|  |  |  |
| --- | --- | --- |
| **Client:** | **$(client)** | |
| **Period end date:** | **$(start) - $(end)** | |
| **Ref. no.:** |  | |
| **Prepared by:** | $(user) | **Date:** |
| **Approved by Manager:** |  | **Date:** |
| **Approved by Partner:** |  | **Date:** |

# **Guidance (click to expand):**

Purpose

This template is designed to serve as a documentation template for identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks, risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and control risk where the engagement team planned to place reliance on controls and to test the operating effectiveness of controls and the rationale for the significant judgments made.

Identification and Assessment of Risks

Risks of material misstatement are identified and assessed at the financial statement level and assertion level for classes of transactions, account balances and disclosures in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk. Information gathered by performing risk assessment procedures (as addressed in the previous EGAs involving understanding the entity and its environment and the applicable financial reporting framework as well as understanding and evaluating internal control) is used as audit evidence to provide the basis for the identification and assessment of the risks of material misstatement.

Assertions

Identifying the risks of material misstatement also provides the basis for the auditor’s determination of relevant assertions, which assists the auditor’s determination of the significant classes of transactions, account balances and disclosures. The auditor uses assertions to consider the different types of potential misstatements that may occur. Assertions for which the auditor has identified related risks of material misstatement are relevant assertions and may include the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assertion** | **Alphabet** | **Class of transaction and event** | **Account balance at period end** | **Presentation and disclosure** |
| Occurrence | O | **** |  | **** |
| Completeness | C | **** | **** | **** |
| Accuracy | A | **** |  | **** |
| Cutoff | T | **** |  |  |
| Classification | L | **** |  | **** |
| Existence | E |  | **** |  |
| Rights and Obligations | R |  | **** | **** |
| Valuation | V |  | **** | **** |
| Allocation | K |  | **** |  |
| Understandability | U |  |  | **** |

Financial Statement Level

The auditor identifies risks of material misstatement at the financial statement level to determine whether the risks have a pervasive effect on the financial statements (risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions), and would therefore require an overall response accordingly. In addition, risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.

Assertion Level

In contrast, risks of material misstatements that do not relate pervasively to the financial statements are risks of material misstatement at the assertion level.

Assessment of Likelihood and Magnitude of Misstatement

The auditor assesses the likelihood and magnitude of misstatement for identified risks of material misstatement because the significance of the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement determines where on the spectrum of inherent risk the identified risk is assessed, as well as whether it is a significant risk, which informs the auditor’s design of further audit procedures to address the risk. The auditor uses professional judgment in determining the significance of the combination of the likelihood and magnitude of a misstatement.

Significant Risks

A significant risk is where the assessed risk of material misstatement is so high that, in the auditor’s judgment, it will require special audit consideration. Significant risks are assessed before consideration of any mitigating controls. Significant risk is based on the inherent risk (before considering the related internal control) and not the combined risk (considering both inherent and internal control risks). Factors that may indicate possible significant risks are as follows:

* Risk of fraud;
* Risks related to recent significant economic, accounting, or other developments, and therefore require specific attention;
* Complexity of transactions;
* Significant transactions with related parties;
* The degree of subjectivity in the measurement of financial information related to the risk, especially those involving a wide range of measurement uncertainty; or
* Significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.

The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

* Controls that address significant risks are required to be identified and evaluated as to whether the control has been designed effectively and implemented.
* Controls that address significant risks are required to be tested in the current period (when the auditor intends to rely on the operating effectiveness of such controls) and substantive procedures are required to be planned and performed that are specifically responsive to the identified significant risk.
* The auditor is required to obtain more persuasive audit evidence the higher the auditor’s assessment of risk.
* The auditor is required to communicate with those charged with governance about the significant risks identified.
* The auditor is required to take into account significant risks when determining those matters that required significant auditor attention, which are matters that may be key audit matters.
* Timely review of audit documentation by the engagement partner at the appropriate stages during the audit allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner’s satisfaction on or before the date of the auditor’s report.
* More involvement by the group engagement partner is required if the significant risk relates to a component in a group audit and the group engagement team is required to direct the work at the component by the component auditor.

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence

Due to the nature of a risk of material misstatement, and the control activities that address that risk, in some circumstances the only way to obtain sufficient appropriate audit evidence is to test the operating effectiveness of controls. Accordingly, there is a requirement for the auditor to identify any such risks because of the implications for the design and performance of further audit procedures to address risks of material misstatement at the assertion level. The auditor is also required to identify and obtain understanding of controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence (as a result of risks relating to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention) in order to design and perform tests of such controls.

Assessment of Control Risks

Lastly, the auditor’s plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor’s assessment of control risk. The initial expectation of the operating effectiveness of controls is based on the auditor’s evaluation of the design, and the determination of implementation, of the identified controls in the control activities component. Once the auditor has tested the operating effectiveness of the controls, the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment accordingly. The auditor’s assessment of control risk may be performed in different ways depending on preferred audit techniques or methodologies, and may be expressed in different ways.

Specific Guidance

The following is a list of ISAs with specific risk assessment procedures to be performed on every audit, where applicable:

* ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
* ISA 250 (Revised) Consideration of Laws and Regulations in an Audit of Financial Statements
* ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures
* ISA 550 Related Parties
* ISA 570 (Revised) Going Concern
* ISA 600 Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)

# **Risk Assessment** **Document**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Identification and Assessment of Risks** | | | | | | | |
| For risk of fraud in revenue recognition (checked those that apply):  There is a presumption of risks of fraud in revenue recognition on the basis of which we shall evaluate which types of revenue, revenue transactions or assertions give rise to such risks. We shall include risk of fraud in revenue recognition, in this risk assessment document.  OR  We conclude that risk of fraud in revenue recognition is not considered significant for certain revenue streams. Rationale for rebutting the significant risk of fraud in revenue presumption is as follows (checked those that apply):  Revenue recognition is not complex.  There is little pressure on management to manipulate revenue as financial information supports that it is profitable, solvent and has positive cash flows.  The date of transfer of risks and rewards of ownership relating to sales is readily identified by means of signed delivery notes.  Sales are homogeneous, thereby decreasing the risk that incorrect revenue recognition relating to one sale could significantly affect revenue recognition for the year.  All sales are invoiced in local currency.  In prior years no revenue recognition exceptions were noted during our audit.  Other (specify) | | | | | | | |
| **Audit risk name including both fraud and error risks** | **Audit risk event/source** | **Nature of misstatement risk**  **(for e.g. inherent risk or control risk)** | **Relevant financial statement areas** | **Relevant assertions (O,C,A,T,L,E,R,V,K,U or ALL)** | **Likelihood of misstatement risk**  **(High, Moderate, Low)** | **Magnitude of misstatement risk**  **(High, Moderate, Low)** | **Is it a significant risk and if no then why not?** |
| [text] | [text] | [text] | [text] | [text] | [text] | [text] | [text] |

|  |  |  |
| --- | --- | --- |
| **Significant Risks** | | |
| **Risk Description** | **Management’s Response** | **Audit Response**  **(Reference to audit program of relevant financial statement area)** |
| [text] | [text] | [text] |