# awp 5.4:

# **Documentation of Process Flow to Identify Risks of Material Misstatement in the Financial Statements (related to specific items in the financial statements)**

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| Name of the Entity | XYZ |
| Period of audit | **01.01.20XX to 31.12.20XX** |

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| Prepared by | | Signature | Reviewed & approved by | Signature |
| Name: |  |  |  |  |
| Designation: |  |  |
| Date: |  |  |

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| **Name of the Process**  (depending on the nature and operations of the entity i.e., cash receipts cycle, cash disbursement cycle) |  |
| **Basis of determining process flow** | Document review and interviews with the designated personnel in the entity |

**Process flow defined as follows** (describe process flow here from initiation to reporting):

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| **PART 1: Narrative or flowchart**  **PART 2: Results of walkthrough** |

**Summary of risks at the assertion level and controls:**

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| **Risks at the Assertion Level**  **Trace to AWP 5.4** | **Control Activities**  **Trace to AWP 5.5** |
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**Guidance for documenting the process flow to identify risks of material misstatement in the financial statements**

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| Overall objective of completing the template | The overall objective of documenting the process flow is to facilitate the auditors’ understanding of the accounting process related to classes of transactions, account balances and disclosures that will facilitate identification of risks of material misstatement in the financial statements. ISSAI 2315 requires the auditor to assess the risk of material misstatement through understanding the entity and its environment. In doing so, the auditor needs to establish an understanding of the process involved in each class of transaction, account balance and disclosure where relevant. |
| Applicable ISSAI | ISSAI 2300, ISSAI 2315 |
| Guidance | A template on overall understanding of the entity is suggested under AWP 5.1. AWP 5.3 herewith provides mainly guidance as to how the auditor can document the process flow of classes of transactions, account balances and disclosures.  Audit team needs to identify the processes that will be subject to understanding based on the understanding and experience on the nature and operations of the entity. The audit team may also inquire from the appropriate personnel for the processes involved in the entity, or refer to documented procedural manual of the entity if any. These processes include routine and non-routine processes undergone by class of transactions, account balances and disclosures presented in the financial statements. Routine processes include frequently recurring transactions such as cash receipts, cash disbursement, etc. Non-routine processes include less frequently recurring transactions such as write-off of receivables, impairment, etc.  The purpose is to identify the risks of material misstatement at the assertion level, through understanding the accounting process and what could go wrong at every stage of the process. The process should cover the initiation, recording, processing, and reporting stages.  A process flow can be documented in the form of narrative write up, flow chart, etc. In documenting the process flow, the auditor needs to visualise what could go wrong at every stage of the process related to individual classes of transactions, account balances, and disclosures. One template needs to be prepared for each process identified  In the second row, record the basis on which the process flow has been established: it could be in the form of document review, observation of processing of accounting transaction, or an interview with the designated personnel in an entity.  The risks identified can be summarised in the table below the process flow which will then be transferred in the risk register Table B suggested herewith as AWP 5.4. Any controls identified that could mitigate the risk can also be summarised in the table which will then be transferred to AWP 5.5 – Log of control activities.  The audit team needs to perform walkthrough procedures by following one transaction on how it has undergone the process. This will help the audit team confirm its understanding whether the documented processes are actually followed. This will also provide basis in making initial assessment of controls whether they are adequately designed and implemented. Take note that this is different from test of controls where audit team tests operating effectiveness of controls. If the audit team identifies that controls are not adequately designed nor implemented, there is no need to design test of control procedure in the risk response, UNLESS the audit team determined that substantive testing alone cannot provide sufficient appropriate audit evidence as stated in ISSAI 2330. |
| Recording the evidence of assessor and reviewer | The Table indicating the names of the person who prepared the process flow and the reviewer needs to be completed at the end. The preparer could be a team leader or one of the team members and needs to be signed off accordingly.  The reviewer, usually the audit engagement supervisor, should sign off this document to ensure that the work done by the team has been reviewed accordingly. |