



# ISA 315 (Revised)

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

Fiona Campbell, ISA 315 (Revised) Task Force Chair

IAASB Meeting, March 2018

Agenda Item 3

**IAASB**

**International Auditing  
and Assurance  
Standards Board**

## Introduction

### Second Read of ISA 315 (Revised)

Papers submitted:

- **Agenda Item 3-A:** sets out the Task Force's views on all the proposed changes to the requirements, revised for comments from the December 2017 IAASB discussions (marked to extant ISA 315 (Revised)).
- **Agenda Item 3-B:** sets out proposed changes to the application material, revised for comments from the December 2017 IAASB discussions (marked to extant ISA 315 (Revised)).
- **Agenda Item 3-C:** Supplements Agenda Item 3-A and is for reference only, as it sets out the proposed changes since the December 2017 Board meeting

Since December 2017



## CAG Feedback – March 2018

- Broadly supportive of direction
- Flowchart for Implementation (Understanding)
- Support for Non-authoritative Implementation Guidance
- Further consideration of connection to ISA 240
- Scalability

# Matters for IAASB Consideration

## New Introductory Paragraphs

1. The IAASB is asked for its views on the new introductory paragraphs, in particular whether these new paragraphs are appropriate in making the connection between ISA 315 (Revised) and the concepts in ISA 200 and requirements for responding to assessed risks of material misstatement in ISA 330.

# Matters for IAASB Consideration

## Definitions

2. The IAASB is asked for its views on:
  - (a) Whether the definition of ‘general IT controls’ and ‘application controls in information technology’ should be included in ISA 315 (Revised) and the Task Force’s intention to seek to modernize these definitions;
  - (b) The changes to the qualitative inherent risk factors, including the broadening to susceptibility to management bias as well as broadening to inherent risk factors to incorporate quantitative aspects; and
  - (c) Other changes to the definitions and related explanatory material as described above.
  
3. Are there any other changes to the definitions that the Board believes is necessary, including whether there are other items that need to be defined?

# Matters for IAASB Consideration

## Risk Assessment Procedures and Related Activities

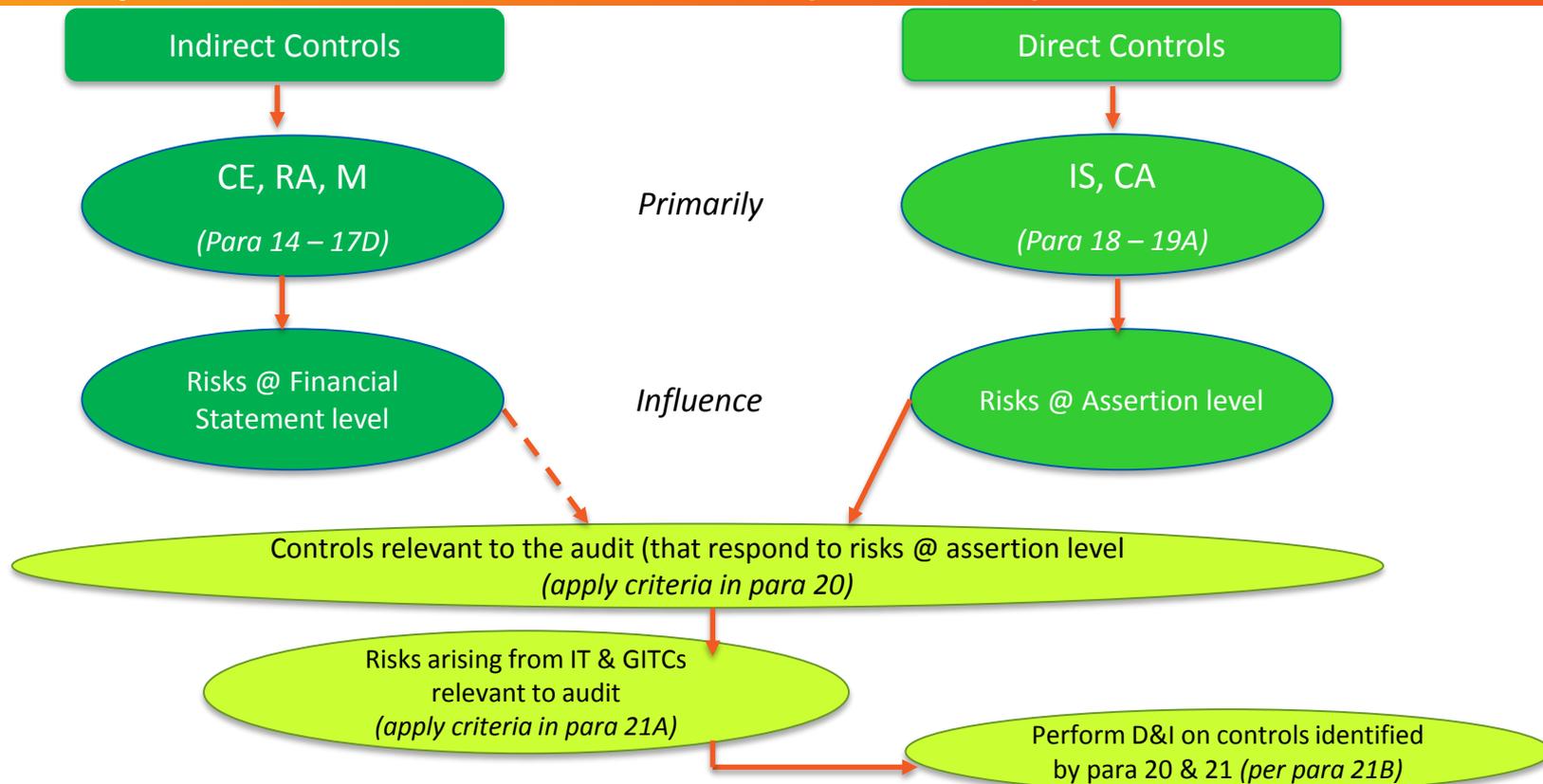
4. The IAASB is asked for its views on the proposed changes to the requirements and application material relating to risk assessment procedures and related activities.

# Matters for IAASB Consideration

## The Understanding of the Entity and Its Environment, and the Applicable Reporting Framework

5. The IAASB is asked for its views on the proposed changes to the requirements and related application material regarding the auditor's understanding of the entity and its environment, and applicable financial reporting framework, including:
  - (a) The drafting of the revised requirements set out in paragraphs 11 and 11A of ISA 315 (Revised).
  - (b) The application material set out in paragraphs A24a–A49f of ISA 315 (Revised), as well as whether there are other matters that should be included in the application material.

# Entity's System of Internal Control (*Para 12*)



# Matters for IAASB Consideration

## The Understanding of the Entity's System of Internal Control

6. The IAASB is asked for its views on the following matters:
- (a) Is it clear, for each component of internal control, what is required for the auditor to obtain the relevant understanding, including how that understanding is obtained?
  - (b) Is it clear when 'controls relevant to the audit' are required to be identified, and what procedures are required to be performed in relation to these controls?
  - (c) Whether the Board agrees with the reinstatement of the requirement to identify risks arising from IT, with related application material.
  - (d) The drafting of the requirements set out in paragraphs 12–21B of ISA 315 (Revised).
  - (e) The application material set out in paragraphs A50–A109g of ISA 315 (Revised), in particular the guidance in relation to general IT controls, as well as whether there are other matters that should be included in the application material?
  - (f) Whether there are any other matters or concerns related to the auditor's understanding of the entity's system of internal control?

# Matters for IAASB Consideration

## Identifying and Assessing the Risks of Material Misstatement

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 requirements in paragraphs 25 through 26 of **Agenda Item 3-A** and whether they are clear, and whether there is sufficient application material to support auditors in implementing these requirements?
  - (b) The other requirements set out in paragraphs 27–31 of ISA 315 (Revised).
  - (c) The application material set out in paragraphs A121a–A151 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?

# ISA 315 (Revised) - Scalability

<b>Requirements</b>	<b>Introductory Paragraphs</b>	<b>Para. 1H – 1I</b>
<b>Application Material</b>	<b>Understanding the Entity and its Environment and the Applicable Financial Reporting Framework</b>	<b>Para. 24a, A31, A49f</b>
	<b>Analytical Procedures as RAP</b>	<b>Para. A16</b>
	<b>Engagement Team Planning Meeting</b>	<b>Para. A24</b>
	<b>The Entity's System of Internal Control</b>	<b>Para. A50, A53, A80a, A80 b-c, A89, A89j, A89k, A99i, A90x, A92c, A97</b>
	<b>Identifying and Assessing RoMM</b>	<b>Para. A125d, A150 a-b</b>
	<b>Audit Documentation</b>	<b>Para. A153</b>

# Matters for IAASB Consideration

## Scalability

8. The Board is asked for its views on:
  - (a) Building the current matters applicable to “considerations specific to smaller entities” into the text of the application material as relevant.
  - (b) The paragraphs set out in the table in paragraph 49 above, and whether these paragraphs adequately address how to implement the standard to entities with different complexities and circumstances?
  - (c) Whether there are other specific areas that the Task Force should consider to further show the adaptability of the standard to entities with differing complexities and circumstances?

# ISA 315 (Revised) - Data Analytics

Terminology?

1 CAATS?  
(Extant)

2 Data  
Analytics?

3 Automated  
Techniques?

Application Material:

## RISK ASSESSMENT PROCEDURES

- General: Para. A2 and A4b
- Analytical procedures: Para. A16
- Understand flows of transactions: Para. A31a and A96b
- Understand nature and extent of journal entries: Para. 100g
- Identifying significant classes of transactions, account balances & disclosures: Para. 150g

# Matters for IAASB Consideration

## Data Analytics

9. The Board is asked for its views on:
  - (a) The application material set out in the paragraphs specified in paragraph 51 above in relation to the use of automated tools and techniques (i.e., data analytics) in the performance of risk identification and assessment procedures.
  - (b) The use of 'automated tools and techniques' in the application material to ISA 315 (Revised).

# Matters for IAASB Consideration

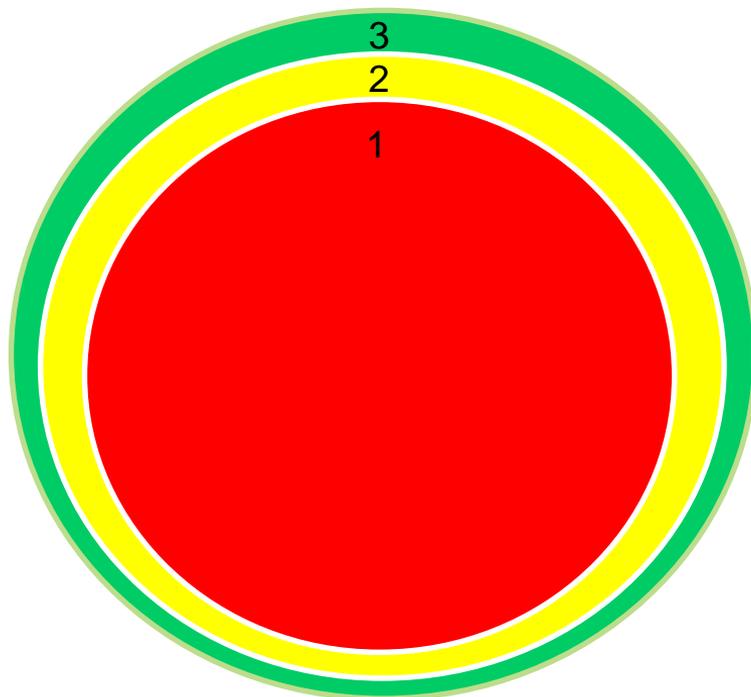
## Appendices

10. The Board is asked for its views on:

- (a) The Appendices as amended; and
- (b) Whether there are other matters that should be considered to be included in the Appendices to ISA 315 (Revised).

# ISA 330 Para. 18

## Classes of Transactions, Account Balances and Disclosures (COTABD)



1 Significant COTABD

2. Material COTABD

3. All COTABD

# What is Next?

## NEXT STEPS

The TF intends to:

- (a) Face to Face meeting in April 2018
- (b) Face to Face meeting in May 2018
- (c) Present Exposure Draft to IAASB in June 2018 for Approval



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