

Understanding the Entity & its Environment → SA 315

1 → Rel. Industry, Regulatory and other External Factors, including applicable F.R.F.

(A) Relevant Industry → Industry Condition → specific risk due to Nature of business and Regulation

Competitive Environment → seasonal Activity
Supplier & Customer
Technology Development → Product Techno.

(B) Relevant Regulatory Factors

↳ Regulatory Environment
↳ Applicable F.R.F.
↳ Legal & Political Environment.

Example

- AIC Principle and Industry Specific Practice
- Regulatory framework
- Legislation and Regulation that effect operation
- Taxation, Govt. Policy

(C) Other External Factor

↳ General Economic Condition
↳ Interest Rate
↳ Inflation

CA Kabir
Cred Inter
class Note

2. → The Nature of Entity, including → Book

Operation → Nature of Rev. source, Product or Service
Key Customer, Supplier

Ownership and Governance Structure

Type of Investment

The way Entity is Structured & How it is financed.

3. The Entity selection and application of AIC Policy & Reason of Change

4. The Entity objective and Strategy and those business Risk that may Result in Material Misstatement.

↳ Entity Conduct it's business in the context of
↳ Industry, Regulatory and other Internal/External Factors.

to Respond these Factors → Mgt. defined objective

Business Risk is broader than ROMM at FS.
It can arise from change in complexity.
Auditor Don't Have Responsibility to identify All business Risk.

Auditor will obtain understanding of following, (Examples)

- Industry Development
- New Product / services
- Expansion of business

5. The Measurement and Reviews of the Entity Financial Performance.

- Mgt. Will Review Important Matters
- Performance Measure Create Pressure on the Entity.

↳ Motivate to Take Action

↳ to Misstate the FS

Accordingly above understanding will help Auditor to understand the Risk of Material Misstatements, including Risk of fraud.