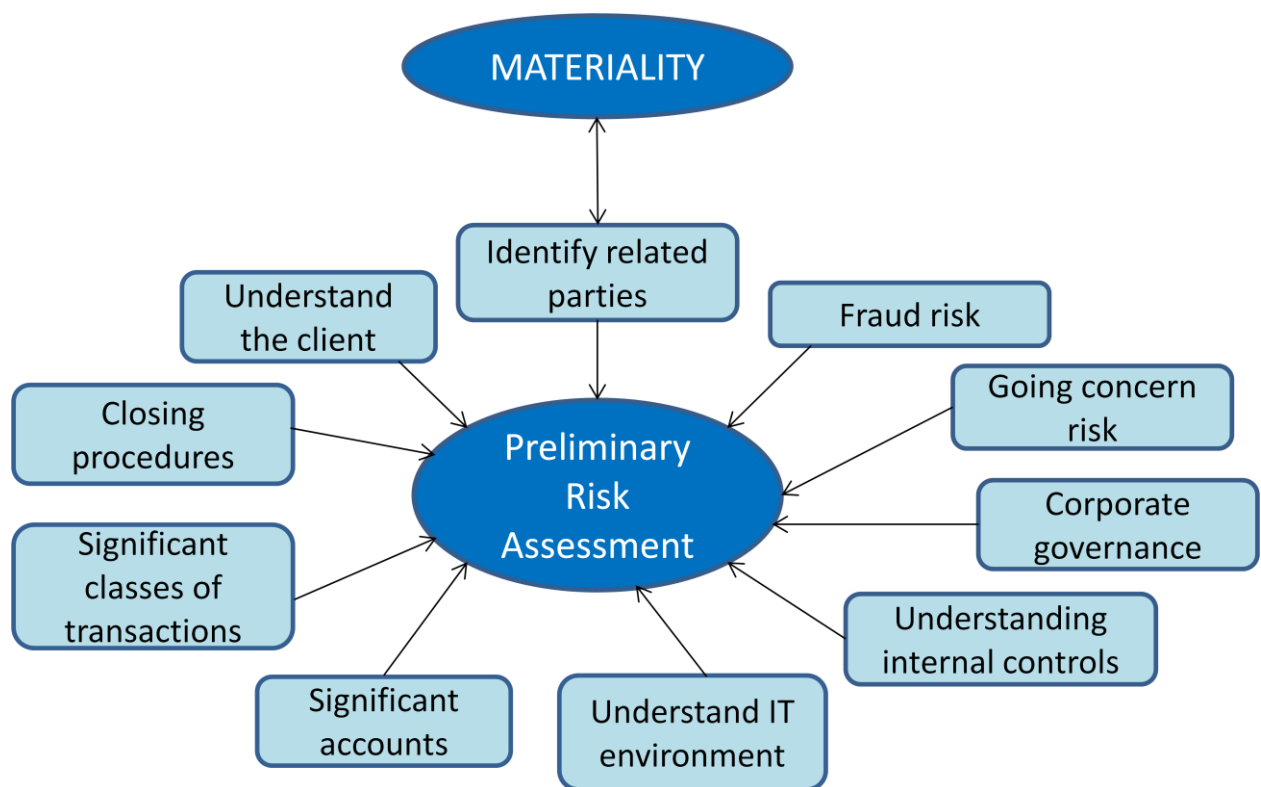


Lecture 3: Risk Assessment

Stages of an audit:

- Risk assessment (planning)
 - Understanding the client
 - Risk identification and strategy
- Risk Response (executing audit and collecting evidence)
 - Test of controls
 - Substantive testing
- Reporting
 - Conclusion and forming an opinion
- Auditor must plan the audit to reduce audit risk to an acceptably low level
 - Audit risk is the risk that an auditor expresses an inappropriate audit opinion when a financial report is materially misstated (liability!)
- A well planned audit ensures that sufficient appropriate evidence is gathered for accounts most at risk of material misstatement
- Preliminary risk assessment:



- First step = Understand the client (ASA 315)
- Controls = policies and procedures

Understanding the client:

- ASA 315 – gaining an understanding of the client is necessary to assess the risk that the financial report contains a material misstatement due to:
 - The nature of the client's business
 - The industry in which the client operates
 - The level of competition within that industry
 - The client's customers and suppliers
 - The regulatory environment in which the client operates
- Appendix ASA 315 – list of things to look at eg
 - Business, industry, customers, regulatory environment
- Gaining an understanding of the client:
 - Entity level → industry level → economic level

