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## ***Audit and Assurance***

### ***Topic 3: Audit Execution and Audit Evidence***

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***(<https://scholar.google.com/citations?user=IESQCzYAAAAJ&hl=en>)***

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# Learning outcomes

Explain	Apply	Design	Analyze	Integrate
Explain audit client acceptance, preconditions, and engagement letters (ISA 210).	Apply audit evidence and documentation principles to ensure <b>compliance</b> (ISA 500, ISA 230).	Design audit plans and evaluate quality management systems (ISA 300, ISA 220, ISQM 1 & 2).	Critically analyze traditional, modern, and technology-driven audit approaches.	Integrate audit approaches with risk management, internal controls, and group audits.



# Audit client acceptance and continuation procedures

# Obtaining audit work

- **Advertising**
- Members are forbidden from seeking professional work by means of advertising, the issue of circulars or cards or by any other form of solicitation.
- **Why?**
- To safeguard the profession's image by ensuring work is obtained through **trust, referrals, and ethical reputation** rather than commercial promotion.

# Accepting nomination as auditor #1

Risk Area	Consideration	Implication	Recommendation
<b>Professional competence &amp; eligibility</b>	Auditor must be legally and ethically qualified (per professional and regulatory standards).	Lack of qualification could lead to legal sanctions, ethical breaches, and reputational damage.	Verify membership, practicing certificate, independence, and compliance with professional codes before accepting nomination.
<b>Adequacy of resources</b>	Availability of time, staff, and technical expertise to perform the audit effectively.	Insufficient resources may lead to <b>poor audit quality</b> , failure to detect material misstatements, and increased professional liability.	Assess resource capacity, staff expertise, and workload before accepting; allocate or hire additional resources where needed.
<b>Knowledge of directors/management</b>	Auditor must obtain references if directors are not personally known.	Risk of engaging with directors of questionable integrity, which may increase fraud risk or disputes.	Conduct due diligence on directors' reputation, obtain independent references, and evaluate governance structure.

# Accepting nomination as auditor #2

Risk Area	Consideration	Implication	Recommendation
<b>Communication with outgoing auditor</b>	Must communicate with the present auditors to identify reasons for change.	Failure to communicate may hide potential issues such as disputes, fraud suspicions, or unpaid fees.	Request client's consent to communicate with outgoing auditor and document findings before acceptance.
<b>Client refusal of auditor communication</b>	If client denies permission for outgoing and incoming auditors to communicate.	Refusal suggests lack of transparency, potential management integrity issues, and heightened engagement risk.	Decline the appointment, document rationale, and notify relevant professional authority if required.





## Exam question

- You have been nominated as the external auditor for a new client. Before accepting the appointment, explain the key risk areas you must consider, their potential implications, and the recommended actions you should take to mitigate these risks.

# Post-acceptance auditor responsibilities

What to Do	Why It Matters	What to Do About It
<b>Check outgoing auditor's removal</b>	To make sure the previous auditor left legally	Confirm the resignation or removal followed the law and keep <b>a record</b>
<b>Confirm new appointment</b>	To avoid disputes over who can appoint the auditor	Get a copy of the <b>board resolution</b> showing the auditor was properly appointed
<b>Agree engagement terms</b>	To prevent misunderstandings about the audit	Clearly agree on scope, responsibilities, fees, and reporting in writing



# Client screening procedures #1

Screening Area	What to Look At	Why It Matters / Risk	Recommended Action
<b>Management integrity</b>	Assess honesty, competence, and control structure (dominant personalities)	Poor integrity can lead to fraud or management override	Conduct background checks and seek references
<b>Risk assessment</b>	Determine if client is low or high risk	High-risk clients may have poor finances, weak controls, or questionable policies	Document risk level; involve industry specialists if needed
<b>Low vs High Risk Indicators</b>	<b>Low risk:</b> good prospects, well-financed, strong controls, conservative policies, competent management, few unusual transactions <b>High risk:</b> poor performance, lack of finance, weak controls, doubtful policies, missing finance director, many unusual transactions	Helps predict audit complexity and potential problems	Use as checklist for screening new clients

# Client screening procedures #2

Screening Area	What to Look At	Why It Matters / Risk	Recommended Action
<b>Engagement economics</b>	Assess fees vs expected audit risk	Undervaluing risk can hurt audit quality or firm profitability	Set fees based on risk; consider strategic benefits (industry entry, networking)
<b>Relationship with client</b>	Long-term relationship potential	Strong relationships improve service but may affect independence	Plan for long-term engagement while maintaining professional skepticism
<b>Ability to perform</b>	Resources, staff skills, timing, and specialist knowledge	Insufficient resources can compromise audit quality	Ensure adequate staff, specialists, and audit timing; adjust workload as needed

# Preconditions for an audit ISA 210

Precondition	Why It Matters	Risk if Not Met	What the Auditor Should Do
<b>Financial reporting framework</b>	Ensures reports follow IFRS & relevant laws; maintains credibility	Financial statements may be misleading; non-compliance with law	Check that the client uses an acceptable framework before accepting
<b>True &amp; fair financial statements</b>	Confirms management takes responsibility for accuracy	High risk of errors or fraud; audit may fail	Get written confirmation from management that they are responsible for accurate statements
<b>Internal controls</b>	Protects against mistakes or fraud	Weak controls can lead to material misstatements	Obtain written confirmation that internal controls are in place and working
<b>Access to records &amp; staff</b>	Auditor needs full access to do proper work	Limited access can prevent a complete audit and increase liability	Ensure management allows full access; decline engagement if access is restricted



# Question

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- You are a newly appointed external auditor. Before accepting a new audit engagement, explain the **strategic considerations** you must evaluate under ISA 210. In your answer, discuss the **preconditions for an audit, the risks of non-compliance, and how these influence your decision to accept or decline the engagement.**

# Major contents of the engagement letter

What It Covers	Why It Matters	Risk if Ignored	What to Do
<b>Purpose of Letter</b>	Aligns expectations between auditor and management	Misunderstandings, disputes, delays, legal issues	Clearly write and agree on terms
<b>Main contents of the letter</b>			
<b>Objective &amp; Scope of Audit</b>	Defines what the audit will cover	Vague scope → incomplete audit or confusion	State audit objectives and limits clearly
<b>Auditor's Responsibilities</b>	Audit according to ISAs, give opinion on true & fair view, report control weaknesses	Risk of audit failure or liability	Clearly list duties in the letter
<b>Management's Responsibilities</b>	Keep records, prepare FSs, implement controls, provide access	Poor management cooperation → audit quality suffers	Obtain written acknowledgment from management
<b>Financial Reporting Framework</b>	States which accounting standards and laws apply	Wrong framework → non-compliance, disputes	Specify framework (IFRS, Companies Act, etc.)
<b>Expected Reports</b>	Explains what the audit report will look like	Misaligned expectations → dissatisfaction or disputes	Describe report type, content, and format

# Other matters in the engagement letter #1

Matter	Why It Matters	Risk if Ignored / Not Included	Recommended Action
<b>Elaboration of audit scope</b>	Clarifies laws, regulations, ISAs, ethical requirements	Misunderstanding about what is included in audit	Clearly define scope in writing
<b>Form of communication of results</b>	Sets expectations for reporting	Misaligned expectations or disputes	Specify report format and method
<b>Key audit matters communication</b>	Ensures important issues are reported	Missing key matters could mislead stakeholders	Include requirement for key audit matters where applicable
<b>Audit limitations</b>	Recognizes inherent limits of audit & controls	Users may assume absolute assurance	Clearly state limitations in letter
<b>Planning and team arrangements</b>	Ensures audit resources and timing are clear	Poor planning, resource conflicts	Document team composition, timelines, and responsibilities



# Other matters in the engagement letter #2

Matter	Why It Matters (Strategic Thinking)	Risk if Ignored / Not Included	Recommended Action
<b>Management written representations</b>	Confirms management accountability	Lack of evidence on management responsibilities	Obtain signed written representations
<b>Management access to information</b>	Auditor needs full info for proper audit	Limited access → audit quality risk	Include access expectations
<b>Draft financial statements timing</b>	Allows audit to be completed on schedule	Delays may affect audit completion	Set deadlines for draft FS provision
<b>Management reporting facts after reporting date</b>	Ensures auditor aware of subsequent events	Missing important info could lead to misstatements	Require notification of relevant post-report facts
<b>Fees and billing</b>	Aligns payment expectations	Disputes or financial disagreements	Clearly state fees and billing arrangements

# Other matters in the engagement letter #3

Matter	Why It Matters (Strategic Thinking)	Risk if Ignored / Not Included	Recommended Action
<b>Acknowledgment of engagement letter</b>	Confirms management agreement	Misunderstandings on terms	Obtain written acknowledgment
<b>Involvement of other auditors/experts</b>	Ensures coordination and responsibilities	Gaps or duplication of work	Include coordination agreements
<b>Involvement of internal auditors/staff</b>	Leverages internal resources	Confusion over roles	Document internal audit involvement
<b>Arrangements with predecessor auditor</b>	Smooth transition & continuity	Gaps in understanding past issues	Outline communication plan
<b>Restriction of auditor liability</b>	Manages legal risk	Potential disputes over auditor responsibility	Include agreed limitation clauses if applicable
<b>Reference to other agreements</b>	Ensures all contractual obligations are clear	Overlooked terms could cause disputes	Mention any additional agreements
<b>Audit working papers obligations</b>	Clarifies who may access audit documentation	Unauthorized disclosure risk	State any obligations for sharing working papers

# Matters that may require reissuing engagement letters #1

Trigger for Reissuing Letter	Why It Matters (Strategic Thinking)	Risk if Not Addressed	Recommended Action
Misunderstanding of audit objectives & scope	Ensures both parties are aligned on what the audit covers	Misaligned expectations → disputes or incomplete audit	Clarify objectives and scope; reissue letter if needed
Revised or special terms of engagement	Updates any changes in responsibilities, procedures, or reporting	Outdated terms → confusion, legal risk	Document changes and have management acknowledge
Change of senior management	New management may have different priorities or practices	Potential miscommunication or misalignment	Update letter to reflect new management responsibilities
Significant change in ownership	Ownership changes may affect governance, risk, or control	Audit scope or risk profile may be outdated	Reassess engagement; update letter accordingly

# Matters that may require reissuing engagement letters #2

Trigger for Reissuing Letter	Why It Matters	Risk if Not Addressed	Recommended Action
Significant change in nature or size of business	Expansion, new operations, or restructuring changes audit complexity	Existing terms may be inadequate	Adjust scope, resources, and reporting requirements in letter
Change in legal or regulatory requirements	Ensures compliance with current laws	Non-compliance → legal/regulatory risk	Update letter to reflect new legal obligations
Change in financial reporting framework	New accounting standards may affect audit	Misstatements or incorrect audit procedures	Specify updated reporting framework
Change in other reporting requirements	Additional reporting obligations may arise	Misreporting or incomplete audit	Amend letter to include new reporting requirements

# Audit planning

Planning an audit involves establishing the **overall audit strategy** for the engagement and developing an **audit plan**.

# Purpose of audit planning [ISA 300]

Planning Aspect	Why It Matters	Risk if Not Done	Recommended Action
<b>Focus on key audit areas &amp; significant risks</b>	Ensures <b>resources</b> are directed to areas that matter most	Critical issues may be overlooked, increasing audit risk	Identify and prioritize high-risk areas during planning
<b>Timely identification and resolution of problems</b>	Allows proactive <b>problem-solving</b>	Delays or unresolved issues may compromise audit quality	Review potential issues early and set mitigation plans
<b>Organized and efficient audit</b>	Helps complete the audit on <b>time</b> and within budget	Disorganized audits → missed deadlines, wasted resources	Develop a clear audit plan and schedule
<b>Staff assignment</b>	Ensures the <b>right skills</b> are applied to appropriate tasks	Inadequate staffing → poor quality or errors	Assign staff according to experience, skills, and workload
<b>Direction, supervision, and review</b>	Maintains <b>audit quality</b> and compliance	Errors may go undetected, leading to incorrect conclusions	Establish supervision and review procedures for all work
<b>Coordination with experts &amp; other auditors</b>	Ensures integrated and consistent audit approach	Miscommunication may result in gaps or duplication	Plan roles, timing, and communication channels with all parties





# Strategic Considerations in Audit Planning

# Strategic Considerations in Audit Planning #1

Strategic Area	Key Considerations	Implication (Why It Matters)
<b>Understanding the Organizational Context</b>	<ul style="list-style-type: none"> <li>❖ Assess vision, mission, strategic objectives, and business model</li> <li>❖ Evaluate external factors (regulatory, economic, technological, competitive)</li> </ul>	Ensures audit priorities are aligned with the organization's strategic direction and external realities.
<b>Risk-Based Focus</b>	<ul style="list-style-type: none"> <li>❖ Identify and prioritize high-risk areas (financial, compliance, operational, reputational)</li> <li>❖ Consider emerging risks (cybersecurity, ESG, digital transformation)</li> </ul>	Directs audit resources to the most critical risks, protecting value and minimizing threats.
<b>Alignment with Corporate Strategy</b>	<ul style="list-style-type: none"> <li>❖ Ensure audit coverage supports strategic goals</li> <li>❖ Focus on long-term sustainability areas (governance, innovation, workforce capability)</li> </ul>	Reinforces achievement of organizational strategy and strengthens long-term resilience.

# Strategic Considerations in Audit Planning #2


Strategic Area	Key Considerations	Implication (Why It Matters)
<b>Stakeholder Expectations</b>	<ul style="list-style-type: none"> <li>❖ Address expectations of Board, Audit Committee, regulators, investors, and management</li> <li>❖ Balance assurance, advisory, and compliance roles</li> </ul>	Builds trust, meets governance requirements, and enhances the credibility of audit findings.
<b>Regulatory &amp; Compliance Environment</b>	<ul style="list-style-type: none"> <li>❖ Integrate changes in laws, accounting standards, and industry regulations</li> <li>❖ Plan for potential compliance audits or regulatory reviews</li> </ul>	Protects the organization from penalties, reputational damage, and non-compliance risks.
<b>Materiality &amp; Resource Allocation</b>	<ul style="list-style-type: none"> <li>❖ Define materiality thresholds for financial and operational impact</li> <li>❖ Optimize resources (staff, time, expertise, technology)</li> </ul>	Enhances audit efficiency, ensuring maximum value from limited resources.


# Strategic Considerations in Audit Planning #3

Strategic Area	Key Considerations	Implication (Why It Matters)
<b>Audit Approach &amp; Methodology</b>	<ul style="list-style-type: none"> <li>❖ Choose between traditional, risk-based, or integrated approaches</li> <li>❖ Leverage analytics, automation, and continuous auditing</li> </ul>	Improves audit coverage, insights, and adaptability to complex environments.
<b>Coordination with Assurance Providers</b>	<ul style="list-style-type: none"> <li>❖ Align with external auditors, compliance, and risk management</li> <li>❖ Apply the “Three Lines Model”</li> </ul>	Avoids duplication, improves efficiency, and strengthens overall assurance.
<b>Fraud Risk &amp; Ethical Culture</b>	<ul style="list-style-type: none"> <li>❖ Assess vulnerability to fraud, corruption, and unethical behavior</li> <li>❖ Review tone at the top, whistleblowing, and integrity culture</li> </ul>	Mitigates fraud risks and promotes a culture of accountability and ethics.
<b>Future-Oriented &amp; Dynamic Planning</b>	<ul style="list-style-type: none"> <li>❖ Maintain flexibility for emerging risks</li> <li>❖ Use scenario planning and stress testing</li> </ul>	Keeps the audit function relevant, proactive, and resilient in the face of change.



# Abridgement



 **Strategic audit planning** goes beyond routine compliance—it ensures audit resources are directed toward areas that safeguard value, support governance, and strengthen organizational resilience.



## Boardroom-level **strategic audit planning question**

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How can the audit plan be aligned with the organization's strategic objectives while effectively addressing the most significant risks and stakeholder expectations?



# Audit Approach



**An audit approach** is the overarching strategy an auditor uses to plan and conduct an audit, forming the basis for the detailed audit plan.



**Common approaches** include **risk-based auditing**, which focuses on high-risk areas to reduce inefficiency, and the **traditional substantive procedures approach**, which aims for a comprehensive, or census-like, audit.



**A system-based** approach also exists, focusing on the effectiveness of internal controls rather than the transactions themselves.



**The goal** is to select an appropriate strategy to achieve the audit objectives effectively and efficiently.

# Traditional audit approaches



Traditional audit approaches rely on manual processes and statistical sampling to provide a backward-looking view of financial accuracy and compliance, often testing past financial periods.



They use methodologies like substantive procedures, which involve testing high-value transactions, and a balance sheet approach, focusing on the accuracy of financial records.



However, these methods are labor-intensive, prone to human error, and struggle to detect intricate fraud in today's complex, digital environments, making them less effective than modern, data-driven approaches.

# Key Characteristics of Traditional audits

Aspect	Description
<b>Manual Processes</b>	Traditional audits involve significant manual effort, including reviewing paper-based documentation and using spreadsheets to sift through large volumes of data.
<b>Statistical Sampling</b>	Auditors test samples of data instead of analyzing the full dataset, which increases the risk of missing critical anomalies.
<b>Backward-Looking</b>	Focus is on past financial periods, offering retrospective insights rather than timely input for strategic decision-making.
<b>Time-Consuming</b>	Manual work and extensive data reviews make audits lengthy and costly.
<b>Prone to Human Error</b>	Heavy reliance on manual tasks and judgment raises the risk of errors and misinterpretations.

# Applicability of Traditional Audit Approaches

Approach	Description	Applicability / When It Works Best
<b>1. Substantive Approach</b>	Focuses heavily on verifying transactions and balances through detailed testing, with limited reliance on internal controls.	<ul style="list-style-type: none"><li>❖ Suitable where internal controls are weak, unreliable, or non-existent.</li><li>❖ Effective for small entities or where transaction volume is low.</li><li>❖ Appropriate in high-fraud-risk environments where direct verification is critical.</li></ul>
<b>2. Balance Sheet Approach</b>	Audit testing is concentrated on year-end balances, with less emphasis on transactions throughout the year.	<ul style="list-style-type: none"><li>❖ Useful when most risks lie in closing balances rather than transaction flows.</li><li>❖ Practical for businesses with stable operations and low complexity.</li><li>❖ Often applied in asset-heavy entities (e.g., manufacturing, real estate).</li></ul>
<b>3. Systems-Based Approach</b>	Relies on evaluating and testing the effectiveness of internal controls to reduce substantive testing.	<ul style="list-style-type: none"><li>❖ Appropriate in large, complex organizations with strong internal controls.</li><li>❖ Cost-effective where automated controls and ERP systems are robust.</li><li>❖ Aligns with risk-based auditing and compliance-heavy industries (e.g., banking, telecom).</li></ul>

# Substantive Procedures in Auditing #1

Procedure	Purpose	Example	Type of Evidence	Audit Assertions Tested
<b>Analytical Procedures</b>	Identify unusual trends, variances, or relationships in financial data	Comparing actual vs. budget, current vs. prior year, industry averages	<b>Analytical</b>	Completeness, Accuracy, Valuation, Presentation & Disclosure
<b>Inquiries</b>	Obtain explanations, clarifications, or additional information from staff	Interviews with management or finance staff	<b>Oral / Written (Testimonial)</b>	Completeness, Accuracy, Presentation (depends on responses, so weaker evidence)
<b>External Confirmations</b>	Validate balances or information directly with third parties	Bank confirmations, debtor/creditor confirmations	<b>External (Third-party)</b>	Existence, Rights & Obligations, Accuracy, Valuation
<b>Inspection of Documents</b>	Verify amounts and ensure consistency across supporting records	Matching invoices with ledger entries, reviewing contracts	<b>Documentary</b>	Existence, Rights & Obligations, Completeness, Accuracy

# Substantive Procedures in Auditing #2

Procedure	Purpose	Example	Type of Evidence	Audit Assertions Tested
<b>Inspection of Assets</b>	Confirm existence and condition of assets	Physically verifying machinery against the asset register	<b>Physical</b>	Existence, Valuation (condition), Rights & Obligations (ownership)
<b>Recalculation</b>	Check the accuracy of mathematical computations	Recomputing depreciation, interest, or tax calculations	<b>Recalculation (Mathematical)</b>	Accuracy, Valuation
<b>Reperformance</b>	Independently test controls or reconciliations for accuracy	Reperforming a bank reconciliation	<b>Reperformance (Direct)</b>	Completeness, Accuracy, Valuation



# Balance Sheet Approach in Auditing

Focus Area	Explanation	Audit Assertions Tested	Example Audit Procedures
<b>Assets</b>	Ensure assets exist, are owned by the entity, and are correctly valued	Existence, Rights & Obligations, Valuation	Physical verification of fixed assets, external confirmations of receivables, valuation tests
<b>Liabilities</b>	Ensure liabilities are complete, accurately recorded, and represent actual obligations	Completeness, Obligations, Valuation	External confirmations of creditors/loans, review of post-year-end payments
<b>Equity</b>	Ensure ownership interests are correctly stated and classified	Rights & Obligations, Presentation	Review of board minutes, verification of share capital documents
<b>Link to Income Statement</b>	If balance sheet accounts are correct, related income/expense accounts will also be accurate	Accuracy, Completeness, Cut-off	Testing accruals, provisions, and reconciliations

# Systems-Based Approach in Auditing

Focus Area	Explanation	Audit Assertions Addressed	Example Audit Procedures
<b>Understanding Internal Controls</b>	Assess design and implementation of client's accounting and control systems	Completeness, Accuracy, Authorization	Reviewing control manuals, walkthroughs, documenting processes
<b>Testing Controls</b>	Evaluate whether controls are operating effectively	Existence, Completeness, Accuracy	Test of controls: reperforming approvals, authorization checks, access controls
<b>Reliance on Controls</b>	Decide extent of substantive testing based on control reliability	All assertions indirectly	If controls are effective, reduce substantive procedures; if weak, expand substantive tests
<b>Control Risk Assessment</b>	Identify risks of material misstatement due to control weaknesses	Completeness, Accuracy, Cut-off	Control questionnaires, flowcharts, risk assessment matrices
<b>Link to Substantive Testing</b>	The stronger the system, the less detailed substantive testing required (efficiency in audit work)	All assertions	Sampling fewer invoices if purchase system controls are strong

# Limitations of Traditional Audits in the Modern Era

Limitation	Description
<b>Inadequacy for Digital Environments</b>	Traditional methods struggle with the volume and complexity of data from e-commerce and digital platforms, making it difficult to detect critical anomalies.
<b>Limited Fraud Detection</b>	Reliance on sampling and manual reviews often fails to uncover sophisticated fraud or subtle patterns in large datasets.
<b>Lack of Real-Time Insights</b>	Periodic, backward-looking audits provide information too late to support timely strategic decision-making.
<b>Risk of Non-Compliance</b>	Rapid regulatory changes make it difficult to ensure compliance using manual, traditional approaches.
<b>Need for Modern Techniques</b>	Data analytics and modern audit methods analyze complete datasets, improving accuracy, risk management, and providing actionable, real-time insights.




## Strategic Insight:

- Traditional approaches remain relevant but are increasingly integrated with risk-based and data-driven methods. In modern practice, auditors often combine elements (e.g., systems-based + selective substantive tests) depending on risk assessment, client size, and regulatory requirements.



# Modern audit approaches



These move beyond compliance and retrospective review, providing forward-looking, risk-aware, and decision-supportive assurance.

# Usage of Modern Audit Approaches

APPROACH	DESCRIPTION	APPLICABILITY / WHEN IT WORKS BEST
<b>Risk-Based Auditing</b>	Focuses on identifying, assessing, and prioritizing risks, then designing audit procedures to address those risks.	<ul style="list-style-type: none"> <li>❖ Effective for large or complex organizations.</li> <li>❖ Ensures audit resources target areas of highest impact.</li> <li>❖ Aligns with strategic objectives and regulatory expectations.</li> </ul>
<b>Decision-Centric Auditing</b>	Provides insights and assurance that support management decision-making, rather than just verifying past transactions.	<ul style="list-style-type: none"> <li>❖ Useful in fast-moving, strategic environments.</li> <li>❖ Supports business planning, investment decisions, and operational improvements.</li> <li>❖ Enables timely, actionable recommendations.</li> </ul>
<b>Forensic / Investigative Auditing</b>	Focuses on detecting fraud, corruption, or misconduct through detailed analysis of anomalies, irregularities, and suspicious patterns.	<ul style="list-style-type: none"> <li>❖ Applied in high-risk or high-fraud environments.</li> <li>❖ Supports legal or regulatory investigations.</li> <li>❖ Combines data analytics, interviews, and document review for evidence-based findings.</li> </ul>

# Risk-Based Internal Auditing: strategic considerations #1

Strategic Dimension	Key Considerations	Why It Matters
<b>Risk Identification</b>	Identify and categorize risks across operational, financial, compliance, and strategic areas.	Ensures focus on areas that could most impact organizational objectives and value creation.
<b>Risk Assessment &amp; Prioritization</b>	Evaluate likelihood and impact of risks using qualitative and quantitative methods.	Allocates audit resources efficiently to high-priority areas, reducing exposure and optimizing coverage.
<b>Audit Planning</b>	Develop audit plans based on assessed risk levels, including timing, scope, and resource allocation.	Enhances effectiveness by aligning audit efforts with organizational priorities and emerging risks.
<b>Control Evaluation</b>	Test the design and effectiveness of internal controls mitigating key risks.	Strengthens risk management, prevents losses, and improves operational reliability.
<b>Continuous Monitoring &amp; Analytics</b>	Leverage data analytics, dashboards, and continuous auditing techniques.	Provides real-time insights, early warning signals, and proactive risk mitigation.

# Risk-Based Internal Auditing: strategic considerations #2

Strategic Dimension	Key Considerations	Why It Matters
<b>Stakeholder Engagement</b>	Communicate findings, risks, and recommendations to management, Board, and Audit Committee.	Supports informed decision-making, governance, and accountability.
<b>Strategic Alignment</b>	Ensure risk-based audits align with organizational strategy and long-term objectives.	Adds value beyond compliance by enhancing strategic resilience and decision support.
<b>Dynamic Adaptation</b>	Adjust audit plans based on emerging risks, regulatory changes, or business shifts.	Maintains relevance and agility in a rapidly changing business environment.



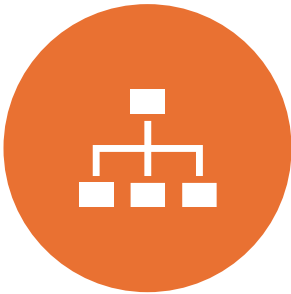
# Risk-Based Internal Auditing: procedures

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
1	Understand organizational context & objectives	Aligns audit with strategic goals and risk appetite	What are the key objectives and risks threatening them?	Strategic plans, risk registers, board reports, policies	Ensure audit focuses on material risks and value creation
2	Identify and assess risks	Pinpoints high-risk areas needing audit attention	Which processes/events pose highest likelihood and impact?	Risk assessments, incident logs, loss history, control self-assessments	Prioritize resources to critical risks, uncover emerging threats
3	Evaluate risk management & controls	Determines whether management responses are effective	Are controls designed and operating to mitigate identified risks?	Control matrices, test results, compliance checks, monitoring reports	Highlight control gaps, recommend stronger risk responses

# Risk-Based Internal Auditing: procedures

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
4	Develop risk-based audit plan	Ensures audit coverage matches risk priorities	Does the plan allocate effort to high-risk vs low-risk areas?	Audit universe, risk rankings, resource allocations	Optimize audit resources, justify coverage to stakeholders
5	Execute risk-focused fieldwork	Provides assurance on controls for key risks	Are critical controls effective and sustainable?	Test results, transaction samples, walkthroughs, analytics	Deliver focused, high-impact findings tied to real risks
6	Report risk-oriented findings	Ensures reporting drives management action	Do findings clearly link to risks and business impact?	Draft reports, risk ratings, heat maps, dashboards	Communicate issues in risk language, support decision-making
7	Follow-up & monitor risk mitigation	Sustains assurance and accountability	Are corrective actions reducing residual risk?	Action plans, follow-up audits, risk re-assessments	Ensure issues are resolved, reduce residual exposure

# Key Takeaway



Risk-based internal auditing is strategically oriented, focusing on proactive risk management, value creation, and alignment with organizational objectives, rather than just checking compliance.



The effectiveness of a risk-based audit lies in aligning audit work with the organization's strategic objectives and top risks, ensuring that the limited resources are focused on the areas of highest impact. In simple terms: don't audit everything — audit what matters most to achieving objectives and protecting value.

# Decision-Centric Auditing – How It Is Done #1

Step / Dimension	Activities / Methods	Strategic Purpose / Outcome
<b>1. Define Audit Objectives</b>	<ul style="list-style-type: none"><li>❖ Align audit focus with organizational strategy and key decisions</li><li>❖ Identify decision areas requiring assurance or insights</li></ul>	Ensures audit is relevant to management needs and strategic priorities
<b>2. Identify Key Decisions &amp; Risks</b>	<ul style="list-style-type: none"><li>❖ Map critical decisions across operations, finance, compliance, and strategy</li><li>❖ Assess associated risks and potential impact</li></ul>	Prioritizes audit efforts where they can influence significant outcomes
<b>3. Collect and Analyze Data</b>	<ul style="list-style-type: none"><li>❖ Gather historical, real-time, and predictive data</li><li>❖ Use analytics, dashboards, and KPIs for insights</li></ul>	Provides evidence-based insights to support timely and informed decisions

# Decision-Centric Auditing – How It Is Done #2

Step / Dimension	Activities / Methods	Strategic Purpose / Outcome
<b>4. Evaluate Controls &amp; Processes</b>	<ul style="list-style-type: none"> <li>❖ Assess processes, internal controls, and governance mechanisms affecting decisions</li> <li>❖ Identify inefficiencies, gaps, or vulnerabilities</li> </ul>	Ensures that decision-making processes are reliable and risks are mitigated
<b>5. Provide Insights &amp; Recommendations</b>	<ul style="list-style-type: none"> <li>❖ Deliver actionable recommendations tied to decisions</li> <li>❖ Highlight opportunities, risk mitigation, and process improvements</li> </ul>	Supports proactive, informed, and value-enhancing decisions
<b>6. Communicate Findings Strategically</b>	<ul style="list-style-type: none"> <li>❖ Tailor reports to executives, managers, and Board needs</li> <li>❖ Focus on implications for strategic choices rather than detailed transactional issues</li> </ul>	Improves decision-making transparency and alignment with organizational goals
<b>7. Follow-Up &amp; Continuous Monitoring</b>	<ul style="list-style-type: none"> <li>❖ Track implementation of recommendations</li> <li>❖ Update insights as circumstances, risks, or data evolve</li> </ul>	Ensures decisions remain effective and adaptive to changing conditions

# How to audit decisions #1

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
1	Map key decisions (strategic, financial, operational, cultural)	Focuses audit on real performance/risk levers, not just procedures	What's shaping direction? Where are bets being placed?	Board minutes, EXCO decisions, investment memos, major procurement, M&A, hiring/firing	Flag misaligned/missing risk analyses, incomplete decision inputs, invisible "non-decisions"
2	Identify decision-makers & influencers	Titles ≠ power; real decisions often informal	Who holds invisible power? Who influences without accountability?	Informal leadership networks, recurring advisors, WhatsApp/other channels, shadow EXCO, social groups	Expose informal governance; advise on escalation; clarify roles
3	Assess decision quality	Good decisions involve debate, dissent, evidence; poor ones are rushed	Were trade-offs explored? Was dissent/evidence allowed?	Decision papers with alternatives, debate in minutes, risk input, stakeholder consultations	Detect groupthink, power imbalance, ignored experts; recommend stronger protocols

## How to audit decisions #2

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
4	Analyze speed vs. complexity	Complex/high-risk decisions need proper pacing & checks	Was decision pace appropriate for complexity/risk?	Timeline from ideation to sign-off, risk escalation records, policy deviations	Detect reckless acceleration or paralysis; recommend pacing frameworks
5	Link decisions to risk velocity	Some decisions are irreversible & carry compound risk	Which decisions are hard to unwind or have long-term effects?	Capital commitments, regulatory filings, reputation risks, long-term partnerships	Prioritize assurance on high-impact or “no U-turn” decisions; escalate to board early



# Summary

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Decision-Centric Auditing is strategic, forward-looking, and data-driven. It emphasizes supporting management decisions, rather than simply verifying historical transactions, by integrating risk, analytics, and real-time insights.



# Technology-driven approaches

- Technology-driven approaches in auditing refer to the use of advanced digital tools and techniques — such as data analytics, continuous auditing, and AI-based solutions — to enhance the efficiency, accuracy, and depth of audit procedures.
- Instead of relying solely on manual sampling and retrospective reviews, these approaches allow auditors to test entire data populations, monitor transactions in real-time, and apply predictive models to identify risks, fraud, or anomalies.



# Components of technology driven approaches to auditing

- **Data Analytics:** Applying statistical and computational methods to large datasets to detect trends, anomalies, and risk indicators.
- **Continuous Auditing:** Using automated tools to provide ongoing assurance on critical controls and transactions, often in near real-time.
- **AI-Based Audit Tools:** Leveraging machine learning, natural language processing, and predictive algorithms to uncover hidden patterns, detect complex fraud, and automate repetitive audit tasks.



# Purpose technology driven approaches

- To improve **audit coverage, timeliness, and insight**, while reducing the limitations of traditional sample-based audits.
- Technology-driven auditing means moving from *manual, retrospective checks* to *automated, data-rich, and real-time assurance*.

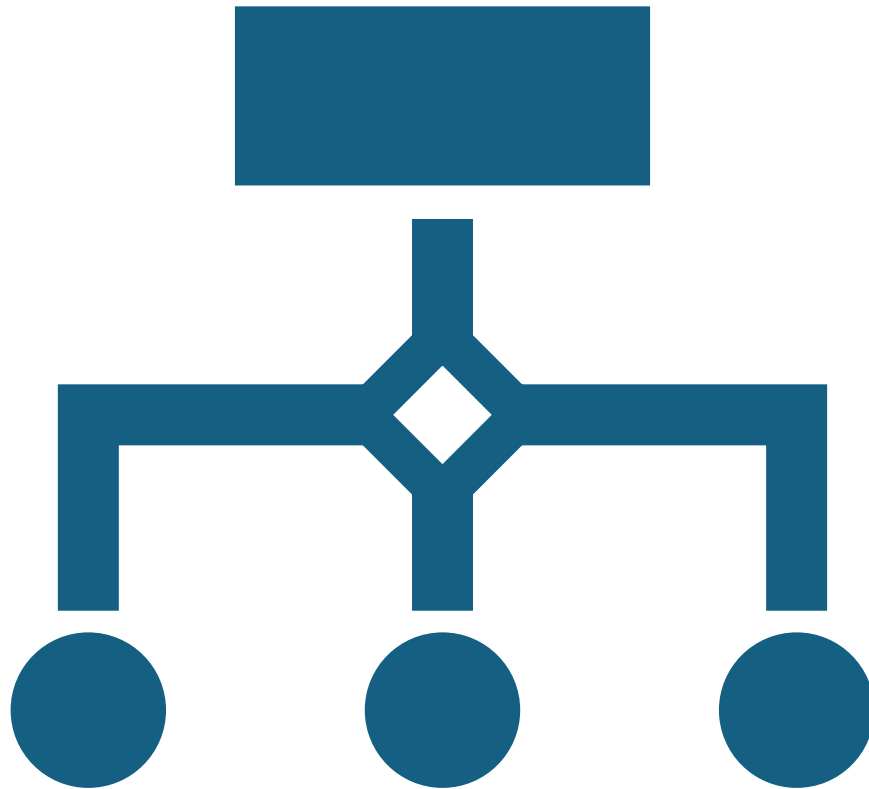


## How to utilize technology-driven approaches (data analytics, continuous auditing, AI-based audit tools) #1

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
1	Apply data analytics	Enables full-population testing, anomaly detection, and trend analysis	What patterns, outliers, or fraud indicators exist across datasets?	Transaction logs, ERP extracts, exception reports, reconciliations	Detect hidden anomalies, provide assurance over entire datasets, reduce sampling risk
2	Use continuous auditing/monitoring	Provides near real-time assurance on key controls and transactions	Are critical controls working consistently over time?	Automated alerts, continuous monitoring dashboards, control breach logs	Strengthen control environment, allow early issue detection, reduce lag between occurrence and detection
3	Integrate AI & machine learning tools	Enhances prediction, risk scoring, and detection of complex fraud schemes	What risks can AI uncover beyond traditional methods?	Predictive models, anomaly detection outputs, natural language processing of unstructured data	Improve audit efficiency, uncover emerging risks, automate repetitive tasks

## How to utilize technology-driven approaches (data analytics, continuous auditing, AI-based audit tools) #2

Step	What to Do	Why It's Important	Audit Insight	Evidence to Look For	How Auditors Add Value
4	Leverage automation & robotics (RPA)	Reduces manual effort and errors in audit testing	Which repetitive procedures can be automated?	Process maps, audit test scripts, RPA execution logs	Increase audit coverage, free up auditors for higher-value analysis
5	Ensure data governance & cybersecurity in audit tech	Protects integrity, confidentiality, and reliability of audit tools	Is audit data accurate, secure, and compliant with policies?	Data access logs, cybersecurity reports, ITGC testing results	Safeguard reliability of audit conclusions, ensure compliance with privacy/regulatory requirements
6	Upskill audit teams in digital tools	Ensures auditors can effectively deploy and interpret results	Do auditors understand analytics, AI models, and limitations?	Training records, digital competencies framework, skill assessments	Build digital audit capacity, reduce reliance on IT specialists, enhance insights



# Key Takeaway

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Technology-driven auditing shifts assurance from retrospective, sample-based checks to real-time, full-population, and predictive insights—enhancing both effectiveness and efficiency.

# Evolution from traditional to modern risk-based auditing

Aspect	Traditional Audit Approach	Modern Risk-Based Audit Approach
Focus	Compliance with procedures and transactions	Strategic objectives, key risks, and controls
Scope	Uniform coverage of all areas regardless of risk	Prioritized coverage based on risk assessment
Methodology	Transaction testing, substantive procedures	Risk assessment, control evaluation, analytics-driven
Timing	Periodic, after-the-fact	Continuous, forward-looking, integrated with risk management
Evidence	Sample-based testing	Full-population testing with analytics and risk indicators
Role of Auditor	Inspector of compliance	Advisor and assurance provider on risk and strategy
Outcome	Detection of errors and irregularities	Assurance on risk management, governance, and value protection
Value to Management	Limited to compliance confirmation	Strategic insights, risk prioritization, and decision support

A close-up photograph of a hand holding a set of keys. The keys are silver and include a large octagonal key and a smaller rectangular key. The background is a blurred indoor setting with warm lighting, featuring a lamp and some furniture.

## Key takeaway

Auditing has shifted from a backward-looking compliance check to a forward-looking, risk-driven approach that aligns assurance with strategic objectives and organizational risk priorities.



# Meaning of Audit Working Papers

Audit working papers are the auditor's records of procedures performed, evidence obtained, and conclusions reached. They form the audit file that supports the audit opinion.

# Need for Audit Documentation (ISA 230)

Support	the auditor's opinion.
Provide	evidence of compliance with ISAs and legal requirements.
Facilitate	supervision and review.
Record	professional judgment and significant audit matters.
Ensure	accountability and enable external inspections.
Serve	as reference for future audits or dispute resolution.

# Audit Documentation: A Strategic Outlook

- **Enhancing Audit Quality:** Strong documentation underpins credibility, enabling regulators, investors, and boards to trust the audit process.
- **Driving Transparency:** Provides a clear audit trail that strengthens confidence in financial reporting and corporate governance.
- **Future-readiness:** With increasing reliance on digital audit tools, documentation is evolving into a strategic asset for knowledge management and continuous improvement.
- **Risk Management:** Well-maintained working papers serve as protection against litigation and reputational risk.
- **Value Creation:** Beyond compliance, audit documentation supports institutional memory, making audits more efficient and insightful in future engagements.



# Meaning of Audit Evidence

## [ISA 500: Audit Evidence]

Audit evidence is the information used by the auditor to draw conclusions on which the audit opinion is based. It includes both information contained in accounting records and information obtained from external or other sources.

# Procedures for Obtaining Audit Evidence (ISA 500)



**Inspection** – Examining records, documents, or tangible assets.



**Observation** – Watching processes or procedures being performed.



**Inquiry** – Seeking information from knowledgeable persons.



**External Confirmation** – Obtaining direct written responses from third parties (e.g., banks, customers).



**Recalculation** – Verifying the mathematical accuracy of records or documents.



**Reperformance** – Independently executing procedures or controls to test reliability.



**Analytical Procedures** – Reviewing relationships among financial and non-financial data to spot unusual trends.



# Quality of Audit Evidence



**Determined by reliability and relevance.**



**More reliable when obtained:**

From independent external sources.

Directly by the auditor (e.g., observation).

In documentary form rather than oral.

As original documents rather than copies.

# Quantity of Audit Evidence



**Refers to sufficiency of evidence collected.**



**Depends on:**

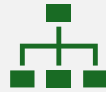
**Risk of material misstatement**  
(higher risk → more evidence).

**Quality of evidence** (higher  
quality → less quantity required).

# Strategic Outlook on Audit Evidence



**Foundation of Assurance:** Strong evidence underpins the credibility of the audit opinion, strengthening trust in financial reporting.



**Risk Management:** High-quality evidence reduces audit risk, litigation risk, and reputational damage to auditors.



**Stakeholder Confidence:** Regulators, investors, and boards rely on the sufficiency and reliability of evidence to ensure fair presentation.



**Adaptation to Technology:** With big data and AI, the scope of evidence now extends to entire populations, enhancing depth and predictive insights.



**Value Creation:** Beyond compliance, evidence-based auditing provides strategic insights into business performance, controls, and emerging risks.





## Quality Management for an Audit of Financial Statements [ISA 220 (Revised)]

### Meaning:

- ❖ ISA 220 (Revised) establishes the auditor's responsibilities to manage quality at the engagement level for audits of financial statements.
- ❖ It aligns with the new **risk-based approach to quality management** under ISQM 1, focusing on embedding quality into all stages of the audit.

# Quality Management for an Audit of Financial Statements

## [ISA 220 Revised] #1

Element	Explanation	Strategic Value
<b>Leadership and Culture</b>	Engagement partner promotes a culture of ethics, independence, and skepticism.	Sets the “tone at the top” and embeds quality into the audit environment.
<b>Ethical Requirements</b>	Compliance with independence, integrity, objectivity, confidentiality, etc.	Enhances credibility, trust, and compliance with professional standards.
<b>Acceptance &amp; Continuance</b>	Evaluate client integrity, auditor competence, and resource availability.	Protects against high-risk clients and safeguards audit reputation.
<b>Engagement Team &amp; Resources</b>	Assign suitably skilled staff, experts, and adequate resources.	Ensures competence, efficiency, and capacity to handle complex audits.

# Quality Management for an Audit of Financial Statements

## [ISA 220 Revised] #2

Element	Explanation	Strategic Value
<b>Engagement Team &amp; Resources</b>	Assign suitably skilled staff, experts, and adequate resources.	Ensures competence, efficiency, and capacity to handle complex audits.
<b>Engagement Performance</b>	Direct, supervise, and review audit work while applying judgment and skepticism.	Strengthens audit reliability and consistency of judgments.
<b>Information &amp; Communication</b>	Maintain effective, timely communication within the team and with governance.	Builds transparency, collaboration, and stakeholder confidence.
<b>Monitoring &amp; Remediation</b>	Evaluate quality system, correct deficiencies, and promote continuous improvement.	Drives accountability, learning, and sustainable audit quality.

# International Standard on Quality Management (ISQM) 1 & 2

**ISQM 1 – Quality Management for Firms that Perform Audits or Reviews of Financial Statements and Other Assurance or Related Services Engagements**

**Purpose:**  
ISQM 1 sets requirements for a firm's **system of quality management** to ensure that engagements are performed in compliance with professional standards and regulatory requirements.

# Key Points

**Risk-based approach: Firms must identify and assess quality risks that could affect the outcome of engagements.**

## **Components of the quality management system:**

- **Governance and leadership** – tone at the top, ethical culture, accountability.
- **Relevant ethical requirements** – independence, integrity, and professional behavior.
- **Acceptance and continuance of client relationships and engagements** – due diligence to avoid high-risk clients.
- **Human resources** – recruitment, training, performance evaluation.
- **Engagement performance** – supervision, review, consultation.
- **Resources and information management** – IT systems, tools, and knowledge resources.
- **Monitoring and remediation** – ongoing evaluations and addressing deficiencies.

# Strategic Outlook:



Embeds **quality in the culture** of the firm, not just compliance.



Helps anticipate risks before they materialize into audit failures.



Enhances the firm's reputation and stakeholder confidence.

# ISQM 2 – Engagement Quality Reviews (EQRs)

## Purpose

ISQM 2 focuses on **engagement quality reviews**, ensuring that an independent, qualified reviewer evaluates key aspects of significant engagements before the report is issued.

## Key Points



- **Applicability:** Required for engagements with higher risk or significance.
- **Engagement Quality Reviewer (EQR):**
  - Must be competent, independent, and not part of the engagement team.
  - Reviews critical judgments and conclusions.
- **Objective:**
  - Provide **reasonable assurance** that the engagement complies with professional standards and regulatory requirements.
- **Process includes:**
  - Reviewing the planned approach to the engagement.
  - Assessing significant judgments and conclusions.
  - Reviewing documentation and the final report.
  - Discussing findings with the engagement team and addressing deficiencies.



# Strategic Outlook

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Enhances audit quality **at the engagement level.**

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Acts as a final safeguard against errors, promoting stakeholder trust.

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Encourages continuous improvement and knowledge sharing within the firm.

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# Summary

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Standard	Focus	Scope	Strategic Benefit
ISQM 1	Firm-level Quality Management	Entire firm & all engagements	Builds culture of quality, proactive risk management
ISQM 2	Engagement-level Quality Review	High-risk/significant engagements	Ensures final outputs meet standards, safeguards reputation

# High-impact boardroom questions on ISQM 1 & 2



Given the implementation of ISQM 1 and ISQM 2, how is the firm ensuring that its quality management system not only meets compliance requirements but also aligns with our strategic objectives, mitigates emerging audit risks, and enhances stakeholder confidence in our financial reporting?



## **Leadership and Culture:**

*"How is the leadership team embedding a culture of quality and ethical behavior throughout the firm, in line with ISQM 1 requirements, and how are we measuring its effectiveness?"*



## **Risk-Based Quality Management:**

*"What processes do we have to identify and mitigate the most significant audit quality risks, and how do ISQM 1 and ISQM 2 guide our decision-making on high-risk engagements?"*



## **Engagement Quality Reviews and Stakeholder Assurance:**

*"For our most critical or high-risk audits, how does the engagement quality review process (ISQM 2) provide assurance that key judgments are sound, and how do we communicate this assurance to stakeholders?"*