ICPAK - Audit Quality Assurance Workshop-Mt. Kenya Branch
15th – 16th March 2018,

Audit Planning & Risk Assessment:

Conditions and Events That May Indicate Risks of Material Misstatement

The following are examples of conditions and events that may indicate the existence of risks of material misstatement. The examples provided cover a broad range of conditions and events; however, not all conditions and events are relevant to every audit engagement and the list of examples is not necessarily complete.

1) Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies.
2) Operations exposed to volatile markets, for example, futures trading.
3) Operations that are subject to a high degree of complex regulation.
4) Going concern and liquidity issues including loss of significant customers.
5) Constraints on the availability of capital and credit.
6) Changes in the industry in which the entity operates.
7) Changes in the supply chain.
8) Developing or offering new products or services, or moving into new lines of business.
9) Expanding into new locations.
10) Changes in the entity such as large acquisitions or reorganizations or other unusual events.
11) Entities or business segments likely to be sold.
12) The existence of complex alliances and joint ventures.
13) Use of off balance sheet finance, special-purpose entities, and other complex financing arrangements.
14) Significant transactions with related parties.
15) Lack of personnel with appropriate accounting and financial reporting skills.
16) Changes in key personnel including departure of key executives.
17) Deficiencies in internal control, especially those not addressed by management.
18) Inconsistencies between the entity's IT strategy and its business strategies.
19) Changes in the IT environment.
20) Installation of significant new IT systems related to financial reporting.
21) Inquiries into the entity's operations or financial results by regulatory or government bodies.
22) Past misstatements, history of errors or a significant amount of adjustments at period end.
23) Significant amount of non-routine or non-systematic transactions including intercompany transactions and large revenue transactions at period end.
24) Transactions that are recorded based on management's intent, for example, debt refinancing, assets to be sold and classification of marketable securities.
25) Application of new accounting pronouncements.
26) Accounting measurements that involve complex processes.
27) Events or transactions that involve significant measurement uncertainty, including accounting estimates.
28) Pending litigation and contingent liabilities, for example, sales warranties, financial guarantees and environmental remediation.