**Agenda Item 5-B**

# ISA 315 (REVISED)—TABLE OF PROPOSED CHANGES

**Note:** *Paragraphs in greyed boxes are not for discussion → changes to address board comments from discussions at the September 2017 IAASB meeting will be presented at the December 2017 IAASB meeting. The focus of this agenda item are changes to address IT aspects of ISA 315 (Revised). The changes presented in the column "Changes to ISA 315 (Revised)" are as presented at the September 2017 IAASB meeting (unless noted otherwise). New application material developed has been included in the "related application material" column and shown as marked.*

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
|---|---|---|---|---|
| **Title**<br>**Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment** | **Title**<br>**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~~. | | | |
| **Effective Date** | **Effective Date** | | | |
| 2. This ISA is effective for audits of financial | 2. This ISA is effective for audits of financial statements for | | | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| statements for periods ending on or after December 15, 2013. | periods ending on or after December 15, ~~2013~~<u>20xx</u>. | | | |
| **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. | | | |
| **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 | (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.~~ | | | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| different types of potential misstatements that may occur. | The set of statements that need to be valid, in all material respects, in order for the 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. | | | |
| | [NEW] Relevant assertions[1] – 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. | | | |
| | [NEW] Relevant class of transactions, account balance or disclosure – a class of transactions, account balance | | | |

[1] 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.

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| | or disclosure for which there is at least one relevant assertion. | | | |
| (b) Business risk – A risk resulting from significant conditions, events, 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. | (b) Business risk – A risk resulting from significant conditions, events, 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. | | | |
| (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 | (c) ~~Internal control (or s~~System of internal control~~)~~ – The ~~process~~ system 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.~~ For the purposes of the ISAs, | | | Para. 12 |

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| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | **References to Issues Paper – Agenda Item 5-A** |
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| the components of internal control. | internal control is divided into five inter-related components:<br>• Control environment.<br>• The entity's risk assessment process.<br>• The entity's process to monitor controls.<br>• The information system, including the related business processes, relevant to financial reporting, and communication.<br>• Control activities ~~relevant to the audit~~. | | |
| *Not in extant but as presented in Sep 2017*: [NEW] 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. | [NEW] Controls – policies or procedures that are embedded in the components of the system of internal control.<br>Policies – formal statements that are documented or otherwise communicated by those charged with governance, or informal expectations implied through their actions, as to what should, or should not, be done within the entity to effect control. | Policies are implemented through the actions of personnel within the entity, or through their restraint from taking actions that would conflict with such policies.<br>Procedures may be mandated, through formal documentation or other communication by those charged with governance or management, or may result from behaviors that are not mandated but are conditioned by the entity's culture. | Para. 12 |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| | Procedures – actions to implement policies. | | | |
| (d) Risk assessment procedures – The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. | (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 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 | (e) Significant risk – ~~An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.~~<br>An identified risk of material misstatement:<br>• 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<br>• That is to be treated as a significant risk in accordance with the | | | |

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| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| | requirements of other ISAs.[2] | | | |
| | [NEW] 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. | | | |
| **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 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 | 5. The auditor shall perform risk assessment procedures sufficient to provide a basis for the identification and 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~~ | The identification and assessment of risks and controls related to, the entity's use of information technology (IT) is not a separate exercise from the identification and assessment of the risks of material misstatement. Instead, it is an integral part of the approach when identifying and assessing the risks of material misstatement, and when applicable, selecting controls to test. | | Para. 18 |

[2] 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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| base the audit opinion. (Ref: Para. A1–A5) | ~~base the audit opinion.~~ The risk assessment procedures include:<br>(a) Obtaining an understanding of:<br>(i) The entity and its environment (see paragraph 11(a)); and<br>(ii) The applicable financial reporting framework (see paragraph 11(b));<br>(b) Obtaining an understanding the entity's internal control (see paragraphs 12–24)<br>(c) Identifying and assessing the risks of material misstatement (see paragraphs 25A–25D). | | | |
| 6. The risk assessment procedures shall include the following:<br>(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 | 6. The risk assessment procedures shall include the following:<br>(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 | | | |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6–A13)<br>(b) Analytical procedures. (Ref: Para. A14–A17)<br>(c) Observation and inspection. (Ref: Para. A18) | likely to assist in identifying risks of material misstatement due to fraud or error.<br>(b) Analytical procedures.<br>(c) Observation and inspection. | | | |
| 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> <u>t</u>~~T~~he 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 shall consider whether information obtained is relevant to identifying risks of material misstatement | 8. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether 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 | 9. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and | | | |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| 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) | 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 not involved in the discussion. (Ref: Para. A21–A24) | 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 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~~,~~ <u>and the Applicable Financial</u>** | | | |

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| | **Reporting Framework** ~~**Including the Entity's Internal Control**~~ | | | |
| *The Entity and Its Environment* | ~~*The Entity and Its Environment*~~ | | | |
| 11. The auditor shall obtain an understanding of the following: | 11. The auditor shall obtain an understanding of: ~~the following~~<br>(a) The entity and its environment, including:<br>(i) The business and operations of the entity, including its business model and the extent to which the business model integrates the use of information technology;<br>(ii) Relevant industry, regulatory and other external factors; and<br>(iii) The measures used, internally and externally, to assess the entity's financial performance.<br>(b) The applicable financial reporting framework, including the entity's accounting policies and any changes thereto. | *Application material to paragraph 11(a)(i):*<br>Examples of matters the auditor may consider include:<br>• How pervasive and critical the use of IT is in the business model (for example, where the business model involves web-based transactions as a primary sales channel, the use of IT is likely to be very relevant to many of the auditor's considerations in identifying and assessing risks of material misstatement in relation to revenue);<br>• The extent to which the entity uses IT to record information about transactions and other events or conditions relevant to financial reporting, and to control the quality of the processing of such information;<br>• The extent to which the entity uses external IT to initiate transactions (for example, when an entity makes or receives payments through the use of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network or the use of blockchain technology);<br>• The complexity of the entity's IT infrastructure in the context of the entity's organizational complexity (for example, an entity's IT infrastructure may be complex | | Para. 19 |

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| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| | to enable the auditor to understand the classes of transactions, account balances and disclosures to be expected in the financial statements. | because it is a large group that has grown through extensive merger and acquisition activity and has multiple legacy IT systems in diverse businesses that are not (yet) well integrated); and<br>• The nature and extent to which the IT functions are outsourced or involve third parties (for example the entire information technology function could be outsourced or there could be arrangements for third-party hosting or processing of transactions).<br>*Application material to paragraph 11(a)(ii) – add to list in paragraph A27*<br>• Data security regulations (such as privacy of customer information). | | |
| | | | | |
| (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:<br>(iv) its operations;<br>(v) its ownership and governance structures;<br>(vi) the types of investments that the entity is making and plans to make, | ~~(b) The nature of the entity, including:~~<br>~~(i) its operations;~~<br>~~(ii) its ownership and governance structures;~~<br>~~(iii) the types of investments that the entity is making and plans to make,~~ | | | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| including investments in special-purpose entities; and<br>(vii) the way that the entity is structured and how it is financed,<br>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) | ~~including investments in special-purpose entities; and~~<br>~~(iv) the way that the entity is structured and how it is financed,~~<br>~~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.~~<br>11A. 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 | ~~(d) The entity's objectives and strategies, and those related business risks that may result~~ | | | |

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| misstatement. (Ref: Para. A37–A43) | ~~in risks of material misstatement.~~ | | | |
| (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 System of Internal Control** | | | |
| 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 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. 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. | *To be added to application material to paragraph 12*:<br>The overall objective and scope of an audit does not differ whether an entity operates in an entirely manual environment, a completely automated environment, or an environment involving some combination of manual and automated elements. An entity's use of IT affects the manner in which the financial information is processed, stored and communicated in the information system, and therefore impacts the manner in which internal control relevant to financial reporting is implemented.<br>Controls relevant to the audit include general IT controls, described further in paragraph 21. | | Para. 20 |

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| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| 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.~~ | | | |
| Components of Internal Control | *Components of Internal Control* | | | |
| Control environment | Control <u>E</u>~~e~~nvironment | | | |
| 14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:<br>(a) Management, with the oversight of those charged with governance, has created and maintained a culture | 14. ~~The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:~~<br>~~(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and~~ | *To be added to paragraph A78:*<br>Elements of the control environment that may be relevant when obtaining an understanding of the control environment include the following:<br>…<br><u>*The IT environment* – characteristics of the IT environment including matters such as:</u><br>• <u>Whether governance over IT is commensurate with the nature and size of the entity and its business operations enabled by IT.</u> | | Para. 21 |

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| of honesty and ethical behavior; and<br>(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) | ~~(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.~~<br>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 been implemented; :<br>(a) Maintain a culture of honesty and ethical behavior; and<br>(a) Provide an appropriate foundation for internal control.<br>[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 | • The management organizational structure regarding IT and the resources allocated (for example, whether the entity has invested in appropriate systems and related maintenance, or whether a sufficient number of appropriately skilled individuals have been employed).<br>• The extent of change within the IT environment (for example, is the system new or have there been significant changes during the period).<br>*Information technology* – matters such as:<br>• The complexity or maturity of the technology platform or architecture (for example, the use of evolving technologies, such as the web or cloud, or the nature and extent of diverse technologies used and their integration).<br>• History of errors or control deficiencies related to financial reporting automation or IT.<br>• The extent to which the entity relies on IT applications to support financial transactions from initiation through to reporting, including disclosures. | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | **References to Issues Paper – Agenda Item 5-A** |
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| | 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.[3] | | |
| The entity's risk assessment process | The Eentity's Rrisk Aassessment Pprocess | | |
| 15. The auditor shall obtain an understanding of whether the entity has a process for:<br>(a) Identifying business risks relevant to financial reporting objectives;<br>(b) Estimating the significance of the risks;<br>(c) Assessing the likelihood of their occurrence; and<br>(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:<br>(a) Identify ~~business~~ risks relevant to financial reporting objectives; | Understanding the risks relating to the use of IT identified by the entity, as well as how these risks have been addressed, is an important aspect of the auditor's identifying risks related to IT, and an important input to the auditor's identification and assessment of the risks of material misstatement. It may also help the auditor understand the nature and extent of automated processes, and the data, used in controls that may be relevant to the audit. Business risks relating to its use of IT, which are relevant to financial reporting objectives, may include:<br>• Risks relating to maintaining the secrecy, confidentiality and integrity of data and information processing (cyber security risks).<br>• Risks to the entity's business strategy that arise if the entity's IT strategy does not effectively support that business strategy; or | Para. 22 |

3 ISA 330, *The Auditor's Reponses to Assessed Risks*

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| | (b) ~~Estimating~~ Assess the significance of the risks;<br>(c) Assessing~~ng~~ the likelihood of their occurrence; and<br>(d) ~~Deciding about actions to~~ A~~a~~ddress those risks. | • Other direct risks to an entity's business operations relating to its use of IT, such as changes or interruptions in the entity's IT infrastructure or turnover of IT personnel. | |
| 16. 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. | 16 ~~If the entity has established such a process (referred to hereafter as the "entity's risk assessment process"), the auditor shall obtain an 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:<br>(a) Identify risks relating to financial reporting objectives and how these are met;<br>(b) Assess the significance of the risks, including the likelihood of their occurrence; and<br>(c) Address those risks,<br>[NEW] 16AWhen the entity has not established a formal risk | | |

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| | assessment process, the auditor shall:<br>(a) Evaluate whether this is appropriate considering the nature and size of the entity; and<br>(b) Determine whether it represents a significant deficiency in internal control.<br>[*Previously in para 16*]<br>16B. 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. | | |

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| 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 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) | ~~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 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[4] | ~~Monitoring of~~ The Entity's Process to Monitor C~~c~~ontrols[4] | | |
| 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 | 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~~ | The entity's process to monitor controls includes monitoring underlying controls that involve the use of IT, and may include, for example, controls:<br>• Particularly in highly complex and automated systems, that:<br>o Determine whether underlying controls are operating as intended; ~~or~~ | Para. 23 |

4 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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| audit, and how the entity initiates remedial actions to deficiencies in its controls. (Ref: Para. A110–A112) | ~~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 entity's identification and remediation of deficiencies in internal control. | o Evaluate the continuing design effectiveness of underlying controls and modify them, as appropriate, for changes in conditions; or<br>o Evaluate the operating effectiveness of underlying controls.<br>• That monitor the permissions applied in automated application controls that enforce the segregation of duties.<br>• That monitor how errors or control deficiencies related to the automation of financial reporting are identified and addressed.<br>Controls within the entity's process to monitor controls, including those that monitor underlying automated controls, may themselves be automated, or manual, or a combination of both. For example, an entity may use automated monitoring controls to detect inappropriate access rights that may result in a lack of segregation of duties. | |
| 23. If the entity has an internal audit function,[5] the auditor shall obtain an understanding of the nature of the internal audit | 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 | Paragraphs A113 to A120 to be enhanced to:<br>• Recognize that internal auditors may use IT in undertaking their procedures, and<br>• Include considerations about the work of the internal auditor in relation to IT. | Para. 23 |

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

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.

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | **References to Issues Paper – Agenda Item 5-A** |
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| function's responsibilities, its organizational status, and the activities performed, or to be performed. (Ref: Para. A113–A120) | 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 process to monitor controls ~~monitoring activities~~, and the basis upon which management considers the information to be sufficiently reliable for the purpose. | Paragraph A121 to be amended to recognize that the source of information may be the entity's IT system, and related IT risks associated with such a source. | |
| 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~~: The auditor shall identify controls within the information system, including the related business processes, relevant to financial reporting, and evaluate the | *New application material to support paragraph 18*:<br>The understanding of the information system includes the flows of the classes of transactions and other information supporting the account balances and disclosures through the accounting system, from initiation to recording, including information from outside of the general and subsidiary ledgers. This understanding includes attributes related to the entity's use of IT such as:<br>• The volume and complexity of data being processed by the system. | Para. 24 |

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| | design of those controls and determine whether they have been implemented; such controls are relevant to the audit and include controls related to: | • The underlying technology platform, including for example:<br>o The type of application, e.g., a purchased application with little or no customization, or a highly customized or highly integrated application.<br>o The complexity of the nature of the applications and the underlying technology.<br>o The complexity of the security of the system, including vulnerability to cyber security risks particularly where there are web-based transactions.<br>o How automated the controls are, including the number of controls as well as the complexity of the controls.<br>• Whether there is third-party hosting or outsourcing of IT, and what controls are in place to integrate the information, as well as the controls at the third-party over IT.<br>• The extent of the entity's reliance on system-generated reports in the processing of information.<br>• The volume and complexity of automated application controls and the extent to which management is relying on those controls, for example, whether there is highly automated, paperless processing.<br>• If there was major data conversion during the period, or the extent of changes made, and how this was undertaken. | |
| (a) The classes of transactions in the entity's operations that are significant to the financial statements; | (a) The identification of classes of transactions in the entity's operations that are relevant ~~significant~~ to the financial statements; | | |
| (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; | (b) The procedures, within both information technology (IT) and manual systems, by which ~~those~~ 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 | (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 | | |

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| of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form | and how information is transferred to the general ledger. The records may be in either manual or electronic form; | • How data is input and the number of interfaces in the IT system relevant to financial reporting.<br>• Whether program changes have been made to the manner in which information is processed, and the extent of such changes during the period.<br>• How IT facilitates communication within and across systems, internally and externally, as appropriate, through system interfaces. | |
| (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~~ relevant to ~~the~~ financial ~~statements~~ reporting; | | |
| (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 relevant ~~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] | | |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | References to Issues Paper – Agenda Item 5-A |
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| 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 | 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 ~~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 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 | | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | | **References to Issues Paper – Agenda Item 5-A** |
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| (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 Aactivities ~~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 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) | 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 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.~~ 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 | Enhancements or changes, if any, to extant application and other explanatory material in paragraphs A99 to A104 still to be considered. | | Para.25 |

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| | implemented, being those controls:<br>(a) That are relevant to a significant risk;<br>(b) That are relevant to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;<br>(c) That the auditor plans to test the operating effectiveness of;<br>(d) Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; and<br>(e) 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. | | |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | **References to Issues Paper – Agenda Item 5-A** |
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| 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. In understanding the entity's control activities ~~the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.~~ component in accordance with paragraph 20, the auditor shall identify and understand general IT controls relevant to the audit. In doing so, the auditor shall take into account the following:<br>(a) Automated controls, which management is relying on and that the auditor has determined to be relevant to the audit;<br>(b) Automated controls relied on by management to ensure the integrity of information stored and processed in the information system which relates to relevant classes of transactions, account balances or disclosures;<br>(c) The extent of system-generated reports on which the auditor intends to rely on without directly | *New application material to support revised paragraph 21*:<br>In respect of controls identified as relevant to the audit and that involve automation, the auditor also understands the policies and procedures that relate to the IT applications and other elements of the IT infrastructure that support the effective functioning of the automated application controls, and any manual controls that are supported by IT, such as system-generated reports (i.e., general IT controls).<br>General IT controls are likely to be relevant to the audit in the following circumstances:<br>• They are related to other controls that are automated, which management is relying on and which the auditor has identified as relevant to the audit, based on the auditor's understanding of controls other than general IT controls (for example, an understanding about the volume and complexity of automated application controls and how management is relying on those controls has been obtained in understanding the entity's information system).<br>• Data in the information technology system is of such a volume and complexity that management relies on general IT controls to ensure the integrity of the data.<br>• Management relies on system generated reports in the financial reporting process and the auditor intends to rely on these reports (and is not going to directly test the inputs and outputs of the report). | Para. 25 |

| **ISA 315 (Revised) Requirement** | **Changes to ISA 315 (Revised)** | **Related Application Material** | **References to Issues Paper – Agenda Item 5-A** |
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| | testing the inputs and outputs of such reports; or<br>(d) Automated controls related to risks for which substantive procedures alone are not sufficient to obtain sufficient appropriate audit evidence. | • The information generated is such that substantive procedures alone are not sufficient to obtain sufficient appropriate audit evidence about the class of transactions, account balance or disclosure.<br>*Paragraph A108 also to be modernized and revised to*:<br>• Clarify that the list of examples includes general IT controls that would typically be relevant to the audit.<br>• Also include general IT controls related to information security, including cyber security.<br>• Clarify that relevant general IT controls are identified at the application, database, operating systems, and network layers, as appropriate, to address other relevant indirect risks arising from IT. | |
| Identifying and Assessing the Risks of Material Misstatement | Identifying and Assessing the Risks of Material Misstatement | | |
| 25. The auditor shall identify and assess the risks of material misstatement at:<br>(a) the financial statement level; and (Ref: Para. A122–A125)<br>(b) the assertion level for classes of transactions, account balances, and disclosures, (Ref: Para. A126–A131) | 25. Based on understanding the entity and its environment, the applicable financial reporting framework and the entity's internal control, t~~T~~he auditor shall identify risks, and assess the risks of material misstatement at:<br>(a) the financial statement level by evaluating whether the identified risks | | |

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| to provide a basis for designing and performing further audit procedures | relate more pervasively to the financial statements as a whole and potentially affect many assertions; and<br>(b) the assertion level for classes of transactions, account balances, and disclosures,<br>to provide a basis for designing and performing further audit procedures.<br>*Inherent Risk*<br>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:<br>(a) Identify relevant classes of transactions, account balances and disclosures, and their relevant assertions.<br>(b) Assess inherent risk for each relevant assertion, which shall include considering the likelihood and magnitude of a | | |

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| | misstatement related to the assertion, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement, [*Previously paragraphs 27 and 28*] 25B. ~~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~~ 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. ~~In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following~~: | | |

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| | ~~(a) Whether the risk is a risk of fraud;~~<br>~~(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;~~<br>~~(c) The complexity of transactions;~~<br>~~(d) Whether the risk involves significant transactions with related parties;~~<br>~~(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~~<br>~~(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)~~ | | |

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| | [*Previously paragraph 29*]<br>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. | | |
| | *Control Risk*<br>25D. The auditor shall assess control risk for each relevant assertion, which shall include:<br>(a) Relating the controls relevant to the audit that the auditor intends to test, to what could go wrong at the assertion level; and<br>(b) Considering the extent to which the controls related to each assertion address the assessed inherent risk for that assertion. | Application material to be enhanced to provide guidance about how the auditor's evaluation of general IT controls impacts the control risk assessment at the assertion level, for example the impact on control risk where controls and general IT controls have deficiencies. | Para.27 |
| 26. For this purpose, the auditor shall: | ~~26. For this purpose, the auditor shall:~~ | | |
| (a) Identify risks throughout the process of obtaining an | ~~(a) Identify risks throughout the process of obtaining an~~ | | |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| 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) | ~~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)~~ | | | |
| (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 | ~~(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material~~ | | | |

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| misstatement. (Ref: Para. A140) | ~~misstatement. (Ref: Para. A140)~~ | | | |
| *Risks that Require Special Audit Consideration* | ~~*Risks that Require Special Audit Consideration*~~ | | | |
| 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 this judgment, the auditor shall exclude the effects of identified controls related to the risk. | [Moved to paragraph 25B] | | | |
| 28. In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:<br>(a) Whether the risk is a risk of fraud;<br>(b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; | [Moved to paragraph 25B] | | | |

| ISA 315 (Revised) Requirement | Changes to ISA 315 (Revised) | Related Application Material | | References to Issues Paper – Agenda Item 5-A |
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| (c) The complexity of transactions;<br>(d) Whether the risk involves significant transactions with related parties;<br>(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<br>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) | | | | |
| 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 | [Moved to paragraph 25C] | | | |

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| to that risk. (Ref: Para. A146–A148) | | | | |
| *Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence* | *Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence* | | | |
| 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 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) | 30. TBD | | | |
| *Revision of Risk Assessment* | *Revision of Risk Assessment* | | | |

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| 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 | | | |
| **Documentation** | **Documentation** | | | |
| 32. The auditor shall include in the audit documentation:[7] | 32. TBD | | | |
| (a) The discussion among the engagement team where required by paragraph 10, and the | | | | |

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

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| 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 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 | | | | |

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| understanding, as a result of the requirements in paragraphs 27–30. (Ref: Para. A153–A156) | | | | |