

CPA Canada Handbook – Assurance

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CAS 315, Identifying and Assessing the Risks of Material Misstatement

This Canadian Auditing Standard (CAS) revises and replaces existing [CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*](#). It incorporates changes to establish more robust requirements and appropriately detailed guidance to drive auditors to perform appropriate risk assessment procedures corresponding with the size and nature of the entity, and to enhance the application of professional skepticism in audits. Revised CAS 315:

- distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling up for more complex situations and scaling down for less complex situations;
- clarifies the definition of "significant risk" and explicitly introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- separates the assessment of inherent and control risk;
- enhances the auditor's considerations in relation to the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- clarifies the threshold for identifying possible risks of material misstatement in [CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*](#).

Revised [CAS 315](#) is effective for audits of financial statements for periods beginning on or after December 15, 2021. Earlier application is permitted.

As a result of issuing revised [CAS 315](#), requirements in the following standards have been amended to articulate more clearly the auditor's responsibilities regarding identifying and assessing the risks of material misstatement:

- CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs [17](#), [21](#), [28](#) and [45](#);
- CAS 330, *The Auditor's Responses to Assessed Risks*, paragraphs [7-8](#), [10](#), [13-17](#) and [27](#);
- CAS 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraphs [10-12](#) and [14](#); and
- CAS 540, *Auditing Accounting Estimates and Related Disclosures*, paragraphs [13](#), [16-17](#) and [19](#).

Editorial changes have been made to other standards as a consequence of revising [CAS 315](#).

Archived Pronouncements

To give Handbook users continued access to the superseded CASs until such time as they are no longer applicable, supplements in Archived Pronouncements set out the wording of those CASs. The archived material will be withdrawn from the Handbook when it is no longer effective.

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