

Risk Assessment and Response to Assessed Risks (ISA 315 & 330)

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Guideline

- a) Common findings during AQRs
- b) What is risk assessment
- c) Risk assessment procedures
- d) Required documentations
- e) Practical Example

a) Common findings during AQRs

- No risk assessment done/no documentation
- Copy and paste of a different client's information

b) What is risk assessment?

- Process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.
- The whole audit team should be involved through engagement team discussions

b) What is risk assessment?.....

- Identify and assess risk of material misstatements and how to respond to them
- Identify risks that require special audit considerations
- Assess risks due to fraud

c) Risk assessment Procedures

- In depth understanding the client/entity
- Inquiries of management, and of others within the entity
- Analytical procedures-current/previous year-get to note unusual circumstances
- Observation and inspection
- Previous experience-misstatements in the past
- Auditor's own resources-Internal Audit

c) Risk assessment procedures....

Identify and assess the risk of material misstatement

- 2 levels
- Financial statement level
- Assertion level i.e. account balance or disclosure level

c) Risk assessment procedures....

Financial Statement level

- Risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- Not specific to particular account
- E.g. Management override of controls; Fraud; Management lack of competence; integrity of mgt; reliability of financial records

c) Risk assessment procedures....

Assertion level

- Directly assists in determining the nature, timing and extent of further audit procedures at the assertion level necessary to obtain sufficient appropriate audit evidence.
- Income statement assertions
- Statement of Financial Position assertions

c) Risk assessment procedures.....

Income Statement Assertions

- Occurrence
- Completeness/Cut off
- Accuracy/Measurement
- Classification

c) Risk assessment procedures.....

Statement of Financial Position Assertions;

- Existence
- Rights & Obligations
- Completeness
- Valuation
- Presentation and Disclosure

d) What should be documented

- Engagement team discussions and conclusions reached
- Risk Assessment Procedures performed e.g. Analytical Procedures.
- Identified risks at FS and assertion levels; how to respond to them and the controls in place to mitigate them

e) Practical Examples

- Revenue and other income
- Trade and other receivables

e) Practical example-Exercise

Exercise for 15 minutes

- *Go into 2 groups*
- *Identify the risks at assertion level and how to respond them*
- *Come up with an audit program*
- *Document the work paper*

To note;

- An auditor should identify the risks of misstatements during planning and how he/she plans to respond to them-be specific
- Respond only to the risks identified
- This will avoid inefficiency when executing the audit

Auditing Internal Control Environment; Bias on the IT Environment

- Key Highlights of Any ICS
 - A. Control Environment
 - B. Risk Assessment
 - C. Monitoring and Reviewing
 - D. Information and Communication
 - E. Control Activities

Internal Ctrls in an IT Environment

1. Application Controls

(a) Input Controls

Includes- manual scrutiny to ensure documents are authorized before posting, tallying generated data against the manual document

(b) **Processing Controls-E.g**, the beginning balances on the receivables ledger plus the sales invoices (processing run 1) less the cheques received (processing run 2) should equal the closing balances on the receivable ledger.

Application ctrls contd...

- (c) **Output Controls** -eg Review of exception reports based on set logs
- (d) **Master Files and Standing Data Controls** - e.g employee master file printed and submitted to HR to check against personnel records

General Controls

2 General Controls

- IT controls that maintain the integrity of information and security of data & commonly include controls over the following:
 - data centre and network operations
 - system software acquisition, change and maintenance
 - program change
 - access security
 - application system acquisition, development, and maintenance (ISA 315 (Redrafted))

General Controls contd...

- Includes:
 - (a) administrative controls
 - (b) System development controls

Computer Assisted Audit Techniques(CAATs)

- Audit Software-can execute certain instructions
- Test data-with and without errors
- Other techniques-integrated test facility, embedded audit facilities, etc.

End

Questions & Answers