

ISA 315 (Revised) Issues and Recommendations

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Working Group Chair

IAASB Meeting
September 2016
Agenda Item 3-B

Overview

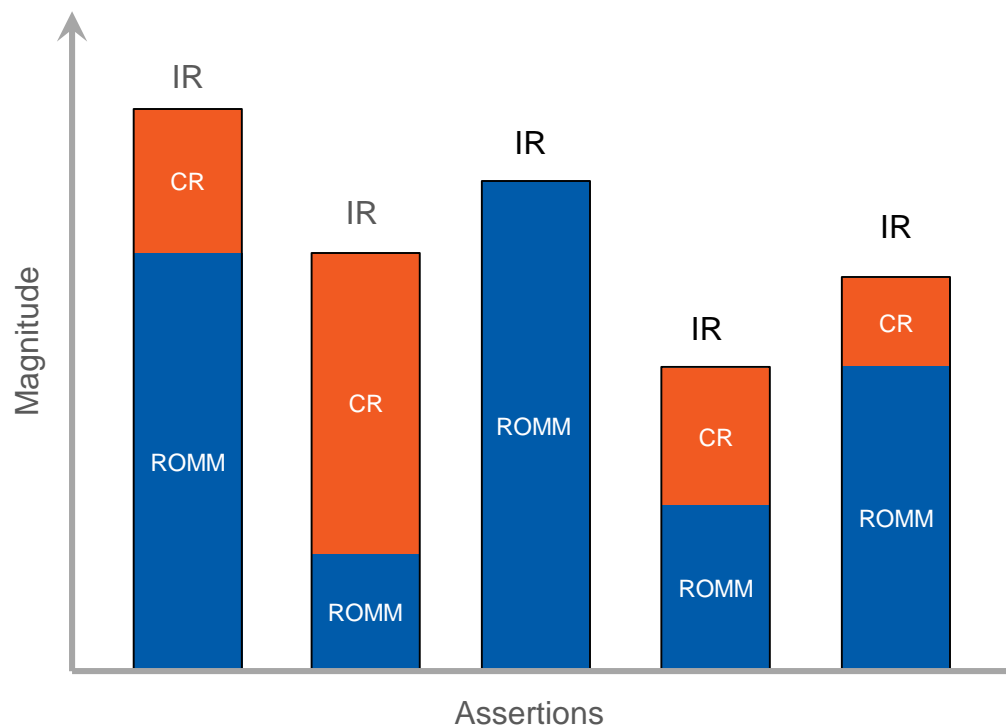
- Objectives of discussion
 - To obtain Board views on the working group's (WG's) recommendations to address selected issues
- Background and Key Concepts in ISA 315 (Revised)
- The Components of Internal Control Relevant to the Audit
- Significant Risk
- Spectrum of Risk
- Way Forward

Background and Key Concepts in ISA 315 (Revised)

Audit Risk Model

$$AR = IR \times CR \times DR$$

“Gross” versus “Net” Risk



The Components of Internal Control Relevant to the Audit

Components of Internal Control

The control environment

The entity's risk assessment process

The information system relevant to financial reporting and communication

Control activities

Monitoring of controls

This informs the auditor's inherent risk assessment

The Components of Internal Control Relevant to the Audit (cont.)

Matters for IAASB Consideration

Question 1 and Question 2 in **Agenda Item 3-B**.

The Components of Internal Control Relevant to the Audit (cont.)

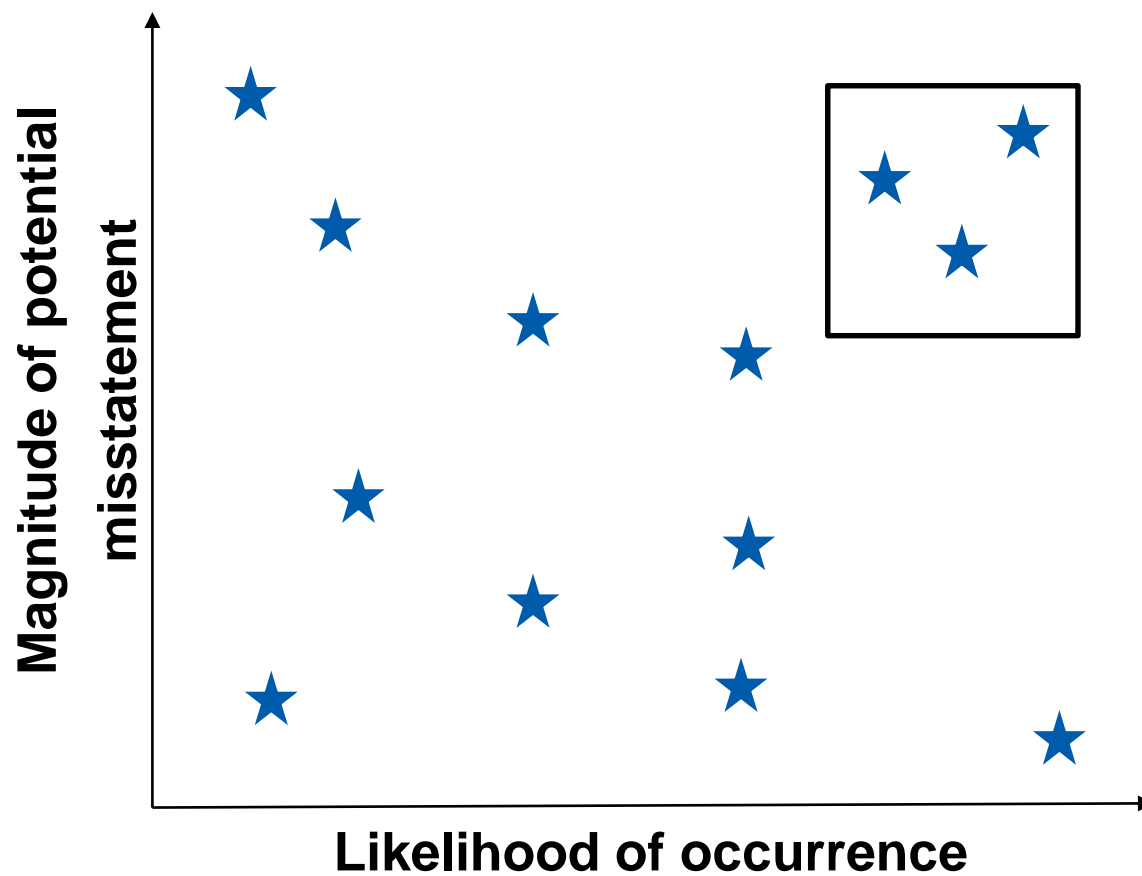
Components of Internal Control	WG Views on Relevance
The control environment	Always relevant
The entity's risk assessment process	Relevant when exists
The information system relevant to financial reporting and communication	Always relevant
Control activities	Seeking IAASB input
Monitoring of controls	Seeking IAASB input

The Components of Internal Control Relevant to the Audit (cont.)

Matters for IAASB Consideration

Question 3, Question 4, Question 5 and Question 6 in **Agenda Item 3-B**.

Significant Risk



Significant Risk (cont.)

The WG identified the following factors related to the nature of inherent risks, including significant risks, as particularly relevant to consider in evaluating the relative likelihood and magnitude of the related risk:

- Complexity
- Ambiguity
- Change
- Uncertainty

Significant Risk “Filters”

Filter (applied to the population of higher inherent risks)	Response (more persuasive evidence)
1. Challenging / difficult for management to control	<ul style="list-style-type: none">▶ Do not over rely on controls▶ Tests of details▶ Substantive analytics
2. Not controlled / entity not controlling	<ul style="list-style-type: none">▶ Tests of details▶ Substantive analytics alone not appropriate

Significant Risk (cont.)

Matters for IAASB Consideration

Question 7, Question 8 and Question 9 of **Agenda Item 3-B**.

Spectrum of Risk

Spectrum of Risk



Spectrum of Risk (cont.)

Matters for IAASB Consideration

Question 10 and Question 11 of **Agenda Item 3-B**.

Way Forward

Next steps...



Way Forward (cont.)

Matter for IAASB Consideration

Question 12 of **Agenda Item 3-B.**

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