



## ISA 315 (Revised)

# Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

Fiona Campbell, ISA 315 (Revised) Task Force Chair

IAASB Meeting, September 2017

Agenda Item 2

IAASB

International Auditing  
and Assurance  
Standards Board

# Brief recap since I last presented.....

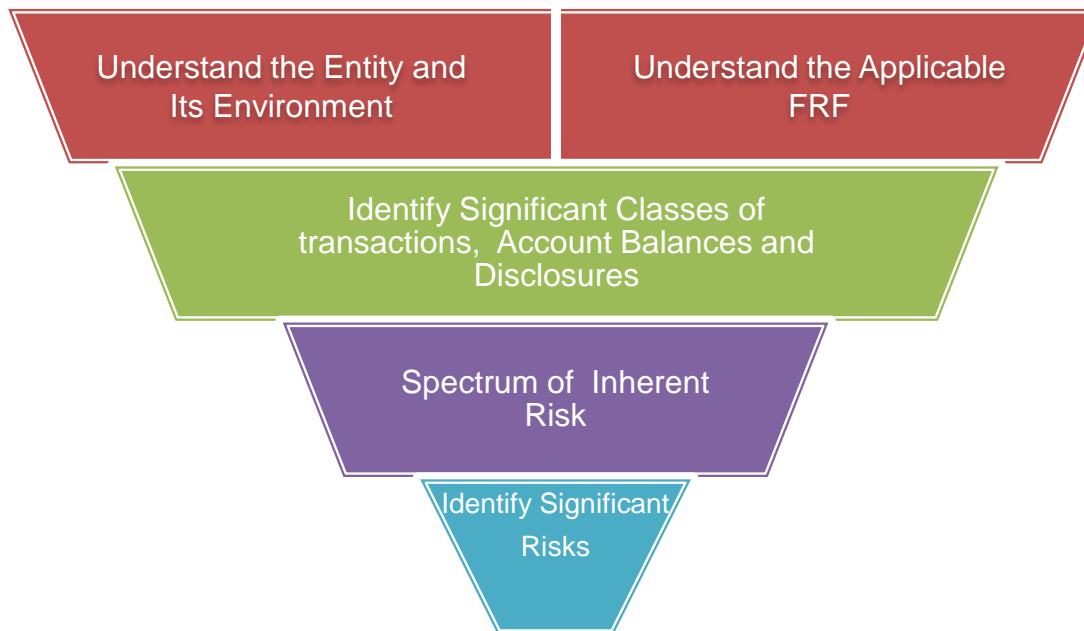


# Brief recap since since I last presented.....



## Brief recap since we last met.....

- Greater emphasis on financial reporting framework

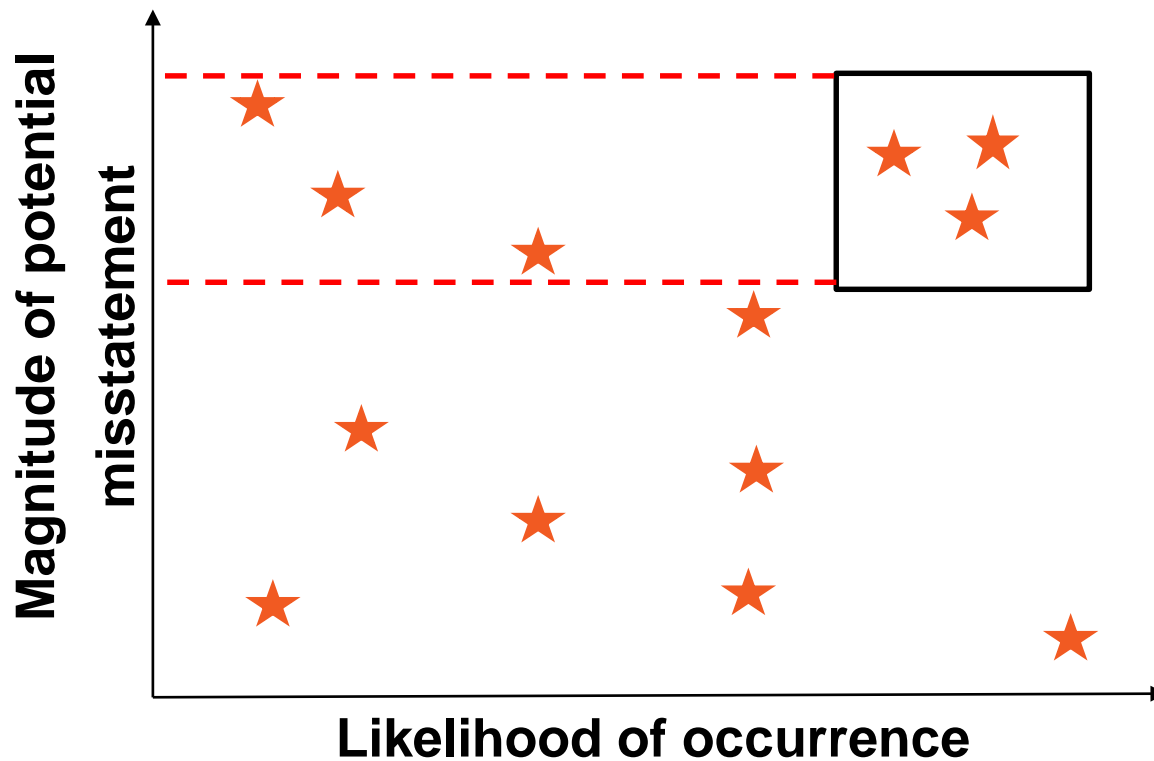


## Brief recap since we last met.....

- Qualitative inherent risk factors
- Obtaining an understanding of control risk and inherent risk

## Brief recap since we last met.....

- Significant risks



## Matters for IAASB Consideration

1. The IAASB is asked for its views on the proposed changes to the title of the standard, and the scope and objectives paragraphs (i.e., paragraphs 1 and 3 of ISA 315 (Revised)).

## Matters for IAASB Consideration

2. The IAASB is asked for its views on:
  - (a) Changes to the definition of assertions and other related changes; including:
    - (i) Whether the change clarifies the purpose of the assertions;
    - (ii) The revised definition for assertions; and
    - (iii) The new definition for 'relevant' assertion.
  - (b) The new definition of relevant classes of transactions, account balances and disclosures;
  - (c) The revised definition for risk assessment procedures; and
  - (d) The new definition of qualitative inherent risk factors.



## Matters for IAASB Consideration

3. With the exception of changes to the definitions discussed later in this paper (internal control and controls) are there any other changes to the definitions that the Board believes is necessary, including whether there are other terms (not related to IT) that need to be defined?

## Matters for IAASB Consideration

4. The IAASB is asked for its views on the proposed changes to the requirements relating to risk assessment procedures (i.e., paragraphs 5 to 10 of ISA 315 (Revised)).

# Matters for IAASB Consideration

5. The IAASB is asked for its views on:
  - (a) The proposed changes to the required understanding of the entity and its environment (i.e., paragraph 11 of ISA 315 (Revised)).
  - (b) The new requirement for obtaining an understanding of the applicable financial reporting framework (paragraph 11A of ISA 315 (Revised)).

## Internal Control - Definitions

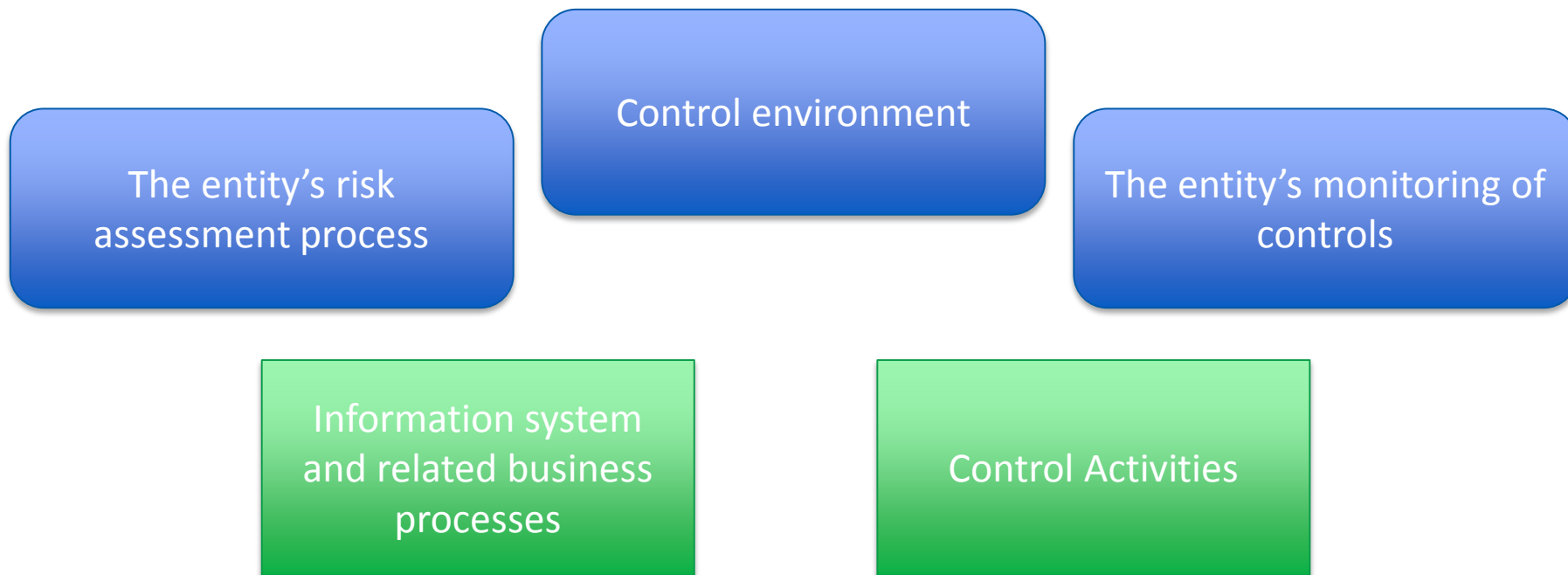
### Internal Control

- System of internal control
- Divided into five interrelated components

### Controls

- Policies or procedures embedded in each of the components
- Designed to achieve control objectives of management/TCWG

# Internal Control



# ISA 315 (Revised): Obtaining an Understanding of Internal Control

## CONTROL ENVIRONMENT – PAR 14

Identify and evaluate design of controls:

- To maintain culture of honesty and ethical behavior
- Provide appropriate foundation for internal control

## ENTITY'S RISK ASSESSMENT – PAR 15

Identify and evaluate design of controls if have such a process OR

If entity has not established formal process:

- Understand what they have in place in relation to identifying financial reporting risks → Is it appropriate for the entity?
  - Significant deficiency in control?

## PROCESS TO MONITOR CONTROLS – PAR 22-24

Identify and evaluate design if controls relating to identification and remediation of deficiencies

## INFORMATION SYSTEM – PAR 18-19

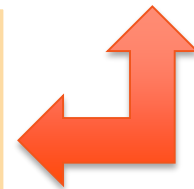
- Identify classes of transactions relevant to FS
- Procedures in IT and manual systems to initiate, record, process and report
- Related accounting records, info & accounts
- How events & conditions captured
- Preparation process for FS

## COMMUNICATION

## CONTROL ACTIVITIES – PAR 20

Evaluate design of controls and determine whether implemented

- Relevant to significant risks
- Risks from which substantive procedures alone not enough
- Auditor plans to test operating effectiveness
- In auditors judgment



## Matters for IAASB Consideration

6. The IAASB is asked for its views on the following matters:
- (a) Are the definitions relating to internal control and controls clear?
  - (b) Do the revised definitions and other changes being proposed make it clear what the various concepts relate to (this includes that ‘control activities’ is a component of internal control)?
  - (c) The proposed changes to the overall requirement to obtain an understanding of internal control, in particular whether it is clear that controls are embedded in each component of internal control (i.e., paragraph 12 of ISA 315 (Revised)).
  - (d) The proposed changes to the five components of internal control, including the reordering.

## Matters for IAASB Consideration

7. The IAASB is asked for its views on the proposed changes to the requirements for the identification and assessment of the risks of material misstatement, in particular the separation of the requirements relating to the assessment of inherent risk and the assessment of control risk. (i.e., paragraph 25 to 25D of revised ISA 315 (Revised)).



## Matters for IAASB Consideration

8. The IAASB is asked for its views on the revised definition of significant risk and related requirements in paragraphs 25B and 25C.

## Matters for IAASB Consideration

9. Are there any other matters for Task Force consideration as it further develops the exposure draft of ISA 315 (Revised)?



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