

**ASA 315**  
(February 2020)

# **Explanatory Statement**

## ***ASA 315 Identifying and Assessing the Risks of Material Misstatement and ASA 2020-1 Amendments to Australian Auditing Standards***

Issued by the **Auditing and Assurance Standards Board**



**Australian Government**  

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **Reasons for Issuing Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* and ASA 2020-1 *Amendments to Australian Auditing Standards***

The AUASB issues Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* and ASA 2020-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non Corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISA 315 *Identifying and Assessing the Risks of Material Misstatement* issued by the International Auditing and Assurance Standards Board.

## **Purpose of Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* and ASA 2020-1 *Amendments to Australian Auditing Standards***

The purpose of the Auditing Standard represents the Australian equivalent of ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement* and will replace the current ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* issued by the AUASB in December 2015 (as amended). ASA 2020-1 *Amendments to Australian Auditing Standards* includes the consequential and conforming amendments to other Auditing Standards as a result of the reissuance of ASA 315.

## **Main Features**

The revisions to ASA 315 are consistent with recent enhancements to ISA 315 and include a more robust and consistent risk identification and assessment process. The revised standard sets out clarified and enhanced requirements, and enhanced application material, to support the auditor's risk assessment process. The revised standard also includes enhanced guidance on considerations in relation to Information Technology risks, and considerations relation to the auditor's use of automated tools and techniques.

## **Operative Date**

ASA 315 *Identifying and Assessing the Risks of Material Misstatement* is operative for financial reporting periods commencing on or after 15 December 2021. Early adoption of ASA 315 is permitted prior to this date.

## **Process of making Australian Auditing Standards**

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and

- are capable of enforcement.

### **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* was issued in August 2018 with a 70 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

### **Regulatory Impact Statement**

A Regulatory Impact Statement Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASA 315 *Identifying and Assessing the Risks of Material Misstatement*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

## **STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS**

*Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

**Legislative Instrument:**            ***Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* and ASA 2020-1 *Amendments to Australian Auditing Standards****

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### **Overview of the Legislative Instrument**

#### *Background*

The AUASB is a Non Corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

#### *Purpose of Auditing Standard ASA 315 and ASA 2020-1*

The purpose of ASA 315 is to conform with the equivalent ISA 315, and to replace the pre-existing auditing standard. ASA 2020-1 includes the consequential and conforming amendments to other Auditing Standards as a result of the reissuance of ASA 315.

#### *Main Features*

The revisions to ASA 315 are consistent with recent enhancements to ISA 315 and include a more robust and consistent risk identification and assessment process. The revised standard sets out clarified and enhanced requirements, and enhanced application material, to support the auditor's risk assessment process. The revised standard also includes enhanced guidance on considerations in relation to Information Technology risks, and considerations relation to the auditor's use of automated tools and techniques.

### **Human Rights Implications**

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

#### *Conclusion*

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues due to the nature and content of the revised auditing standard.