

# Agenda Item

## 4-A

### Exposure Draft ISA 315 (Revised)<sup>1</sup> (ED-315) – Understanding the Entity's System of Internal Control

*(Greyed paragraphs relate to IT and these will be addressed at the June 2019 Board meeting)*

Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<b>Risk Assessment procedures and Related Activities</b>  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 statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.	<b>Risk Assessment procedures and Related Activities<sup>3</sup></b>  17. The auditor shall design and perform risk assessment procedures to obtain an understanding of: <ul style="list-style-type: none"> <li>(a) The entity and its environment in accordance with paragraph 23(a);</li> <li>(b) The applicable financial reporting framework in accordance with paragraph 23(b); and</li> <li>(c) The entity's system of internal control in accordance with paragraphs 25–44</li> </ul> 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	<b>Risk Assessment procedures and Related Activities</b>  <i>Note: Column 3 and Column 4 are the same</i>  17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: <ul style="list-style-type: none"> <li>(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and</li> <li>(b) The design of further audit procedures in accordance with ISA 330.</li> </ul> Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion.	<b>Risk Assessment procedures and Related Activities</b>  17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: <ul style="list-style-type: none"> <li>(a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and</li> <li>(b) The design of further audit procedures in accordance with ISA 330.</li> </ul> Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves do not provide sufficient appropriate audit evidence on which to base the audit opinion.

<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

<sup>2</sup> Extant requirements are presented to correspond with the ED-315 requirements to allow comparison of extant to ED, and are therefore not necessarily in numerical order.

<sup>3</sup> Although not part of the system of internal control section, paragraph 17 is presented as it is relevant to discussions in the issues paper in relation to the system of internal control.

Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED–315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A12–A16)		
<p><i>The Entity's Internal Control</i></p> <p>12. The auditor shall obtain an understanding of internal control relevant to the audit.</p> <p><b>[Remainder of extant para. 12 maps to para. 39(e) of ED–315]</b></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 ISA.</p>	<p>Understanding of the Entity's System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures, in accordance with paragraphs 27 to 38, to understand how the entity's system of internal control, including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity. Such an understanding also provides, in the public interest, a basis for the communication of control deficiencies to management and those charged with governance in accordance with ISA 265.</p>	<p>Understanding of the Entity's System of Internal Control</p> <p>25. The auditor shall perform risk assessment procedures, in accordance with paragraphs 27 to 38, to understand how the entity's system of internal control, including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity.</p>
13. <b>[Extant para. 13 maps to ED–315 para 42]</b>			

Extant Requirements ISA 315 (Revised) <sup>2</sup> Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b><i>[New – para's 26 and 42 of ED-315 are similar]</i></b></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.</p>	26. Now deleted	26. Now deleted

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>Components of Internal Control</p> <p>Control environment</p> <p>14. The auditor shall obtain an understanding of the control environment.</p> <p>As part of obtaining this understanding, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(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 deficiencies in the control environment.</p>	<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:</p> <p>(a) Demonstrates a commitment to integrity and ethical values;</p> <p>(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;</p> <p>(c) Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, in pursuit of its objectives;</p> <p>(d) Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives; and</p>	<p>Components of the Entity's System of Internal Control</p> <p>Control Environment</p> <p>27. <i>(Previously paragraph 28 in ED-315)</i> The auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) Those areas of the entity's control environment addressed in paragraphs 28(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>	<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 entity's control environment and evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(b) The control environment provides 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>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p>(e) Holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p> <p>28. Based on the auditor's understanding of the control environment in accordance with paragraph 27, the auditor shall evaluate whether:</p> <p>(a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and</p> <p>(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>	<p>28. <i>(Previously paragraph 27 in ED-315)</i> The auditor shall perform risk assessment procedures to understand the following matters:</p> <p>(a) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;</p> <p>(b) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance;</p> <p>(c) The entity's assignment of authority and responsibility;</p> <p>(d) How the entity attracts, develops, and retains competent individuals; and</p> <p>(e) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p>	<p><b>Example new definition:</b> Control environment component—is the set of controls, processes and structures that address:</p> <p>(a) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;</p> <p>(b) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance;</p> <p>(c) The entity's assignment of authority and responsibility;</p> <p>(d) How the entity attracts, develops, and retains competent individuals; and</p> <p>(e) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.</p>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<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"> <li>(a) Identifying business risks relevant to financial reporting objectives;</li> <li>(b) Estimating the significance of the risks;</li> <li>(c) Assessing the likelihood of their occurrence; and</li> <li>(d) Deciding about actions to address those risks.</li> </ul> <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</p>	<p>The Entity's Risk Assessment Process</p> <p>29. The auditor shall obtain an understanding of the entity's risk assessment process, including the extent to which it is formalized, by understanding:</p> <ul style="list-style-type: none"> <li>(a) Whether, and if so, how, the entity's process: <ul style="list-style-type: none"> <li>(i) Identifies business risks relevant to financial reporting objectives;</li> <li>(ii) Assesses the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addresses those risks.</li> </ul> </li> <li>(b) The results of the entity's process.</li> </ul>	<p>The Entity's Risk Assessment Process</p> <p>29. <i>(Previously paragraph 31 in ED-315)</i> The auditor shall evaluate whether the nature of the entity's risk assessment process, based on the understanding obtained in paragraph 29A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p> <p>29A. <i>(Previously paragraph 29 in ED-315)</i> The auditor shall perform risk assessment procedures to understand the following matters, including the extent to which the entity's risk assessment process is formalized:</p> <ul style="list-style-type: none"> <li>(a) Whether, and if so, how, the entity's risk assessment process: <ul style="list-style-type: none"> <li>(i) Identifies business risks relevant to financial reporting objectives;</li> <li>(ii) Assesses the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addresses those risks.</li> </ul> </li> </ul>	<p>The Entity's Risk Assessment Process</p> <p>29. The auditor shall understand the entity's risk assessment process, including the extent to which it is formalized and the results of that process, and evaluate whether it is appropriate to the entity's circumstances considering the nature and size of the entity. If the risk assessment process is not appropriate, the auditor shall determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.</p> <p><b>Example new definition:</b></p> <p>Risk assessment process component—the entity's process for:</p> <ul style="list-style-type: none"> <li>(i) Identifying business risks relevant to financial reporting objectives;</li> <li>(ii) Assessing the significance of those risks, including the likelihood of their occurrence; and</li> <li>(iii) Addressing those risks.</li> </ul>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>is a significant deficiency in internal control with regard to the entity's risk assessment process.</p> <p>17. If the entity has not established such a process or has an ad hoc 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.</p>	<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>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:</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>(b) The results of the entity's risk assessment process.</p> <p>30. If the auditor identifies risks of material misstatement that management failed to identify, 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 29.</p>	<p>30. If the auditor identifies risks of material misstatement that management failed to identify, 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 29.</p>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<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 deficiencies in its controls.</p> <p>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.</p> <p>23. If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.</p>	<p>The Entity's Process to Monitor the System of Internal Control</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 formalized, by understanding how the entity's process:</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>The Entity's Process to Monitor the System of Internal Control</p> <p>32. The auditor shall evaluate, whether the entity's process to monitor the system of internal control, based on the understanding obtained in paragraph 32A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.</p> <p>32A. <i>(Previously paragraph 32 in ED-315)</i> The auditor shall perform risk assessment procedures to understand the following matters, including the extent to which the entity's monitoring process is formalized,:</p> <p>(a) How the entity monitors the effectiveness of controls; and</p> <p>(b) How the identification and remediation of control deficiencies, including those related to the entity's risk assessment process, are addressed.</p> <p>(c) <i>(Previously paragraph 34 of ED-315)</i> If the entity has an internal audit function, the nature of the internal audit function's</p>	<p>The Entity's Process to Monitor the System of Internal Control</p> <p>32. The auditor shall understand the entity's process to monitor the system of internal control, including, when applicable, the nature, responsibilities and activities of the entity's internal audit function, and evaluate whether the entity's process is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.</p> <p><b>Example new definition:</b></p> <p>The entity's process to monitor internal control component—the entity's ongoing and separate evaluations, including those performed by the entity's internal audit function, if any, for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified.</p>



Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p>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.</p> <p>34. If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.</p>	<p>responsibilities, its organizational status, and the activities performed, or to be performed.</p> <p>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.</p> <p>34. <i>Deleted – moved to paragraph 32A(c) above</i></p>	<p>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.</p> <p>34. <i>Deleted – incorporated in paragraph 32 above</i></p>

Extant Requirements ISA 315 (Revised) Column 1	ED–315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<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:</p> <p>(a) The classes of transactions in the entity's operations that are significant to the financial statements;</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 statements;</p> <p>(c) The related accounting records, supporting information and specific accounts in the financial statements 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</p>	<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:</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:</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 statements; and</p> <p>(ii) Information about events and conditions, other than</p>	<p>The Information System and Communication</p> <p>35. <i>(Previously paragraph 36 in ED-315)</i> The auditor shall evaluate whether the information system, based on the understanding obtained in paragraph 35A, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework.</p> <p>35A. The auditor shall perform risk assessment procedures to understand the following matters:</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:</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and</p>	<p>The Information System and Communication</p> <p>35. The auditor shall obtain an understanding of the entity's information system for the significant classes of transactions, account balances and disclosures.</p> <p>35A. The auditor shall evaluate whether the information system, based on the understanding obtained in paragraph 35, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework.</p> <p><b>Example new definition:</b></p> <p>The information system and communication component—the entity's activities, involving people, processes, data and IT that address:</p> <p>(a) How information flows through the entity's information system, including how:</p> <p>(i) Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, and</p>

Extant Requirements ISA 315 (Revised) Column 1	ED–315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>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 statements;</p> <p>(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and</p> <p>(f) Journal entries <i>[mapped to para. 39 of ED–315]</i></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 statements that is obtained from within or outside of the general and subsidiary ledgers.</p>	<p>transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements 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 statements 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.</p> <p><b>[New]</b></p> <p>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.</p>	<p>incorporated in the general ledger and reported in the financial statements; and</p> <p>(ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 35A(a);</p> <p>(c) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 35A(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and</p> <p>(d) <b>[TBD in June]</b> The entity's IT environment relevant to (a) through (c) above.</p>	<p>incorporated in the general ledger and reported in the financial statements; and</p> <p>(ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.</p> <p>(b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system;</p> <p>(c) The financial reporting process used to prepare the entity's financial statements, including disclosures;</p> <p>(d) How transactions and information are communicated; and</p> <p>(e) <b>[TBD in June]</b> The entity's IT environment relevant to the information system.</p>

Extant Requirements ISA 315 (Revised) Column 1	ED–315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>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:</p> <ul style="list-style-type: none"> <li>(a) Communications between management and those charged with governance; and</li> <li>(b) External communications, such as those with regulatory authorities.</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>(a) Communications between management and those charged with governance; and</li> <li>(b) External communications, such as those with regulatory authorities.</li> </ul>	<p><i>Note: Column 3 and Column 4 are the same</i></p> <p>37. The auditor shall understand how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity, including:</p> <ul style="list-style-type: none"> <li>(a) Communications between management and those charged with governance; and</li> <li>(b) External communications, such as those with regulatory authorities.</li> </ul>	<p>37. The auditor shall understand how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity, including:</p> <ul style="list-style-type: none"> <li>(a) Communications between management and those charged with governance; and</li> <li>(b) External communications, such as those with regulatory authorities.</li> </ul>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
<p>Control activities relevant to the audit</p> <p>20. The auditor shall obtain an understanding of control activities relevant to the audit <b><i>[remainder of extant para. 20 maps to para. 39(e) of ED-315]</i></b></p> <p><b><i>[Extant para. 29]:</i></b></p> <p>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.</p> <p><b><i>[Part of extant para. 18]:</i></b></p> <p>The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:</p> <p>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.</p> <p><b><i>[Extant para. 20]:</i></b></p> <p>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</p>	<p>Control Activities</p> <p>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.</p> <p>Controls relevant to the audit</p> <p>39. The auditor shall identify controls relevant to the audit, being those:</p> <p>(a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;</p> <p>(b) That address risks that are identified as a significant risk;</p> <p>(c) Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;</p> <p>(d) Controls for which the auditor plans to test the operating effectiveness in determining the</p>	<p>Control Activities</p> <p>38. Deleted</p> <p>39. The auditor shall identify controls that address, or support controls that address, risks of material misstatement at the assertion level, as follows:</p> <p>(a) Controls that address risks that are identified as a significant risk;</p> <p>(b) Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;</p> <p>(c) Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b).</p> <p>(d) Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;</p>	<p>Control Activities</p> <p>38. Deleted</p> <p>39. Based on the understanding of the information system in paragraph 35, and other components of internal control in paragraphs 27, 29 and 32, as relevant, the auditor shall identify controls that address, or support controls that address, risks of material misstatement at the assertion level, as follows:</p> <p>(a) Controls that address risks that are identified as a significant risk;</p> <p>(b) Controls over journal entries, including non-standards journal entries to record non-recurring, unusual transactions or adjustments;</p> <p>(c) That, in the auditor's professional judgment, it is necessary for the auditor to identify to achieve the objectives in paragraph 17 (a) and (b)</p> <p>(d) Controls for which the auditor plans to test the operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that</p>

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<p>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 statements or to every assertion relevant to them.</p> <p><b>[Part of extant para. 12]:</b></p> <p>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 judgment whether a control, individually or in combination with others, is relevant to the audit.</p>	<p>nature, timing and extent of substantive testing; or</p> <p>(e) That, in the auditor's professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:</p> <ol style="list-style-type: none"> <li>i. Identify and assess the risks of material misstatement at the assertion level; or</li> <li>ii. Design further audit procedures responsive to assessed risks.</li> </ol> <p>Not all controls that are relevant to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment as to whether a control, individually or in combination with other controls, is identified as being relevant to the audit.</p>	<p>It is not necessary for the auditor to identify all controls that address, or support other controls that address, identified risks of material misstatement for each relevant assertion for each significant class of transaction, account balance or disclosure. It is a matter of the auditor's professional judgment as to whether it is necessary to identify such a control to achieve the objectives in paragraph 17(a) and (b).</p>	<p>address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.</p> <p><b>Example new definition:</b></p> <p>Control Activities Component—are the actions established by policies or procedures to help ensure that management directives to mitigate risks are carried out. They can be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations, verifications, reconciliations and business performance reviews.</p>

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></p> <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:</p> <ul style="list-style-type: none"> <li>(a) Automated controls that management is relying on and that the auditor has determined to be relevant to the audit;</li> <li>(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;</li> <li>(c) System-generated reports on which the auditor intends to rely on without directly testing the inputs and outputs of such reports; or</li> <li>(d) Controls that address risks for which substantive procedures</li> </ul>	For discussion in June 2019	For discussion in June 2019

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	alone do not provide sufficient appropriate audit evidence.		
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.	<p><b>[Partly new]</b></p> <p>41. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify:</p> <ul style="list-style-type: none"> <li>(a) The risks arising from the use of IT; and</li> <li>(b) The general IT controls relevant to the audit.</li> </ul>	For discussion in June 2019	For discussion in June 2019
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 inquiry of the entity's personnel.	<p>42. For each control identified as relevant to the audit in accordance with paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>	<p>Column 3 and column 4 are the same</p> <p>42. For each control identified in paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>	<p>42. For each control identified in paragraphs 39 and 41, the auditor shall:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.</li> </ul>



Extant Requirements ISA 315 (Revised) Column 1	ED–315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></p> <p><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>4</sup> determine on the basis of the work performed in accordance with this ISA:</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><i>Column 3 and column 4 are the same</i></p> <p><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>5</sup> determine on the basis of the work performed in accordance with this ISA:</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><i>Control Deficiencies Within the System of Internal Control</i></p> <p>43. The auditor shall, in accordance with ISA 265,<sup>6</sup> determine on the basis of the work performed in accordance with this ISA:</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>

<sup>4</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>5</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>6</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

Extant Requirements ISA 315 (Revised) Column 1	ED-315 Requirements Column 2	Option 1 Column 3	Option 2 Column 4
	<p><b>[New]</b></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> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement as required by ISA 330.</li> </ul>	<p><i>Column 3 and column 4 are the same</i></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> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.</li> </ul>	<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> <ul style="list-style-type: none"> <li>(a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and</li> <li>(b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.</li> </ul>

## Markup of Column 3 Revisions to ED-315

## Risk Assessment Procedures and Related Activities

17. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for an understanding of:
- ~~(a) The entity and its environment in accordance with paragraph 23(a);~~
  - ~~(b) The applicable financial reporting framework in accordance with paragraph 23(b); and~~
  - ~~(c) The entity's system of internal control in accordance with paragraphs 25–44~~
  - (a) to obtain sufficient appropriate audit evidence as the basis for the identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and-
  - (b) The design of further audit procedures in accordance with ISA 330.
- Inquiry alone is not sufficient for this purpose. Risk assessment procedures by themselves, ~~however,~~ do not provide sufficient appropriate audit evidence on which to base the audit opinion.

~~Obtaining an~~ Understanding of the Entity's System of Internal Control

25. The auditor shall perform risk assessment procedures in accordance with paragraphs 27 to 38, to ~~obtain an understanding how~~ of the entity's system of internal control ~~relevant to financial reporting,~~ including the entity's use of IT, supports the preparation of the financial statements given the nature and circumstances of the entity 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 ISA. Such an understanding also provides, in the public interest, a basis for the communication of control deficiencies to management and those charged with governance in accordance with ISA 265.
- ~~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.~~

## Components of the Entity's System of Internal Control

## Control Environment

27. *(Previously paragraph 28 in ED – 315)* ~~Based on the auditor's understanding of the control environment in accordance with paragraph 27, t~~The auditor shall evaluate whether:

- (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and
  - (b) ~~The strengths in~~ those areas of the entity's control environment addressed in paragraphs 27-28(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.
28. (Previously paragraph 27 in ED-315) The auditor shall perform risk assessment procedures to obtain an understanding of the control environment relevant to financial reporting, including understanding how the following matters entity:
- (a) How management's oversight responsibilities are carried out, such as the entity's culture and management's ~~Demonstrates a~~ commitment to integrity and ethical values;
  - (b) When those charged with governance are separate from management, the ~~demonstrates that those charged with governance are independent of management and exercise oversight over~~ the entity's system of internal control by those charged with governance;
  - (c) The entity's assignment of ~~Establishes, with the oversight of those charged with governance, structures, reporting lines, and appropriate authorities and responsibilities, in pursuit of its objectives~~;
  - (d) How the entity ~~Demonstrates a commitment to~~ attract, develop, and retain competent individuals ~~in alignment with its objectives~~; and
  - (e) How the entity ~~H~~ holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control.

#### The Entity's Risk Assessment Process

29. (Previously paragraph 31 in ED-315) ~~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: evaluate
- ~~(a)~~ Evaluate whether the nature of the entity's risk assessment process based on the understanding obtained in paragraph 29A, including its formality, is appropriate to the entity's circumstances considering the nature and size of the entity; ~~and~~
  - ~~(b)~~ If not, the auditor shall determine whether the lack of an appropriate risk assessment process represents one or more control deficiencies.
- 29A. (Previously paragraph 29 in ED-315) The auditor shall perform ~~obtain an understanding of the entity's~~ risk assessment process to understand the following matters, including the extent to which the entity's risk assessment process ~~is~~ is formalized, ~~by understanding~~:
- (a) Whether, and if so, how, the entity's risk assessment process:
    - (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 risk assessment process.

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 2934.

#### The Entity's Process to Monitor the System of Internal Control

- 32 (New paragraph) The auditor shall evaluate, whether the entity's process to monitor the system of internal control, based on the understanding obtained in paragraph 32A, is appropriate to the entity's circumstances considering the nature and size of the entity. If not, the auditor shall determine whether the lack of an appropriate process to monitor the system of internal control represents one or more control deficiencies.
- 32A. (Previously paragraph 32 in ED-315) The auditor shall perform risk assessment procedures to understand the following matters, obtain an understanding of the entity's process to monitor the system of internal control, including the extent to which the entity's monitoring process~~it~~ is formalized, by understanding how the entity's process:
- (a) How the entity Monitors the effectiveness of controls; and
  - (b) HowAddresses the identification and remediation of control deficiencies, including those related to the entity's risk assessment process, are addressed.
  - (c) (Previously paragraph 34 in ED-315) If the entity has an internal audit function,<sup>7</sup> ~~the auditor shall obtain an understanding of~~ the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed.
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.
34. (Moved to 32A(c))

<sup>7</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the ISA.

## The Information System and Communication

35. (*Previously paragraph 36 in ED-315*) The auditor shall evaluate whether the information system, based on the design of the information system controls relevant to financial reporting, by understanding obtained how the matters in paragraph 35A, appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework (a)–(d) are addressed by the entity, and implemented.
- 35A (*Previously paragraph 35 in ED-315*) The auditor shall perform risk assessment procedures to obtain an understanding of the following matters of the information system relevant to financial reporting, including the related business processes, through understanding:
- (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:
    - (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 statements; and
    - (ii) Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements.
  - (b) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in paragraph 35A(a);
  - (c) The financial reporting process used to prepare the entity's financial statements from the records described in paragraph 35A(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and
  - (d) The entity's IT environment relevant to (a) through (c) above.
37. The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters that support the preparation of the financial statements given the nature and circumstances of the entity relevant to financial reporting, including:
- (a) Communications between management and those charged with governance; and
  - (b) External communications, such as those with regulatory authorities.

## 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.

## Controls relevant to the audit

39. The auditor shall identify controls ~~that address, or support controls that address, risks of material misstatement at the assertion level, as follows relevant to the audit, being those:~~

~~(a) That address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence;~~

~~(b) (a) Controls That address risks that are identified as a significant risk;~~

~~(c) (b) Controls Over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments;~~

~~(c) Controls that are necessary for the auditor to identify to achieve the objectives in paragraph 17(a) and (b);~~

(d) Controls for which the auditor plans to test ~~the~~ operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; ~~or~~

~~(e) That, in the auditor's professional judgment, are appropriate to evaluate their design and determine whether they have been implemented to enable the auditor to:~~

~~(i) Identify and assess the risks of material misstatement at the assertion level; or~~

~~(ii) Design further audit procedures responsive to assessed risks.~~

It is not necessary for the auditor to identify ~~Not all~~ controls that address, or support other controls that address, identified risks of material misstatement for each relevant assertion for each significant class of transaction, account balance or disclosure. are relevant to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment as to whether it is necessary to identify such a control to achieve the objectives in paragraph 17(a) and (b). ~~a control, individually or in combination with other controls, is identified as being relevant to the audit.~~

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:

(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.

41. For the IT applications and other aspects of the IT environment that are relevant to the audit, the auditor shall identify:
- (a) The risks arising from the use of IT; and
  - (b) The general IT controls relevant to the audit.
42. For each control identified ~~as relevant to the audit~~ in ~~accordance with~~ paragraphs 39 and 41, the auditor shall:
- (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
  - (b) Determine whether the control has been implemented by performing procedures in addition to inquiry of the entity's personnel.

*Control Deficiencies Within the System of Internal Control*

43. The auditor shall, in accordance with ISA 265,<sup>8</sup> determine on the basis of the work performed in accordance with this ISA:
- (a) Whether one or more control deficiencies within the system of internal control have been identified; and
  - (b) If so, whether the control deficiencies, individually or in combination, constitute significant control deficiencies.
44. The auditor shall consider the implications for the audit of one or more control deficiencies in the system of internal control, including for:
- (a) The assessment of control risk for risks of material misstatement at the assertion level in accordance with paragraph 50; and
  - (b) Designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level as required by ISA 330.<sup>9</sup>

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<sup>8</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraphs 7–8

<sup>9</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 5