

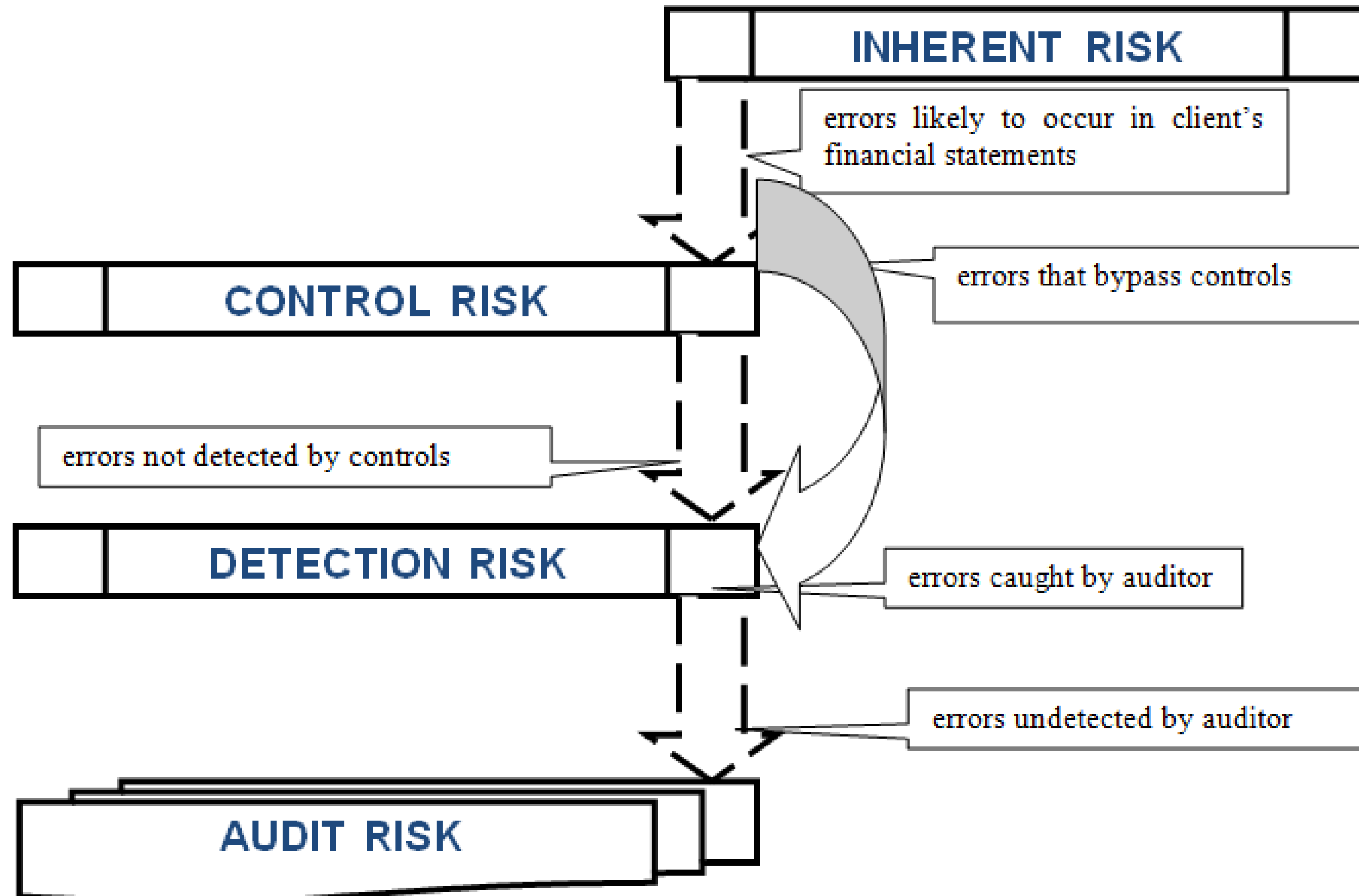
AUDIT RISK: FROM THE INVESTIBLE TO THE MANAGEABLE



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THE CLASSICAL AUDIT RISK MODEL CONSIDERING RANDOM ERRORS AND SYSTEMATIC MISSTATEMENTS



COMPONENTS OF AUDIT RISK AND WAYS TO MANAGE THEM

MANAGING ECONOMY

Audit Risk Component	Meaning	Ways to Manage
Inherent Risk (IR)	The likelihood of misstatements in financial statements due to the nature of the business, complexity of operations, or industry characteristics	– Analyze the industry and business specifics; – Identify high-risk areas (cash, inventory, related parties); – Consider economic conditions and legislative changes
Control Risk (CR)	The probability that the internal control system will not prevent or detect misstatements	– Evaluate the internal control system; – Test control procedures (authorization, inventory, segregation of duties); – Provide recommendations for control improvement
Detection Risk (DR)	The risk that audit procedures will fail to detect material misstatements	– Increase sample size; – Apply various audit methods; – Perform additional procedures on critical areas; – Involve experts where needed
Overall Audit Risk (AR)	The combined effect of all three components	– Proper audit planning; – Adjust strategy according to assessed risks; – Maintain professional skepticism and independence; – Ensure thorough documentation of evidence

PROBLEMS IN IDENTIFYING AUDIT RISK AND MEASURES FOR ITS MANAGEMENT

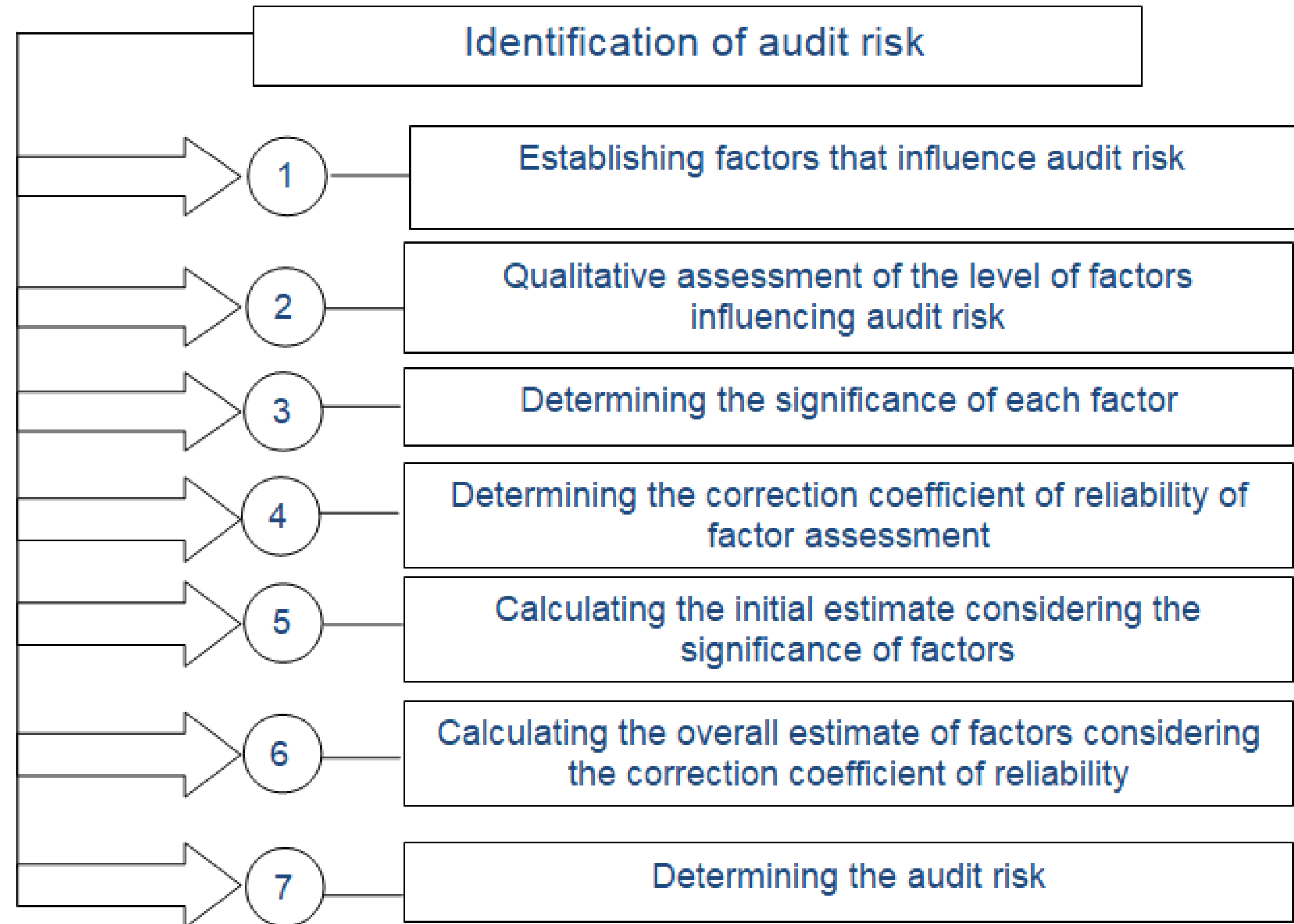
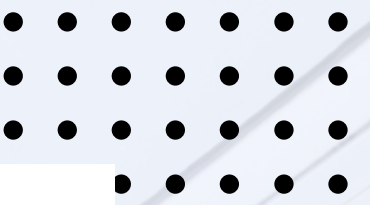


Component of Audit Risk	Definition (ISA Terminology)	Ways to Manage / Auditor's Response
Inherent Risk (IR)	The susceptibility of an assertion about a class of transactions, account balance, or disclosure to a misstatement that could be material, before consideration of any related controls.	– Obtain understanding of the entity and its environment; – Identify areas of complex estimates or judgment; – Assess business and industry risks that may increase susceptibility to misstatement.
Control Risk (CR)	The risk that a misstatement that could occur in an assertion and that could be material will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.	– Evaluate the design and implementation of internal controls; – Perform tests of controls where applicable; – Recommend improvements to control systems.
Detection Risk (DR)	The risk that the auditor's procedures will not detect a misstatement that exists and that could be material.	– Design and perform appropriate substantive procedures; – Increase sample size and nature/timing/extent of testing as necessary; – Use analytical procedures and professional skepticism.
Audit Risk (AR)	The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.	– Properly plan and perform audit procedures in accordance with ISA; – Continuously reassess risks during the audit; – Ensure sufficient and appropriate audit evidence is obtained.

SCIENTIFIC BASIS FOR RISK IDENTIFICATION UNDER INTERNATIONAL STANDARDS ON AUDITING

International Standard on Auditing (ISA)	Risk Identification Measure	Research Methods
ISA 315 “Identifying and Assessing the Risks of Material Misstatement”	Understanding the business model, environment, and industry	PESTEL analysis, SWOT analysis, systems approach
ISA 330 “Auditor’s Responses to Assessed Risks”	Evaluating and testing internal controls	COSO framework, risk-based approach
ISA 520 “Analytical Procedures”	Performing trend, ratio, and comparative analyses	Correlation and regression analysis, statistical methods, benchmarking
ISA 240 “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”	Detecting indicators of fraud	Fraud Triangle model, behavioral analytics, forensic auditing
ISA 320 “Materiality in Planning and Performing an Audit”	Determining materiality levels during planning	Statistical models (percentage of profit, revenue, assets), probability theory
ISA 500 “Audit Evidence”	Using various sources of audit evidence	Evidence theory, multi-criteria analysis
ISA 530 “Audit Sampling”	Forming samples for testing	Sampling theory, mathematical statistics
ISA 620 “Using the Work of an Auditor’s Expert”	Engaging experts for evaluation of complex items	Expert methods, fair value modeling, econometrics

METHODICAL APPROACH TO THE IDENTIFICATION OF AUDIT RISK



FRAGMENT OF THE CALCULATION OF THE OVERALL ASSESSMENT OF FACTORS INFLUENCING AUDIT RISK

Factors	Level of Factors (1 – Low; 2 – Medium; 3 – High)	Significance of the Factor	Initial Assessment of the Factor	Correction Coefficient of Reliability of Factor Assessment	Overall Assessment of the Factor
Experience and qualification of the chief accountant	3	0.2	0.6	0	0
Distribution of responsibilities and authority	1	0.2	0.2	0	0
Complexity of business operations	2	0.2	0.4	1	0.4
Stability of the regulatory framework	1	0.2	0.2	1	0.2
Organization of document flow at the enterprise	2	0.2	0.4	0	0
Total					0.6

PRESENTATION CONCLUSION

The current audit practice indicates that the complexity of the risk identification process is caused by the dynamism of the economic environment, the heterogeneity of information flows, the insufficient formalization of certain procedures, and the influence of the human factor. The imperfection of approaches to determining the significance of risk factors and their quantitative assessment leads to a decrease in the accuracy of audit conclusions and an increase in the overall level of uncertainty.

To address this issue, it is advisable to:

- Improve the system of methodological tools for audit analysis by combining the classical provisions of the International Standards on Auditing (ISA 315, 330, 500, 520) with modern methods of quantitative risk assessment;
- Integrate information technologies, in particular the use of analytical platforms, to identify atypical trends and anomalies;
- Develop adaptive models of audit risk that take into account industry specifics, macroeconomic changes, and behavioral aspects of management personnel.

**THANK
YOU**

