

ISA 315 (Revised)¹ – Revised Requirements

This Agenda Item sets out the revised requirements marked-up to the requirements presented at the June 2019 Board meeting (**Agenda Item 2-A** and **Agenda Item 2-F (Updated)**, as applicable).

Requirements

Risk Assessment Procedures and Related Activities

17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (Ref: Para. ~~A14a~~A13–~~A16b~~)
- (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
 - (b) The design of further audit procedures in accordance with ISA 330.

The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may corroborate assertions made by management or towards excluding audit evidence that may be contradictory to such assertions.~~be corroborative or towards excluding audit evidence that may be contradictory.~~

18. The risk assessment procedures shall include the following: (Ref: Para. A17–~~A20ab~~)
- (a) Inquiries of management and of other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists). (Ref: Para. A21–A29)
 - (b) Analytical procedures. (Ref: Para. A30–A34a)
 - (c) Observation and inspection. (Ref: Para. A35–A36)

Information from Other Sources of Audit Evidence

19. In obtaining audit evidence in accordance with paragraph 17, the auditor shall consider information from: (Ref: Para. A37–A38)
- (a) The auditor's acceptance or continuance of the client relationship or the audit engagement; and
 - (b) When ~~re~~ applicable, other engagements performed by the engagement partner for the entity.
20. *[Moved]*
21. Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (Ref: Para. A39–A40)

¹ Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* (ED-315)

Engagement Team Discussion (Ref: Para. A40a–A46)

22. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity’s financial statements to material misstatement. (Ref: Para. A40a–A46)
- 22A. When there are engagement team members not involved in the engagement team discussion, the engagement partner shall determine which matters are to be communicated to those members.

Obtaining an Understanding of the Entity and its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control (Ref: Para. A46a)

Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework (Ref: Para. A47–A47h)

23. The auditor shall perform risk assessment procedures to obtain an understanding of:	
<p>(a) The following aspects of the entity and its environment:</p> <ul style="list-style-type: none"> (i) The entity’s organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT; (Ref: Para. A49–A63) (ii) Industry, regulatory and other external factors; (Ref: Para. A64–A69) and (iii) The measures used, internally and externally, to assess the entity’s financial performance; and (Ref: Para. A70a–A78) 	<p><u>and</u></p> <p>(c) <u>Based on (a) and (b), How the inherent risk factors that affect susceptibility to misstatement of assertions, and how they do so, events and conditions are subject to, or affected by, the inherent risk factors</u> in the preparation of the financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A88a–A88d)</p>
<p>(b) The applicable financial reporting framework, and the entity’s accounting policies and the reasons for any changes thereto; (Ref: Para. A78a79–A882)</p>	

Applicable Financial Reporting Framework

24. The auditor shall evaluate whether the entity’s accounting policies are appropriate and consistent with the applicable financial reporting framework.

Understanding the Components of the Entity’s System of Internal Control (Ref: Para. A89 – A102)

25. [Moved]
26. [Deleted]
27. [Deleted]

Control Environment, the Entity’s Risk Assessment Process and the Entity’s Process to Monitor the System of Internal Control (Ref: Para. A104a–A104d)

Control environment

<p>28. The auditor shall perform risk assessment procedures to obtain an understanding of the control environment <u>relevant to the preparation of the financial statements by performing risk assessment procedures to</u>; through: (Ref: Para. A105–A114aA106 – A107)</p>	
<p>(a) Understanding the set of controls, processes and structures that address: (Ref: Para. A108–A108a)</p> <ul style="list-style-type: none"> (i) How management’s oversight responsibilities are carried out, such as the entity’s culture and management’s commitment to integrity and ethical values; (ii) When those charged with governance are separate from management, the independence of, and oversight over the entity’s system of internal control by, those charged with governance; (iii) The entity’s assignment of authority and responsibility; (iv) How the entity attracts, develops, and retains competent individuals; and (v) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control;– 	<p><u>and</u></p> <p>(b) Evaluate ing whether: (Ref: Para. A105–A114aA110a–A114b)</p> <ul style="list-style-type: none"> (i) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; (ii) The control environment provides an appropriate foundation for the other components of the system of internal control <u>considering the nature and size of the entity</u>; and (iii) Control deficiencies <u>identified in the control environment</u> undermine the other components of the system of internal control.

29. *[Deleted]*

The entity’s risk assessment process

<p>30. The auditor shall perform risk assessment procedures to obtain an understanding of the entity’s risk assessment process <u>relevant to the preparation of the financial statements by performing risk assessment procedures to</u>; through: (Ref: Para. A117–A120 and Para. A123–A128a; Para. A131–A135a)</p>	
<p>(a) Understanding the entity’s process for: (Ref: Para. A117–A117a)</p> <ul style="list-style-type: none"> (i) Identifying business risks relevant to financial reporting objectives; (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks;– 	<p><u>and</u></p> <p>(b) Evaluate ing whether the entity’s risk assessment process is appropriate to the entity’s circumstances considering the nature and size of the entity. (Ref: Para. A119a–A120) (Ref: Para. A117–A120 and Para. A123–A128a; Para. A131–A135a)</p>

31. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall:
- (a) Determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement; and
 - (b) Consider the implications for the auditor's evaluation in paragraph 30(b).

The entity's process for monitoring the system of internal control

<p>31A. The auditor shall perform risk assessment procedures to obtain an understanding of the entity's process for monitoring the system of internal control <u>relevant to the preparation of the financial statements by performing risk assessment procedures to:</u> through (Ref: Para. A117–A120 and Para. A123–A128a; Para. A131–A135a) (Ref: Para. A123–A124)</p>	
<p>(a) Understanding those aspects of the entity's process that address:</p> <ul style="list-style-type: none"> (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; <u>(Ref: Para. A126a–A127)</u> and (ii) The entity's internal audit function, if any, including its nature, responsibilities and activities; (Ref: Para. A131) <p>(b) <u>Understand the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose;</u>(Ref: Para. A129–A130) <u>(Ref: Para. A135a–A135b)</u></p>	<p><u>and</u></p> <p>(c) Evaluateing whether the entity's process for monitoring the system of internal control is appropriate to the entity's circumstances considering the nature and size of the entity. (Ref: Para. A117–A120 and Para. A123–A128a; Para. A131–A135a) (Ref: Para. A135c)</p>

32. *[Deleted]*
33. *[Moved into paragraph 31A above]* ~~The auditor shall obtain an understanding of the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.~~
34. *[Deleted]*

Information System and Communication, and Control Activities (Ref: Para. A135d–A135i)

The information system and communication

35. *[Moved]*

<p>36. The auditor shall perform risk assessment procedures to obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements by performing risk assessment procedures to: through (Ref: Para. A135i–A159–A135m)</p>	
<p>(a) Understanding the entity's information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures: (Ref: Para. A136a–A146)</p> <p>(i) How information flows through the entity's information system, including how:</p> <p style="margin-left: 20px;">a. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and</p> <p style="margin-left: 20px;">b. Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements;;</p> <p>(ii) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system;</p> <p>(iii) The financial reporting process used to prepare the entity's financial statements, including disclosures; and</p> <p>(iv) The entity's resources, including the IT environment, relevant to (a)(i) to (a)(iii) above; and</p> <p>(b) Understanding how the entity communicates significant matters that support the preparation of the financial statements and other-related reporting responsibilities in the information system and other components of the system of internal control: (Ref: Para. A158a–A159)</p> <p>(i) Between people within the entity, including how financial reporting roles and responsibilities are communicated;</p> <p>(ii) Between management and those charged with governance; and</p> <p>(iii) With external parties, such as those with regulatory authorities;;</p>	<p><u>and</u></p> <p>(c) Evaluateing whether the relevant aspects of the entity's information system and communication appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A135i–A159(a)</p>

37 & 38. [Deleted]

Control activities

<p>39. The auditor shall perform risk assessment procedures to obtain an understanding of the control activities component by performing risk assessment procedures to: <u>through:</u> (Ref: Para. A160–A179–A161a)</p>	
<p>(a) Identify ing controls that address risks of material misstatement at the assertion level in the control activities component, as follows:</p> <p>(i) Controls that address risks that are identified as determined to be a significant risk; <u>identified as determined to be a significant risk;</u> (Ref: Para. A169–A173–A170–A172)</p> <p>(ii) <u>Controls that address assessed risks for which the effect of the inherent risk factors on the assessment of inherent risk indicates that there is a reasonable possibility that the assessed risks could be significant risks but that the auditor determines are not significant risks, based on the auditor’s professional judgment;</u> (Ref: Para. A173a–A173b)</p> <p>(iii) [Previously (iii)] Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A174–A175–A175a) <u>and</u></p> <p>(iv) Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b) because of where the assessments of the related risks of material misstatement at the assertion level fall on the spectrum of inherent risk; (Ref: Para. A175b–A175c) <u>and</u></p> <p>(iv) Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; (Ref: Para. A175d–A178)</p> <p>(b) Based on controls identified in (a), identifying the IT applications and the other aspects of the entity’s IT environment that are subject to risks arising from the use of IT; (Ref: Para. A179a–A188)</p> <p>(c) For such IT applications and other aspects of the IT environment identified in (b), identifying: (Ref: Para. A188a–A189) (Ref: Para. A179a–A193)</p> <p>(i) The related <u>applicable</u> risks arising from the use of IT; and</p>	<p><u>and</u></p> <p><u>(d) For each control identified in (a) or (c)(ii):</u> (Ref: Para. A194–A200)</p> <p>(i) Evaluate ing whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</p> <p>(ii) Determine ing whether the control has been implemented by performing procedures in addition to inquiry of the entity’s personnel. (previously para. 41)</p>

(ii) The entity's general IT controls that address such risks; ¹ (previously part para. 40)	
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40. ~~[Moved into paragraph 39 in June Updated] Based on controls identified, the auditor shall identify the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT. For such IT applications and other aspects of the IT environment, the auditor shall identify: (Ref: Para. A179a–A193)~~
- ~~(a) The related risks arising from the use of IT; and~~
 - ~~(b) The entity's general IT controls that address such risks.~~
41. ~~[Moved]~~
42. ~~[Moved into paragraph 39 in June Updated] For each control identified in the control activities component the auditor shall: (Ref: Para. A194–A200)~~
- ~~(a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and~~
 - ~~(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.~~

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. A200a–A200c)

43. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified. (Ref: Para. A200a–A200c)
44. ~~[Deleted]~~

Identifying and Assessing the Risks of Material Misstatement

Identifying Risks of Material Misstatement

45. The auditor shall identify the risks of material misstatement and determine whether they exist at: (Ref: Para. ~~A201–A202a and A206a–A206c~~ A206)
- (a) The financial statement level; (Ref: Para. ~~A207–A207d~~ A206a–A207e) or
 - (b) The assertion level for classes of transactions, account balances, and disclosures. (Ref: Para. ~~A202b–A206 and A208–A210~~ A208a)
46. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A211–A214)

Assessing Risks of Material Misstatement at the Financial Statement Level

47. The auditor shall assess the identified risks of material misstatement at the financial statement level. For each risk identified at the financial statement level, the auditor shall: (Ref: Para. ~~A215–A220~~ A206a–A207e)
- (a) Determine whether such risks affect the assessment of risks at the assertion level; and

- (b) Evaluate the nature and extent of their pervasive effect on the financial statements.

Assessing Risks of Material Misstatement at the Assertion Level

Assessing Inherent Risk

48. For identified risks of material misstatement at the assertion level, the auditor shall assess inherent risk by assessing the likelihood and magnitude of ~~material~~ misstatement. In doing so, the auditor shall take into account how, and the degree to which: (Ref: Para. A220a–A228)
- (a) ~~Identified events and conditions relating to significant classes of transactions, account balances and disclosures are subject to, or affected by, the~~ Inherent risk factors affect the susceptibility to misstatement of relevant assertions.
- (b) The risks of material misstatement at the financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.
49. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A228a–A231b)
50. The auditor shall determine, ~~for any of the risks of material misstatement at the assertion level,~~ whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level. (Ref: Para. A231c–A231e) ~~(Ref: Para. A231a–A231f)~~

Assessing Control Risk

51. If the auditor plans to test the operating effectiveness of controls, the auditor shall assess control risk. If the auditor does not ~~intend plan~~ intend plan to test the operating effectiveness of controls, ~~the assessment of the risk of material misstatement is based on inherent risk.~~ the auditor's assessment of control risk shall be such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A232–A235a)

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

- 51A. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement, ~~at the financial statement and assertion level, and the design of further audit procedures.~~ If not, the auditor shall perform additional risk assessment procedures. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence ~~relevant to~~ obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management. (Ref: Para. A239a–~~A239b~~–A239c)

Classes of Transactions, Account Balances and Disclosures that are Not Significant, but ~~are~~ Which ~~are~~ Are Material

52. For material classes of transactions, account balances or disclosures that have not been ~~identified~~ determined to be ~~as~~ significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's ~~conclusion that there are no related risks of material misstatement~~ determination remains appropriate. (Ref: Para. A240–A242)

Revision of Risk Assessment

53. If the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification and assessments of the risks of material misstatement, the auditor shall revise the identification and assessment. (Ref: Para. A243)

Documentation

54. The auditor shall include in the audit documentation:² (Ref: Para. A244–~~A247~~A248)
- (a) The discussion among the engagement team and the significant decisions reached;
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 23, 28, 30, 31A and 36; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, controls identified in accordance with the requirements in paragraphs ~~39 and 40~~.
 - (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made.

² ISA 230, *Audit Documentation*, paragraphs 8–11, and A6–A7