

ISA 315 (Revised)¹—Issues and Recommendations

Objective of the IAASB Discussion

The objective of this agenda item is to obtain the Board's views on the first draft of the proposed revisions to ISA 315 (Revised) as set out in **Agenda Item 3-A (Requirements)** and **3-B (Application Material)**.

I. Structure of this Paper and Format of the IAASB Discussion

1. This paper sets out Task Force views about proposed changes to ISA 315 (Revised) in both the requirements and related application material. The proposed changes are presented as follows:
 - **Agenda Item 3-A:** sets out the Task Force's views on all the proposed changes to the requirements (marked to extant ISA 315 (Revised)).
 - **Agenda Item 3-B:** sets out proposed changes to the application material (marked to extant ISA 315 (Revised)). In considering the application material, the Board is asked to note the following:
 - The Task Force has focused on application material to support the more significant changes being proposed. These new paragraphs represent the Task Force's initial views on the application material to support the changes being made to the definitions and requirements, but the Task Force will continue to develop its thinking as the exposure draft is developed, and therefore there may still be further changes. The Board is asked to focus on these areas.
 - Various matters are still being considered by the Task Force and are not for discussion at this Board meeting, with the relevant paragraphs "greyed." These matters will be included in the next draft of the proposed revisions expected to be presented for Board discussion in March 2018, and include:
 - Considerations specific to smaller entities—the Task Force has carefully considered scalability as the changes to ISA 315 (Revised) have been discussed, and will continue to consider the proposed changes from the perspective of the audit of a small entity. The Task Force recognizes that more will need to be done once the requirements are more settled, which will enable the Task Force to more effectually focus on the scalability of the requirements and the application material (see paragraphs 46–49 below for further discussion).
 - Considerations specific to public sector—the Task Force plans to conduct specific outreach with public sector representatives to obtain views about distinctive matters that need to be incorporated in ISA 315 (Revised) relating to public sector considerations in the first quarter of 2018.
 - The incorporation in the standard of data analytics tools and techniques – specific placeholders have been added for the places where the Task Force will further consider enhancing the application material. The Task Force will continue to work with the Data Analytics Working Group to develop appropriate application material.
 - Other paragraphs in the application material that, in the view of the Task Force, were less significant to the changes being proposed to the requirements. Any changes to these

¹ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

paragraphs from further Task Force consideration will be discussed with the IAASB at the March 2018 IAASB meeting.

- The Appendices to the standard (see note below).
- Consequential changes to paragraph 18 of ISA 330² arising from the changes to the requirements in ISA 315 (Revised) in relation to substantive procedures being performed for all material classes of transactions, account balances and disclosures, in light of the changes being made to ISA 315 (Revised).
- Conforming amendments to other ISAs.

In addition, the Task Force has considered the content of the existing application material in light of what is needed to support the proposed changes, and is of the view that some of the application material is more ‘informational’ or ‘educational’ in nature and that it may therefore be appropriate to delete them or relocate them to an Appendix. Accordingly, placeholders have been included where the Task Force believes that this material could be presented in an Appendix to the standard or possibly deleted. As the Task Force continues to revise the standard, further consideration will be given to whether, and if so, how to present this information in the Appendices, together with the existing content of the Appendices (excluding material elevated into the standard).

2. The Task Force will also continue to consider whether further enhancements to the structure of the standard may be appropriate in light of the differences in the size and complexity of entities to which the standard is being applied.
3. In working through the changes to the standard, the Task Force will continue to consider whether additional non-authoritative guidance should be developed (e.g., for small and medium practices (SMPs) to illustrate what needs to be done by way of examples).
4. The Task Force’s activities including outreach and coordination with other IAASB Task Forces or Working Groups, can be found in the Appendix to this paper. Matters that crossover the project to revise ISA 540,³ including the outcomes of the joint meetings with the ISA 540 Task Force can be found in paragraphs 12-13, 21 and 44.

II. Matters Relating to the Proposed Changes in ISA 315 (Revised)

5. This section describes changes made since the September and October 2017 Board Agenda Papers.

Title, Scope and Objective (Requirements: paragraphs 1 and 3 of ISA 315 (Revised))

6. There have been no changes made to the title, scope and objective since previously presented.

Definitions

Task Force Views on the Proposed Changes

Assertions (Definition: paragraph 4(a) of ISA 315 (Revised); Application Material – paragraph A0a of ISA 315 (Revised))

7. To respond to Board comments that the proposed changes should be further considered, given that the

² ISA 330, *The Auditor’s Responses to Assessed Risks*

³ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

concept of assertions was thought to be fairly well-understood by auditors, but possibly less well so by other stakeholders, the Task Force decided to revert to the extant definition and to elevate part of the description of the concept of assertions from extant paragraph A127. As a result, the definition of assertions now includes that assertions are inherent in representing that the financial statements are in accordance with the applicable financial reporting framework, and relate to the recognition, measurement, presentation and disclosure of items in the financial statements.

8. Explanatory material has been added to differentiate written representations from management (obtained by the auditor in accordance with ISA 580⁴) from representations by management as referred to in the definition of assertions, because it had been noted that there was concern about whether the representations were the same or different.

Controls (Definition: paragraph 4(ca) of ISA 315 (Revised); Application Material – paragraphs A0b–A0c of ISA 315 (Revised))

9. The Board provided comments that controls are broader than just formalized ‘policies and procedures,’ including observations that controls could include aspects of governance (such as tone at the top) and other aspects of the entity’s systems (such as the risk assessment process in some entities) which are established, but not formally documented policies or procedures. In response, the Task Force broadened the proposed definition of controls and presented a revised definition for Board discussion at the October 2017 IAASB meeting. Although a Board member noted concern about the use of the word ‘informal’ in the definition, the Task Force is of the view that in small-and medium- entities (SME’s) some controls may not be ‘formally’ documented but nevertheless still exist and may be relevant to the audit. This term therefore acknowledges those types of controls thereby contributing to the scalability of the definition.
10. Explanatory material has been included as was presented in the October 2017 Agenda Papers.

Qualitative Inherent Risk Factors (QIRFs) (Definition: paragraph 4(cb) of ISA 315 (Revised); Application Material – paragraph A0d of ISA 315 (Revised))

11. In response to Board input related to the QIRF’s from the September 2017 IAASB meeting, the Task Force has reconsidered the definition of the QIRFs and taken the view that it is appropriate to propose to:
 - Add back the susceptibility to fraud as an inherent risk factor. The Task Force has also considered whether the auditor’s considerations relating to fraud are appropriately addressed in ISA 315 (Revised) and is of the view that there are sufficient references to the auditor’s consideration about fraud within the standard.⁵
 - Not making a specific reference to inherent risks in the definition of the QIRFs, in order to avoid circularity. as the term itself includes the phrase “inherent risk,” and the QIRFs are used in the context of the requirements for the inherent risk assessment.

⁴ ISA 580, *Written Representations*

⁵ References to ‘fraud’ can also be found in: paragraph 3 relating to the objective; paragraph 4(d) and 6, with related application material in paragraphs A4, A7, A11 and A15 relating to risk assessment procedures; paragraph 28 and related application material in paragraph A144 related to significant risks; paragraph A21 related to the engagement team discussion; paragraph A44 related to the measurement and review of the entity’ financial performance; paragraph A83 relating to the control environment and paragraph A122 relating to the identification and assessment of the risks of material misstatement.

12. An important consideration for the Task Force is the interaction of the concept of QIRFs in ISA 315 (Revised) with the factors described in the exposure draft of ISA 540, *Auditing Accounting Estimates and Related Disclosures* (ED-540) (complexity, the need for the use of judgment by management, and estimation uncertainty). The ISA 315 Task Force has met twice with the ISA 540 Task Force to discuss matters of mutual interest, in particular in light of the responses to ED-540. In particular, the Task Forces jointly considered how the QIRFs align with the factors presented in ED-540 and have made changes to align the factors and the terms used to describe them, as presented below. The ISA 315 Task Force has agreed to further consider how it can to make it clearer in ISA 315 (Revised) how the QIRF's align between ISA 315 (Revised) and ISA 540, by providing relevant examples about the application of the QIRFs to accounting estimates in ISA 315 (Revised) that will demonstrate the alignment of the QIRFs in ISA 315 with those being used in ISA 540. . It was also agreed that the ISA 540 Task Force would further consider how they could make stronger links between the factors in ED-540 and the QIRFs (see Agenda Item 2).
13. The Task Forces also considered the US Public Company Accounting Oversight Board's (PCAOB) recent Proposed Auditing Standard, *Auditing Accounting Estimates, Including Fair Value Measurements* where risk factors specific to accounting estimates have been proposed that would relate⁶ to the IAASB's proposals for the QIRFs and the factors in ED-540. Notwithstanding that the PCAOB may use these factors for slightly different purposes, the Task Forces agreed that on balance the concepts are broadly aligned conceptually. In further deliberating whether to align the terms between ISA 315, ED-540 and the PCAOB proposals, the Task Force agreed that the concept of subjectivity was broadly the consequence of inherent ambiguity and gives rise to the need for judgment by management. The Task Forces also agreed that estimation uncertainty was a particular class of uncertainty. Accordingly, the ISA 315 Task Force agreed that the term 'ambiguity' should be changed to 'subjectivity.' A comparison of the concepts as used in ED-540 and by the PCAOB in its proposal is presented below:

ISA 315 (Revised)	ED-540⁷	PCAOB PROPOSAL
Complexity	Complexity	Complexity (of the process for developing the accounting estimate, and the number and complexity of significant assumptions)
Ambiguity <u>Subjectivity</u>	Judgment <u>Subjectivity</u>	Subjectivity
Change	_8	-

⁶ AS 2110.60 provides additional risk factors to consider specific to accounting estimates, including uncertainty, complexity, subjectivity and degree of uncertainty.

⁷ See further discussion of the QIRF's used in ED-540 and proposed changes in that project in Agenda Item 2.

⁸ In ISA 540, change and the susceptibility to fraud have been recognized as other relevant factors that the auditor may consider in identifying and assessing the risks of material misstatement.

Uncertainty	Estimation Uncertainty	Degree of uncertainty of estimates
Susceptibility to Fraud	.8	-

14. Explanatory material has been added to describe each of the QIRF's to assist auditors in understanding the concepts they represent.

Relevant Assertions (Definition: paragraph 4(cc) of ISA 315 (Revised); Application Material – paragraph A0e of ISA 315 (Revised))

15. In relation to Board comments regarding the 'threshold' for determining relevant assertions, the Task Force agreed that 'more than a remote likelihood' may not be appropriately understood as this term is not used in the ISAs, and that it would be better to consider the term 'reasonable possibility', (which is also used in US PCAOB Auditing Standard (AS) 2110⁹ in the context of significant accounts and disclosures.) Accordingly, the definition has been amended to refer to a 'reasonable possibility' that a misstatement may be material (which encompasses the likelihood and magnitude of misstatement). Application material has been added to explain what is meant by 'reasonable possibility.' The Task Force has also made it clear that if it is remote that a misstatement may occur, then then the related assertion would not be considered a relevant assertion.
16. Application material addressing the concept of relevant assertions and the interaction with the concept of significant classes of transactions, account balances and disclosures can be found in paragraphs A146–A148X.

Significant Class of Transactions, Account Balance or Disclosure (Definition: paragraph 4(da) of ISA 315 (Revised))

17. The Task Force agreed with Board comments encouraging the Task Force to consider consistency of terms used by other standard setters for similar concepts, and has changed 'relevant' class of transactions, account balance or disclosure to 'significant' class of transactions, account balance or disclosure. Appendix C sets out the relevant definitions of the PCAOB.
18. As the term is used in the requirements to identify and assess inherent risks, the Task Force is of the view that no changes are needed to the definition to make clear that the auditor's considerations do not take controls into account when determining significant classes of transactions, account balances and disclosures.
19. The Task Force does not believe that further explanatory material to the definition is needed, but rather the application of the concept is explained further in paragraphs XA146– A148 of ISA 315) (Revised).

Significant Risks (Definition: paragraph 4(e) of ISA 315 (Revised); Application Material – paragraph A0g of ISA 315 (Revised))

20. In light of the discussion related to ED-540 and the 'spectrum of risk,' the Task Force agreed that a risk is assessed as 'significant' is when it is at the highest end of the spectrum of inherent risk. Accordingly, the Task Force has revised the definition of significant risk to acknowledge this point.

⁹ AS 2210, *Identifying and Assessing the Risks of Material Misstatement*

21. The ISA 315 Task Force has also been coordinating with the ISA 540 Task Force on the changes being made in ISA 315 (Revised), so that material being developed in ISA 315 (Revised) to support the spectrum of inherent risk concept would also prospectively support the changes being proposed in ISA 540. The ISA 315 Task Force agreed to further progress its concept of the spectrum of inherent risk such that the 540 Task Force can consider how best to incorporate it in ISA 540 to replace the low/not low threshold risk thresholds and in order to recognize how scalability can be demonstrated in identifying, assessing and responding to the risks of material misstatement at the assertion level for accounting estimates.
22. Application material to the definition has been added to further explain ‘significance.’ The application of the concept of significant risks, as well as new application material explaining the ‘spectrum of inherent risks’ can be found in paragraphs A154–A155 of ISA 315 (Revised).

Matters for IAASB Consideration

1. The IAASB is asked for its views on:
 - (a) Changes to the definitions and other related changes as explained above; including:
 - (i) Whether the changes further clarify the definitions;
 - (ii) The changes to the QIRFs to better align with other standard-setters and ISA 540 (Revised); and
 - (b) The explanatory material that has been developed to further explain the definitions.
2. Are there any other changes to the definitions that the Board believes is necessary, including whether there are other terms that need to be defined?

Requirements—Risk Assessment Procedures (Requirements: paragraphs 5–10 of ISA 315 (Revised); Application Material – paragraphs A1–A24 of ISA 315 (Revised))

Task Force Views on the Proposed Changes to the Requirements

23. Paragraph 5 of ISA 315 (Revised) has been restructured to clarify:
 - That the auditor uses risk assessment procedures to obtain the required understanding of the entity and its environment; the applicable financial reporting framework; and the entity’s system of internal control.
 - That the risk assessment procedures need to be performed to provide a sufficient and appropriate¹⁰ basis to be able to identify and assess the risks of material misstatement.

Task Force Views on Changes to the Application Material

24. To focus the engagement team on the importance of appropriately exercising professional skepticism during the risk identification and assessment process, application material has been developed relating to the identification and further consideration of inconsistent or contradictory information during the engagement team discussion (see paragraph A21a of ISA 315 (Revised) in **Agenda Item 3-B**). The

¹⁰ The Task Force notes that the glossary to the International Standards includes definitions of the terms “sufficient” and “appropriate” as they relate to audit evidence. The Task Force notes that concern has been expressed by some Board members about the use of these terms in a context other than audit evidence. The Task Force notes that there are other uses of these terms in the ISAs and is of the view that they can be used in other contexts, provided that it is sufficiently clear as to how sufficiency and appropriateness will be judged and measured.

application material also emphasizes the importance of a robust understanding to be able to appropriately undertake the risk identification and assessment process, and the importance of the engagement team discussion in this regard.

25. In deliberating the changes to the requirements, the Task Force concluded that in the explanation in the extant requirement that indicates that risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion, this should be moved to application material, being more of the nature of application material.
26. The Task Force will also consider how the use of data analytics can be emphasized in performing risk assessment procedures as well as whether other changes are needed in respect of the risk assessment procedures described in paragraphs 5–10 of ISA 315 (Revised).

Matter for IAASB Consideration

3. The IAASB is asked for its views on the proposed changes to the requirements and application material relating to risk assessment procedures.
4. The IAASB is asked whether it agrees with the move to application material as explained in paragraph 26 above?

Requirements—The Required Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework (Requirements: paragraphs 11–11A of ISA 315 (Revised); Application Material – paragraphs A25–A50 of ISA 315 (Revised))

Task Force Views on the Proposed Changes

27. To respond to Board comments from the September and October 2017 Board meetings, the Task Force has made changes to paragraph 11 of ISA 315 (Revised) as follows:
 - To focus the auditor's consideration of internal and external measures used by the entity on those that are 'relevant', it is limited to those measures that are relevant to the audit from the perspective of the auditor's identification and assessment of risks of material misstatement. The application material has also been revised, as appropriate, to make clear the kinds of information that would only be relevant to listed entities.
 - Added back organizational structure, ownership and governance to the requirement so as not to lose the robustness of the auditor's required understanding in these areas.
 - Developed application material to explain what a 'business model' is, including the types of matters the auditor may want to understand.
28. The Task Force has also:
 - Restructured the requirement that focuses on the auditor's understanding of the applicable financial reporting framework to clarify the context of the understanding, and enhanced this requirement to also include understanding the reasons for changes to the entity's accounting policies, (included in the extant requirement and which the Task Force believes is an important aspect to the auditor's understanding.
 - Added that the required understanding needs to be 'sufficient and appropriate' to enable the auditor to be able to understand the classes of transactions, account balances and disclosures to be expected in the financial statements.

- Highlighted that the auditor should consider how events or conditions are affected by the QIRFs as the auditor obtains their understanding.
29. To illustrate the continuing robustness of the proposed requirements in ISA 315 (Revised), the following table sets out how the requirements in the extant requirement to obtain an understanding of the entity and its environment in paragraph 11 have been incorporated in the revised paragraph 11, or elsewhere,:

Extant ISA 315 (Revised) – Par 11	Included in revised ISA 315 (Revised)
The auditor shall obtain an understanding of the following:	Same
(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30)	Relevant industry, regulatory, and other external factors – Para 11(a)(ii) Applicable financial reporting framework now focused on in Para 11(b)
(b) The nature of the entity, including:	“Nature” of the entity replaced with business model: Par 11(a)(i)
(i) its operations;	Part of business model (par 11(a)(i)) – explained in application material (A27a).
(ii) its ownership and governance structures;	Par 11(a)(i)
(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and	Part of business model (par 11(a)(i)) – explained in application material (A27a).
(iv) the way that the entity is structured and how it is financed,	Part of business model (par 11(a)(i)) – explained in application material (A27a).
	NEW The way that business model integrates the use of information technology
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)	Enhanced to highlight that the understanding needs to be <i>sufficient and appropriate</i>
(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)	The paragraph has been split and enhanced as follows: The entity’s selection and application of accounting policies, including the reasons for changes thereto – Para 11(b) The auditor shall evaluate whether the entity’s accounting policies, <u>and the changes thereto</u> , are appropriate <u>to its facts and circumstances</u> .

	including the nature of its business, and consistent with the applicable financial reporting framework—Para 11A
(d) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37–A43)	Part of business model (par 11(a)(i)) – explained in application material (A27a).
(e) The measurement and review of the entity’s financial performance. (Ref: Para. A44–A49)	Par 11(a)(iii) – enhanced to include that it is t internal and external measures that are relevant to the audit
	NEW Consideration of QIRF’s as understanding obtained

Task Force Views on Changes to the Application Material

30. Application material has been enhanced or developed to:

- Explain that understanding the entity and its environment alongside the understanding of the applicable financial reporting framework provides a basis for the auditor to understand the expected contents of the financial statements.
- Explain the importance of the qualitative inherent risk factors in the auditor’s understanding.
- Build in a challenging mindset by the auditor as they are obtaining their understanding, thereby promoting professional skepticism.
- Follow the revised flow as described in paragraph 28 above by restructuring the content of the application material.
- Fully explain those aspects of the business model that are relevant for the auditor by revising the content relating to business model.
- Restructure the existing content in the extant ISA 315 (Revised) for the auditor’s understanding of the applicable financial reporting framework as set out in the revised requirement in paragraph 11(b) of ISA 315 (Revised).

Matter for IAASB Consideration

5. The IAASB is asked for its views on the proposed changes to paragraph 11 of ISA 315 (Revised) and related application material in paragraphs A25–A50 regarding the auditor’s understanding of the entity and its environment, and applicable financial reporting framework, including:
- (a) The drafting of the requirements set out in paragraphs 11 and 11A of ISA 315 (Revised).
 - (b) The application material set out in paragraphs A25–A50 of ISA 315 (Revised), as well as whether there are other matters that should be included in the application material.

The Required Understanding of the Entity's Internal Control (Requirements: paragraphs 12–21A of ISA 315 (Revised); Application Material – paragraphs A50a–A134 of ISA 315 (Revised))

Task Force Views on the Proposed Changes

31. The Task Force has further deliberated and changes have been made in the requirements that address each of the components of internal control to address the Board's concerns of that the revisions proposed in the September 2017 Agenda Papers were overly focused on identification of relevant controls and not sufficiently focused on requiring an understanding the components. The Task Force has extensively debated the nature of each component of internal control over financial reporting, and has proposed changes to the requirements and application material to more clearly set out the understanding required by the auditor in relation to each component for the purpose of the audit. In doing so, the Task Force has separated the 'understanding' required from the identification of 'controls relevant to the audit,' as some components may not necessarily have controls that are relevant to the audit (as explained further below).
32. Proposals for changes to ISA 315 (Revised) require the auditor to identify the risks of material misstatement at the financial statement level, and at the assertion level for significant classes of transactions, account balances and disclosures and assess those risks by assessing inherent risk and control risk. The auditor's understanding of internal control over financial reporting provides the basis for the required risk assessments, and is obtained through understanding the five components of internal control. Although an understanding of each component is required, 'controls relevant to the audit' has been clarified to be those controls that meet the criteria in paragraph 21 in ISA 315 (Revised) and that either directly address, or assist in addressing, the risks of material misstatement at the assertion level. A new introductory section in the application material provides further general explanation about the procedures required for each component of internal control, as well as the interactions between the different components of internal control.

Understanding the System of Internal Control

33. Changes have been made to paragraph 12 of ISA 315 (Revised), which provides the set-up for the understanding to be obtained relating to each component of internal control to further clarify which paragraphs achieve 'understanding each component.' The requirements for 'identifying controls relevant to the audit' and evaluating D&I of those controls are within the control activities component (see further discussion below). The Task Force has also agreed to not change the current understanding of the system of internal control as it relates to 'financial reporting' to 'financial reporting objectives,' as this may have unintended consequences.
34. In relation to each of the components of internal control, the following additional changes to the requirements proposed for the September 2017 IAASB discussion have been made:
 - *Control environment*—matters required to be understood in relation to this component have been elevated from Appendix 1 of extant ISA 315 (Revised), and updated for consistency with the principles for this component set out in COSO 2013,¹¹ to help auditors identify what needs to be understood in relation to the control environment, and evaluate whether these aspects provide an appropriate foundation for the other components of internal control. The requirement for further consideration of any deficiencies identified and whether these deficiencies result in a significant

¹¹ The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework (2013)*

deficiency, including the impact on the audit, has now been separated as a new, distinct requirement.

- *The Entity's Risk Assessment Process*—this component has been rearticulated to recognize that consideration should still be given to how management or those charged with governance identify and address risks in the absence of a formal risk assessment process. The Task Force is of the view that, absent a formal process, a risk assessment would be undertaken in most entities to some extent, and the auditor should still understand what management does in such cases. The specific matters that the auditor should obtain an understanding of have been articulated, therefore whether there is a formal process or not, it is clear the types of matters that need to be considered relating to this component. In addition, the proposed requirement to consider the appropriateness of the risk assessment process, or the absence thereof, in light of the nature and size of the entity has been broadened to all entities and not only those without a formalized process.
 - *The Information System and Communication*—changes have been made to focus on the flow of information through the information system from initiation of a transaction to the preparation of the financial statements, including the related accounting records and documents. Also, it has been clarified that the significant classes of transactions, account balances and disclosures are used in determining the scope of the understanding required. In response to Board comments in October 2017 related to the proposals for revisions in respect of IT, the Task Force considered how to appropriately set boundaries for the understanding of the entity's use of IT, particularly as it relates to the information system. Accordingly, a new requirement in 18(d) has been proposed for the auditor to identify the entity's IT infrastructure to the extent it is relevant to the aspects of the information system that are required to be understood in paragraph 18(a)-(c). No significant changes have been made to the 'communication' requirement.
 - *Control Activities*—in line with the other changes being made to each of the components of internal control, the requirement has been enhanced to specify the matters that the auditor needs to obtain an understanding of that component. In particular, the relevance of having an understanding of IT risks as the basis for identifying relevant general IT controls has been reintroduced. In considering the nature of the auditor's understanding of the control activities component, the Task Force has the view that it is appropriate to elevate from the application material in extant ISA 315, reference to the principal types of controls addressed within the control activities component (being those relating to authorizations and approvals, segregation of duties, security of assets and general IT controls) and to require the auditor to obtain an understanding of how the entity addresses them. The Task Force considers this understanding important because the absence of such controls may result in more, or higher, risks of material misstatement. No significant changes have been made to the requirement for identification of controls that are relevant to the audit, other than removing "in the control activities component" and adding application material to address the possible existence of relevant controls in other components as described above.
35. The Task Force has also abbreviated the name of the "Information System, Including Related Business Processes, and Communication" component to the "Information System and Communication" component as this still reflects the nature of the component but is easier to use for reference purposes throughout the standard. The related business processes still form part of this component, which is made clear in both the specific requirement in paragraph 18 of ISA 315 (Revised) and the related application material (in paragraph A112 of ISA 315 (Revised)).

Controls Relevant to the Audit

36. The Task Force has clarified that “obtaining an understanding of internal control relevant to the audit” (as per extant paragraph 12) has been replaced with the above requirements to understand the each of the components of internal control to the extent specified, and to identify and perform D&I on controls relevant to the audit, based on a clarification of the concept of controls relevant to the audit. Changes that have been made to explain and clarify what the auditor the auditor is required to do to understand each component of internal control are described above, and the Task Force has also clarified the concept of “controls relevant to the audit” as follows:
- In the view of the Task Force, controls within the *control environment, the entity’s risk assessment process, and the entity’s process to monitor the system of internal control* components are typically more ‘indirect’ in nature (i.e., controls that do not directly impact an assertion related to a class of transactions, account balance or disclosure). Such indirect controls are more likely to affect the auditor’s risk assessment at the financial statement level. However, there may be instances where controls in these components address risks directly at the assertion level. For example a monitoring activity relating to a control over a specific account balance, in which case these controls may be identified by the auditor as ‘relevant to the audit’ (see below for the implications of determination).
 - The *information system and communication* component addresses the flow of information relevant to financial reporting from initiation of a transaction (or occurrence of an event or change in a condition) through the capture of that information, its processing and transfer to the general ledger and its inclusion in the financial statements. Information is relevant to financial reporting if it is relevant to the recognition, measurement, presentation or disclosure of significant classes of transactions, account balances or disclosures. Controls within this component are the policies and procedures that define those flows in a manner that results in financial statements that meet the requirements of the applicable financial reporting framework. Therefore the changes to the standard and restructuring of the application material (paragraphs A113 to A114 of ISA 315 (Revised)) that are proposed are intended to clarify what comprises, and how to obtain, the required understanding of those controls. In particular, application material has been added to explain that the auditor not only obtains understanding of the flows of information and the related accounts and records that comprise the information system relevant to financial reporting, as designed or operated in practice, but also evaluates their design effectiveness and confirms that the auditor’s understanding reflects how they have been placed into operation. This confirmation may be obtained through tracing information about transactions, other events or conditions, through the processes, records or accounts designed or operated in practice, to confirm that understanding (e.g., by performing a walk-through).
 - Controls in the *control activities* component, and controls in other components in certain circumstances, are relevant to the audit if they are:
 - Required to be identified as relevant to the audit (i.e., because the standard requires the controls to be identified as relevant—see paragraph 20 in ISA 315 (Revised));
 - Relevant in the auditor’s judgment;
 - Controls in the control environment, the entity’s risk assessment process or the entity’s process to monitor controls, and are relevant because they address or assist risks at the assertion level (as described above); or

- General IT controls, in the circumstances described by paragraph 21 of ISA 315 (Revised).
37. For each control identified as a control relevant to the audit, the auditor continues to be required to evaluate the D&I.
38. In relation to general IT controls, in addition to changes presented to the Board in October 2017, a link has been made to the auditor's understanding of matters related to IT that has been obtained in understanding the five components of internal control in order to identify risks related to IT. In addition, if general IT controls are determined to be relevant to the audit based on the revised requirement, this is also scoped in to the requirement to perform D&I.

Task Force Views on Changes to the Application Material

39. A new introductory section setting out guidance about overall procedures to be applied to each component of internal control includes :
- The purpose and process for obtaining an understanding of the entity's system of internal control;
 - High-level what the components of internal control are, explaining that they are interdependent and that they differ by nature (e.g., the control environment provides the overall foundation for the operation of the other components of internal control whereas the information system and communication component, as well as the control activities component, include controls that are designed to prevent, detect and correct misstatements at the assertion level for the classes of transactions, account balances and disclosures in the entity's financial statements).
 - That the nature of the controls in each of the components also varies, i.e., some of the controls are more 'indirect' (e.g., in the control environment component) whereas the controls in the information system and communication component, as well as the control activities component, are more 'direct.'
 - That although the auditor's understanding is focused on controls relating to the entity's financial reporting objectives, this may also include aspects of the entity's internal control relating to operations or compliance objectives.
 - Broadly what the auditor needs to do to obtain an understanding of the entity's system of internal control (i.e., how the auditor determines what needs to be undertaken to obtain the necessary understanding).
 - Further guidance about the procedures to be performed if D&I is being performed, including guidance relating to when general IT controls are not effective.
40. Application material has also been developed to assist the auditor in evaluating D&I of controls relevant to the audit, including how the areas that are impacted when the auditor undertakes D&I. The guidance also makes clear that the auditor will need to consider what can go wrong at the assertion level to be able to perform the evaluation effectively. This will also assist the auditor in deciding whether to test the operating effectiveness of controls.

Matter for IAASB Consideration

6. The IAASB is asked for its views on the following matters:
- (a) Is it clear, for each component of internal control, what and how the auditor obtains an understanding?
 - (b) Is it clear when 'controls relevant to the audit' are required to be identified and the procedures to be performed in relation to the controls relevant to the audit?
 - (c) The drafting of the requirements set out in paragraphs 12–21A of ISA 315 (Revised).
 - (d) The application material set out in paragraphs A50a–A134 of ISA 315 (Revised), as well as whether there are other matters that should be included in the application material?
 - (e) Whether there are any other matters or concerns related to the auditor's understanding of the entity's system of internal control?

Identifying and Assessing the Risks of Material Misstatement (Requirements: paragraphs 25–31 of ISA 315 (Revised); Application Material – paragraphs A135–A165 of ISA 315 (Revised))

Task Force Views on the Proposed Changes to the Requirements

41. To address Board comments and concerns from the September 2017 IAASB meeting, the Task Force has made the following changes to the auditor's identification and assessment of inherent risks:
- Required explicitly that the assessment of risks of material misstatement at the assertion level is performed through a separate assessment of inherent and control risk.
 - Clarified that the qualitative inherent risk factors assist with the identification of risks of misstatements and the assessment of inherent risk.
 - Require that a separate assessment of inherent risk is performed at the assertion level to accommodate flexibility as to how these assessments are undertaken in practice.
 - Require consideration of the reasons for the likelihood and magnitude of the potential misstatement to assist in the inherent risk assessment process, because such reasons are required to be taken into account in designing and implementing further audit procedures as required under ISA 330. Application material further explains how the interaction of the likelihood and magnitude relates to the spectrum of risk (see below for further explanation about spectrum of risk in the application material).
 - In relation to the assessment of inherent risk, including the determination of significant risks, added a new, requirement to take into account the extent to which the susceptibility to misstatement is subject to, or affected by, the QIRF's, to focus auditors on the importance of these concepts in applying these requirements.
 - Deleted the separate requirement for the auditor to evaluate the design and determine the implementation of controls related to significant risks, as this is now required as part of addressing the control activities component. Also deleted is the separate requirement to understand controls related to significant risks which is now included in the auditor's procedures to evaluate D&I (see paragraph 42 below).

42. The Task Force has also moved the requirement relating to ‘what can go wrong at the assertion level, taking into account the relevant controls that the auditor intends to test’ to the requirement to perform D&I (see control activities section), as in the view of the Task Force the evaluation of the design of the control involves considering the extent to which the control addresses the ‘what could go wrong’, which in turn should help the auditor with assessing control risk.

Task Force Views on the Proposed Changes to the Application Material

43. To support the revised requirements for the identification of inherent risk and the separate assessment of inherent and control risk, application material has been enhanced as follows:
- Introductory paragraphs have been added to further explain how the risk assessment links to ISA 330 and drives the auditor’s determination of the nature, timing and extent of further procedures.
 - Further explain how considerations about the auditor’s understanding of the control environment impacts the auditor’s risk assessment at the financial statement level, and the potential implications for the audit.
 - Application material to support the process to identify relevant assertions, and significant classes of transactions, account balances and disclosures has been added, including how this feeds into the auditor’s identification and assessment of inherent risks.
 - Explaining how the auditor further considers the likelihood and magnitude of possible misstatements, and that the risk exists on a spectrum of inherent risk. The application material also explains that auditors may use different categorizations on the spectrum of inherent risk; however any further audit procedures to address identified risks need to be responsive to those risks. In the view of the Task Force, explaining the ‘spectrum’ of risk will help explain the interrelationship between significant and ‘low’ risk, and may help support the use of these terms in other ISAs.
 - Making clear that significant risks are at the highest end of the spectrum of inherent risk.
 - Further explaining what the consequences of identifying a risk as significant on the audit are, by setting out the possible implications for the audit.
 - Application material to assist the auditor in assessing control risk, including emphasizing that, if the auditor has not tested controls related to risks, the control risk remains at maximum.
 - Clarifying when general IT controls may be relevant to the audit (taking into consideration the risks related to IT), and therefore when evaluation of their D&I is required, clarifying when testing of the operating effectiveness of such controls may be appropriate, and explaining how the expected operating effectiveness of general IT controls factors into the assessment of control risk.

Matter for IAASB Consideration

7. The IAASB is asked for its views regarding the requirements to identify and assess the risks of material misstatement, including inherent and control risks. In particular, the Board is asked for views about:
- (a) The introduction of the concept of ‘spectrum of inherent risk?’
 - (b) The drafting of the requirements set out in paragraphs 25–31 of ISA 315 (Revised).
 - (c) The application material set out in paragraphs A135–A165 of ISA 315 (Revised), as well as whether there are other matters that should be included in the application material.

- | |
|--|
| (d) Whether there are any other matters or concerns related to the auditor's identifying and assessing the risks of material misstatement? |
|--|

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence
(Requirements: paragraph 30 of ISA 315 (Revised); Application Material – paragraphs A166–A168 of ISA 315 (Revised))

44. The Task Force has revised the requirement such that the auditor is required to consider whether any risks exist for which substantive procedures alone would not provide sufficient appropriate audit evidence, to make it an active consideration instead of the extant passive consideration of such risks. The requirement has also been revised to clarify that this relates to inherent risks, with further examples to be provided illustrating different circumstances. The ISA 315 Task Force will also continue to work with the ISA 540 Task Force on the examples to be developed as respondents to ED-540 have highlighted various aspects related to this requirement in the responses to ED-540.

Revision of Risk Assessment and Documentation (Requirements: paragraphs 31 and 32 of ISA 315 (Revised); Application Material – paragraphs A169–A173 of ISA 315 (Revised))

45. The Task Force will bring revisions, if any, to these requirements for discussion at the March 2018 IAASB meeting.

Scalability of ISA 315 (Revised)

46. The Task Force continues to consider how to make the standard scalable to a wide variety of circumstances, while keeping the standard principles-based. In the view of the Task Force, much of the clarity from the revised requirements, in particular the section on understanding internal control, will provide scalability to the standard through auditors having a clearer direction about what needs to be done and the appropriate scope of the work.
47. Through further enhancements to the application material, the Task Force will continue to consider ways in which to demonstrate scalability through the use of examples, including examples relating to entities with non-complex IT systems.
48. As the Task Force progresses the revised standard to exposure, and as the Board's views about the changes inform the Task Force's deliberations, further specific consideration will be given to what else can be done to make the standard scalable, including to enhance the guidance to emphasize the requirements that have inherent scalability.
49. As part of these considerations, the Task Force will debate whether the "considerations specific to smaller entities' should be retained, or whether any matters in these paragraphs in the extant standard not already covered by the revised application material are subsumed into the application material of the revised standard. An example of where this has already been developed is in the "entity's risk assessment process" in the components of internal control section (see paragraph 34 of this paper). That is, matters relating to a risk assessment process that is less formalized have now been recognized in the requirement and related application material, with the intention that this would apply to some SME audits where appropriate. If 'considerations specific to smaller entities' was to be added for this revised section, it would likely highlight that it may be common in many smaller audits that the risk assessment process is often not formalized. The Task Force is looking for Board views on whether to revise the extant SME considerations or whether to subsume these into the existing application material.

Matters for IAASB Consideration

8. The Board is asked for its views on either retaining the paragraphs relating to ‘considerations for smaller entities’ or rather building this material into the revised application material paragraphs as explained in paragraph 49 above.
9. In relation to the existing application material that has been highlighted as possible matters to be moved to the Appendix in **Agenda Item B** (see explanation in paragraph 1), the Board is asked:
 - (a) Whether the paragraphs highlighted are appropriate to move to the Appendix; and
 - (b) Whether there are any other paragraphs where consideration should be given to moving them to an Appendix.
10. Are there any other matters for Task Force consideration as it further progresses the exposure draft of ISA 315 (Revised)?

Task Force Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the Task Force including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the ISA 315 (Revised) project since September 2017. Further information about the project, including the members of the Task Force, can be found [here](#).

Task Force Activities since the September 2017 IAASB Discussion

2. The ISA 315 Task Force has met four times in person and held two teleconferences since the last IAASB discussion in September 2017.
3. The ISA 315 Task Force presented proposed changes to the requirements and application and other explanatory material related to IT for Board discussion at the October 2017 IAASB meeting.

Outreach

4. Representatives from the ISA 315 Task Force, including the Chair, met with representatives of the SMP Committee's IAASB Rapid Response Task Force to discuss matters specific to audits of small and medium entities when identifying and assessing the risks of material misstatement.
5. A Board member representing the ISA 315 Task Force met with representatives from a medium-sized network to discuss specific issues and concerns when identifying and assessing the risks of material misstatement.
6. Representatives of the Forum of Firms, and the US Auditing Standards Board, have also received presentations specifically focusing on ISA 315 (Revised).

Coordination with Other IAASB Task Forces and Working Groups

7. Two joint meetings have been held with the ISA 540 Task Force to discuss matters of relevance arising from that Task Force's consideration of the responses to ED-540, principally:
 - Alignment of the qualitative inherent risk factors.
 - Spectrum of risk.
 - Risks for which substantive procedures alone do not provide audit evidence.

The resolution of these issues has been further discussed within this paper.

Extracts from Minutes

ISA 315 (Revised) – September 2017

Ms. Campbell provided an overview of proposed changes to the requirements in ISA 315 (Revised)¹² as presented in **Agenda Item 2-B**, noting that information technology (IT) related changes would be presented to the IAASB for discussion at its October 2017 meeting.

The IAASB generally supported the overall direction of the proposed changes, and expressed strong support for the separation of the requirements for the assessment of inherent and control risk. The Board encouraged the ISA 315 Task Force to:

- Develop proposed changes bearing in mind the need for them to be capable of being adapted in a wide range of circumstances, noting in particular that firms have a broad range of methodologies.
- Further consider how the proposed new and revised requirements can be implemented on audits of smaller entities.
- Further consider matters specific to audits of public sector entities.

The Board also cautioned that, as new concepts are introduced, the terminology used should be considered in light of the way terms are used elsewhere in the ISAs (for example ‘significant’ or ‘relevant’ or new concepts such as ‘higher’ risks), to ensure consistency as applicable and also to avoid unintended consequences of using the same or similar terms in different circumstances.

DEFINITIONS

In relation to the changes proposed to the definitions, the Board supported:

- Developing a definition for ‘controls.’ However, it was noted that controls are broader than only ‘policies and procedures,’ for example controls should include aspects of governance (such as tone at the top) and other aspects of the entity’s systems (such as the risk assessment process), and encouraged the ISA 315 Task Force to further consider how the definition could be revised to incorporate these other aspects.
- Developing a definition for ‘relevant assertions,’ but noted that further consideration was needed:
 - For the threshold used to determine a relevant assertion (i.e., it was noted that there could be the perception that ‘more than a remote likelihood’ may expand the scope of the audit thereby impacting the scalability of the standard).
 - Whether a quantitatively large balance may be assessed as having no relevant assertions and therefore scoped out of the audit. Mr. Grabowski noted that there is a backstop in ISA 330¹³ that would require procedures on ‘material’ items.
 - About how the concept of relevant assertions interacts with the auditor’s consideration of relevant class of transaction, account balance or disclosure. Furthermore, concern was

¹² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹³ ISA 330, *The Auditor’s Responses to Assessed Risks*, paragraph 18

expressed about not being too prescriptive as to how the auditor approaches these new concepts to accommodate differing methodologies.

- Developing a definition for ‘relevant class of transaction, account balance or disclosure.’ However, the ISA 315 Task Force was asked to further consider:
 - Whether ‘relevant’ was the most appropriate way to describe the concept,
 - Whether the definition was complete, in particular considering how other standard-setters have described the concept.
 - How it can be highlighted that determining relevant classes of transactions, account balances and disclosures is done independently of considering the effectiveness of controls.
- The definition of qualitative inherent risk factors (QIRFs). However, it was emphasized that further consideration be given to how:
 - The susceptibility to fraud is considered by auditors in ISA 315 (Revised), including whether it should be included in the QIRFs. Board members expressed mixed views about how fraud should be highlighted in ISA 315 (Revised), but it was agreed that more emphasis on fraud, with a link to ISA 240,¹⁴ is needed.
 - It could be made clear that the QIRF’s relate to inherent risks.
 - QIRF’s are used in the process to identify and assess the risks of material misstatement.
 - The QIRF’s align with the QIRF’s exposed in the ISA 540 ED.

The Board, however, had mixed views about changing the definition of assertions. While some Board members had the view that the proposed changes made the definition clearer, others expressed concern about changing a concept that was well understood. In particular, concern was expressed about removing the reference to ‘representations by management.’

RISK ASSESSMENT PROCEDURES

There was support for the proposals relating to the risk assessment procedures, but the Board asked that further consideration be given to:

- Whether the part of the requirement in paragraph 5 of the extant ISA 315 (Revised) relating to ‘risk assessment e by themselves do not provide sufficient appropriate audit evidence’ should be reinstated as a requirement and not be presented as application material.
- Whether the risk assessment procedures should be ‘sufficient and appropriate’ in this overarching requirement.

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Board were generally supportive about the changes proposed in Agenda Item 2-B, but asked that further consideration be given to:

- What is required to be understood in relation to the entity’s ‘business model’ that has now been introduced. Ms. Campbell noted the intention is to provide application material explaining this concept.

¹⁴ ISA 240, *The Auditors’ Responsibilities Relating to Fraud in an Audit of Financial Statements*

- How ‘business risks’ can be better described to highlight that consideration needs to be given to all risks, including operating risks, as they relate to financial reporting.
- What is required to be understood relating to “external measures used by the entity to assess its financial performance.”
- How all the aspects of the existing requirement have been included in the revised requirement to understand the entity and its environment.
- How a more challenging mindset can be integrated in the auditor’s consideration when obtaining an understanding of the entity and its environment.

OBTAINING AN UNDERSTANDING OF INTERNAL CONTROL

In relation to the proposals to clarify the requirements in the components of internal control so that it is clear what each term in the standard relates to, and what procedures are required, Board members:

- Supported clarification but noted that the focus of the understanding appeared to be on controls, which may not be where the focus should be, in particular where the focus should be on the process (such as the entity’s risk assessment process) or flow of transactions (when understanding the information system).
- Emphasized the need to further clarify the control activities component, including considering whether this needed to be defined.
- Asked that further consideration be given to what is meant by ‘controls relevant to the audit’ for each component of internal control, so that auditors could focus on what needs to be done, including on smaller, less complex audits where controls may not be relied upon.

IDENTIFICATION AND ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Although supporting the separation of the assessment of inherent and control risk, the ISA 315 Task Force was encouraged to consider how the requirements would operate practically. In addition, the ISA 315 Task Force was asked to further consider:

- How the assessment of inherent risks is described, in particular in relation to relevant assertions. Concern was expressed that the proposed revision required the assessment for the assertion and not the risk, which would not take into account that some risks could relate to more than one assertion, or that one assertion could have numerous risks.
- In relation to significant risks:
 - That it is clarified that the determination of significant risk under other ISAs, where specifically required by another ISA, is not a separate assessment.
 - Whether the notion of ‘special audit considerations’ should be retained to help distinguish these types of risks.
- Clarifying how control risk is assessed, including how the auditor’s understanding of internal control feeds in to the control risk assessment.
- How it can be made clear that control risk cannot be reduced if the effectiveness of controls has not been tested.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted the CAG's support for the changes being developed. He emphasized the need, in light of the changes being made, to make the link to fraud in ISA 315 (Revised) more clearly.

PIOB REMARKS

Ms. Stothers supported the progress of the Task Force and noted that a flowchart in relation to ISA 315 (Revised) would be helpful. She also emphasized the importance of fraud and the need for ISA 315 (Revised) to sufficiently recognize the susceptibility to fraud when identifying and assessing the risks of material misstatement. Ms. Stothers also highlighted the importance of further consideration about how the qualitative inherent risk factors link to the qualitative inherent risk factors included in the ISA 540¹⁵ exposure draft.

WAY FORWARD

The ISA 315 Task Force will present proposed changes related to IT for Board discussion at the October 2017 IAASB meeting, and will continue to progress changes to the requirements and application material more broadly for discussion at the December 2017 IAASB meeting.

DRAFT ISA 315 (Revised) – October 2017¹⁶

Ms. Campbell provided an overview of proposed changes to ISA 315 (Revised)¹⁷ as presented in **Agenda Item 5-A** relating predominantly to changes about how the standard can be enhanced with regard to the entity's use of information technology (IT), and the auditor's considerations when understanding the entity and its environment, the applicable financial reporting framework and internal control, and identifying and assessing the risks of material misstatement.

In relation to the proposed changes in relation to IT aspects of ISA 315 (Revised), the Board:

- Supported:
 - The addition of application material to more clearly reflect current practice and provide further guidance about the auditor's consideration related to IT. However, it was noted that scalability could be better reflected in some of the examples.
 - More guidance related to general IT controls, but the Task Force was encouraged to further consider how the guidance could be made more robust to reflect the range of general IT controls that may be considered.
- Noted concerns about:
 - Whether the limited changes to the requirements were sufficient to support the changes being proposed to the application material.
 - The boundary of the auditor's understanding that is required because some of the proposals appeared very broad, and, in the view of the Board, it should be made clear that the understanding required should relate to the audit of the financial statements. Areas highlighted

¹⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

¹⁶ These draft minutes are still subject to IAASB review and may therefore change.

¹⁷ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

included the ‘business model,’ ‘cyber security’ and ‘data security regulations.’ The Task Force was encouraged to provide more guidance about what is required to be understood for the purpose of identifying risks.

- Some of the terminology being used, in particular the Task Force was asked to further consider the consistency of the words used.

The Task Force was also encouraged to consider whether the revisions should also focus on using IT experts where appropriate, as well as whether there were IT frameworks that may be relevant when considering changes related to obtaining an understanding of the IT aspects of an entity.

The IAASB also broadly supported the revisions to the proposed changes to the definition of controls and understanding the five components of internal control as it appeared to reflect current practice. However, concern was expressed about the use of ‘informal expectations’ to represent a policy, which may suggest an informality not representative of a policy. The Task Force was also encouraged to make clear what needed to be done for each component of internal control, in particular giving consideration as to what comprises an ‘understanding’, including when an ‘evaluation’ is required.

WAY FORWARD

The Task Force will present a first read of the Exposure Draft of proposed changes to ISA 315 (Revised) for IAASB discussion in December 2017.

Definitions – Significant Classes of Transactions, Account Balances and Disclosures; and Relevant Assertions

ISA 315 (Revised)	PCAOB
<p>Significant Classes of Transactions, Account Balances and Disclosures</p> <p>A class of transactions, account balance or disclosure for which there is at least one relevant assertion.</p>	<p>Significant Account or Disclosure</p> <p>An account or disclosure is a significant account or disclosure if there is a reasonable possibility that the account or disclosure could contain a misstatement that, individually or when aggregated with others, has a material effect on the financial statements, considering the risks of both overstatement and understatement. The determination of whether an account or disclosure is significant is based on inherent risk, without regard to the effect of controls.</p>
<p>Relevant Assertion</p> <p>An assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility that a misstatement of the item may occur and be material, individually or in combination with other misstatements, with respect to that assertion.</p>	<p>Relevant Assertion</p> <p>A relevant assertion is a financial statement assertion that has a reasonable possibility of containing a misstatement or misstatements that would cause the financial statements to be materially misstated. The determination of whether an assertion is a relevant assertion is based on inherent risk, without regard to the effect of controls.</p>