Identifying and assessing the risks of material misstatement is foundational to the audit. ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, has been revised to require a more robust risk identification and assessment, thereby promoting better responses to the identified risks.

The standard will be effective for periods beginning on or after December 15, 2021.

The standard has been revised to respond to challenges and issues with the current ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment by making changes for clarity and consistent application. The revised requirements focus on ‘what’ needs to be done, and the application material enhanced, modernized and reorganized to describe ‘why’ and ‘how’ procedures are to be undertaken.

Through revising, reorganizing and enhancing the extant standard, the changes are intended to:
- Promote consistency in application of procedures for risk identification and assessment.
- Make the standard more scalable through revised principles-based requirements.
- Reduce the complexity and make the standard more usable by auditors of all entities, whatever the nature or complexity.
- Encourage a more robust risk assessment thereby more focused responses to those identified risks.
- Support auditors using the standard by incorporating guidance material that recognizes the evolving environment, including in relation to information technology.
The standard is iterative in nature, and the auditor is required to exercise professional judgment in determining the nature and extent of the procedures to be undertaken.

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**Professional Judgment and Professional Skepticism**

<table>
<thead>
<tr>
<th>Risk assessment procedures</th>
<th>Engagement team discussion</th>
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</thead>
<tbody>
<tr>
<td>Information from client acceptance and continuance and other engagements for the entity</td>
<td>Information from auditor's previous experience and previous audits</td>
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</table>

**Obtain an understanding of:**

- Entity’s system of internal control
  - Control environment
  - Risk assessment process
  - Process to monitor the system of internal control
- Information system and communication
- Control activities
- Entity and its environment
- Applicable financial reporting framework

**Control deficiencies**

**Inherent risk factors**

**Identify risks of material misstatement**

**Financial statement level**

**Assertion level**

**Determine significant classes of transactions, account balances and disclosures and relevant assertions**

**Assess inherent risk at assertion level**

**Determine risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence**

**Determine significant risks**

**Auditor plans to test operating effectiveness of controls?**

**For material classes of transactions, account balances or disclosures that have not been determined as significant, does this determination remain appropriate?**

**Assessed risks of material misstatement at the financial statement level**

**Assessed risks of material misstatement at the assertion level**

**Revision of risk assessment**

**Audit responses (ISA 330)**
The audit risk model has not changed. However, enhancements and clarifications help auditors in applying the audit risk model when identifying and assessing the risks of material misstatement.
### New Concepts and Definitions

<table>
<thead>
<tr>
<th><strong>‘Significant classes of transactions, account balances and disclosures’</strong></th>
<th><strong>‘Spectrum of inherent risk’</strong></th>
<th><strong>‘Inherent Risk Factors’</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>to assist with the identification and assessment of the risks of material misstatement</td>
<td>to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement</td>
<td>to focus the auditor on the susceptibility of assertions to misstatement. These include: complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.</td>
</tr>
</tbody>
</table>

### Risk Identification and Assessment

- Separate assessment of inherent risk and control risk
- Revised definition of ‘significant risk’ for those risks close to the *upper end of the spectrum of risk*
- If the auditor does not contemplate testing the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk

### Other Changes

- New ‘stand-back’ to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process
- Standard modernized and enhanced to include auditor considerations in relation to IT, including new and updated appendices for understanding IT and IT general controls

### Documentation - Strengthened documentation requirements relating to the exercise of professional skepticism

### Clarification of the ‘threshold’ for identifying ‘possible’ risks of material misstatement in ISA 200

Tools to support implementation will be available in 2020 at [https://www.iaasb.org/consultations-projects/isa-315-revised](https://www.iaasb.org/consultations-projects/isa-315-revised). Stay tuned for fact sheets, a ‘first time implementation guide’ providing further detail on the significant changes noted above, and some frequently asked questions!