

MODULE 3

Topic 4 – Deciding on the right audit strategy

In this Topic

1. Recap
 - a) ROMMs – either inherent risks or control risks
 - b) The audit risk model
2. Identifying “significant risks”
3. Responding to the risks we’ve identified – what to do?
4. Deciding on the audit strategy – linking back to the AR model
5. Documenting the plan – audit programs

Context

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Topic 4.1 – ROMMs and where they come from

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Inherent risks

- Key is to understand the client, industry and environment
 - Are management more likely to understate or overstate?
- Increased risk of misstatement = error or fraud in the accounting information
- Be able to link to a specific account and assertion
- Low IR =
- Medium IR =
- High IR =

Control risks

- Identify the components of the systems of internal controls
- Documenting the processes
- Identify control activities
- Identifying control weaknesses
- Low CR =
- Medium CR =
- High CR =

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Topic 4.2 – Identifying the significant risks

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What is a significant risk?

ASA315.11

- (l) Significant risk – An identified risk of material misstatement: (Ref: Para. A10)
 - (i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
 - (ii) That is to be treated as a significant risk in accordance with the requirements of other ASAs.¹²

32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A218–A221)

How do we figure out which risks are significant?



If you don't document it – it didn't happen!

ASA315

Documentation

38. The auditor shall include in the audit documentation:¹³ (Ref: Para. A237–A241)
- (a) The discussion among the engagement team and the significant decisions reached;
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 19, 21, 22, 24 and 25; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 26; and
 - (d) The identified and assessed risks of material misstatement at the financial report level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgements made.

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Topic 4.3 – Responding to the risks we've identified

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What are we required to do?

ASA330 – The Auditor’s Responses to Assessed Risks

Requirements

Overall Responses

5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial report level. (Ref: Para. A1-A3)

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

6. The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. (Ref: Para. A4-A8)

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Topic 4.4 – Deciding on the audit strategy

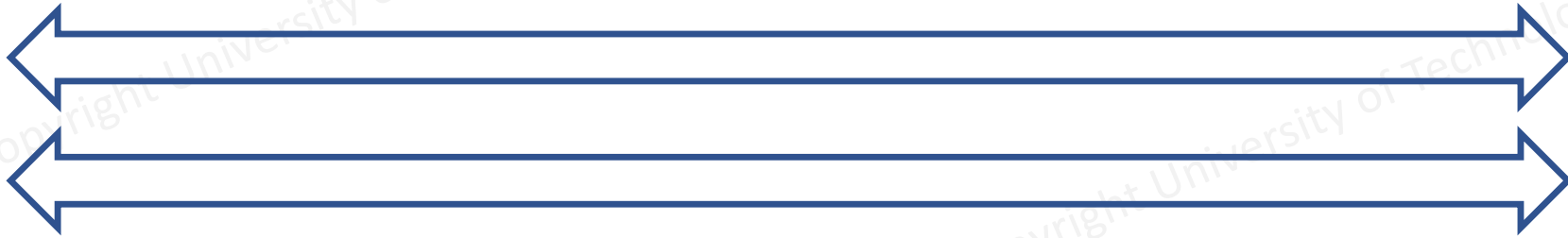
Linking back to the audit risk model

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The AR model

- Reminder of the model
- Detection risk is the key
 - Remember DR is the risk of NOT detecting a misstatement

Practical application of the AR model



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Topic 4.4 – Deciding on the audit strategy – part 2

Linking back to the audit risk model

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Audit strategies and programs are unique

- They are custom designed for the:
 - Client
 - Current economic environment
 - Current industry
- Strategies and plans can change from year to year

Special considerations

- COVID-19
 - Going concern
 - Debt covenants
 - Thresholds for receiving government assistance

What comes next?

- Module 4 – gathering evidence
 - Implementing our audit strategy
 - Designing audit programs
 - Executing audit programs and evaluating the evidence
- To be able to do that – we need to understand about audit evidence and audit procedures

What are the requirements for gathering audit evidence?

Requirements

Sufficient Appropriate Audit Evidence

6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A5-A29)

Information to Be Used as Audit Evidence

7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. (Ref: Para. A30-A44)

How do we gather the audit evidence?

Audit procedures

1. _____
2. _____
3. _____
4. _____
5. _____

6. _____
7. _____
8. _____
9. _____

Major tasks you should be able to do from Module 3

- Know how to understand a client – what do you need to learn?
- Identify inherent risks and evaluate IR
- Identify control risks and evaluate CR (including the control activities and weaknesses)
- Apply the AR model to determine the audit strategy
- Understand the 9 audit procedures