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Risk and Governance (including Assurance update)

Part 1

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2020

Risk and Governance Management

Governance

- Seeks to outline rules and guidelines
 - for managing and executing processes
 - To optimise workflows and determine risks
- Compliance has a duty to keep the organisation within the rules and the law
 - Avoiding institutional risk

Corporate vs Process Governance

- Corporate Governance
 - System used to manage, monitor and motivate
 - To achieve goals with full control and recognition of abilities and skills
 - Stakeholder management

- Corporate Governance aims to
 - Convert company principles and company values to **real rules**
 - Formally align the interests of **stakeholders**
 - Provide sustainable economic value of the company over the **long term**
 - Facilitating company's **access to resources**
 - Improves business and management **conduct of company**
 - **It promotes the common good of society**

Process Governance

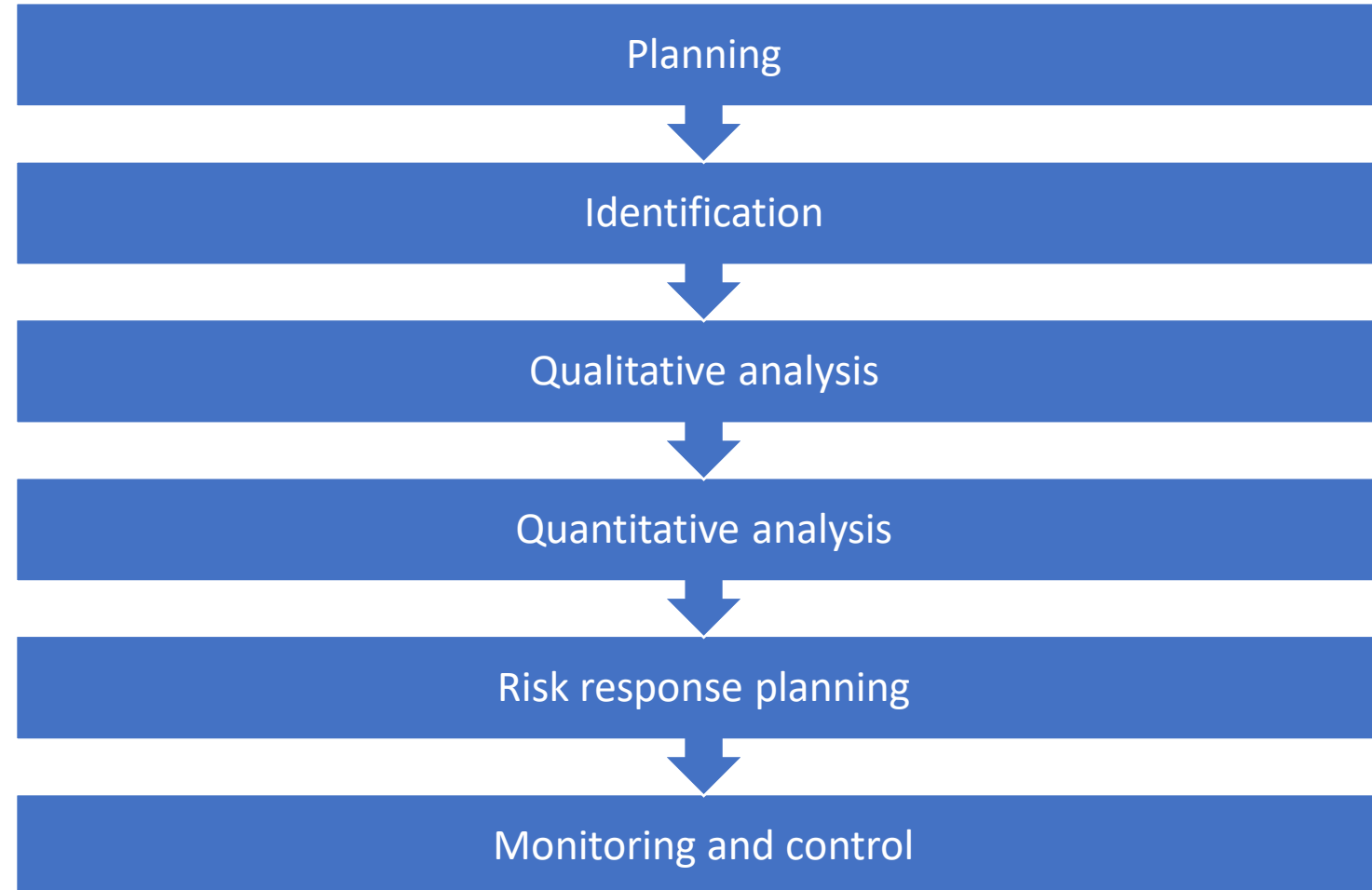
- More particular concept
- Lays down guidelines for the administration and execution of processes in organisation
- Determining
 - those that are to be responsible
 - Roles of each person

- Process management objectives
 - Optimise processes
 - Eliminate inefficiencies
 - Determine risks
 - Define risk prevention and contingency initiatives
 - To achieve the strategic goals
 - Completely meet expectations – internal or external
- Promotes integrity and reliability of organisations processes

Risk management

- Defined as the process:
 - That seeks to reduce uncertainties of an action
 - Taken through planning, organising and controlling
 - Of both human and financial capital
- Assessing strengths and opportunities measured against uncertainties and threats
- Every action has an equal reaction
- Need to be balanced – good with bad

Risk Management Process



Main downside risks

- Systematic Risks
 - Information systems being inefficient, inadequate, obsolete with many failure
- External risks
 - Factors beyond the company that affects internal enviro
 - Such as infrastructure failures, political events, international conjectures
- Personnel Risks
 - When employees are not prepared to meet the needs and achieve strategic objectives of Co
- Process Risks
 - The business processes don't match the performance that must be reached

Compliance

- Defined as acting within the rules
 - Is the satisfaction of risk management in business,
 - Complying with rules and regulations so that management is not compromised, and
 - The long term sustainability of the organisation is guaranteed, transparently and ethically
 - Ensuring the interests of the community, employees, shareholders, society and other stakeholders are met

King IV and Corporate Governance

King IV – Basic Philosophy

- Sustainable Development
- Integrated Thinking
- Organisations as an integral part of society (triple context)
- Corporate Citizenship
- Stakeholder Inclusivity
- Integrated Reporting

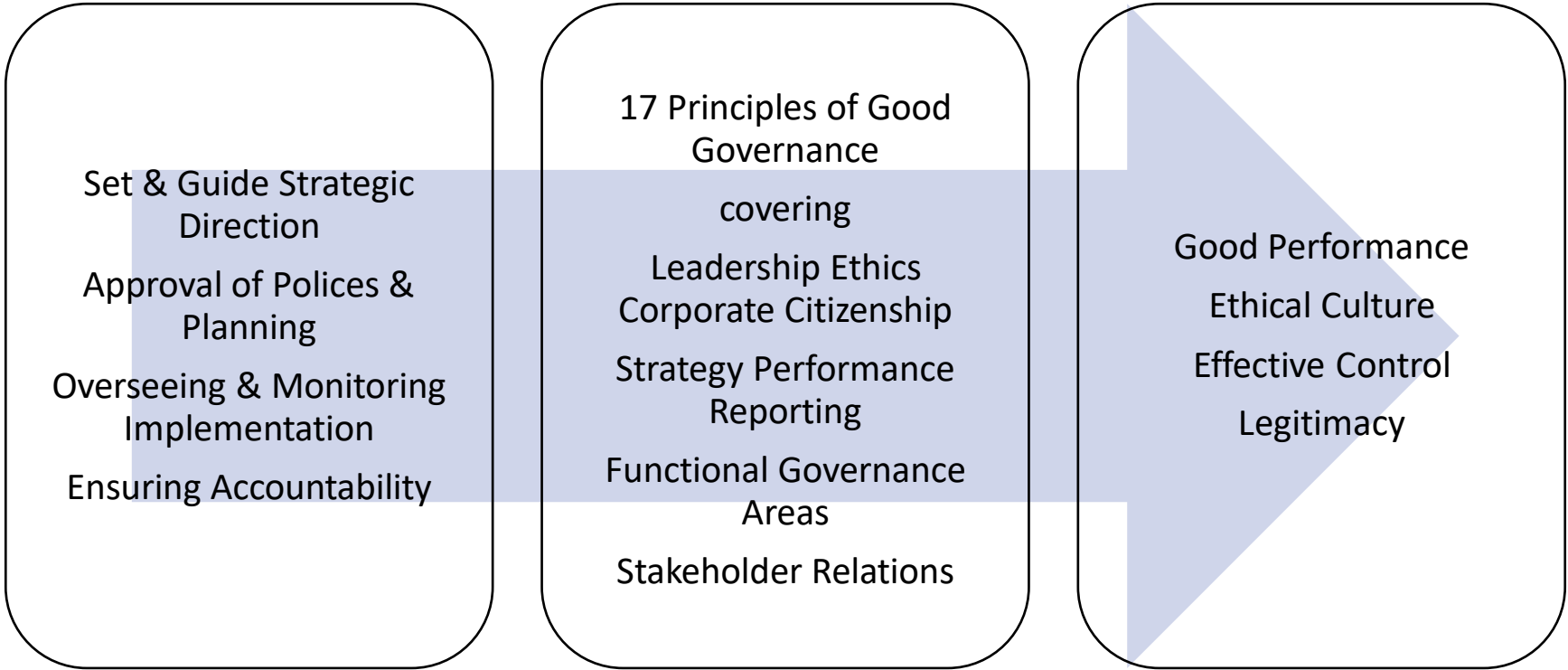
The Report Itself

- The Governing Body (term includes NPO, NGO, PBO, SOE & SME) in exercising its roles & responsibilities to:
 - Set & Guide Strategic Direction
 - Approval of Policies & Planning
 - Overseeing & Monitoring Implementation
 - Ensuring Accountability

- Using & Disclosing the Applicable of 17 Principles of Good Governance and Putting them into Practice:

- 1) Ethical Effective Leadership
- 2) Organisational Ethics
- 3) Responsible Corporate Citizenship
- 4) Holistic Strategy & Performance – Value is more than Profit
- 5) Reporting
- 6) Governing Body as Custodian and Focus of Corporate Governance
- 7) Composition & Independence of Governing Body
- 8) Delegation – Not Transfer of Accountability (Committees)
- 9) Performance Evaluation of Governing Bodies
- 10) Appointment of & Delegation to Management
- 11) Risk Governance
- 12) Information & Technology Governance
- 13) Ethical Compliance Governance
- 14) Transparent Remuneration Governance
- 15) Effective Control & Assurance
- 16) Stakeholder-Inclusive Governance
- 17) Responsibilities of Institutional Investors

- Aspires to Achieve the Benefits of Good Corporate Governance
 - Good Performance
 - Ethical Culture
 - Effective Control
 - Legitimacy



INITIATIVES TO IMPROVE AUDIT QUALITY

Assurance Aspects

Overview

ISQM1

- Firm level – applicable to all firms
- System of quality control management
- Made up of 8 components
- Risk assessment process (req'd by the standard and firm specific)
 - Quality objectives
 - Quality risks
 - Response to quality risks (policies and procedures)
- Evaluate the system of quality management

ISQM 2

- Firm level
- Relationship to ISA220 and ISQM1
- Engagement quality review
 - Eligibility
 - Appointment
 - Firm and reviewer requirements
- Scope of engagements subject to EQ
- Performance requirements of EQR

ISA 220 (Revised) Quality Management for the Audit of AFS

- Engagement level
- More proactive management of quality
- Alignment to ISQMs

ISA220

- Comments were due by 1 July 2019
- Highlight the importance of
 - the public interest role of audits, and
 - improve the emphasis on the importance of the appropriate application of **professional judgment and exercise of professional skepticism;**

- Clarify the role and responsibilities of the engagement partner,
 - particularly the required involvement of the engagement partner throughout the audit, and
 - retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level;

- Modernize ISA 220 for an evolving environment, including changes in audit delivery models and the use of technology; and

- Clarify the relationship between ISA 220 and the International Standards on Quality Control/Management,
 - including additional clarification of the engagement partner's and engagement team's interaction with the firm, and
 - the engagement team's ability to depend on the firm's quality management policies or procedures.

ISQM 1

ISQM 1

Objective: Design implement and operate a system of QC

- Firm has a responsibility to
 1. Establish quality objectives
 2. Identify and assess quality risks
 3. Develop responses to identified risk

The above shall use the 8 component framework

8 component Framework

1. Firm risk assessment process
2. Governance and leadership
3. Relevant ethical requirements
4. Acceptance and continuance of client relationships and specific relationships
5. Engagement performance
6. Resources
7. Information and communication
8. Monitoring and remediation process

Application of ISQM 1

- Similar to King IV
 - Scalability and can change it up
 - Can address more

Assessing Quality Risks

- Threshold criteria

- The quality risk has a reasonable possibility of occurring; and
- If the quality risk were to occur, it may, individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

The firm is required to document the identified quality risks and their assessment, as per paragraph 67(a) of ED-ISQM 1

Identifying vs assessing QC Risk

- Identifying the quality risks based on
 - a preliminary consideration of the possibility of the quality risks occurring and
 - their effect on the achievement of the quality objectives;
- Assessing the identified quality risks,
 - involves a more detailed consideration of the likelihood of the quality risks occurring and
 - the degree to which the quality risks could affect the achievement of the quality objectives.

Factors in assessing QC Risks

- The identified conditions, events, circumstances, actions or inactions underpinning the identified quality risks affect the assessment of the quality risks,
 - the likelihood of the quality risks occurring and
 - the degree to which the quality risks could affect the achievement of the quality objectives.

- Examples

- The expected frequency of the quality risk occurring
- The rate at which the effect of the quality risk would take place, or the amount of time that the firm has to respond to the quality risk
- The duration of time of the effect of the quality risk after it has occurred

Considerations in developing your responses

- ED-ISQM 1 requires the firm to design and implement responses to address the assessed quality risks,
- The nature, timing and extent of the response are affected by the reasons for the assessment given to the assessed quality risks.

- Other factors that may be considered
 - Whether the response should involve a preventative activity, a detective activity or a combination of both. (Independence)
 - The appropriate timing of the response activities, for example, certain activities may need to operate on a continual basis in order to be effective (e.g., monitoring and reporting breaches of the firm's independence policies or procedures). •
 - Whether the response alone is sufficient to address the assessed quality risk, i.e., a combination of responses may be necessary to appropriately address the assessed quality risk.

- Whether there are responses that address multiple assessed quality risks and therefore may be more effective to design and implement.
- The resources needed to support the response. The information to be obtained, generated and communicated to support the implementation and operation of the response.

Note

- Standard has some required responses without identifying risks
 - Annual declaration of independence by staff
- To be effective – requires commitment from the TOP
- Concerned about networks and external service providers
- ED's out, 18 month implementation process Effective date anticipated to be December 2021

Professional Skepticism

Definition

- **Professional skepticism** – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

- **Role and Mindset expectations of Professional Accountants**
- Incorporated in Standards going forward
 - ISA315 and ISA540R “How to..”
- Quality Control Projects
- SAICA Events

Other issues

- SAICA involvement with IRBA
- SAICA FAQ's
- Transparency Reporting
- Audit Quality Indicators

Status of IAASB Projects

Project	Notes
Risk Assessment ISA 315	Reviewing comments received
Group Audits ISA 600	Expected ED in Dec 2019
Data Analytics and Audit Evidence (ISA 500 & ...)	On going
Agreed Upon Procedures (ISRS 4400)	Reviewing comments received
Less Complex Entities	Ongoing (Key point for Dec 2019 meeting)
Extended External Reporting (EER)	Ongoing
Auditing Reporting	Post Implementation review
Attorney Trusts Accounts	

ED ISA 315 (Revised 2019)

Identifying and Assessing
the Risks of Material
Misstatement

Notes

- Effective years on or after 15 Dec 2021
- Focus on “What needs doing”, “Why and how” procedure are undertaken
- Very complex standard – although aim to reduce complexity
- Enhanced scalability through principle based application
- Robust assessment of risks, leading to focus responses to identified risks (consistency)
- Modernising ISA’s
- Enhanced professional Skeptisicm
- New and clarified concepts
- Standback concept

Refer to Diagram

- Page 3 of Introduction to ISA 315 (revised 2019)
- Audit risk model has not changed
 - $AR = IR \times CR \times DR$
- “Spectrum of inherent risk”
- “Inherent risk factors”
 - complexity, subjectivity, sensitivity to change due to Management bias or fraud
- Possible risk of misstatement...

In a nutshell

- Overarching
 - apply Professional judgement and professional scepticism
 - Inherent risk factors
 - Documentation
 - Iterative process

- At all times during Risk assessment process, obtain an understanding of:
 - Entity and its environment
 - Applicable reporting framework
 - Entity' s system of internal control
 - Direct and indirect controls
 - Evaluating design only vs design and implementation of controls

- Scan for Risk of Material Misstatement (RoMM)
 - At financial statement level
 - Evaluate impact for overall response
 - At assertion level (determine significant CoTaBD and their assertion)
 - Assess likelihood and magnitude
 - Assess Control Risk
 - Identify
 - significant risks
 - Other Room
 - RSPA
 - Material but not significant
- Impact of technology in an audit
 - **STANDBACK**

ISRS Agreed Upon Procedures

- Applicable to financial and non financial engagements
- Not a requirement to be independent **BUT must be transparent** in report regarding independence
- Factual findings = findings
 - Objectively verifiable
- Practitioners Expert

IRBA Website

- <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-ras>
- Attorney Trust Guide
- SAAPS 3 Audit Reports
 - Effective 15 June 2019

QUESTIONS

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THANK YOU FOR YOUR PARTICIPATION



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