

# Workshop on Audit Risk Assessment

## Day 3

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Partner

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THE INSTITUTE OF  
**CHARTERED  
ACCOUNTANTS**  
OF BANGLADESH

# About the Presenter

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- IT Expert
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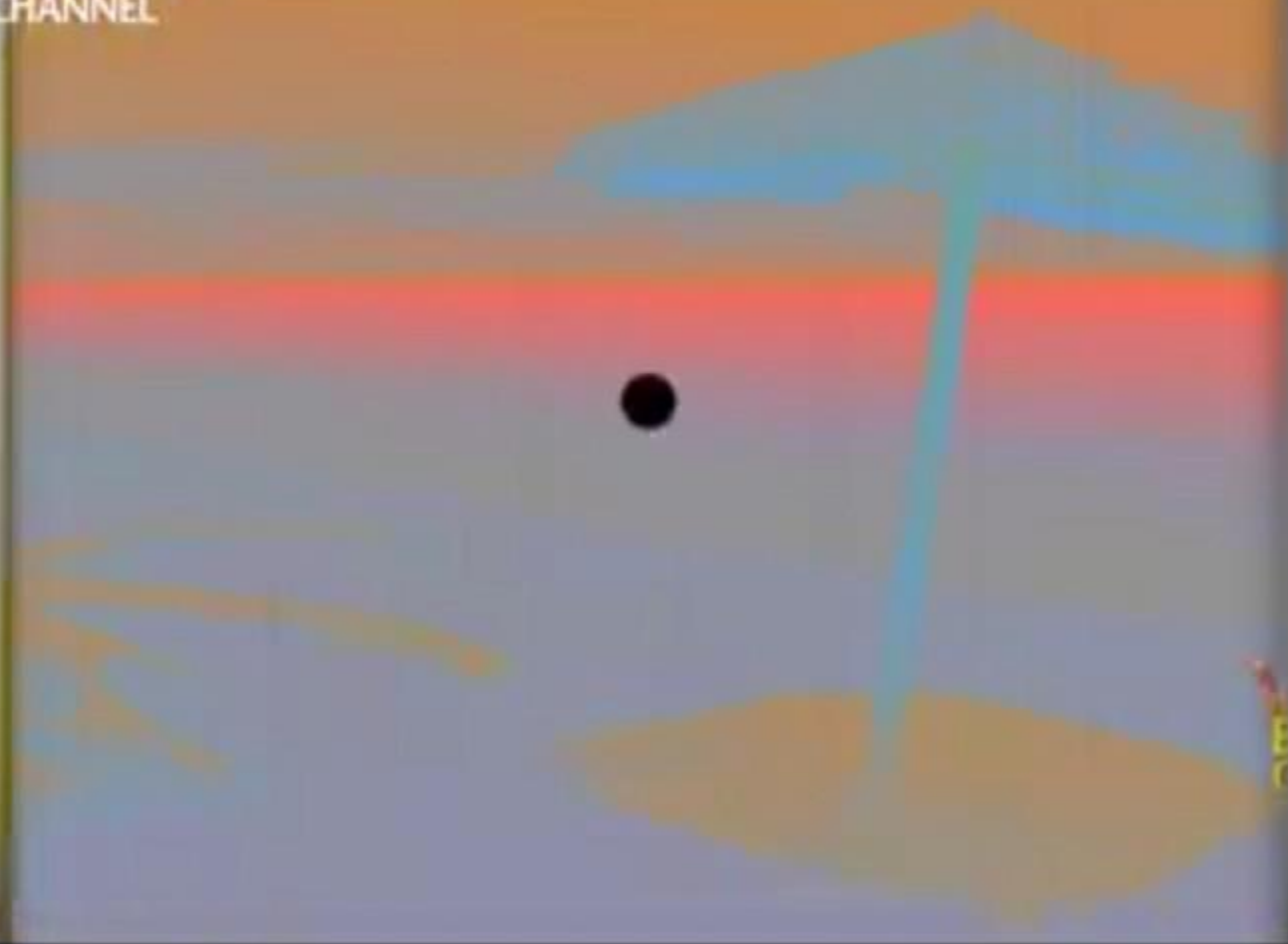


# Overall outline

- fraud risk
- business/operational processes and controls
- audit materiality
- interactive audit materiality calculations
- interactive preliminary audit analytics
- financial statements level risks with examples
- assertions level risks with examples
- general it controls



**Can you believe  
your eyes!!**



can you read this

**7H15 M355463 53RV35 70 PROV3 HOW OUR MIND5 C4N DO**

**4M4Z1N6 7H1N65!**

**IMPR355IV3 7H1N65!**

**IN 7H3 B361NN1NG 17 W45 H4RD BU7 NOW, ON 7H15 LIN3 YOUR**

**MIND 15 R34D1N6 I7 4U7OM471C411Y WI7HOUT 3V3N 7H1NK1N6**

**4BOU7 I7.**



# Assertions

# Assertions – What do they really mean?

## **ISA 315 (Revised)**

- **Para 12(a)**
- **Application and Other Explanatory Material Para A1**



# Assertions – Classes of transactions

- **Occurrence**
- **Completeness**
- **Accuracy**
- **Cutoff**
- **Classification**
- **Presentation**

# Assertions – Account Balances

- **Existence**
- **Rights and obligations**
- **Completeness**
- **Accuracy, valuation and allocation**
- **Classification**
- **Presentation**





SCOT

# Significant classes of transactions, account balances & disclosures

**A class of transactions, account balance or disclosure for which there is one or more relevant assertions.**

# TechNova FS

	2022	2021	2020
<b>Revenue</b>	BDT 250 million	BDT 180 million	BDT 150 million
<b>Cost of Goods Sold</b>	BDT 180 million	BDT 130 million	BDT 110 million
<b>Gross Profit</b>	BDT 70 million	BDT 50 million	BDT 40 million
<b>Operating Expenses</b>	BDT 30 million	BDT 20 million	BDT 15 million
<b>Operating Income</b>	BDT 40 million	BDT 30 million	BDT 25 million
<b>Interest Expense</b>	BDT 5 million	BDT 4 million	BDT 3 million
<b>Net Income Before Tax</b>	BDT 35 million	BDT 26 million	BDT 22 million
<b>Income Tax Expense</b>	BDT 5 million	BDT 6 million	BDT 7 million
<b>Net Income</b>	BDT 30 million	BDT 20 million	BDT 15 million

# TechNova FS

	2022	2021	2020
<b>Assets</b>			
<b>Cash</b>	BDT 20 million	BDT 25 million	BDT 22 million
<b>Accounts Receivable</b>	BDT 90 million	BDT 60 million	BDT 50 million
<b>Inventory</b>	BDT 40 million	BDT 30 million	BDT 25 million
<b>Property, Plant &amp; Equipment</b>	BDT 50 million	BDT 45 million	BDT 40 million
<b>Liabilities</b>			
<b>Accounts Payable</b>	BDT 30 million	BDT 25 million	BDT 20 million
<b>Short-Term Debt</b>	BDT 20 million	BDT 15 million	BDT 10 million
<b>Long-Term Debt</b>	BDT 40 million	BDT 35 million	BDT 30 million
<b>Share Capital</b>	BDT 50 million	BDT 50 million	BDT 50 million
<b>Retained Earnings</b>	BDT 60 million	BDT 35 million	BDT 27 million



# Preliminary Analytics



# TechNova FS

	Amounts in BDT millions			%
	2022	2021	Variance	
<b>Assets</b>				
<b>Property, Plant &amp; Equipment</b>	50	45	5	11%
<b>Accounts Receivable</b>	90	60	30	50%
<b>Inventory</b>	40	30	10	33%
<b>Cash</b>	20	25	(5)	-20%
<b>Total Current Assets</b>	150	115	35	30%
<b>Total Assets</b>	200	160	40	25%

# TechNova FS

<b>Equity</b>				
<b>Share Capital</b>	50	50	-	0%
<b>Retained Earnings</b>	60	35	25	71%
<b>Total Equity</b>	110	85	25	29%
<b>Liabilities</b>				
<b>Accounts Payable</b>	30	25	5	20%
<b>Short-Term Debt</b>	20	15	5	33%
<b>Total Current Liabilities</b>	50	40	10	25%
<b>Long-Term Debt</b>	40	35	5	14%
<b>Total Liabilities</b>	90	75	15	20%
<b>Total Equity &amp; Liabilities</b>	200	160	40	25%





# Risk response

# Nature of procedures

**Test of controls**

**Substantive procedures**

# Type of procedures

**Inspection**

**Observation**

**External confirmation**

**Recalculation**

**Reperformance**

**Analytical procedures**

**Inquiry**



# Journal Entry Testing

# Control activities

## **Journal entry testing**

Must test the controls over non-standard journal entries used to record non-recurring, unusual transactions or adjustments



# General IT Controls



# Understand the extent of use of IT

- The extent of automated procedures for processing, and the complexity of those procedures, including, whether there is highly automated, paperless processing.
- How data is input (i.e., manual input, customer or vendor input, or file load).
- The type of application (e.g., a commercial application with little or no customization, or a highly-customized or highly-integrated application that may have been purchased and customized, or developed in-house).

# Example of IT risks

- Applications are interfaced.
- The volume of data (transactions) is significant.
- The application's functionality is complex as:
  - The application automatically initiates transactions; and
  - There are a variety of complex calculations underlying automated entries.
- Management relies on an application system to process or maintain data as the volume of data is significant.
- Management relies upon the application system to perform certain automated controls that the auditor has also identified.

# Example of General IT controls

## **Access Management:**

- Authentication
- Authorization
- Provisioning & Deprovisioning
- Privileged access
- User access reviews
- Security configuration controls
- Physical access

# Example of General IT controls

## **Change Management:**

- Change management process
- Segregation of duties over change migration
- Systems development or acquisition or implementation
- Data conversion

# Example of General IT controls

## **Manage IT operations:**

- Job scheduling
- Job monitoring
- Backup and recovery
- Intrusion detection



**Knowledge is  
power**

# TechNova – Extended Background

## Company Overview

- **Founded:** TechNova Inc. was established in 2010 by John Carter, a tech entrepreneur with a background in consumer electronics.
- **Headquarters:** San Francisco, California, USA.
- **Industry:** Technology, specializing in consumer electronics (e.g., smartphones, tablets, and wearables).
- **Market Position:** A mid-sized player in the competitive consumer electronics market, known for innovative but affordable products.

# TechNova – Extended Background

## Major Shareholders

TechNova Inc. is a publicly traded company, but a significant portion of its shares is held by a few key stakeholders:

Shareholder	Ownership %	Role in Company
John Carter (Founder)	25%	CEO and Chairman of the Board
Emily Carter (Spouse)	10%	Non-Executive Director
Venture Capital Partners	20%	Institutional Investor
Public Float	45%	Retail and Institutional Investors



# TechNova – Extended Background

## Management Team

Name	Role	Background
John Carter	CEO	Founder of TechNova. Previously worked at a leading tech firm. Known for his charismatic leadership style.
Emily Carter	Non-Executive Director	John's spouse. Former marketing executive. Focuses on brand strategy.
Michael Lee	CFO	Joined in 2018. Previously worked at a Big 4 accounting firm. Known for aggressive financial strategies.
Sarah Johnson	COO	Joined in 2015. Operations expert with a focus on supply chain efficiency.
David Kim	CTO	Joined in 2016. Tech innovator with a strong R&D background.

# TechNova – Extended Background

## Current Lifestyle of Management

### John Carter:

- Recently purchased a BDT 15 million mansion in Silicon Valley.
- Frequently seen driving luxury cars (e.g., Tesla Model S, Porsche 911).
- Active on social media, showcasing extravagant vacations and high-profile events.

### Emily Carter:

- Known for her involvement in high-end fashion and charity galas.
- Recently donated BDT 1 million to a local art museum, which was widely publicized.

### Michael Lee (CFO):

- Lives in a penthouse in downtown San Francisco.
- Reportedly owns a private yacht, which he uses for weekend getaways.

# TechNova – Extended Background

## Recent Developments

**Rapid Expansion:** TechNova has expanded into international markets, including Europe and Asia, over the past two years. However, this expansion has strained the company's cash reserves.

**Regulatory Scrutiny:** The company is under investigation by the Securities and Exchange Commission (SEC) for potential accounting irregularities.

**Employee Turnover:** High turnover in the finance and accounting departments has raised concerns about internal control weaknesses.





**Back to  
SQUARE ONE**

# Basics

## **ISA 330 Para 14**

**The risk assessment procedures shall include the following: (Ref: Para. A19–A21)**

- A. Inquiries of management and of other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists). (Ref: Para. A22–A26)**
- B. Analytical procedures. (Ref: Para. A27–A31)**
- C. Observation and inspection. (Ref: Para. A32–A36)**

# Engagement Team Discussion

## **ISA 330 Para 17**

**The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement.**

**(Ref: Para. A42–A47)**

# Risk Assessment Procedures

**Understanding the Entity and its Business Model**

**Understanding Inherent Risk Factors**

**Understanding the Entity's System of Internal Control**

**Considerations for Understanding an Entity's Internal Audit Function**

**Considerations for Understanding Information Technology (IT)**

**Considerations for Understanding General IT Controls**



# Understanding the Entity

- **The entity's organizational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;**
- **Industry, regulatory and other external factors; and**
- **The measures used, internally and externally, to assess the entity's financial performance;**
- **The applicable financial reporting framework, and the entity's accounting policies and the reasons for any changes thereto;**

# Understanding the Entity

## ☐ GENERAL DESCRIPTION OF THE ENTITY

Legal name of entity	Operating name	Period-end	Website	Main Location & Mailing address
		December 31, 2023		

Business description	
Industry	

Other locations		
Location	Mailing address	Size/number of employees

# Understanding the Entity

## Control Environment

Describe Management Control Policies and Procedures	Design Assessment (Effective or Ineffective)	Audit Procedures and Evidence that Control Policies and Procedures are Implemented and/or Operated Effectively/Ineffectively	Controls in use?	Deficiency in internal control? ①	Risk is N/A	W/P ref.
Risk 1: There is a lack of commitment to integrity and ethical values.						

### Tone at the Top

- Management continually demonstrates, through word and actions, a commitment to high ethical standards
- Management's expectations that employees will conduct themselves in accordance with established policies and procedures are communicated throughout all levels of the entity

### Standards of Conduct

- A code of conduct or equivalent exists that sets out expected standards of ethical and moral behaviour
- The code of conduct is regularly communicated and reinforced not only to all employees but also to service providers

# Documentation

## ISA 315

- **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**
- **The identified and assessed risks of material misstatement at the financial statement 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 judgments made.**

# Documentation

- **The discussion among the engagement team and the significant decisions reached;**
- **Key elements of the auditor's understanding obtained from the risk assessment procedures; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;**

**(Ref: Para 38)**

# Documentation

## **ISA 300**

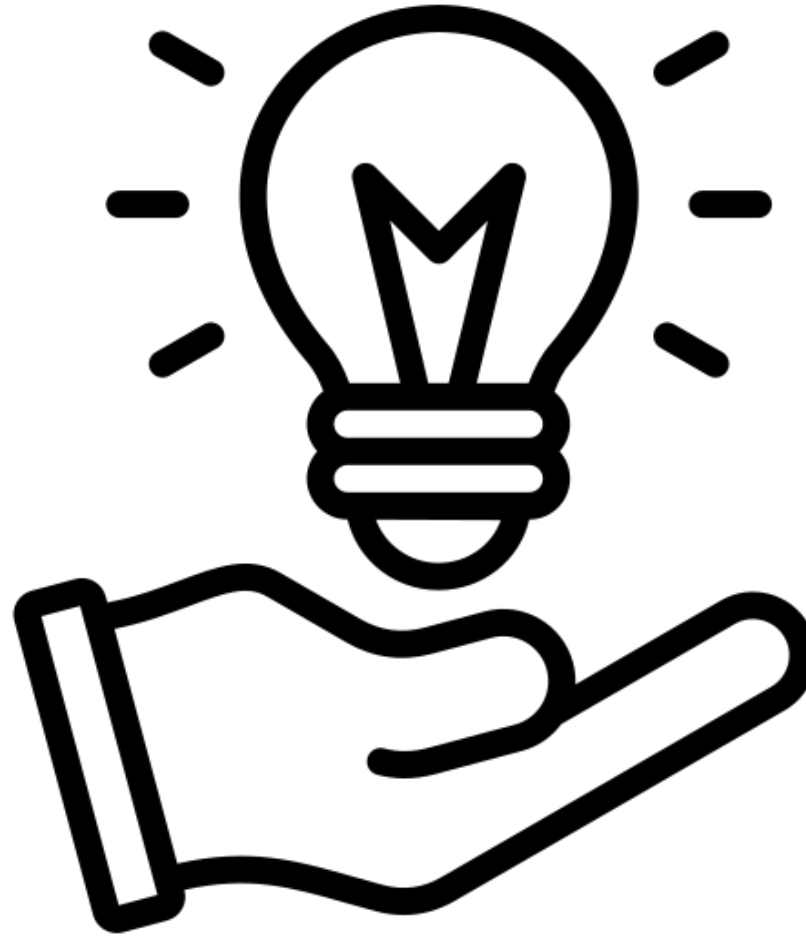
- **The overall audit strategy;**
- **The audit plan; and**
- **Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work, and the reasons for such changes.**

**(Ref: Para. A19–A23)**



**Pause & Think**

# What do you think?







# Wrap-up

# Risk Assessment Procedures

**Risk of material misstatement and fraud risk**

**Audit Materiality**

**Business process (DFD of Revenue)**

**Assertions**

**SCOT**

**Assertion level risks**

**Financial statement level risks**

**Risk Response**

**Overall risk assessment procedures & Documentation**



**Thank you**