

Appendix 4 - Types of audit risks

Factor/Identify	Audit risk	Work we need to perform/effect on the audit	Type of risk
<p>Lack of physical controls</p> <ul style="list-style-type: none"> ▪ Valuable assets not being locked away. ▪ No restricted access to sensitive areas. ▪ No security measures for access to premises. 	<p>Employees are more likely to steal assets from the company or not look after them; therefore they get damaged and become impaired.</p> <p>Incorrect statement on Financial statements the asset position potentially over statement.</p>	<p>Physical checks of the assets required to determine completeness and value.</p> <p>Analytical review to see any unusual trends over excess ordering etc.....</p>	
<p>Lack of IT based controls</p> <p>No passwords or lack of password protection (everyone knows each others passwords).</p>	<p>Computer systems can be changed or modified without suitable authorisation.</p> <p>Changes are not recorded and or notified to responsible individuals.</p>	<p>Analytical procedures to be performed to see if any unusual trends are happening.</p> <p>Review the integrity of the staff.</p> <p>Assess the systems to see how easy changes will go undetected.</p>	
<p>Lack of authorisation controls.</p>	<p>Unnecessary expenditure incurred or even non business expenditure.</p> <p>Sales completed over the limits therefore potential for non payment.</p> <p>New staff employed without authorisation that may not be necessary.</p>	<p>Assess the systems to determine the likelihood of this happening.</p> <p>Review the old balances and credit limits and see what other controls the company have in place.</p> <p>Review the organisation chart for reasonableness and understand the roles within the company.</p>	
<p>Lack of segregation of duties.</p>	<p>Not identifying errors and fraud as only one person doing the job therefore concealment easier to perform.</p>	<p>Increase the substantive testing to ensure that the statements are true and fair.</p>	

Account balances for example Research and development and warranty provisions.	Due to the natures of these transactions a high degree of judgement or estimation is involved and is therefore open to manipulation or error.	Get a understating of the criteria that needs to met and obtain sufficient evidence to support the calculations.	
Client operates in a high tech or fashion industry	Inventory may be obsolete Obsolete inventory may be overstated in the financial statements	Review events after the reporting period to determine the net realisable value of inventory Use an independent valuer to value inventory	
Client is based in multiple locations	Inventory held at other locations may be omitted from year-end inventory Controls may be less effective	Attend inventory takes at all locations Review control procedures to ensure they are adequate Consider using a substantive approach	
Bank is relying on the financial statements or Directors are paid a bonus based on profits	Risk management bias	Pay more attention • accounting estimates • cut-off Obtain independent estimates re valuation of year-end inventory etc	
It is cash-based business	Cash may be misappropriated, causing turnover to be understated	Consider the adequacy of internal controls over sales (possible limitation in scope if we cannot verify the completeness of sales and internal controls are inadequate)	
The company trades overseas	Transactions in foreign currency may not be translated at the correct rate The company may make foreign exchange losses	Ensure foreign currency is correctly accounted for Review procedures to mitigate exchange loss risk, e.g. hedging	

New computer system in the year	<p>Errors in transferring the data from one system to another</p> <p>There may be inherent errors in the new system that have not yet been discovered</p>	<p>Review controls over the changeover:</p> <ul style="list-style-type: none"> • parallel run • check opening balances transferred properly <p>Use test data on the system to ensure it operates correctly</p>	
New audit client	<p>Lack of cumulative audit knowledge and experience may lead to increased detection risk</p>	<p>Use an audit team that is experienced in the industry</p> <p>Gather knowledge of the company</p> <p>Check opening balances are correct</p>	
Tight audit deadline imposed by client	<p>Staff working quickly to a tight deadline are more likely to make errors</p> <p>There is a shorter post statement of financial position period that we can use to help with our audit</p>	<p>Increase substantive testing</p> <p>Perform an interim visit to complete some audit work before the end of the year</p> <p>Agree a timetable re:</p> <ul style="list-style-type: none"> • reporting deadline • client schedules to be available 	
Temporary staff used during the year at the client's side	<p>Errors more likely as staff are not familiar with the client's systems</p>	<p>Increase substantive testing</p>	
A client in a specialised industry	<p>Errors more likely or fraud more likely to be missed because of the complexity of the work</p>	<p>Ensure that the auditors understand the system, increase testing</p>	