

UNDERSTAND THE ENTITY

1. **WHAT** - UNDERSTAND HOW THE ENTITY OPERATES.
2. **WHY** - TO IDENTIFY RISKS OF MATERIAL MISTATEMENT.

INTERNAL CONTROL

1. **CONTROL ENVIRONMENT** - ASSESS THE POLICIES + PROCEDURES OF THE ENTITY
2. **RISK ASSESSMENT PROCESS** - ASSESS HOW THE ENTITY IDENTIFIES RISK.
3. **MONITORING PROCESSES** - ASSESS HOW THE ENTITY EVALUATES CONTROLS
4. **INFORMATION SYSTEM** - ASSESS IT CONTROLS
5. **CONTROL ACTIVITIES** - ASSESS THE ACTUAL CONTROLS BEING PERFORMED BY THE ENTITY.

WEAKNESS VS RISK VS RECOMMENDATION

1. **WEAKNESS** - EVALUATE AN EXISTING CONTROL FOR DEFICIENCIES.
2. **RISK** - DESCRIBE THE CONSEQUENCES OF A SPECIFIC WEAKNESS IDENTIFIED.
3. **RECOMMENDATION** - MENTION CONTROLS THAT SHOULD BE IN PLACE

STRATEGY VS PLAN

STRATEGY - SCOPE (WHAT TO AUDIT AGAINST WHAT) + ENGAGEMENT TEAM COMMUNICATION, DIRECTION AND RESOURCES.
PLAN - NATURE (TYPE), TIMING (WHEN), EXTENT (HOW MUCH) AUDIT PROCEDRES

PLANNING AN AUDIT

RISK AT FINANCIAL STATEMENT LEVEL

1. EITHER DUE TO ERROR OR FRAUD.
2. **CONSIDERATIONS:**
 - SUBJECTIVITY.
 - MANAGEMENT BIAS / JUDGEMENTS
 - UNCERTAINTY
 - COMPLEXITY
 - CHANGE

DESCRIBING RISK AT ASSERTION LEVEL

THERE IS A RISK THAT **ASSERTION X** IS **MATERIALY MISTATED** BECAUSE OF THE **COMPLEX / UNCERTAINTY / SUBJECTIVITY / MANAGEMENT BIAS** LEADING TO A POSSIBLE **OVER / UNDER STATEMENT OF ACCOUNT X**

RISK AT ASSERTION LEVEL

1. IDENTIFY THE ASSERTION IMPACTED.
2. CONSIDER THE ACCOUNTING TREATMENT
3. LINK THE ASSERTION TO THE ACCOUNTING STANDARD

DESCRIBING AN AFS RISK

THE AFS MIGHT BE MATERIALITY MISTATED DUE TO **(ERROR / FRAUD)** BECAUSE **XYZ** WHICH WILL RESULT IN **ABC**

REMEMBER - WHAT / WHY / IMPLICATION

LEVELS TO RISK

MAGNITUDE - HOW BIG WILL THE IMPACT BE IF THE RISK OCCURS (BIGGER = HIGHER RISK)

LIKELIHOOD - HOW LIKELY IS IT THAT THE RISK WILL OCCUR (MORE LIKELY = HIGHER THE RISK)

TEST OF CONTROLS CONSIDERATIONS

NECESSITY - CANNOT DO THE AUDIT WITHOUT TEST OF CONTROLS

POSSIBILITY - CAN CONTROLS BE RELIED ON

DESIRABILITY - MUST ADD VALUE TO THE AUDIT / CLIENT RELATIONSHIP

SUBSTANTIVE TESTING CONSIDERATIONS

NECESSITY - ALWAYS REQUIRED ON SIGNIFICANT AND MATERIAL BALANCES.

STRONG CONTROLS - INCREASE ANALYTICS
WEAK CONTROLS - DECREASE ANALYTICS

CAN BE COMBINED WITH CONTROL TESTS

IDENTIFYING RISKS

APPLY THE **THOUGHT PROCESS** OF WHAT COULD GO WRONG WITH THE ACCOUNTING FOR A SPECIFIC TRANSACTION OR EVENT (**BE SYNICAL** BUT CONSIDER ANY MITIGATING CONTROLS TO HELP ASSESS THE **LEVEL** OF THE RISK)

PLANNING AN AUDIT

MATERIALITY

1. CHOOSE APPROPRIATE FIGURES
2. CHOOSE AN INDICATOR BASED ON THE NATURE OF BUSINESS
3. DETERMINE MATERIALITY
4. **INDICATORS:** TURNOVER / GROSS INCOME / NET INCOME / TOTAL ASSETS / EQUITY

DEVELOPING AN EXPECTATION

THINK ABOUT IFRS AND FROM THE REQUIRED **SUBSEQUENT MEASUREMENT** WHAT YOU EXPECT THE ACCOUNT BALANCE TO DO AND COMPARE THIS TO WHAT **ACTUALLY HAPPENED**. FURTHERMORE DISCUSS WITH **MANAGEMENT** THEIR EXPECTATION AND **REASON** FOR A DIFFERENCE TO THE **ACTUAL MOVEMENT**.

APPROACHES

DURING A RISK ASSESSMENT A **DIRECTION OF TESTING** SHOULD BE IDENTIFIED THROUGH:

- IS THE CURRENT YEAR **OVER / UNDERSTATED** COMPARED TO THE PRIOR YEAR AND PRIOR YEAR TREND FOR THE ACCOUNT AND THE **EXPECTATION** FOR THE ACCOUNT

BUSINESS CYCLE

1. UNDERSTAND THE FLOW OF TRANSACTIONS IN AN IDEAL CYCLE.
2. UNDERSTAND THE FLOW OF DOCUMENTS (MAKES TESTING EASIER).
3. UNDERSTAND THE CONTROLS AND RISKS IN AN IDEAL CYCLE.

TOP TIP 1

CONSIDER THE INTENT OF MANAGEMENT AND THE EXPECTED USE OF THE AFS. NAMELY:

- DO WE HAVE INTENT TO OVERSTATE PROFIT TO GAIN FUNDING / BONUSES ETC.
- DO WE HAVE INTENT TO UNDERSTATE PROFIT TO AVOID TAX.

TOP TIP 2

ALWAYS READ AND UNDERSTAND THE ENTITY'S ACCOUNTING POLICY AND COMPARE THIS TO THE RELEVANT IFRS STANDARD.

WHEN IN DOUBT JUST OPEN THE STANDARD AND APPLY THE CRITERIA TO THE BALANCE AT HAND.

CLASSIFICATION

WHAT: THE PROPER ACCOUNTS HAS BEEN USED FOR THE ACCOUNTING (LINK TO IFRS)
DIRECTION: OVER / UNDERSTATEMENT DEPENDING ON PURPOSE OF DISTORTION
WHY: TO DISTORT THE AFS
TEST: TRACE COMPONENTS OF A TRANSACTION TO VARIOUS ACCOUNTS AND CONFIRM THE CORRECT CLASSIFICATION.

EXISTENCE

WHAT: DOES THE ASSET / LIABILITY / EQUITY ACTUALLY EXIST.

DIRECTION: LINKED TO OVERSTATEMENT.

WHY: TO SHOW MORE ASSETS TO OBTAIN FAVOR FROM USERS OF THE AFS.

TEST: SELECT FROM THE GL AND PHYSICALLY VERIFY THE ITEM SELECTED.

CAN BE RELEVANT TO LIABILITIES WHERE AN INVESTOR MIGHT WANT TO CONVINCE A SHAREHOLDER TO GET MORE FUNDING DUE TO EXCESS LIABILITIES

COMPLETENESS

WHAT - ARE ALL AMOUNTS THAT SHOULD BE INCLUDED ACTUALLY INCLUDED.

DIRECTION: LINKED TO UNDERSTATEMENT.

WHY: TO SHOW A STRONGER NET ASSET VALUE TO OBTAIN INVESTOR / BANK FAVOR.

TEST: SELECT FROM SOURCE DOCUMENT AND TRACE BACK TO THE GL.

BALANCE SHEET

ASSERTIONS

RIGHTS AND OBLIGATIONS

WHAT - FOR THE ASSETS DO I ACTUALLY HAVE THE RIGHT TO USE IT AND FOR LIABILITIES DO I ACTUALLY HAVE THE OBLIGATION TO SETTLE IT.

DIRECTION - LINKED TO OVERSTATEMENT.

WHY: MISREPRESENT ASSET POSITION TO OBTAIN INVESTOR / BANK FAVOUR.

TEST: SELECT FROM GL AND TRACE TO LEGAL AGREEMENTS / INVOICES

PRESENTATION AND DISCLOSURE

WHAT - IS THE ACCOUNT PRESENTED AND DISCLOSED IN TERMS OF IFRS (LINK TO DISCLOSURE REQUIREMENT)

DIRECTION: MORE FALSE REPRESENTATION THROUGH OMMISION / CONFUSION

WHY: TO HIDE ADVERSE TERMS / TRANSACTIONS

TEST: COMPARE AFS DISCLOSURE TO IFRS DISCLOSURE

VALUATION

WHAT: IS MY ACCOUNT BALANCE CORRECTLY VALUED IN TERMS OF IFRS (LINKED TO MEASUREMENT CRITERIA).

DIRECTION: COULD BE BOTH (ASSESS MANAGEMENT INTENTION AND USE OF AFS)

WHY: MISREPRESENT ASSETS (OVERSTATE) AND LIABILITIES (UNDERSTATE)

TEST: SELECT FROM THE GL AND COMPARE THEIR MEASUREMENT TO THE IFRS MEASUREMENT CRITERIA.

TOP TIP 1

ALWAYS **UNDERSTAND** THE CYCLE YOUR TRANSACTION FORMS PART OF AND IDENTIFY:

1. APPLICABLE CONTROLS.
2. SOURCE DOCUMENTS.
3. COMPLEX AREA'S

TOP TIP 2

ALWAYS **UNDERSTAND** THE **FLOW** OF THE TRANSACTION AND **HOW** IT HAS BEEN ACCOUNTED FOR IN THE **AFS**.

THEN **DESIGN** PROCEDURES TO CONFIRM THE **FLOW** IS INLINE WITH **IFRS**

CLASSIFICATION

WHAT: THE PROPER ACCOUNTS HAS BEEN USED FOR THE ACCOUNTING (LINK TO IFRS)

DIRECTION: OVER / UNDERSTATEMENT DEPENDING ON PURPOSE OF DISTORTION

WHY: TO DISTORT THE AFS

TEST: TRACE **COMPONENTS** OF A TRANSACTION TO VARIOUS ACCOUNTS AND CONFIRM THE CORRECT CLASSIFICATION.

OCCURANCE

WHAT: DID THE TRANSACTION ACTUALLY HAPPEN DURING THE PERIOD.

DIRECTION: LINKED TO **OVERSTATEMENT**.

WHY: TO SHOW A HIGHER TRANSACTION BALANCE AT YEAR-END

TEST: SELECT FROM THE GL AND TRACE TO THE **SOURCE DOCUMENT**

COMPLETENESS

WHAT - ARE ALL AMOUNTS THAT **SHOULD** BE INCLUDED **ACTUALLY INCLUDED**.

DIRECTION: LINKED TO **UNDERSTATEMENT**.

WHY: TO **INCREASE / DECREASE** PROFIT BASED ON INTENTION.

TEST: SELECT FROM **SOURCE DOCUMENT** AND TRACE BACK TO THE GL.

INCOME STATEMENT ASSERTIONS

ACCURACY

WHAT: IS THE TRANSACTION ACCOUNTED FOR AT THE AMOUNTS THAT ACCURATELY REFLECTS THE TRANSACTIONS ECONOMIC SUBSTANCE.

DIRECTION - OVER / UNDERSTATEMENT

WHY: TO DISTORT PROFIT

TEST: SELECT FROM THE GL AND TRACE TO **SOURCE DOCUMENTS** AND MEASURE AGAINST IFRS STANDARD.

PRESENTATION AND DISCLOSURE

WHAT - IS THE ACCOUNT PRESENTED AND DISCLOSED IN TERMS OF IFRS (LINK TO DISCLOSURE REQUIREMENT)

DIRECTION: MORE FALSE REPRESENTATION THROUGH OMMISION / CONFUSION

WHY: TO HIDE **ADVERSE TERMS / TRANSACTIONS**

TEST: COMPARE **AFS DISCLOSURE** TO **IFRS DISCLOSURE**

CUT-OFF

WHAT: IS THE TRANSACTION IN THE **CORRECT PERIOD**

DIRECTION: LINKED TO OVERSTATEMENT / UNDERSTATEMENT.

WHY: DISTORT PROFIT FIGURE

TEST: SELECT FROM CURRENT YEAR AND POST YEAR END **GL** AND TRACE TO **SOURCE DOCUMENT**