



Practical Approach to Any Audit Risk

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Objective of the Session

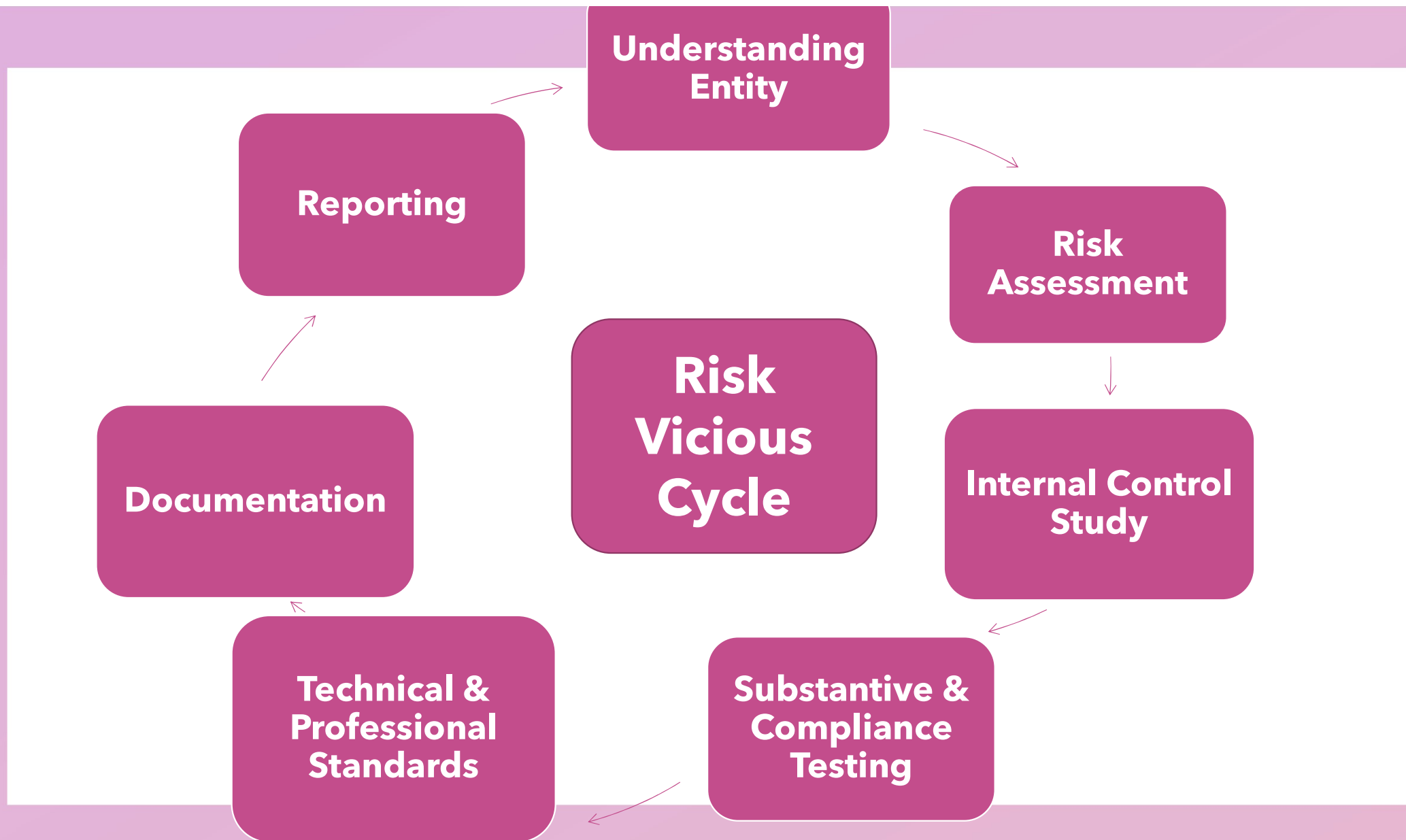
To carryout Assurance
Services with least risk

In this Session

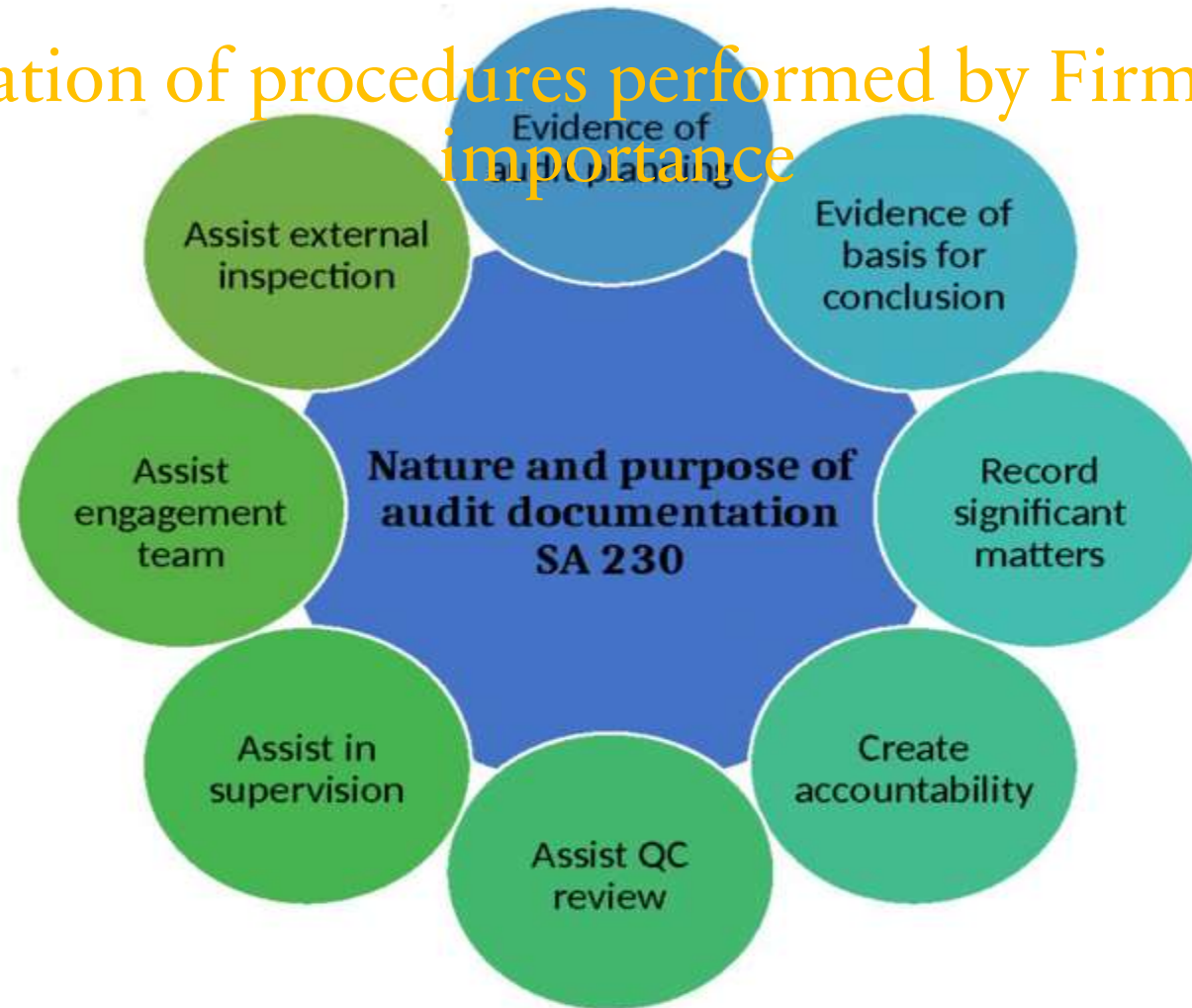
- **Exponential Risk Exposure**
- **Risk Vicious Cycle**
- **Pain Points - Audit Processes**
- **Risks - Experiences**
- **Risk Mitigation**

Exponential Risk Exposure

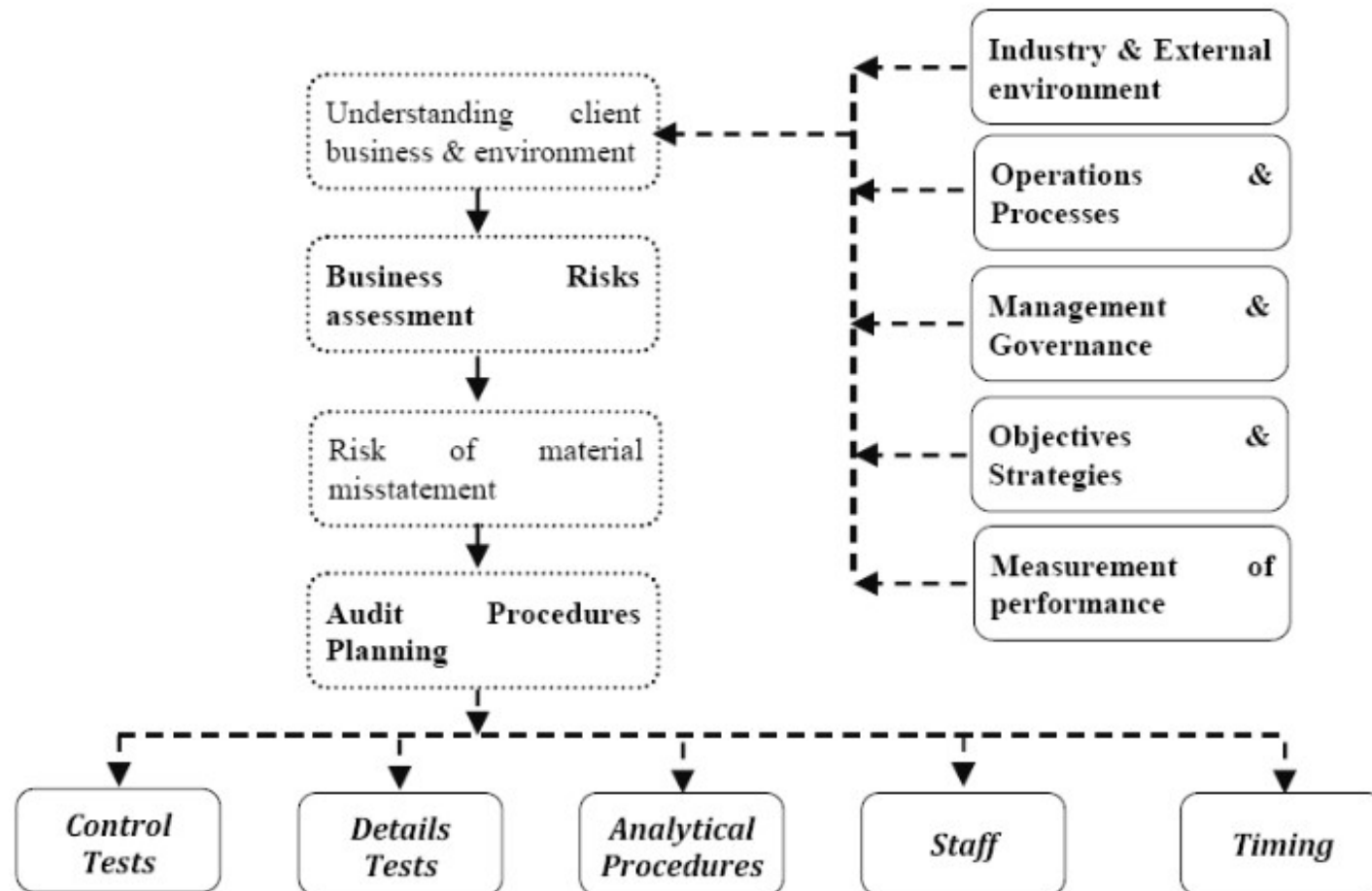
- **Information digital foot prints**
- **Surveillance through data integration**
- **Non Compliance to Technical & Professional Standards**
- **Weak firm policies & procedures**
- **Weak Quality Controls**
- **Client's attitudes & behaviour**
- **Competition**



Documentation of procedures performed by Firm is of critical importance



Documentation of procedures



Documentation Depends on

Aspects	Form, Content & Extent
Size, complexity of the entity	Listed, Manufacturing, MNC, Trading, Financial
Identified RoMM	Mining, Investments, Depreciation, Taxation, Technology
Nature of Audit Procedures performed	Test of controls or substantive procedures) and its type (that is, inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedures
Significance of Audit Evidence	Internal & External Evidence
Audit methodology, tools used	Scope, Engagement, Sampling, Analytical Procedures, Data Analytics
Nature, extent of identified exceptions during audit	Materiality, Compliance to Laws, RoMM

Documentation

Appointment of auditor

Terms of engagement

Accounting records available

Composition of management

Book-keepers & authorized signatories

Memorandum/Articles, Prospectus, Partnership Deed

Documentation

Understand the client's business

Understand the controls environment

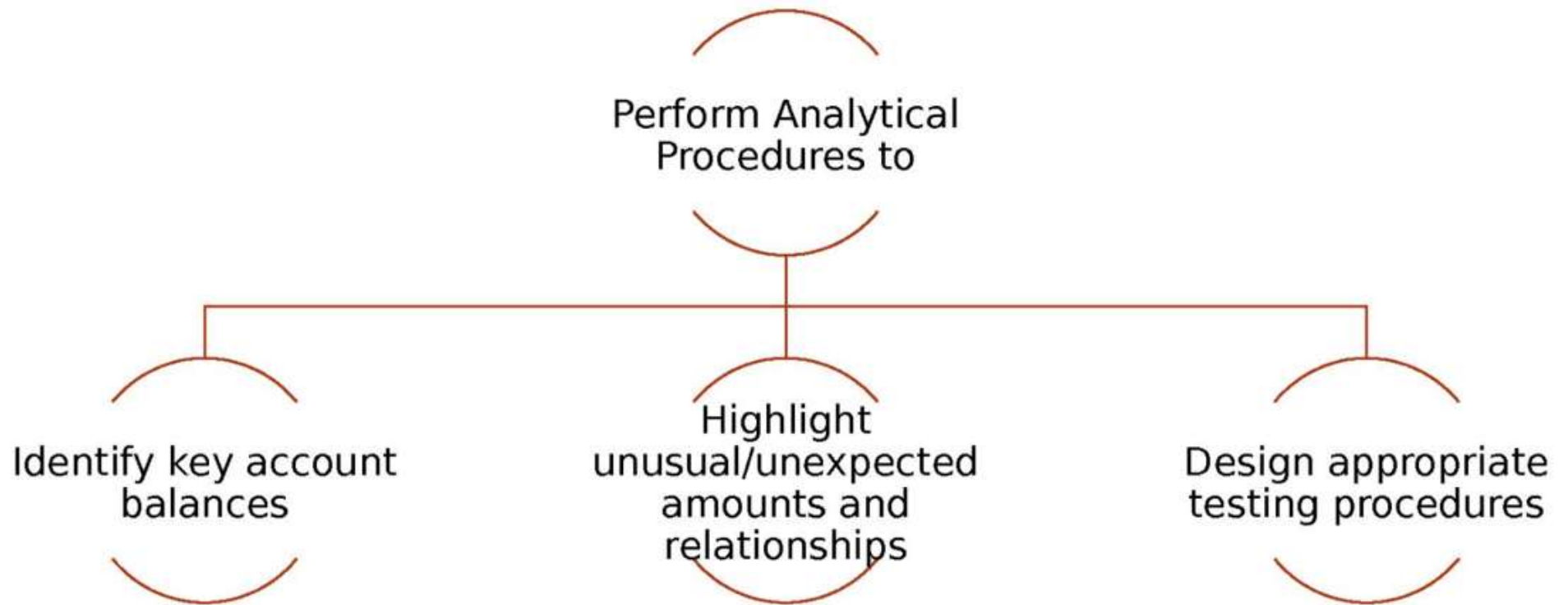
Understand the accounting systems

Past financial statements & Reports of internal/statutory auditors

Evaluate audit risk using professional judgment

Design procedures to mitigate risk

Documentation



Documentation



Determine materiality estimate for the audit engagement



Plan for account balances to be tested and sampling methodology



Selection of samples



Perform controls testing and conclude on controls reliability



Communicate control weaknesses to management

Documentation



Perform substantive analytical testing



Perform substantive tests of detail



Ensure prevalence of fundamental accounting assumptions – consistency, going concern, accrual accounting



Examine and report changes in accounting policies and their impact



Branch audit reports – qualifications, scope limit reservations

Documentation



Working papers (WPs) to have adequate audit evidence for assertions made in financial statements



WPs to agree with books of account, financials and are cross-referenced



Perform financial statements review



Prepare audit summary memorandum



Review assistants' work

Documentation



Ensure updation of Audit documentation file



Review individual and aggregate effect of unadjusted errors



Check compliance with legal and regulatory requirements



Subsequent Events Review

Documentation

Final discussion points with the Client

Draft audit opinion

Management Representations

Compare budgeted hours to actuals and analyze
variances

Debriefing meetings with client/staff

Complete staff evaluation

Start next year's planning

Smaller Entity – SA - 200

Possessing Qualitative Characteristics such as

**Concentration of
ownership &
Management**

in a small number of
individuals (either
natural person or
another enterprise that
owns the entity)

&

**Having One or more of the following
characteristics:**

- (i) Straightforward or uncomplicated transactions;
- (ii) Simple record-keeping;
- (iii) Few lines of business and few products within business lines;
- (iv) Few internal controls;
- (v) Few levels of management with responsibility for a broad range of controls; or
- (vi) Few personnel, many having a wide range of duties

Pain Points – Audit Processes

- No Standard Process driven tools
 - Ex Java ITRs Vs manual ITR prior to 2004, Tax tools
 - Where did I stop, from where to start.....
 - Work Status, Job description, Job allocation, Checklists, Templates
- Lack of Knowledgeable resources
- Lack of Integration of various tools
 - Tally, Etds, GST, Taxation tools, MS Office tools
- Communication gaps Client – Staff – Partner
- Continuous Knowledge updation

Risks - Experiences

- ICAI - QRB,
- ICAI - Tax Audit Quality Review Board
- NFRA - AQR
- FRRB
- PRB
- ICAI - DC

PRB – Documentation Lapses - Examples

- ❑ Separate permanent and current files for attestation services not maintained, working papers not properly organized.
- ❑ Documentation of results of evaluation and testing the internal control to decide the extent of substantive procedure not in place.
- ❑ Non-compliance with AAS 3 on Documentation.
- ❑ PU does not have any set procedures to ensure proper documentation with regard to attestation services.
- ❑ In one of the engagements reviewed, it was noticed that the working papers were not properly organized to meet the circumstances of each audit and the need in respect thereof. The standardization of working papers like audit programme, checklists, specimen letters, standard organization of working papers was also missing.
- ❑ PU does not have any system of documentation of obtaining sufficient and appropriate audit evidence through substantive tests.
- ❑ Documentation - Sufficient working papers and removal of queries raised not kept.

PRB – Documentation Lapses - Examples

- No documentation in file in respect of the following:
 - Letter of representation from the client on various matters relating to the accounts.
 - Trial balance.
 - Groupings to arrive at the figures, which enter into the schedules attached to and forming part of the financial statements.
 - Evidence to support the figures entered in “notes on accounts”.
 - Summary of inventory sheets indicating the method of valuation and value date of opening stock, net purchases, net sales and closing stock.
 - Statement on accounting policies.
 - Confirmations from parties dealing with the auditee.
 - “Trial Balance” of “Fixed asset register”.
 - Working of various ratios so that the abnormal items are immediately brought to notice.

PRB – SA 315 - Examples

- ☐ While making the review and evaluation of internal control system, the Audit Risk and its components not measured. Hence, the weaknesses noticed in the internal control system, which requires improvement.
- ☐ Assessment of audit risk and its components not done.
- ☐ No test of controls to obtain audit evidence to support any assessment of control risk.
- ☐ Review and evaluation of system of internal controls not carried out.
- ☐ PU has not been doing any risk analysis with regard to their audit function.
- ☐ PU does not conduct test of controls to obtain audit evidence to support any assessment of control risk.
- ☐ PU does not have any policy to consider and assess inherent level of control risk in determining the nature, timing and extent of substantive procedures required to reduce audit risk, to an acceptable low level.
- ☐ Written statements in questionnaire form or flow chart form not available regarding internal control system.

PRB – Audit Program- Examples

- ☐ No audit programme is prepared for conducting audit.
- ☐ PU does not always follow requirements of written audit programme.
- ☐ Audit plans not developed.
- ☐ No documentation or audit programme in large audits.
- ☐ Scope of audit not found to be elaborate.
- ☐ Audit plan before commencing the audit is not prepared in all the cases.
- ☐ An audit plan for each audit giving time schedules is not available.

Risks Mitigation

- An Online Integrated Tools with (Audit ERP)
 - Coordinated working – Resource Management
 - Integration facilities
 - Templates
 - Checklists
 - Updates – Various applicable statutes
 - Autofill, Validations etc.,
 - Work Status

Risks Mitigation - Products

- Google Drive
- Zoho
- Asana
- Tally
- MS Office – Excel/Word/Access
- Taxation Tools

Thank you

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Recorded Session Link

<https://www.youtube.com/watch?v=00jWhMWzhwl>