

CONDUCTING RISK ASSESSMENT AND AUDIT OF INTERNAL CONTROLS

PRESENTER

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RISK ASSESSMENT APPROACHES

- Objective of these procedures
- These are procedures performed to obtain an understanding of:
 - the entity,
 - its environment
 - internal controls,
- To identify and assess the risk of Material misstatement at the financial statements and assertion levels
- It forms a basis of exercising professional judgement.
- It is a continuous process through out the audit,

RISK ASSESSMENT APPROACHES

- **General Risk assessment procedures include:**
- Enquiries with the management and appropriate individuals within the internal audit department
- Analytical Review procedures – develop an expectation
- Observation and inspection

General Risk assessment procedures - contd

- Review of information obtained when conducting client acceptance/continuance procedures
- Review of information obtained in previous audits-review whether there have been changes
- Discussion among the engagement team

Internal Control Environment

- **Definition**
- Internal Control is 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

Internal Control Environment

- The control environment
- The entity's risk assessment process
- The information system
- Control activities
- Monitoring controls

Components of Internal Control - Contd

- Internal controls may contain both manual & automated controls.
 - E.g. approvals, review and follow up of reconciling items - manual
 - Controls embedded in the computer program - automated
- The mix of manual and automated controls depends on the nature & extent of the entity's use of IT

Benefits of Automated controls

- Consistently application
- Enhanced the timeliness, availability, and accuracy of information;
- Facilitates additional analysis of information;

Benefits of Automated controls - Contd

- Enhances the ability to monitor the performance of the entity's activities and its policies and procedures;
- Reduces the risk that controls will be circumvented;
- Enhance the ability to achieve effective segregation of duties

AUDIT OF AUTOMATED CONTROLS

- 1. Evaluate design of the control
- This involves considering whether the controls individually, or in combination with others are capable of preventing, detecting and correcting material misstatements
- **Note:** Obtaining an understanding of an entity's controls is not sufficient to test their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls

1. Evaluate design of the control - Cntd

- Audit procedures to test for design of controls may include:
 - Inquiring of entity personnel
 - Observing the application of specific controls.
 - Inspecting documents and reports.
 - Tracing transactions through the information system relevant to financial reporting.

AUDIT OF AUTOMATED CONTROLS

- **2. Evaluate Implementation & Operating Effectiveness of controls**
- Performing audit procedures to determine whether an automated control has been implemented may serve as a test of that control's operating effectiveness.
- **Procedures include:**
 - Test of controls
 - Evaluating results of substantive testing
 - Compliance testing
 - Inspection of documents
 - Use of CAATs (Computer Aided Audit Techniques)

2. Evaluate Implementation & Operating Effectiveness of controls

- Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in an assertion.
- evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively

2. Evaluate Implementation & Operating Effectiveness of controls - Contd

- nature of a particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively.
- E.g. if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness

RESPONDING TO ASSESSED RISK

- Designing and performing further audit procedures to obtain sufficient and appropriate audit evidence
- Evaluate the sufficiency and appropriateness of the evidence gathered.

E.g. oral & written representations from the management

RESPONDING TO ASSESSED RISK

- Test of controls – operating effectiveness of relevant controls
- Substantive procedures - Irrespective of the assessed risks of material misstatement.
- Adequacy of presentation and disclosures – In financial statements

THE END

THANK YOU

QUESTIONS & ANSWERS