk, evaluate the design of those controls and determine that they have been implemented.</p>			

ISA 315 (Revised) Requirement	Changes to ISA 315 (Revised)	Project Proposal	Board Decisions / Board Discussions to Date ¹	References to Issues Paper – Agenda Item K.1
	<p><u>Control Risk</u></p> <p>25D. The auditor shall assess control risk for each relevant assertion, which shall include:</p> <p>(a) <u>Relating the controls relevant to the audit that the auditor intends to test, to what could go wrong at the assertion level; and</u></p> <p>(b) <u>Considering the extent to which the controls related to each assertion address the assessed inherent risk for that assertion.</u></p>			
26. For this purpose, the auditor shall:	26. — For this purpose, the auditor shall:			
(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements; (Ref: Para. A132–A136)	(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements; (Ref: Para. A132–A136)	<ul style="list-style-type: none"> Do paragraphs 25 and 26(a) require two risk assessments – one based on understanding the entity and the other on what is included in the financial statements (paragraph 45) 	<ul style="list-style-type: none"> Further explore ‘spectrum of risk’ from significant risks to low ROMM; but caution about introducing complexity (Sep 2016) 	

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(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;	(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;			
(c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: Para. A137–A139)	(c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: Para. A137–A139)			
(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement. (Ref: Para. A140)	(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement. (Ref: Para. A140)			
<i>Risks that Require Special Audit Consideration</i>	<i>Risks that Require Special Audit Consideration</i>	<ul style="list-style-type: none"> Is concept of significant risk achieving objective and should it be maintained (paragraph 43) Does definition need to be revised to rather focus on 	<ul style="list-style-type: none"> Task Force cautioned about wholesale changes in this area (June 2016) Concept of significant risk to be retained (Sep 2016 and March 2017) 	Paragraphs 86–87
27. As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising	[Moved to paragraph 25B]			

ISA 315 (Revised) Requirement	Changes to ISA 315 (Revised)	Project Proposal	Board Decisions / Board Discussions to Date ¹	References to Issues Paper – Agenda Item K.1
this judgment, the auditor shall exclude the effects of identified controls related to the risk.		nature of risk (paragraph 43)	<ul style="list-style-type: none"> Definition of significant risk to be revisited to focus on nature of the risk (Sep 2016) 	
<p>28. In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:</p> <p>(a) Whether the risk is a risk of fraud;</p> <p>(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;</p> <p>(c) The complexity of transactions;</p> <p>(d) Whether the risk involves significant transactions with related parties;</p> <p>(e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements</p>	[Moved to paragraph 25B]	<ul style="list-style-type: none"> Explore whether an approach based on a 'spectrum of risk' is more appropriate (paragraph 43) Explore whether distinct categories of risk should be defined (paragraph 44) Should the number of significant risks increase relevant to the increase in the size or complexity of the entity? (paragraph 45) 	<ul style="list-style-type: none"> Explore whether definition includes relative likelihood and magnitude of misstatement, and nature of risk in context of qualitative inherent risk factors (Dec 2016) Consider incorporating judgments around likelihood and magnitude when considering where the risks of material misstatement are (June 2016); further consideration whether one (magnitude) is more important than the other (likelihood) (Sep 2016) 	

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<p>involving a wide range of measurement uncertainty; and</p> <p>Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A141–A145)</p>			<ul style="list-style-type: none"> • Explore whether inherent risks that have low likelihood of misstatement but high magnitude would be significant risk (Dec 2016) – mixed views in March 2017, if a high magnitude the should always be a significant risk? (to be further explored) 	
<p>29. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (Ref: Para. A146–A148)</p>	<p>[Moved to paragraph 25C]</p>		<ul style="list-style-type: none"> • Significant risk to remain a subset of inherent risk (Dec 2016) • Not reference 'difficult for management to control' in the definition (Dec 2016) • Clarify that significant risks are at the highest fall on the highest end of the spectrum of inherent risk • Keep working definition 	

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			<p>understandable (March 2017)</p> <ul style="list-style-type: none"> • Further consideration of including 'judgment' in working definition (March 2017) • Auditors consideration of qualitative factors should be reflected in working definition (March 2017) 	
<i>Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence</i>	<i>Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence</i>			
30. In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with	30. TBD	<ul style="list-style-type: none"> • Explore whether revisions are required where substantive procedures alone are not enough to address the risks of material misstatement in light of increasing complexity in business processes and evolving technologies (paragraph 50(b)) 	<ul style="list-style-type: none"> • Focus on scenarios when substantive procedures alone are not enough (June 2016) • Broader than just the IT system (March 2017) 	Paragraph 88

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little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. (Ref: Para. A149–A151)				
<i>Revision of Risk Assessment</i>	<i>Revision of Risk Assessment</i>			
31. The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly. (Ref: Para. A152)	31. TBD			Paragraph 4

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Documentation	Documentation	What needs to be documented to be able to use to identify and assess risks of material misstatement (paragraph 36) • Clarification about the extent of documentation to demonstrate the auditor's understanding of the entity (paragraph 56)	Consideration about documentation to meet requirements of standard (especially for audits of SME's)	Paragraph 4
32. The auditor shall include in the audit documentation: ⁸	32. TBD			
(a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached;				
(b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14–24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;				
(c) The identified and assessed risks of				

⁸ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

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material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and				
(d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27–30. (Ref: Para. A153–A156)				
		Other Matters	Other Matters	
	-	Consideration of the impact of data analytics on ISA 315 (Revised), including work effort to establish the accuracy and completeness of data used for risk assessment purposes, including whether a distinction should be made regarding the extent of work effort expected to establish the accuracy and	Clarify interaction between ISA 315 (Revised) and ISA 330 by considering changes to paragraph 18 of ISA 330 – consistent with changes to identify significant classes of transactions, account balances and disclosures (Dec 2016)	

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		completeness of data used for risk assessment purposes compared to when data is used for substantive analytical procedures (paragraphs 41 and 53)		
		Re-emphasizing the importance of professional skepticism and further consideration about changes to drive auditor behaviors (paragraph 62)		
		Determine whether updates to ISA 315(revised) are needed arising from updates to the COSO Internal Control—Integrated Framework (2013) are required (paragraph 50(d))		
		Other: <ul style="list-style-type: none"> • Consistency of terminology throughout • Consideration of definitions as appropriate 		

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		<ul style="list-style-type: none"> Organization of standard (paragraphs 57- 60) 		
		Requirements and application material sufficiently scalable for audits of SMEs		Paragraph 5
		Exploration of public sector matters		
		Development of non-authoritative guidance and support tools		Paragraph 5

Consequential Changes to Other ISAs

Other Standard	Project Proposal	Decisions / Discussions to Date
ISA 200, Paragraph A40	Ambiguity of whether should separately assess inherent risk and control risk (project proposal para 35)	Update for separate assessment of inherent and control risk. (March 2017)
ISA 200, Application material explaining audit risk model		
ISA 330, Paragraph 18	Usage of the term “material” is not defined in the context of classes of transactions, account balances and disclosures	Further consideration of changes in ISA 315 (Revised) on ISA 330 paragraph 18. (March 2017)