Summary of identified risks

Key Risks and responses identified in the client/engagement continuance/acceptance process

1. Change to the nature, size, or structure of the client's business, including major acquisitions or disposals**,** Prospective business may be sold out with a view to managing earnings or Management may invest in risky or bad ventures with assessing the merit of investment.

* Inquire the management regarding the purpose and details of the divestment.
* Review the meeting minutes and details of the transactions
* Documentation in ‘Audit program-Investment’
* Review the meeting minutes
* Confirmation regading the declaration of the investment to the shareholder as price sensetive information
* Documentation in ‘Audit program-Investment’

***Key risks and responses at financial statements level:***

1. No going concern issues identified but the auditors will keep alert for factors that may affect the going concern assumption.
2. One of the criteria for rewarding the performance bonus is to achieve budgeted operating result. Therefore, the management can manipulate the result of financial position and performance of the company. In addition to the above, sales incentive are given to the sales representative based on the budgeted sales.
3. The company must comply with the debt covenants instructed by the banks; otherwise, the debt will be withdrawn. Hence, the employees may resort to manipulating data that may help to maintain debt covenant in prescribed manner artificially.

***Key risks and responses at assertion level:***

Revenue is susceptible to material misstatements due to fraudulent financial reporting and property, plant and equipment is susceptible to material misstatements due to misappropriation of assets. The auditors planned responses to the risks of fraud identified are summarized here as follows:

***Revenue (Completeness, Occurrence, Accuracy)***

1. Inquire of the management as to the incentive schemes the company has for top-management personnel;
2. Inquire of the management as to communications to employees regarding management’s views on business practices and ethical behavior;
3. Inquire of the management as to the control procedures they have to prevent any fraudulent financial reporting;
4. Inquire of the management as to the IT components in the internal control system over revenue recognition and measurement;
5. Inquire of the internal auditors as to the fraud-related activities by internal audit;
6. Inquire of those charged with governance as to the programs and controls to prevent, detect and deter fraud – oversight by those charged with governance;
7. Perform test of controls in accordance with planning (see C5.1);
8. Perform substantive analytical procedures relating to revenue using disaggregated financial and non-financial information (see C6.2);
9. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.

***Property, plant and equipment (Completeness, Existence, Valuation, Ownership)***

1. Inquire of the management as to what physical controls they have to prevent misappropriation of assets;
2. Inquire of the management as to the company’s asset disposal and write-off policy;
3. Perform analytical procedures in relation to disposal transactions using disaggregated data;
4. Performing analytical procedures for depreciation;
5. Perform test of control for addition of assets in accordance with planning (see C5.1);
6. Perform substantive analytical procedures relating to property, plant and equipment using disaggregated financial and non-financial information (see C6.2);
7. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.
8. Physical examination of assets;
9. Verify for accuracy the asset disposal and write-off transactions to supporting documents to identify the rationality behind the disposal or write-off.

**Stock and WIP is susceptible to material misstatements due to misappropriation of assets (Completeness, Existence, Valuation, and Ownership).**

1. Inquire of the management as to what physical controls they have to prevent misappropriation of inventory;
2. Inquire of the management as to the company’s inventory procurement and storage policy;
3. Inquire of the management as to the company’s inventory disposal and write-off policy;
4. Perform test of control for addition of inventory in accordance with planning and its valuation (see C5.1);
5. Use information and risk management team to test the design and implementation, and operating effectiveness of those IT components identified.
6. Physical count of stocks;
7. Verify for accuracy of the inventory disposal and write-off transactions to supporting documents to identify the rationality behind the disposal or write-off.

**Provisions and contingencies are susceptible to material misstatements due to fraudulent financial reporting (Completeness, Accuracy, and Valuation).**

1. Inquire of the management as to how the process of recording a provision is initiated;
2. Inquire of the management as to the basis of identifying the events that requires provision and the events that are to be treated as contingencies.
3. Inquire of the management as to the process of determining and recording provisions in the books;
4. Inquire of the management as to whether there were any unrecorded liabilities;
5. Perform test of control for addition of provisions in accordance with planning (see C5.1);
6. Verify for accuracy and reasonableness of the provisions recorded in the books in light of the available information and judgments used by management.

**Related party transactions are susceptible to material misstatements due to fraudulent financial reporting. (Completeness, Existence, Accuracy, Presentation)**

1. Inquire of the management about the nature of the transactions and basis of allocation;
2. Inquire of the management as to frequency and modality of the transactions and whether there is any special arrangement (i.e. discount, interest etc.)
3. Inquire of the management to assess whether the transactions with related parties of the nature of arm’s length transactions. If so, inquire of the management as to the pricing mechanism;
4. Verify for occurrence of the transactions and accuracy of the amount booked for the transactions held between related parties. Also, check the disclosure given in the financial statements relating to related party transactions.

**Disclaimer: Dummy audit working files have been prepared and published to improve the quality of audit documentation of member firms providing audit services in Bangladesh. Member firms providing audit services should not assume these dummy working files as absolute benchmark for the purpose of preparing and keeping audit documentation. Every audit client has unique characteristics and risks. International Standards on Auditing (ISA) also requires to exercise engagement partner’s judgment on a number of areas in conducting the audit of an entity. Therefore, member firms should use their professional knowledge, skill, experiences along with these dummy working files to keep adequate and appropriate working papers for each audit engagement. The preparers do not assume any liability for drawing an inappropriate audit opinion based on the working papers prepared on the basis of these dummy working files.**