

Supplement to Agenda Item 2-1

This supplement presents those conforming and consequential amendments that were explained but not presented in in Appendix 2 to the Explanatory Memorandum of ED-315 (i.e., those that were considered to be generally straightforward mainly consistently of terminology updates).

Conforming and consequential amendments will be made to the Glossary of Terms; however, is not shown for purposes of this document.

Using this document: Table 1 presents the conforming and consequential amendments in detail for approval. Each marked-up amendment is mapped to a “Change ID” in [Table 2](#), which explains the revision made to ISA 315 (Revised) resulting in the conforming amendments.

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
ISA 210, Agreeing the Terms of Audit Engagements	
Application and Other Explanatory Material	
...	
Preconditions for an Audit	
...	
<i>Agreement of the Responsibilities of Management</i>	
...	
Internal Control	
...	
A18. It is for management to determine what internal control is necessary to enable the preparation of the financial statements. The term “internal control” encompasses a wide range of activities within components <u>of the system of internal control</u> that may be described as the control environment; the entity’s risk assessment process; <u>the entity’s process to monitor the system of internal control</u> , the information system, including the related business processes relevant to financial reporting , and communication; <u>and control activities; and monitoring of controls</u> . This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component. ¹ An entity’s internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of	7 1 2

¹ ~~ED-315~~, ISA 315 (Revised), ~~proposed~~ paragraph A89a59 and Appendix 34

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Marked Up Paragraph	Change ID
management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.	
ISA 230, <i>Audit Documentation</i>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Documentation of the Audit Procedures Performed and Audit Evidence Obtained</p> <p>...</p> <p><i>Identification of Specific Items or Matters Tested, and of the Preparer and Reviewer</i> (Ref: Para. 9)</p> <p>...</p> <p>Considerations Specific to Smaller Entities (Ref. Para 8)</p> <p>...</p> <p>A17. When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and <u>its environment, the applicable financial reporting framework, and the entity's system of internal control</u>, the overall audit strategy and audit plan, materiality determined in accordance with ISA 320,² assessed risks, significant matters noted during the audit, and conclusions reached.</p> <p>...</p>	11
ISA 250 (Revised), <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Audit Procedures When Non-Compliance is Identified or Suspected</p> <p>...</p> <p><i>Evaluating the Implications of Identified or Suspected Non-Compliance</i> (Ref: Para. 22)</p>	

² ISA 320, *Materiality in Planning and Performing an Audit*

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Marked Up Paragraph	Change ID
<p>...</p> <p>Accounting Estimates</p> <ul style="list-style-type: none"> • For items for which estimates are significant, issues discussed in ISA 540,¹ including, for example: <ul style="list-style-type: none"> ○ How management identifies those transactions, events and <u>or</u> conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements. <p>...</p>	19
ISA 265, <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i>	
<p>Introduction</p> <p>Scope of this ISA</p> <ol style="list-style-type: none"> 1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. This ISA does not impose additional responsibilities on the auditor regarding obtaining an understanding of <u>the entity's system of</u> internal control and designing and performing tests of controls over and above the requirements of ISA 315 (Revised) and ISA 330. ISA 260 (Revised) establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit. 2. The auditor is required to obtain an understanding of <u>the entity's system of</u> internal control relevant to the audit when identifying and assessing the risks of material misstatement.⁴ In making those risk assessments, the auditor considers <u>the entity's system of</u> internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The auditor may identify <u>control</u> deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit. This ISA specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management. <p>...</p>	7 7 9 18
<p>Application and Other Explanatory Material</p> <p>Determination of Whether Deficiencies in Internal Control Have Been Identified (Ref: Para 7)</p>	

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Marked Up Paragraph	Change ID
<p>...</p> <p><i>Considerations Specific to Smaller Entities</i></p> <p>A3. While the concepts underlying <u>controls in the control activities component</u> in smaller entities are likely to be similar to those in larger entities, the formality with which they operate will vary. Further, smaller entities may find that certain types of <u>controls activities</u> are not necessary because of controls applied by management. For example, management's sole authority for granting credit to customers and approving significant purchases can provide effective control over important account balances and transactions, lessening or removing the need for more detailed <u>controls activities</u>.</p> <p>...</p> <p>Significant Deficiencies in Internal Control (Ref: Para. 6(b), 8)</p> <p>A8. Controls may be designed to operate individually or in combination to effectively prevent, or detect and correct, misstatements. For example, controls over accounts receivable may consist of both automated and manual controls designed to operate together to prevent, or detect and correct, misstatements in the account balance. A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency. However, a combination of deficiencies affecting the same account balance or disclosure, relevant assertion, or component of <u>the entity's system of internal control</u> may increase the risks of misstatement to such an extent as to give rise to a significant deficiency.</p>	<p>5</p> <p>4</p> <p>4</p> <p>16, 7</p>
ISA 300, Planning an Audit of Financial Statements	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Documentation (Ref: Para. 12)</p> <p>...</p> <p><i>Considerations Specific to Smaller Entities</i></p> <p>A21. As discussed in paragraph A11, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph A19) drawn up on the assumption of few relevant controls³ <u>activities</u>, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.</p>	<p>4</p> <p>13</p>

³ [ISA 315 \(Revised\), paragraph 39](#)

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
...	
ISA 402, Audit Considerations Relating to an Entity Using a Service Organization	
Introduction	
Scope of this ISA	
<p>1. This International Standard on Auditing (ISA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315 (Revised) and ISA 330 in obtaining an understanding of the user entity, including <u>the entity's system of internal control relevant to the preparation of the financial statements relevant to the audit</u>, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.</p> <p>...</p>	9.1
<p>3. Services provided by a service organization are relevant to the audit of a user entity's financial statements when those services, and the controls over them, are part of the user entity's information system, including related business processes, relevant to financial reporting the preparation of the financial statements. Although m <u>Most controls at the service organization are likely to relate to financial reporting be part of the user entity's information system relevant to the preparation of the financial statements, there may be other or related controls that may also be relevant to the audit, such as controls over the safeguarding of assets. A service organization's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following:</u></p>	18
<p>(a) <u>How information relating to significant classes of transactions, account balances and disclosures flows through the user entity's information system, whether manually or using IT, and whether obtained from within or outside the general ledger and subsidiary ledgers. The classes of transactions in the user entity's operations that are significant to the user entity's financial statements; This includes when the service organization's services affect how:</u></p>	17
<p>(i) (b) The procedures, within both information technology (IT) and manual systems, by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; <u>Transactions of the user entity 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</u></p>	17

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Marked Up Paragraph	Change ID
<p>(ii) <u>Information about events or conditions, other than transactions, is captured, processed and disclosed by the user entity in the financial statements.</u></p>	17
<p>(b) (e) The related accounting records, either in electronic or manual form, supporting information and specific accounts in the user entity’s financial statements and other supporting records relating to the flows of information in paragraph 3(a) that are used to initiate, record, process and report the user entity’s transactions; this includes the correction of incorrect information and how information is transferred to the general ledger;</p>	17
<p>(d) How the user entity’s information system captures events and conditions, other than transactions, that are significant to the financial statements;</p>	17
<p>(ce) The financial reporting process used to prepare the user entity’s financial statements from the records described in paragraph 3(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures accounting estimates and disclosures; and</p>	
<p><u>(d) The entity’s IT environment relevant to (a) to (c) above.</u></p>	
<p>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.</p>	
<p>...</p> <p>Objectives</p> <p>7. The objectives of the user auditor, when the user entity uses the services of a service organization, are:</p> <p>(a) To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity’s <u>system of internal control relevant to the audit</u>, sufficient to <u>provide an appropriate basis for the identification and assessment of</u> identify and assess the risks of material misstatement; and</p> <p>(b) To design and perform audit procedures responsive to those risks.</p> <p>...</p> <p>Requirements</p> <p>Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control</p> <p>...</p>	<p>9</p> <p>18</p>

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
10. When obtaining an understanding of <u>the entity's system of internal control</u> relevant to the audit in accordance with ISA 315 (Revised), ⁴ the user auditor shall <u>identify controls in the control activities component</u> ⁵ evaluate the design and implementation of relevant controls at the user entity, <u>from those</u> that relate to the services provided by the service organization, including those that are applied to the transactions processed by the service organization, <u>and evaluate their design and determine whether they have been implemented</u> ⁶ . (Ref: Para. A12–A14)	9 18 18
11. The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's <u>system of internal control</u> relevant to the audit has been obtained to provide <u>an appropriate</u> basis for the identification and assessment of <u>the</u> risks of material misstatement.	9 18
12. If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures: ... (c) Visiting the service organization and performing procedures that will provide the necessary information about the relevant controls at the service organization; or (d) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organization. (Ref: Para. A15–A20)	13
<i>Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organization</i> ...	
14. If the user auditor plans to use a type 1 or type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organization, the user auditor shall: ... (b) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the user entity's internal controls <u>at the service organization</u> relevant to the audit ; and	8

⁴ ~~ED 315, ISA 315 (Revised), paragraph 25~~¹²

⁵ ISA 315 (Revised), paragraphs 39(a) and (c)

⁶ ISA 315 (Revised), paragraph 39(d)

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Marked Up Paragraph	Change ID
...	
<p>Application and Other Explanatory Material</p> <p>Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control</p> <p>...</p> <p><i>Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity</i> (Ref: Para. 12)</p> <p>...</p> <p>A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant-controls at the service organization <u>related to services provided to the user entity</u>. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find the guidance in ISA 600 useful as it relates to understanding another auditor (including that auditor's independence and professional competence), involvement in the work of another auditor in planning the nature, timing and extent of such work, and in evaluating the sufficiency and appropriateness of the audit evidence obtained.</p> <p>...</p> <p><i>Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organization</i> (Ref: Para. 13–14)</p> <p>...</p> <p>A22. A type 1 or type 2 report, along with information about the user entity, may assist the user auditor in obtaining an understanding of:</p> <ul style="list-style-type: none"> (a) The aspects of controls at the service organization that may affect the processing of the user entity's transactions, including the use of subservice organizations; (b) The flow of significant transactions through the service organization to determine the points in the transaction flow where material misstatements in the user entity's financial statements could occur; (c) The control objectives at the service organization that are relevant to the user entity's financial statement assertions; and 	18

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
<p>(d) Whether controls at the service organization are suitably designed and implemented to prevent, or detect and correct processing errors that could result in material misstatements in the user entity's financial statements.</p> <p>A type 1 or type 2 report may assist the user auditor in obtaining a sufficient understanding to identify and assess the risks of material misstatement. A type 1 report, however, does not provide any evidence of the operating effectiveness of the relevant controls.</p> <p>Responding to the Assessed Risks of Material Misstatement</p> <p>...</p> <p><i>Test of Controls</i></p> <p>A29. The user auditor is required by ISA 330 to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls in certain circumstances. In the context of a service organization, this requirement applies when:</p> <p>...</p> <p>A30. If a type 2 report is not available, a user auditor may contact the service organization, through the user entity, to request that a service auditor be engaged to provide a type 2 report that includes tests of the operating effectiveness of the relevant controls or the user auditor may use another auditor to perform procedures at the service organization that test the operating effectiveness of those controls. A user auditor may also visit the service organization and perform tests of relevant controls if the service organization agrees to it. The user auditor's risk assessments are based on the combined evidence provided by the work of another auditor and the user auditor's own procedures.</p> <p>Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively</p> <p>...</p> <p>A33. It may also be necessary for the user auditor to obtain additional evidence about significant changes to the relevant controls at the service organization outside of the period covered by the type 2 report or determine additional audit procedures to be performed. Relevant factors in determining what additional audit evidence to obtain about controls at the service organization that were operating outside of the period covered by the service auditor's report may include:</p> <p>...</p>	<p>13</p> <p>13</p> <p>13</p> <p>13</p> <p>13</p>

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Marked Up Paragraph	Change ID
<ul style="list-style-type: none"> The effectiveness of the control environment and <u>the user entity's process to monitor the system of internal control</u> monitoring of controls at the user entity. <p>A34. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the user entity's <u>process to monitor the system of internal control</u> monitoring of controls.</p> <p>...</p> <p>A39. The user auditor is required to communicate in writing significant deficiencies identified during the audit to both management and those charged with governance on a timely basis.¹¹ The user auditor is also required to communicate to management at an appropriate level of responsibility on a timely basis other deficiencies in internal control identified during the audit that, in the user auditor's professional judgment, are of sufficient importance to merit management's attention.¹² Matters that the user auditor may identify during the audit and may communicate to management and those charged with governance of the user entity include:</p> <ul style="list-style-type: none"> Any <u>controls within the entity's process to monitor the system of internal control</u> monitoring of controls that could be implemented by the user entity, including those identified as a result of obtaining a type 1 or type 2 report; <p>...</p>	<p>1</p> <p>1</p> <p>3</p>
ISA 500, Audit Evidence	
<p>Application and Other Explanatory Material</p> <p>Sufficient Appropriate Audit Evidence (Ref: Para. 6)</p> <p>A1. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has <u>evaluated whether such information remains relevant and reliable as audit evidence for the current audit</u> determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.</p>	<p>6</p>

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<p>...</p> <p><i>Audit Procedures for Obtaining Audit Evidence</i></p> <p>...</p> <p>Observation</p> <p>A17. Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of controls <u>activities</u>. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. See ISA 501 for further guidance on observation of the counting of inventory.</p> <p>...</p>	4
ISA 501, Audit Evidence – Specific Considerations for Selected Items	
<p>Application and Other Explanatory Material</p> <p>Inventory</p> <p><i>Attendance at Physical Inventory Counting</i> (Ref: Para. 4(a))</p> <p>...</p> <p>Evaluate Management's Instructions and Procedures (Ref: Para. 4(a)(i))</p> <p>A4. Matters relevant in evaluating management's instructions and procedures for recording and controlling the physical inventory counting include whether they address, for example:</p> <ul style="list-style-type: none"> • The application of appropriate controls <u>activities</u>, for example, collection of used physical inventory count records, accounting for unused physical inventory count records, and count and re-count procedures. <p>...</p>	4
ISA 530, Audit Sampling	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Sample Design, Size, and Selection of Items for Testing</p> <p><i>Sample Design</i> (Ref: Para. 6)</p> <p>...</p>	

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<p>A7. In considering the characteristics of a population, for tests of controls, the auditor makes an assessment of the expected rate of deviation based on the auditor's understanding of the relevant controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size....</p> <p>...</p>	13
<p>Appendix 2 (Ref: Para. A11)</p> <p>Example of Factors Influencing Sample Size for Test of Controls</p> <p>The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.</p> <p>Factor 1 An increase in the extent to which the auditor's risk assessment takes into account relevant <u>plans to test the operating effectiveness of controls.</u></p>	14
ISA 550, Related Parties	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Risk Assessment Procedures and Related Activities</p> <p>...</p> <p><i>Understanding the Entity's Related Party Relationships and Transactions</i></p> <p>Discussion among the Engagement Team (Ref: Para. 12)</p> <p>A9. Matters that may be addressed in the discussion among the engagement team include:</p> <ul style="list-style-type: none"> • ... • The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework 	

<p>establishes related party requirements), and the related risk of management override of relevant controls.</p> <p>...</p>	<p>13</p>
<p>The Identity of the Entity's Related Parties (Ref: Para. 13(a))</p> <p>...</p>	
<p>A12. However, where the framework does not establish related party requirements, the entity may not have such information systems in place. Under such circumstances, it is possible that management may not be aware of the existence of all related parties. Nevertheless, the requirement to make the inquiries specified by paragraph 13 still applies because management may be aware of parties that meet the related party definition set out in this ISA. In such a case, however, the auditor's inquiries regarding the identity of the entity's related parties are likely to form part of the auditor's risk assessment procedures and related activities performed in accordance with ISA 315 (Revised) to obtain information regarding <u>the entity's organizational structure, ownership, governance and business model</u>:-</p> <ul style="list-style-type: none"> • The entity's ownership and governance structures; • The types of investments that the entity is making and plans to make; and • The way the entity is structured and how it is financed. <p>In the particular case of common control relationships, as management is more likely to be aware of such relationships if they have economic significance to the entity, the auditor's inquiries are likely to be more effective if they are focused on whether parties with which the entity engages in significant transactions, or shares resources to a significant degree, are related parties.</p> <p>...</p>	<p>10</p>
<p>Considerations specific to smaller entities</p>	
<p>A20. Controls activities in smaller entities are likely to be less formal and smaller entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions. For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through inquiry of management combined with other procedures, such as observation of management's oversight and review activities, and inspection of available relevant documentation.</p> <p>...</p>	<p>4</p>
<p><i>Sharing Related Party Information with the Engagement Team</i> (Ref: Para. 17)</p>	
<p>A28. Relevant related party information that may be shared among the engagement team members includes, for example:</p>	

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<ul style="list-style-type: none"> • The identity of the entity's related parties. • The nature of the related party relationships and transactions. <p>Significant or complex related party relationships or transactions that may <u>be determined to be significant risks</u> require special audit consideration, in particular transactions in which management or those charged with governance are financially involved.</p> <p>...</p> <p>Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)</p> <p>...</p> <p>A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ISA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls,⁷ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.</p> <p>...</p>	<p>12</p> <p>13</p>
ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)	
<p>Requirements</p> <p>Understanding the Group, Its Components and Their Environments</p> <p>17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment, <u>the applicable financial</u></p>	<p>11</p>

⁷ ISA 330, paragraph 8(b)

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<p><u>reporting framework and the system of internal control.</u> The group engagement team shall:</p> <p>(a) ...</p>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Definitions</p> <p>...</p> <p><i>Significant Component</i> (Ref: Para. 9(m))</p> <p>...</p> <p>A6. The group engagement team may also identify a component as likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, (that is, risks that require special audit consideration⁸). For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.</p> <p>...</p> <p>Understanding the Group, Its Components, and Their Environments</p> <p><i>Matters about Which the Group Engagement Team Obtains an Understanding</i> (Ref: Para. 17)</p> <p>A23. ISA 315 (Revised) contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance.⁹ Appendix 2 of this ISA contains guidance on matters specific to a group including the consolidation process</p>	<p>12</p> <p>10</p>

⁸ ~~ISA 315 (Revised), paragraphs 27–29~~

⁹ ~~ED-315, ISA 315 (Revised), proposed paragraphs A4925–A7849~~

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Marked Up Paragraph	Change ID
<p>Appendix 2: Examples of Matters about Which the Group Engagement Team Obtains an Understanding</p> <p>...</p> <p>Group-Wide Controls</p> <p>1. Group-wide controls may include a combination of the following:</p> <ul style="list-style-type: none"> • Regular meetings between group and component management to discuss business developments and to review performance. • ... • Controls activities within an IT system that is common for all or some components. 4 • <u>Controls within the group’s process to monitor</u> Monitoring the system of internal controls, including activities of the internal audit function and self-assessment programs. 3 • ... 	
<p>Appendix 5: Required and Additional Matters Included in the Group Engagement Team’s Letter of Instruction</p>	
<p>Matters that are relevant to the planning of the work of the component auditor:</p> <ul style="list-style-type: none"> • ... • ... <p>Matters that are relevant to the conduct of the work of the component auditor:</p> <ul style="list-style-type: none"> • The findings of the group engagement team’s tests of controls activities of a processing system that is common for all or some components, and tests of controls to be performed by the component auditor. 4 • ... 	
ISA 610 (Revised 2013), Using the Work of Internal Auditors	
<p>Introduction</p> <p>...</p> <p>Relationship between ISA 315 (Revised) and ISA 610 (Revised 2013)</p> <p>...</p>	

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
<p>7. ISA 315 (Revised) addresses how the knowledge and experience of the internal audit function can inform the external auditor’s understanding of the entity and its environment, <u>the applicable financial reporting framework and the system of internal control</u>, and identification and assessment of risks of material misstatement. ISA 315 (Revised)³ also explains how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor’s work.</p> <p>...</p>	11
<p>Application and Other Explanatory Material</p> <p>Definition of Internal Audit Function (Ref: Para. 2, 14(a))</p> <p>...</p> <p>A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA, although they may perform controls <u>activities</u> that can be tested in accordance with ISA 330.¹² For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.</p> <p>...</p> <p><i>Evaluating the Internal Audit Function</i></p> <p>...</p> <p>Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))</p> <p>A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring controls <u>activities</u> that may be performed within the entity.</p> <p>...</p> <p>A21. As explained in ISA 315 (Revised),¹⁰ significant risks require special audit consideration <u>are risks assessed close to the upper end of the spectrum of inherent risk</u> and therefore the external auditor’s ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risks of material misstatement is other than low, the use of the work of the</p>	<p style="margin-top: 100px;">4</p> <p style="margin-top: 100px;">4</p> <p style="margin-top: 100px;">12</p>

¹⁰ ~~ED-315~~ ISA 315 (Revised), paragraph 4(k)(e)

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
<p>internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.</p> <p>...</p>	
ISA 620, <i>Using the Work of an Auditor's Expert</i>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Determining the Need for an Auditor's Expert (Ref: Para. 7)</p> <p>A4. An auditor's expert may be needed to assist the auditor in one or more of the following:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the entity and its environment, <u>the applicable financial reporting framework and the, including its entity's system of internal control.</u> • ... 	7, 11
ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Determining Key Audit Matters (Ref: Para. 9–10)</p> <p>...</p> <p><i>Considerations in Determining Those Matters that Required Significant Auditor Attention</i> (Ref: Para. 9)</p> <p>...</p> <p>Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ISA 315 (Revised) (Ref: Para. 9(a))</p> <p>...</p> <p>A20. ISA 315 (Revised) defines a significant risk as an identified and assessed risk of material misstatement <u>for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk facts affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur that, in the auditor's judgment, requires special audit consideration.</u>¹¹ Areas of significant management judgment and</p>	12

¹¹ ISA 315 (Revised), paragraph 16(k)

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
<p>significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.</p> <p>...</p>	
ISA 720 (Revised), <i>The Auditors Responsibilities Relating to Other Information</i>	
<p>Application and Other Explanatory Material</p> <p>...</p> <p>Reading and Considering the Other Information (Ref: Para. 14–15)</p> <p>...</p> <p><i>Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor’s Knowledge Obtained in the Audit</i> (Ref: Para. 14(b))</p> <p>...</p> <p>A31. The auditor’s knowledge obtained in the audit includes the auditor’s understanding of the entity and its environment, <u>the applicable financial reporting framework, and including the entity’s system of internal control</u>, obtained in accordance with ISA 315 (Revised).¹² ISA 315 (Revised) sets out the auditor’s required understanding, which includes such matters as obtaining an understanding of:</p> <p>(a) <u>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;</u></p> <p>(b) The rRelevant industry, regulatory, and other external factors;</p> <p>(c) <u>The relevant measures used, internally and externally, to assess measurement and review of the entity’s financial performance;</u> and</p> <p>(b) The nature of the entity;</p> <p>(c) The entity’s selection and application of accounting policies;</p> <p>(d) The entity’s objectives and strategies;</p> <p>...</p> <p>Responding When a Material Misstatement in the Financial Statements Exists or the Auditor’s Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)</p>	<p>11</p> <p>10</p>

¹² ~~ED-315-ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 2344–2442~~

Table 1: Marked up ISAs as a result of the conforming and consequential amendments	
Marked Up Paragraph	Change ID
<p>A51. In reading the other information, the auditor may become aware of new information that has implications for:</p> <ul style="list-style-type: none"> • The auditor’s understanding of the entity and its environment, <u>the financial reporting framework and the system of internal control</u> and, accordingly, may indicate the need to revise the auditor’s risk assessment. • ... <p>...</p>	11

Table 2: Changes between Extant to proposed and impacted paragraph references

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
Changes to Names of Components of the System of Internal Control			
1	Monitoring of controls (extant ISA 315 (Revised), para’s 22–24)	The entity’s process to monitor the system of internal control (Proposed ISA-315, para. 31A)	ISA 210 - Para. A18 ISA 402 - Para. A33, Para. A34
2	The information system, including the related business processes, relevant to financial reporting, and communication (extant ISA 315 (Revised), para. 18)	The information system and communication (Proposed ISA-315, para. 36)	ISA 210 - Para. A18
Other Changes			
3	Monitoring of controls ¹⁴ (extant ISA 315 (Revised), para’s 22–24)	Controls within the entity’s process to monitor the system of internal control (Proposed ISA-315, para. 31A)	ISA 402 - A39 (first bullet) ISA 600 - Appendix 2, para. 1, 8 th bullet

¹³ The proposed ISA 315 (Revised) (“Proposed ISA 315”) is provided in Agenda item 2E – ISA 315 (Revised) Full Standard Revised Clean

¹⁴ Where this is used to describe what the entity does, as opposed to the name of the component

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
4	Control activities (extant ISA 315 (Revised), para. 20)	Controls (Proposed ISA-315, para.39)	ISA 250 (Revised) - Para. A23 ISA 265 – Para. A3 ISA 300 - Para. A21 ISA 500 - Para. A17 ISA 501 - Para. A4 ISA 550 - Para. A20 ISA 600 - Appendix 2, para. 1; Appendix 5, Matters that are relevant to the conduct of the work of the component auditor ISA 610 - Para. A3; Para. A10
5	Control activities ¹⁵ (extant ISA 315 (Revised), para. 20)	Controls in the control activities component (Proposed ISA-315, para. 39(a))	ISA 265 - Para. A3
6	The auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (extant ISA 315 (Revised), para. 9)	The auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (Proposed ISA-315, para. 21)	ISA 500 - Para. A1

¹⁵ The proposed change in respect of this reference to ‘control activities’ is slightly different when compared to the proposed change in the previous row. This is due to the particular construction of the first sentence of ISA 265 paragraph A3; however, the meaning of ‘controls’ remains the same. Also refer to Table 1.

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
7	Internal control (extant ISA 315 (Revised), para. 4(c))	The system of internal control (Proposed ISA-315, para. 16(l))	ISA 210 - Para. A18 ISA 265 - Para. 1; Para. 2; Para. A8 ISA 620 - Para. A4
8	Internal control relevant to the audit (extant ISA 315 (Revised), para. 12)	Controls (Proposed ISA-315, para. 39)	ISA 402 – Para. 14(b)
9	Internal control relevant to the audit. (extant ISA 315 (Revised), para. 12)	System of internal control (Proposed ISA-315, para. 28-39)	ISA 260 (Revised) - Para A13 ISA 265 – Para. 2 ISA 402 - Para. 7(a); Para. 10, Para. 11
9.1	Internal control relevant to the audit. (extant ISA 315 (Revised), para. 12)	System of internal control relevant to the preparation of the financial statements (Proposed ISA-315, para. 28-36)	ISA 402 - Para. 1

<p>10</p>	<p>Extant elements of the auditor’s understanding of the ‘entity and its environment’</p> <p><i>The Entity and Its Environment</i></p> <p>11. The auditor shall obtain an understanding of the following:</p> <ul style="list-style-type: none"> (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30) (b) The nature of the entity, including: <ul style="list-style-type: none"> (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (iv) the way that the entity is structured and how it is financed, <p>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)</p>	<p>Revised elements of the auditor’s understanding of the ‘entity and its environment’</p> <p><i>Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework</i></p> <p>23. The auditor shall perform risk assessment procedures to obtain an understanding of:</p> <ul style="list-style-type: none"> (a) The following aspects of the entity and its environment: <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 <p>The measures used, internally and externally, to assess the entity’s financial performance; (Ref: Para. A70a–A78)</p> <ul style="list-style-type: none"> (b) The applicable financial reporting framework, and the entity’s accounting policies and the reasons for any changes thereto; (Ref: Para. A79–A82); and (c) Based on (a) and (b), the inherent risk factors that affect susceptibility to 	<p>ISA 550 - Para. A12</p> <p>ISA 600 – footnote reference in Para. A23</p> <p>ISA 720 (Revised): - Para. A31</p>
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Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
	<p>(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)</p> <p>(d) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37–A43)</p> <p>The measurement and review of the entity’s financial performance. (Ref: Para. A44–A49)</p>	<p>misstatement of assertions, and how they do so, in the preparation of the financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A88a–A88d)</p>	

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
11	Understanding the entity and its environment ¹⁶ (extant ISA 315 (Revised), para. 11)	Understanding the entity and its environment, the applicable financial reporting framework and the system of internal control (Proposed ISA 315, para. 23)	ISA 230 - Para. A17 ISA 600 - Para. 17 ISA 610 (Revised) - Para.7 ISA 620 - Para. A4 ISA 720 (Revised) - Para. A31; Para. A51
12	Require special audit consideration (in context of significant risks) (extant ISA 315 (Revised), para. 4(e))	<i>Change as appropriate or delete</i> (Proposed ISA 315, para. 16(k) and A10)	ISA 260 (Revised) - Para. A12 ISA 550 - Para. A28 ISA 600 - Para. A6 ISA 610 (Revised) - Para. A21 ISA 701 - Para. A20

¹⁶ When reference is made to the auditor’s understanding of the entity and its environment, and in the specific context used, are intended to be inclusive of the auditor’s understanding of internal control

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
13	Relevant controls (extant ISA 315 (Revised), para 13 – heading)	Controls (Proposed ISA-315, para. 39) Note: this amendment made through ISA 402 may be “ <i>identified controls</i> ”, where appropriate	ISA 300: <ul style="list-style-type: none"> • Para. A21 ISA 402: <ul style="list-style-type: none"> • Para. 12 (d) • Para. A22 • Para. A29 • Para. A30 • Para. A33 ISA 530 - Para. A7 ISA 550 - Para. A9; Para. A34
14	Relevant controls (extant ISA 315 (Revised), para 13 – heading)	<i>Change as appropriate</i>	ISA 530 - Appendix 2, factor 1

<p>15</p>	<p>Identifying and assessing the risks of material misstatement through understanding the entity and its environment (name of standard)</p>	<p>Identifying and assessing the risks of material misstatement (new name of the standard)</p>	<p>Given the nature of the change (this change was not shown in Table 1)</p> <p>ISA 200, Footnote 17</p> <p>ISA 210 - Footnote 14;</p> <p>ISA 220¹⁷- Footnote 15</p> <p>ISA 230 - Footnote 5, Appendix</p> <p>ISA 240 – Footnote 1</p> <p>ISA 250 (Revised)¹⁸ - Footnote 4</p> <p>ISA 260 (Revised) - Footnote 4</p> <p>ISA 265 - Footnote 1</p> <p>ISA 300 - Footnote 4</p> <p>ISA 320¹⁹ - Footnote 3</p> <p>ISA 330 – Footnote 1</p> <p>ISA 402 - Footnote 1</p> <p>ISA 500 - Footnote 1</p> <p>ISA 505²⁰ - Footnote 14</p> <p>ISA 510²¹ - Footnote 4</p> <p>ISA 520²² - Footnote 1</p> <p>ISA 540 – Footnote 1</p> <p>ISA 550 - Footnote 1</p> <p>ISA 570 (Revised)²³ - Footnote 3</p>
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ISA 315 (Revised) – Conforming Amendments to Other ISAs

IAASB Main Agenda (September 2019)

Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
			ISA 600 - Footnote 7 ISA 610 (Revised) - Footnote 1 ISA 700 (Revised) - Footnote 35 ISA 701 - Footnote 5 ISA 720 (Revised) - Footnote 11 ISA 800 (Revised) - Footnote 5
16	Relevant assertion (this is now a defined term)	Assertion	ISA 265 - Para. A8

¹⁷ ISA 220, *Quality Control for an Audit of Financial Statements*

¹⁸ ISA 250, (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

¹⁹ ISA 320, *Materiality in Planning and Performing an Audit*

²⁰ ISA 505, *External Confirmations*

²¹ ISA 510, *Opening Balances*

²² ISA 520, *Analytical Procedures*

²³ ISA 570 (Revised), *Going Concern*

<p>17</p>	<p><i>Aspects of the entity's information system</i> (extant ISA 315 (Revised), para. 18)</p> <p>The information system, including the related business processes, relevant to financial reporting, and communication</p> <p>18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. A90–A92 and A95–A96)</p> <p>(a) The classes of transactions in the entity's operations that are significant to the financial statements;</p> <p>(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;</p> <p>(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and</p>	<p>Alignment to the requirements to understanding the information system. (ED-315, para. 36)</p> <p>The Information System and Communication</p> <p>36. The auditor shall 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</p> <p>(a) Understand 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>a. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, incorporated in the general ledger and reported in the financial statements; and</p> <p>b. Information about events and conditions, other than transactions, is captured,</p>	<p>ISA 402 – Para. 3</p>
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	<p>report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;</p> <p>(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;</p> <p>(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and</p> <p>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93–A94)</p> <p>This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.</p>	<p>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;</p> <p>(b) Understand how the entity communicates significant matters that support the preparation of the financial statements and 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>	
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Change ID	Extant Term in the ISAs	Change Made in “Proposed ISA 315” ¹³	Relevant Paragraph(s) Where Change is Proposed
		<p>(ii) Between management and those charged with governance; and</p> <p>(iii) With external parties, such as those with regulatory authorities; and</p> <p>(c) Evaluate whether the entity’s information system and communication appropriately support the preparation of the entity’s financial statements in accordance with the applicable financial reporting framework. (Ref: Para. A159(a))</p>	
18	N/A	Editorial to clarify the extant sentence	ISA 265 – Para. 2 ISA 402 – Para. 10, Para.11 Para. A19
19	Inconsistent use between events and conditions and events or conditions	Events or conditions (and <u>or</u>)	ISA 260 (Revised) – Appendix 2, Accounting Estimates, first bullet