

ISA 315 (Revised)¹ – Selected Paragraphs from Agenda Item 2-E

ISA 315 (Revised)

Definitions

16. For purposes of the ISAs, the following terms have the meanings attributed below:

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(h) *Relevant assertions* – An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made ~~without taking into account any plans by the auditor to test the operating effectiveness of~~ before consideration of controls (i.e., the inherent risk). (Ref: Para. A9)

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Related Application Material

Relevant Assertions (Ref: Para. 16(h))

A9. A risk of material misstatement may relate to more than one assertion, in which case all the assertions to which such a risk relates are relevant assertions. If an assertion does not have a risk of material misstatement, then it is not a relevant assertion.

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.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 ~~the existence of risks~~ assertions made by management or towards excluding audit evidence that may be contradictory to such ~~assertions~~ risks.

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¹ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*
Prepared by: Bev Bahlmann & Dora Burzenski (September 2019)

Related Application Material

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Documentation (Ref: Para. 54)

A248. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- [Paragraph 17, which requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may corroborate the existence of risks or towards excluding audit evidence that may be contradictory to such risks;](#)
- Paragraph 22, which requires a discussion among key engagement team members of the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement;
- Paragraphs 23 (b) and 24, which require the auditor to obtain an understanding of the reasons for any changes to the entity's accounting policies and to evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework;
- Paragraphs 28 (b), 30 (b), 31 (b), 31A (b), 36 (c), 39 (d) and 43, which require the auditor to evaluate, based on the required understanding obtained, whether the components of the entity's system of internal control are appropriate to the entity's circumstances considering the nature and size of the entity, and to determine whether one or more control deficiencies have been identified;
- Paragraph 51A, which requires the auditor to take into account all audit evidence obtained from risk assessment procedures, whether corroborative or contradictory to assertions made by management, and to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- Paragraph 52, which requires the auditor to evaluate, when applicable, whether the auditor's determination that there are no risks of material misstatement for a material class of transactions, account balance or disclosure.

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)

[Note: Paragraph 23 now removed from table format]

23. The auditor shall perform risk assessment procedures to obtain an understanding of:
- (a) The following aspects of the entity and its environment:
 - (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; (Ref: Para. A70a–A78)
 - (b) The applicable financial reporting framework, and the entity’s accounting policies and the reasons for any changes thereto; and (Ref: Para. A79–A82)
 - (c) Based on (a) and (b), how the inherent risk factors ~~that~~ affect susceptibility to 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)

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

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

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Information System and Communication, and Control Activities (Ref: Para. A135d–A135l)

The information system and communication

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Control activities

<p>39. The auditor shall obtain an understanding of the control activities component by performing risk assessment procedures to: (Ref: Para. A160–A161a)</p>	
<p>(a) Identify 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 determined to be a significant risk; (Ref: Para. A170–A172)</p> <p>(ii) 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; (Ref: Para. A173a–A173b)</p> <p>(iii)(ii) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A175–A175a) and</p> <p>(iii) 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; <u>and</u> (Ref: Para. A175d–A178)</p> <p>(iv) <u>Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 17 (a) and (b), based on the auditor’s professional judgment; and</u></p> <p>(b) Based on controls identified in (a), 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; (Ref: Para. A179a–A188)</p> <p>(c) For such IT applications and other aspects of the IT environment identified in (b), identify: (Ref: Para. A188a–A189)</p> <p>(i) The <u>applicable-related</u> risks arising from the use of IT; and</p> <p>(ii) The entity’s general IT controls that address such risks;</p>	<p>and</p> <p>(d) For each control identified in (a) or (c)(ii): (Ref: Para. A194–A200)</p> <p>(i) Evaluate whether the control is <u>appropriately</u> designed <u>effectively</u>—to address the risk of material misstatement at the assertion level, or <u>effectively</u>—<u>appropriately</u> designed to support the operation of other controls; and</p> <p>(ii) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity’s personnel.</p>

Related Application Material

~~Other controls that the auditor considers appropriate~~Controls that address risks that could be but are not determined to be significant risks (Ref: Para. 39(a)(iv#))

A173a. ~~Where the assessments of the risks of material misstatement at the assertion level fall on the spectrum of inherent risk, as well as the determination of significant risks, is a matter of the auditor's professional judgment.~~ Other controls that the auditor may consider are appropriate to understand may include:

- ~~Whether the auditor identifies c~~Controls that address assessed risks for which the effect of the inherent risk factors indicates that there is a reasonable possibility that the assessed risks could be a significant risk but have not been determined to be a significant risk; is also a matter of professional judgment.
- ~~The c~~Controls related to reconciling detailed records to the general ledger; or
- Complementary entity user controls if using a service organization.²

A173b. The guidance in paragraph A173a also applies to controls that address risks that could but ~~but~~ are not determined to be significant risks.

ISA 200, Overall Objectives of the Independent Auditor and the Conducts of an Audit in Accordance with International Standards on Auditing

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Definitions

13. For purposes of the ISAs, the following terms have the meanings attributed below:

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- (n) Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (Ref: Para. A15a)
- (i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's ~~internal~~ controls.

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² [ISA 402, Auditor Considerations Relating to an Entity Using a Service Organization](#)

Application and Other Explanatory Material

An Audit of Financial Statements

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Definitions

Financial Statements (Ref: Para. 13(f))

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Risk of Material Misstatement (Ref: Para. 13(n))

A15a. ~~auditor considers those misstatements that could (i.e., have a reasonable possibility to):~~ For the purposes of the ISAs, a risk of material misstatement exists when there is:

- (a) ~~Occur~~ A reasonable possibility of a misstatement occurring (i.e., its likelihood); and
- (b) ~~If it were to occur, have a reasonable possibility of being material if they were to occur~~ (i.e., its magnitude).

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