



AUDIT QUALITY ASSURANCE WORKSHOP

(11^h to 12th August 2021)

SESSION 6: RISK ASSESSMENT & COVID-19 ON AUDIT PROCESS

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Session Objectives



By the end of the session the participants are expected **to contribute to enhancing assurance service provision by** their respective firms through:

- ✓ **Performing appropriate Risk Assessment Procedures.**
- ✓ **Understanding the impact of Covid-19 on the Audit Process and ways of mitigating the same.**

Introduction



Main challenge to Auditors currently- managing audit risks

- ✓ Audit/Engagement risk- The risk that the practitioner expresses an *inappropriate conclusion* when the subject matter information is materially misstated.

Key references:

- Diverse International Audit standards (ISA)
- International Standard on Assurance Engagements (ISAE) 3000- *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

Audit Risks revisited



Two categories of Engagement risks ;

i) Risks that the practitioner (audit partner/team) **does not directly influence**; two sub-categories:

a) **Inherent risks**- susceptibility of subject matter to misstatement risks prior to consideration of established controls;

b) **Control risks**- The risk that a material misstatement that occurs in the subject matter information *will not be prevented, or detected and corrected, on a timely basis* by the party/(ies) internal control.

Audit Risks revisited



Engagement risks **continued**..

ii) Risks that the Practitioner **directly influence** (*detective risks*)

Risk that the procedures performed by the practitioner will not detect a material misstatement.

Recommendations- enhance use of analytic tools, external parties evidences, clear understanding of entity/industry

Risk Assessment Procedures



According to ISA 315 Risk assessment procedures are audit procedures performed to:

- i. Obtain an **understanding** of the *entity and its environment*, including internal controls.
- i. Identify and assess the **risks of material misstatement**, whether due to fraud or error, at the financial statement and assertion levels.

Risk Assessment procedures

cont..



Procedures:

- 1. Inquiries** of management, and of others (eg internal assurance providers, legal team, employees)in- may have formation that is likely to assist in identifying risks of material misstatement due to fraud or error.
- 2. Analytical procedures** (e.g. comparing financial and nonfinancial info).
- 3. Observation and inspections** (documents, reports, operations etc)

Risk Assessment procedures

cont..



Upon identification of risks:

a) Assess the extent of the risks.

b) **Likelihood of misstatement**; possibility for multiple misstatements, may lead to material misstatement.

c) Risks which require **special audit considerations**; factors: fraud, complexity of transactions, effects on related parties, recent events, unusual events.

Risk Assessment procedures cont..



Upon identification of risks (cont..):

d) If significant risks- assess controls

e) Revision of risk assessment during audit process- new information is received- further audit procedures

Risk Assessment(RA) procedures cont..



Illustration-Outcome of RA Procedures

Material Class of Transaction, Account Balance, or Disclosure	Relevant Assertion or Control Objective	Key Control(s) That Is (Are) Designed to Mitigate the Risks of Not Achieving the Objective	Assessment of Control Design	Are the Controls in Place?	Working Paper Reference Documenting This Information

Covid-19 & Audit Process



1) ISA 500 (Audit Evidence):

Auditors are required to design and perform audit procedures to enable the auditor to obtain sufficient appropriate audit evidence, from which to *draw reasonable conclusions on which to base the auditor's opinion.*

- a) **Documentation** ; Manual, information from different system sources
- b) **Physical inspections** to determine existence and condition of inventory – video calls, earlier physical inspections, relying on info from Management
- c) **Virtual meetings limitations**—understanding entity's environment

Covid-19 & Audit Process



Audit Evidence continued...

- ❑ The quality of audit evidence is very important to ensure that the auditor's conclusions are correct.
- ❑ Inadequate information- increase the audit risk of making a wrong audit opinion is high.
- ❑ The quality of audit evidence mainly depends on the form and source of the evidence.

Covid-19 & Audit Process



Audit Evidence continued...

Recommendations

- Due to COVID-19, consider relying more on evidence from external sources such as evidence obtained directly from *external parties* such as customers, suppliers, or banks, which are more reliable than those obtained from clients.
- Increase sample reviews- Analytic tools -100% reviews

Covid-19 & Audit Process



2) Going concern (ISA 570)

- ❑ Most challenging area for both management and auditors because of the uncertainty caused by Covid-19.
- ❑ Auditor : *Sufficient appropriate audit evidence* and conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- ❑ *Material uncertainty does not automatically exist* – depends on nature and circumstances of the entity and industry in which it operates.

Covid-19 & Audit Process



Factors/indicators for going concern assessment

- a. The company's **liquidity** over the duration of Covid-19
- b. Any **breach of financing terms**
- c. Deferral of **financing repayments**
- d. The impact of Covid-19 in the **overall operations** of the company

Covid-19 & Audit Process



Factors/indicators for going concern assessment cont..

- ❖ Loss of major market, key customer(s), revenue.
- ❖ Significant deterioration in value of assets used to generate cash flows & value of current assets – inventory
- ❖ Delays in the launch of new products or services
- ❖ Foreign exchange fluctuations
- ❖ Others- participants to share?

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3) ISA 706 (Revised), Emphasis of Matter Paragraph and Other Matter Paragraphs

- ❑ Due to uncertainty caused by Covid-19 is likely to cause many auditors having to include an emphasis of matter or other matter paragraph in their report highlighting on the uncertainty caused by the pandemic.

Recommendation

- ❑ Consider individual circumstances of the entity - use of an EoM or other matter paragraph should not be seen as automatic.

Recap/Conclusion



Key take a ways

1. **Performing appropriate Risk Assessment Procedures.**

Objective – mitigate risks the Auditor:

- ✓ does not directly influence (inherent & control risk)
- ✓ detective risks.

2. **Impact of Covid-19 on the Audit Process**

- ✓ Quality of evidence,
- ✓ going concern issues,
- ✓ Emphasis of Matter considerations

Q & A



Session

Thank You

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Thank
You

Your logo