



## ISA 315 (Revised)

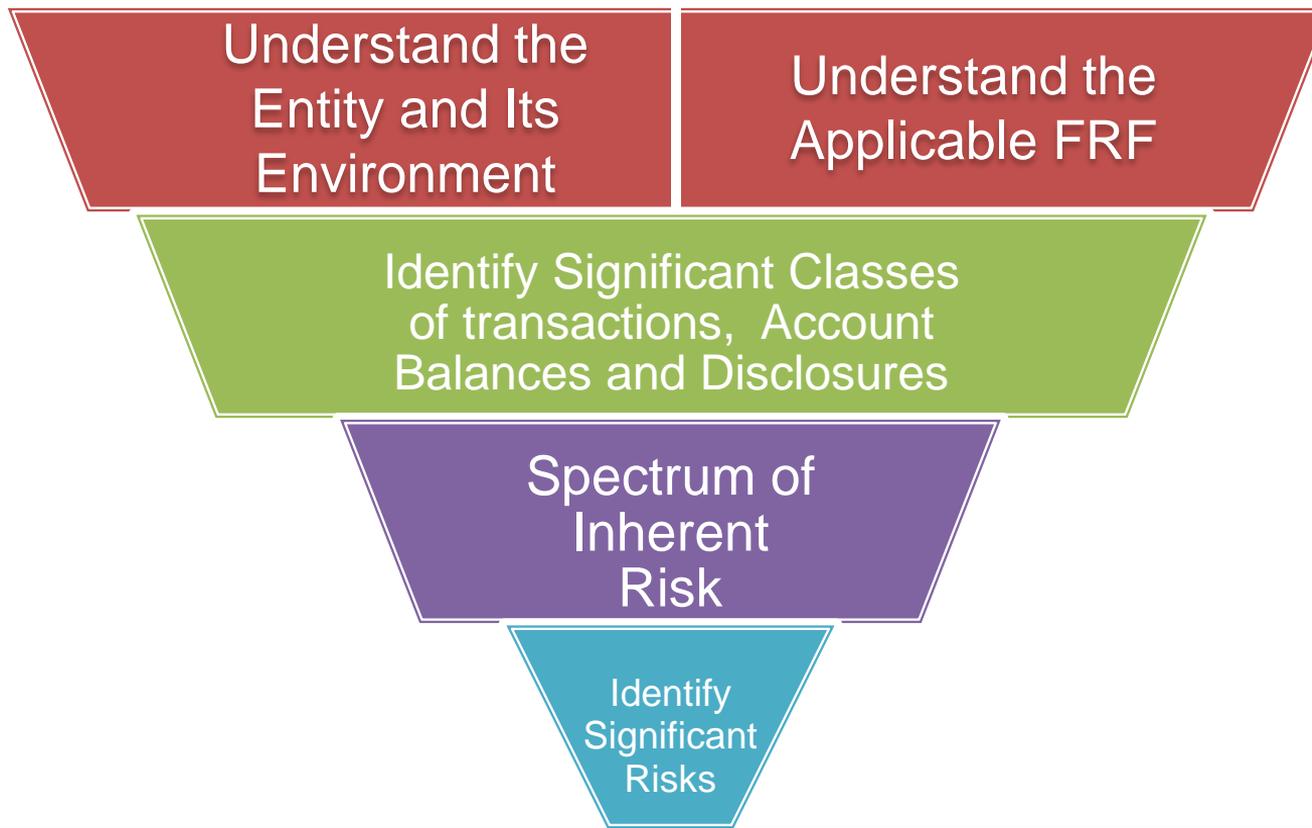
# Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

Fiona Campbell, ISA 315 (Revised) Task Force Chair

**IAASB**

**International Auditing  
and Assurance  
Standards Board**

# Funnel to Identify Inherent Risks, Including Significant Risks



## Identifying Inherent Risks, Including Significant Risks

### *Understanding the Entity and Its Environment and Greater Prominence on Understanding the Applicable Financial Reporting Framework (FRF)*

1. Do IAASB members agree with Task Force views and recommendations in paragraphs 9–12 of Agenda Item 10-A related to giving greater prominence to the understanding of the applicable FRF in the requirements in extant paragraph 11 of ISA 315 (Revised)? IAASB members are asked to share their views as to why they do or do not agree.

## Identifying Inherent Risks, Including Significant Risks

### *Applying the Qualitative Inherent Risk Factors in Obtaining an Understanding of the Entity and Its Environment, and the Applicable FRF*

2. Do IAASB members agree with the Task Force views expressed in paragraphs 13–15 of Agenda Item 10-A related to clarifying how the use of the qualitative inherent risk factors assists in identifying inherent risks related to the classes of transactions, account balances and disclosures expected to be in the entity's financial statements? IAASB members are asked to share their views as to why they do or do not agree.

## Identifying Inherent Risks, Including Significant Risks

### *The Identification of Significant Classes of Transactions, Account Balances and Disclosures and Relevant Assertions*

3. Do IAASB members agree with the Task Force's recommendation to require the auditor to determine significant classes of transactions, account balances and disclosures and their relevant assertions for the purpose of identifying inherent risks at the assertion level? IAASB members are asked to share their views as to why they do or do not agree.
4. Do IAASB members agree with the Task Force's recommendation in paragraph 22 of Agenda Item 10-A? IAASB members are asked to share their views as to why they do or do not agree.

## Identifying Inherent Risks, Including Significant Risks

### *Qualitative Inherent Risk Factors for the Identification of Inherent Risks*

5. Do IAASB members agree with the addition of the susceptibility to fraud as a fifth qualitative inherent risk factor (as described in paragraphs 24–25 and 28 of Agenda Item 10-A)? IAASB members are asked to share their views as to why they do or do not agree.

# Spectrum of Risk....

Spectrum of  
Inherent Risk



# Spectrum of Risk and Significant Risk

## *Spectrum of Inherent Risk*

6. Do IAASB members agree with the Task Force recommendations in paragraph 37 of Agenda Item 10-A? IAASB members are asked to share their views as to why they do or do not agree.

# Spectrum of Risk and Significant Risk

## *Significant Risk*

7. IAASB members are asked to provide their views on the Task Force's recommendations, specifically whether the IAASB agrees with the recommendations:

- a) To incorporate the concepts of likelihood and magnitude and the qualitative inherent risk factors in the definition of significant risk?
- b) In the context of the introduction of a spectrum of inherent risk, whether the definition of significant risks should explicitly reference inherent risk?
- c) To incorporate reference to the concept of "difficult for the entity to control", either as part of the definition of significant risk or as application material in explaining the nature of a significant risk?

# Understanding of Internal Control

## *The Entity's Internal Control*

8. Do IAASB members agree with Task Force's recommended clarifications in paragraph 56 of Agenda Item 10-A? IAASB members are asked to share their views as to why they do or do not agree.

## *Internal Control Relevant to the Audit*

9. Do IAASB members agree with the Task Force recommendations to revise paragraph 12 of ISA 315 (Revised) as indicated and for the reasons noted in Table 2? IAASB members are asked to share their views as to why they do or do not agree.

# Understanding of Internal Control

## *Components of Internal Control*

10. Do IAASB members agree with the Task Force views related to the components of internal control in Table 3 of Agenda Item 10-A, including the initial thoughts related to scalability? IAASB members are asked to share their views as to why they do or do not agree.

# Understanding of Internal Control

## *Design and Implementation*

11. Do IAASB members agree with the Task Force recommendations to:
- a) Propose revisions to paragraph 13 of ISA 315 (Revised) to make it clearer that the auditor should be assessing design and implementation of controls for only those controls that are relevant to the audit and creating a link between the overarching requirement in paragraph 13 of ISA 315 (Revised) and the requirements in paragraph 14–24 of the standard?
  - b) Analyze the application material related to paragraphs 14–24 in ISA 315 (Revised) to determine how the existing guidance applies to obtaining an understanding of the component (and the respective controls within it) or evaluating the design of the those controls and determining whether they have been implemented, and assess whether additional guidance is needed to address any gaps?

## Other Matters Discussed by the Task Force

### *Link to Acceptance and Continuance of Audit Engagements*

12. Do IAASB members agree with the proposed revision to paragraph 7 of ISA 315 (Revised) and the recommended application material? IAASB members are asked to share their views as to why they do or do not agree.



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