



Australian Government

Auditing and Assurance Standards Board

Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**
Meeting Date: 12 September 2018
Subject: ED 315 Comparison to extant ASA 315
Date Prepared: 28 August 2018

Matters to Consider

This comparison of ED 315 to extant ASA 315 has been prepared to assist the AUASB in its review of ED 315.

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Scope of this Auditing Standard</p> <p>1. This Auditing Standard deals with the auditor’s responsibility to identify and assess the risks of material misstatement in the financial report.</p>	<p>Scope of this Auditing Standard</p> <p>1. This Auditing Standard deals with the auditor’s responsibility to identify and assess the risks of material misstatement in the financial report, through understanding the entity and its environment, including the entity’s internal control.</p>	<p>Minor change in line with change in title of the standard.</p>
<p>Key Concepts in this ASA</p> <p>2. ASA 200 deals with the overall objectives of the auditor in conducting an audit of the financial report,⁹ including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.¹⁰ Audit risk is a function of the risks of material misstatement and detection risk. ASA 200 explains that the risks of material misstatement may exist at two levels:¹¹ the overall financial statement level; and the assertion level for classes of transactions, account balances and disclosures. ASA 200 further requires the auditor to exercise professional judgement in planning and performing an audit, and to plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated.¹²</p>	<p>No equivalent paragraph</p>	<p>Introductory paragraphs to assist with understanding key concepts and flow of the standard. No issues noted.</p>
<p>3. Risks at the financial statement level relate pervasively to the financial report as a whole and potentially affect many assertions. Risks of material misstatement at the assertion level consist of two components, inherent and control risk:</p> <ul style="list-style-type: none"> • Inherent risk is described as 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. • Control risk is described as the risk that a misstatement that could occur in an assertion about a class of transactions, 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 controls. 	<p>No equivalent paragraph</p>	

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>4. The required understanding of the entity and the environment, the applicable financial reporting framework, and the system of internal control forms the basis for the auditor’s identification of risks of material misstatement. The identification of risks of material misstatement at the assertion level is performed before consideration of any controls. The auditor does so based on a preliminary assessment of inherent risk that involves identifying those risks for which there is a reasonable possibility of material misstatement. In this ASA the assertions to which such risks of material misstatement relate are referred to as ‘relevant assertions,’ and the classes of transactions, account balances and disclosures to which the relevant assertions relate are referred to as ‘significant classes of transactions, account balances and disclosures.’</p>	<p>No equivalent paragraph</p>	
<p>5. For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ASA. The auditor assesses the inherent risk by assessing the likelihood and magnitude of material misstatement, and by taking into account inherent risk factors. Inherent risk factors individually or in combination increase inherent risk to varying degrees. As explained in ASA 200, inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. The degree to which inherent risk varies, is referred to in this ASA as the ‘spectrum of inherent risk.’</p>	<p>No equivalent paragraph</p>	

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>6. In assessing control risk, the auditor takes into account whether the auditor’s further audit procedures contemplate planned reliance on the operating effectiveness of controls (that is, control risk is assessed as less than maximum). The auditor’s understanding of the system of internal control forms the basis for the auditor’s intentions about whether to place reliance on the operating effectiveness of controls. That is, the auditor may identify specific controls that address the identified risks of material misstatement and for which the auditor intends to test operating effectiveness. If the auditor does not intend to test the operating effectiveness of controls related to certain identified risks of material misstatement,, the auditor’s assessment of control risk cannot be reduced for the effective operation of controls with respect to the particular assertion (that is, control risk is assessed at maximum).</p>	<p>No equivalent paragraph</p>	
<p>7. The auditor’s assessment of the risks of material misstatement at the assertion level is based on the auditor’s assessments of inherent risk and control risk at the assertion level. The auditor designs and performs further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level. The auditor also identifies and assesses the risks of material misstatement at the financial statement level in accordance with this ASA in order to design and implement overall responses to address such risks.</p>	<p>No equivalent paragraph</p>	
<p>8. Risks of material misstatement identified and assessed by the auditor include both those due to error and those due to fraud. Although both are addressed by this ASA, the significance of fraud is such that further requirements and guidance are included in ASA 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify, assess and respond to the risks of material misstatement due to fraud.</p>	<p>No equivalent paragraph</p>	

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>The iterative nature of the auditor’s risk assessment process</p> <p>9. The auditor’s risk assessment process is iterative and dynamic. The auditor develops initial expectations about the potential risks of material misstatement and the potential significant classes of transactions, account balances and disclosures based on the auditor’s understanding of the entity and its environment and the applicable financial reporting framework. The auditor’s understanding of the system of the internal control, and in particular the information system component, provides further information to assist the auditor in developing those expectations.</p>	<p>No equivalent paragraph</p>	
<p>10. After identifying the risks of material misstatement, the auditor determines the significant classes of transactions, account balances and disclosures. The auditor is also required to perform a stand-back to confirm that this identification is appropriate.</p>	<p>No equivalent paragraph</p>	
<p>11. The auditor’s process of assessing the identified risks of material misstatement at the assertion level also results in the auditor’s determination of any significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence.</p>	<p>No equivalent paragraph</p>	
<p>12. This ASA requires the auditor to revise the risk assessments and modify further overall responses and further audit procedures based on audit evidence obtained from performing further audit procedures, or if new information is obtained.</p>	<p>No equivalent paragraph</p>	

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Scalability</p> <p>13. ASA 200 states that the Australian Auditing Standards include considerations specific to smaller entities within the application and explanatory material.13 This ASA is intended for audits of all entities, regardless of size or complexity. However, the application material of this ASA incorporates considerations specific to audits of smaller entities when such entities are also less complex. Accordingly, in this context, this ASA refers to ‘smaller and less complex entities.’ While the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex. Some of the considerations however may be useful in audits of larger and less complex entities.</p>	<p>No equivalent paragraph</p>	<p>Provides guidance on the definition of smaller and less complex including that may be useful in audits of larger and less complex entities.</p> <p>No issues noted.</p>
<p>Effective Date</p> <p>14. [Deleted by the AUASB. Refer Aus 0.3]</p>	<p>Effective Date</p> <p>2. [Deleted by the AUASB. Refer Aus 0.3]</p>	
<p>Objective</p> <p>15. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.</p>	<p>Objective</p> <p>3. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial report and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.</p>	<p>No change</p>
<p>Definitions</p> <p>16. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:</p>	<p>Definitions</p> <p>4. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:</p>	<p>There are a number of new definitions, and changes to existing definitions.</p> <p>No issues noted except where detailed.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>(a) Application controls – Controls of a preventative or detective nature that support the initiation, recording, processing and reporting of transactions or other information in the entity’s information system, the objectives of which are to maintain the reliability of such transactions and other information. Such controls may rely on information, or other controls that maintain the integrity of information, or may rely on the operation of other controls.</p>	<p>No equivalent definition</p>	
<p>(b) Assertions – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial report which are inherent in management representing that the financial report is prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and in responding to the risks of material misstatement.</p> <p>(Ref: Para: A1-A2).</p>	<p>(a) Assertions means representations by management and those charged with governance, explicit or otherwise, that are embodied in the financial report, as used by the auditor to consider the different types of potential misstatements that may occur.</p>	
<p>(c) Business risk – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.</p>	<p>(b) Business risk means a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.</p>	
<p>(d) Controls – Policies or procedures that are embedded within the components of the system of internal control to achieve the control objectives of management or those charged with governance. In this context:</p> <ul style="list-style-type: none"> • Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions. • Procedures are actions to implement policies. (Ref: Para. A3-A4) 	<p>© Internal control means the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.</p>	

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>(e) General information technology (IT) controls – Controls related to the IT environment that support the effective functioning of application controls or the integrity of information by helping to maintain the continued operation, as designed, of the entity’s information system. General IT controls include controls over the entity’s IT processes. Also see the definition of <i>IT environment</i></p>		
<p>(f) Inherent Risk Factors – Characteristics of events or conditions that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud. (Ref: Para A5-A6)</p>		
<p>(g) IT environment – The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies. For the purposes of this ASA:</p> <ul style="list-style-type: none"> • An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. • The IT infrastructure is comprised of the network, operating systems, and databases and their related hardware and software. • The IT processes are the entity’s processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations, which includes monitoring the IT environment. (Ref: Para: A7-A8) 		

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>(h) Relevant assertions – An assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements. There is such possibility when the likelihood of a material misstatement is more than remote. The determination of whether an assertion is a relevant assertion is made before consideration of controls. (Ref: Para. A9)</p>		<p>Terms reasonable possibility vs more than remote – inconsistent and difficult to apply. Refer to section 2.</p>
<p>(i) Risk assessment procedures – The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.</p>	<p>(c) Risk assessment procedures means the audit procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial report and assertion levels.</p>	
<p>(j) Significant class of transactions, account balance or disclosure – A class of transactions, account balance or disclosure for which there is one or more relevant assertions.</p>		
<p>(k) Significant risk – An identified risk of material misstatement:</p> <ul style="list-style-type: none"> • For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which one or a combination of the inherent risk factors affect the likelihood of a misstatement occurring or the magnitude of potential misstatement should that misstatement occur; or • That is to be treated as a significant risk in accordance with the requirements of other Australian Auditing Standards.¹⁴ (Ref: Para. A10) 	<p>(d) Significant risk means an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.</p>	<p>This definition is important in assisting with audit quality. Is the upper end of the spectrum of risk helpful? Is this definition appropriate? Refer to section 2.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>(l) System of Internal Control – The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. For the purposes of the Australian Auditing Standards, the system of internal control consists of five inter-related components: (Ref: Para. A11)</p> <ul style="list-style-type: none"> • Control environment. • The entity’s risk assessment process. • The entity’s process to monitor the system of internal control. • The information system and communication. • Control activities. 		
<p>Requirements</p> <p>Risk Assessment Procedures and Related Activities</p> <p>17. The auditor shall design and perform risk assessment procedures to obtain an understanding of:</p> <p>(a) The entity and its environment in accordance with paragraph 23(a);</p> <p>(b) The applicable financial reporting framework in accordance with paragraph 23(b); and</p> <p>(c) The entity’s system of internal control in accordance with paragraphs 25–44</p> <p>to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A12-A16)</p>	<p>Requirements</p> <p>Risk Assessment Procedures and Related Activities</p> <p>5. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1-A5)</p>	<p>No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>18. No The risk assessment procedures shall include the following: (Ref: Para A17-A20)</p> <p>(a) Enquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor’s judgement may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A21-A29)</p> <p>(b) Analytical procedures. (Ref: Para. A30-A34)</p> <p>(c) Observation and inspection. (Ref: Para A35-A36)</p>	<p>6. The risk assessment procedures shall include the following:</p> <p>(a) Enquiries of management, of appropriate individuals within the internal audit function (if the function exists) and of others within the entity who in the auditor’s judgement may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6-A13)</p> <p>(b) Analytical procedures. (Ref: Para. A14-A17)</p> <p>(c) Observation and inspection. (Ref: Para. A18)</p>	<p>No change. No issues noted</p>
<p>19. The auditor, in identifying and assessing the risks of material misstatement, shall take into account information obtained from the auditor’s acceptance or continuance of the client relationship or the audit engagement. (Ref: Para. A37)</p>	<p>7. The auditor shall consider whether information obtained from the auditor’s client acceptance or continuance process is relevant to identifying risks of material misstatement.</p>	<p>No change. No issues noted</p>
<p>20. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A38)</p>	<p>8. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying risks of material misstatement.</p>	<p>No change. No issues noted</p>
<p>21. Where the auditor intends to use information obtained from the auditor’s previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (Ref: Para. A39-A40)</p>	<p>9. Where the auditor intends to use information obtained from the auditor’s previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (Ref: Para. A19-A20)</p>	<p>No change. No issues noted</p>
<p>22. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework in the context of the nature and circumstances of the entity and its environment, and the susceptibility of the entity’s financial report to material misstatement. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion. (Ref: Para. A41-A46)</p>	<p>10. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity’s financial report to material misstatement, and the application of the applicable financial reporting framework to the entity’s facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion. (Ref: Para. A21-A24)</p>	<p>No change. No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Obtaining an Understanding of the Entity and Its Environment and the Applicable Financial Reporting Framework (Ref: Para. A47-A48)</p> <p>23. The auditor shall perform risk assessment procedures to obtain an understanding of the entity and its environment and the applicable financial reporting framework. In doing so, the auditor shall obtain an understanding of the following matters to provide an appropriate basis for understanding the classes of transactions, account balances and disclosures to be expected in the entity’s financial report:</p> <p>(a) The entity and its environment, including:</p> <p>(i) The entity’s organisational 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)</p> <p>(ii) Relevant industry, regulatory and other external factors; and (Ref: Para. A64-A69)</p> <p>(iii) The relevant measures used, internally and externally, to assess the entity’s financial performance. (Ref: Para. A70-A78)</p> <p>(b) The applicable financial reporting framework, including: (Ref: Para.A79-A82)</p> <p>(i) How it applies in the context of the nature and circumstances of the entity and its environment, including how events or conditions are subject to, or affected by, the inherent risk factors; and (Ref: Para.A83-A88)</p> <p>(ii) The entity’s accounting policies and any changes thereto, including the reasons for any such changes.</p>	<p>The Required Understanding of the Entity and its Environment, Including the Entity’s Internal Control</p> <p><i>The Entity and Its Environment</i></p> <p>11. The auditor shall obtain an understanding of the following:</p> <p>(a) Relevant industry, regulatory, and other external factors and the applicable financial reporting framework. (Ref: Para. A25-A30)</p> <p>(b) The nature of the entity, including:</p> <p>(i) its operations;</p> <p>(ii) its ownership and governance structures;</p> <p>(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and</p> <p>(iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial report. (Ref: Para. A31-A35)</p> <p>(c) moved to requirement 24.</p> <p>(d) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37-A43)</p> <p>(e) The measurement and review of the entity’s financial performance. (Ref: Para. A44-A49)</p>	<p>No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>24. The auditor shall evaluate whether the entity’s accounting policies, and any changes thereto, are appropriate in the context of the nature and circumstances of the entity and its environment, and consistent with the applicable financial reporting framework.</p>	<p>11. ©The entity’s selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity’s accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: Para. A36)</p>	<p>No change. No issues noted</p>
<p>Obtaining an Understanding of the Entity’s System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures to obtain an understanding of the entity’s system of internal control relevant to financial reporting, including the entity’s use of IT, by understanding each of the components of internal control. For this purpose, the auditor shall address the requirements set out in paragraphs 27 to 38 of this ASA. (Ref: Para. A89-A103)</p>	<p><i>The Entity’s Internal Control</i></p> <p>12. The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor’s professional judgement whether a control, individually or in combination with others, is relevant to the audit. (Ref: Para. A50-A73)</p>	<p>No issues noted</p>
<p>26. The auditor shall identify controls relevant to the audit, and shall evaluate the design of such controls and determine whether the controls have been implemented in accordance with the requirements set out in paragraphs 39 to 42. (Ref: Para. A104)</p>	<p>Nature and Extent of the Understanding of Relevant Controls</p> <p>13. When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to enquiry of the entity’s personnel. (Ref: Para. A74-A76)</p>	<p>No change. No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Components of the Entity's System of Internal Control</p> <p>Control Environment</p> <p>27. The auditor shall obtain an understanding of the control environment relevant to financial reporting, including understanding how the entity: (Ref: Para. A105-A110)</p> <ul style="list-style-type: none"> (a) Demonstrates a commitment to integrity and ethical values; (b) When those charged with governance are separate from management, demonstrates that those charged with governance are independent of management and exercise oversight of the entity's system of internal control; (c) Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, in pursuit of its objectives; (d) Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives; and (e) Holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control. 	<p>Components of Internal Control</p> <p>Control environment</p> <p>14. The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:</p> <ul style="list-style-type: none"> (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; and (b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by control environment weaknesses. (Ref: Para. A77-A87) 	<p>More enhanced requirements. Application material assist with how to do this.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>28. Based on the auditor’s understanding of the control environment in accordance with paragraph 27, the auditor shall evaluate whether: (Ref: Para. A111-A114)</p> <ul style="list-style-type: none"> (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; and (b) The strengths in those areas of the entity’s control environment addressed in paragraphs 27(a) to (e) collectively provide an appropriate foundation for the other components of the system of internal control, or whether those other components are undermined by control deficiencies in the control environment component. 		
<p>The Entity’s Risk Assessment Process (Ref: Para. A115-A116)</p> <p>29. The auditor shall obtain an understanding of the entity’s risk assessment process, including the extent to which it is formalised, by understanding: (Ref: Para. A117-A119)</p> <ul style="list-style-type: none"> (a) Whether, and if so, how, the entity’s process: <ul style="list-style-type: none"> (i) Identifies business risks relevant to financial reporting objectives; (ii) Assesses the significance of those risks, including the likelihood of their occurrence; and (iii) Addresses those risks. (b) The results of the entity’s process. 	<p>The entity’s risk assessment process</p> <p>15. The auditor shall obtain an understanding of whether the entity has a process for:</p> <ul style="list-style-type: none"> (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks. (Ref: Para. A88) 	<p>No real change. Paragraphs 29 – 31 are similar to 15 – 17 in extant</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>30. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether any such risks are of a kind that the auditor expects would have been identified by the entity’s risk assessment process. If so, the auditor shall obtain an understanding of why the entity’s risk assessment process failed to identify such risks of material misstatement, and consider the implications for the auditor’s evaluation required by paragraph 31.</p>	<p>16. If the entity has established such a process (referred to hereafter as the “entity’s risk assessment process”), the auditor shall obtain an understanding of it, and the results thereof. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall evaluate whether there was an underlying risk of a kind that the auditor expects would have been identified by the entity’s risk assessment process. If there is such a risk, the auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity’s risk assessment process.</p>	
<p>31. Based on the auditor’s understanding of the entity’s risk assessment process in accordance with paragraph 29, and if applicable, paragraph 30, the auditor shall: (Ref: Para. A120-A121)</p> <p>(a) Evaluate whether the nature of the entity’s risk assessment process, including its formality, is appropriate to the entity’s circumstances considering the nature and size of the entity; and</p> <p>(b) If not, determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p>	<p>17. If the entity has not established such a process or has an ad hoc undocumented process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: Para. A89)</p>	<p>Enhanced but effectively no change.</p>
<p>The entity’s process to monitor the system of internal control (Ref: Para. A122-A125)</p> <p>32. The auditor shall obtain an understanding of the entity’s process to monitor the system of internal control, including the extent to which it is formalised, by understanding how the entity’s process: (Ref: Para. A126-A128)</p> <p>(a) Monitors the effectiveness of controls; and</p> <p>(b) Addresses the identification and remediation of control deficiencies, including those related to the entity’s risk assessment process.</p>	<p>Monitoring of controls</p> <p>22. The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to address deficiencies in its controls. (Ref: Para. A110-A112)</p>	<p>No change</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
33. The auditor shall obtain an understanding of the sources of the information used in the entity’s process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: Para. A129-A130)	24. The auditor shall obtain an understanding of the sources of the information used in the entity’s monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: Para. A121)	No change
34. If the entity has an internal audit function, ¹⁵ the auditor shall obtain an understanding of the nature of the internal audit function’s responsibilities, its organisational status, and the activities performed, or to be performed. (Ref: Para. A131-A135)	23. If the entity has an internal audit function, ¹ the auditor shall obtain an understanding of the nature of the internal audit function’s responsibilities, its organisational status, and the activities performed, or to be performed. (Ref: Para. A113-A120)	No change

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>The Information System and Communication</p> <p>35. The auditor shall obtain an understanding of the information system relevant to financial reporting, including the related business processes, through understanding: (Ref: Para. A136-A141)</p> <p>(a) How information relating to significant classes of transactions, account balances and disclosures flows through the entity’s information system, whether manually or using IT, and whether obtained from within or outside of the general ledger and subsidiary ledgers. This understanding shall include how: (Ref: Para. A142-A143)</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial report; and</p> <p>(ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial report.</p> <p>(b) The accounting records, specific accounts in the financial report and other supporting records relating to the flows of information in paragraph 35(a);</p> <p>(c) The financial reporting process used to prepare the entity’s financial report from the records described in paragraph 35(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures;</p> <p>(d) The entity’s IT environment relevant to (a) through (c) above. (Ref: Para. A144-A150 and Para. A180-A182)</p>	<p>The information system, including the related business processes, relevant to financial reporting, and communication</p> <p>18. The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. A90–A92)</p> <p>(a) The classes of transactions in the entity’s operations that are significant to the financial report;</p> <p>(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial report;</p> <p>(c) The related accounting records, supporting information and specific accounts in the financial report that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;</p> <p>(d) How the information system captures events and conditions, other than transactions, that are significant to the financial report;</p> <p>(e) The financial reporting process used to prepare the entity’s financial report, including significant accounting estimates and disclosures; and</p> <p>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93-A94)</p> <p>This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial report that is obtained from within or outside of the general and subsidiary ledgers.</p>	<p>Understand the entity’s IT environment.</p> <p>Links to paragraph 40</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
36. The auditor shall evaluate the design of the information system controls relevant to financial reporting, by understanding how the matters in paragraph 35(a)–(d) are addressed by the entity, and implemented. (Ref: Para. A151-A157)		Explicitly requires design and implementation of information system controls.
37. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relevant to financial reporting, including: (Ref: Para. A158-A159) (a) Communications between management and those charged with governance; and (b) External communications, such as those with regulatory authorities.	19. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (Ref: Para. A97-A98) (a) Communications between management and those charged with governance; and (b) External communications, such as those with regulatory authorities.	No change and no issues noted.
Control Activities 38. The auditor shall obtain an understanding of the control activities component by identifying the controls relevant to the audit in the control activities component in accordance with the requirements of paragraphs 39 through 41, and by evaluating their design and determining whether they have been implemented in accordance with paragraph 42. (Ref: Para. A160-A165)		New to explain the process.

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Controls relevant to the audit</p> <p>39. The auditor shall identify controls relevant to the audit, being those: (Ref: Para. A166-A167)</p> <ul style="list-style-type: none"> (a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; (Ref: Para. A168) (b) That address risks that are identified as a significant risk; (Ref: Para. A169-A173) (c) Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments; (Ref: Para. A174-A175) (d) Controls for which the auditor plans to test the operating effectiveness in determining the nature, timing and extent of substantive testing; or (Ref: Para. A176-A178) (e) That, in the auditor’s professional judgement, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to: (Ref: Para. A179) <ul style="list-style-type: none"> (i) Identify and assess the risks of material misstatement at the assertion level; or (ii) Design further audit procedures responsive to assessed risks. <p>Not all controls that are relevant to financial reporting are relevant to the audit. It is a matter of the auditor’s professional judgement as to whether a control, individually or in combination with other controls, is identified as being relevant to the audit.</p>	<p>Control Activities relevant to the audit</p> <p>20. The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial report or to every assertion relevant to them. (Ref: Para. A93-A106)</p> <p>29. If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity’s controls, including control activities, relevant to that risk. (Ref: Para. A146-A148)</p>	<p>ED 315 includes more detail on how to identify the controls relevant to the audit. Note paragraph 39 (b) is in paragraph 29 in extant.</p> <p>No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>40. Based on the understanding obtained in accordance with paragraph 35(d), and the identification of the controls relevant to the audit in accordance with paragraph 39, the auditor shall identify the IT applications and the other aspects of the entity’s IT environment that are relevant to the audit. In doing so, the auditor shall take into account whether the IT applications include or address: (Ref: Para. A180-A188)</p> <ul style="list-style-type: none"> (a) Automated controls that management is relying on and that the auditor has determined to be relevant to the audit; (b) Maintenance of the integrity of information stored and processed in the information system that relates to significant classes of transactions, account balances or disclosures; (c) System-generated reports on which the auditor intends to rely on without directly testing the inputs and outputs of such reports; or (d) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. 		<p>Not a specific requirement in extant.</p> <p>Identify the IT applications and relevant to the audit.</p>
<p>41. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify: (Ref: Para. A189-A193)</p> <ul style="list-style-type: none"> (a) The risks arising from the use of IT; and (b) The general IT controls relevant to the audit. 	<p>21. In understanding the entity’s control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: Para. A107-A109)</p>	<p>Expanded to include GITCs which support IT applications and the IT environment relevant to the audit.</p> <p>Wasn’t explicitly in the extant however no issues noted.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>42. For each control identified as relevant to the audit in accordance with paragraphs 39 and 41, the auditor shall: (Ref: Para. A194-A200)</p> <p>(a) Evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and</p> <p>(b) Determine whether the control has been implemented by performing procedures in addition to enquiry of the entity’s personnel.</p>		<p>Evaluate design and implementation of controls relevant to the audit including GITCs.</p> <p>Not explicit in extant.</p> <p>Refer to section 2.</p> <p>Also in paragraph 26 in ED 315. Is it needed in both?</p>
<p>Control Deficiencies Within the System of Internal Control</p> <p>43. The auditor shall, in accordance with ASA 265,16 determine on the basis of the work performed in accordance with this ASA:</p> <p>(a) Whether one or more control deficiencies within the system of internal control have been identified; and</p> <p>(b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.</p>		<p>No issues noted</p>
<p>44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:</p> <p>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</p> <p>(b) Designing and implementing overall responses to address the assessed risks of material misstatement as required by ASA 330.¹⁷</p>		<p>No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Identifying and Assessing the Risks of Material Misstatement</p> <p>45. The auditor shall identify the risks of material misstatement and determine whether they exist at: (Ref: Para. A201-A210)</p> <ul style="list-style-type: none"> (a) The financial statement level, by evaluating whether the identified risks relate more pervasively to the financial report as a whole, including potentially affecting many assertions; or (Ref: Para. A207) (b) The assertion level for classes of transactions, account balances, and disclosures, taking into account the inherent risk factors. (Ref: Para. A208) 	<p>Identifying and Assessing the Risks of Material Misstatement</p> <p>25. The auditor shall identify and assess the risks of material misstatement at:</p> <ul style="list-style-type: none"> (a) the financial report level; and (Ref: Para. A122-A125) (b) the assertion level for classes of transactions, account balances, and disclosures (Ref: Para. A126-A131) <p>to provide a basis for designing and performing further audit procedures.</p>	<p>No change and no issues noted</p>
<p>46. The auditor shall determine significant classes of transactions, account balances and disclosures, and their relevant assertions, based on the identified risks of material misstatement. (Ref: Para. A211-A214)</p>		<p>More explicit in ED 315 than in extant paragraph 18</p>
<p><i>Assessing Risks of Material Misstatement at the Financial Statement Level</i></p> <p>47. The auditor shall assess the identified risks of material misstatement at the financial statement level by: (Ref: Para. A215-A220)</p> <ul style="list-style-type: none"> (a) Determining how, and the degree to which, such risks affect the assessment of risks of material misstatement at the assertion level (Ref: Para. A227), and (b) Evaluating the nature and extent of their pervasive effect on the financial report to provide the basis for designing and implementing overall responses to the identified risk of material misstatement at the financial statement level in accordance with ASA 330.¹⁸ (Ref: Para A216) 	<p>26. For this purpose, the auditor shall:</p> <ul style="list-style-type: none"> (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial report; (Ref: Para. A132-A137) (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial report as a whole and potentially affect many assertions; (c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: Para. A138-A140) (d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement. (Ref: Para. A137) 	<p>Clarifying and separating risks at the financial statement level from the assertion level.</p> <p>No issues noted</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p><i>Assessing Risks of Material Misstatement at the Assertion Level</i></p> <p>Assessing Inherent Risk</p> <p>48. For identified risks of material misstatement at the assertion level, the auditor shall assess inherent risk by assessing the likelihood and magnitude of material misstatement. In doing so, the auditor shall take into account how, and the degree to which:</p> <ul style="list-style-type: none"> (a) Identified events and conditions relating to significant classes of transactions, account balances and disclosures are subject to, or affected by, the inherent risk factors. (Ref: Para. A221-A228) (b) The risks of material misstatement at the financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level. (Ref: Para. A216 and A227) 	<p><i>Risks that Require Special Audit Consideration</i></p> <p>28. In exercising judgement as to which risks are significant risks, the auditor shall consider at least the following:</p> <ul style="list-style-type: none"> (a) Whether the risk is a risk of fraud; (b) Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; (c) The complexity of transactions; (d) Whether the risk involves significant transactions with related parties; (e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and (f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A141-A145) 	<p>ED 315 includes the inherent risk factors when assessing inherent risk.</p> <p>Refer to section 2.</p>
<p>49. The auditor shall determine, based on the auditor's assessment of inherent risk, whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A229-A231)</p>	<p>27. As part of the risk assessment as described in paragraph 25 of this Auditing Standard, the auditor shall determine whether any of the risks identified are, in the auditor's judgement, a significant risk. In exercising this judgement, the auditor shall exclude the effects of identified controls related to the risk.</p>	<p>No change in the requirement to identify significant risks, however the definition has changed.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Assessing Control Risk</p> <p>50. For identified risks of material misstatement at the assertion level, the auditor shall assess control risk as follows: (Ref: Para. A232-A235)</p> <p>(a) When the auditor plans to test the operating effectiveness of controls in designing further audit procedures to be performed to respond to a risk of material misstatement at the assertion level, the auditor shall assess control risk at less than maximum. In doing so, the auditor shall take into account whether the design, implementation and expected operating effectiveness of such controls support the auditor’s intended reliance thereon.</p> <p>(b) When the auditor does not plan to test the operating effectiveness of controls in designing further audit procedures to be performed to respond to a risk of material misstatement at the assertion level, the auditor shall assess control risk at the maximum.</p>		<p>Not explicit in requirements in extant.</p> <p>No issues noted</p>
<p><i>Risks for Which Substantive Procedures Alone Cannot Provide Sufficient Appropriate Audit Evidence</i></p> <p>51. The auditor shall determine, for any of the risks of material misstatement at the assertion level, whether substantive procedures alone cannot provide sufficient appropriate audit evidence (Ref: Para. A236-A239)</p>	<p><i>Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence</i></p> <p>30. In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. (Ref: Para. A149-A151)</p>	<p>Paragraph 40 then requires the controls to be identified as relevant to the audit.</p> <p>Should this be more explicit?</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p><i>Classes of Transactions, Account Balances and Disclosures that are Not Significant, but which are Material</i></p> <p>52. The auditor shall: (Ref: Para. A240-A242)</p> <ul style="list-style-type: none"> (a) Identify the classes of transactions, account balances and disclosures that are quantitatively or qualitatively material, and that have not been identified as significant classes of transactions, account balances or disclosures in accordance with paragraph 46; and (b) Evaluate whether the auditor’s conclusion that there are no relevant assertions (that is, no related risks of material misstatement) for these classes of transactions, account balances and disclosures remains appropriate. 		<p>New requirement. Refer section 2.</p>
<p><i>Revision of Risk Assessment</i></p> <p>53. The auditor’s assessments of the risks of material misstatement at the financial statement level and assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the identification and assessments of the risks of material misstatement, the auditor shall revise the assessment and modify the planned overall responses or further audit procedures accordingly. (Ref: Para. A243)</p>	<p><i>Revision of Risk Assessment</i></p> <p>31. The auditor’s assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly. (Ref: Para. A152)</p>	<p>No change.</p>

Proposed ASA 315 – ED 2018/1	Extant ASA 315 – Issued 2009 and amended to 2015	ATG Comment
<p>Documentation</p> <p>54. The auditor shall include in the audit documentation:¹⁹ (Ref: Para. A244-A247)</p> <ul style="list-style-type: none"> (a) The discussion among the engagement team, where required in accordance with paragraph 22, and the significant decisions reached; (b) Key aspects of the auditor’s understanding obtained regarding the entity and its environment specified in paragraph 23 and of each of the components of the system of internal control specified in paragraphs 27, 29, 32 through 38; the sources of information from which the auditor’s understanding was obtained; and the risk assessment procedures performed; (c) The controls identified to be relevant to the audit in accordance with the requirements in paragraphs 39 and 41. (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 45 through 51, including significant risks, and the rationale for the significant judgements made in identifying and assessing the risks of material misstatement. (Ref: Para A245) 	<p>Documentation</p> <p>32. The auditor shall include in the audit documentation:²</p> <ul style="list-style-type: none"> (a) The discussion among the engagement team where required by paragraph 10 of this Auditing Standard, and the significant decisions reached; (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 of this Auditing Standard and of each of the internal control components specified in paragraphs 14-24 of this Auditing Standard; the sources of information from which the understanding was obtained; and the risk assessment procedures performed; (c) The identified and assessed risks of material misstatement at the financial report level and at the assertion level as required by paragraph 25 of this Auditing Standard; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30 of this Auditing Standard. (Ref: Para. A153-A156) 	<p>Enhanced but no issues noted.</p>