

CHALLENGES AUDITORS FACE WHEN PERFORMING RISK ASSESSMENTS

At the 2017 CAQ Symposium, an expert panel discussed the topic of auditor risk assessment. The CAQ has created a series of video excerpts on the different topics addressed by the panel. These videos can be used as a catalyst for classroom discussion on the auditing standards that address risk assessment and the different challenges that auditors must consider when performing an assessment of the risk of material misstatement. The panel also addressed management's assessment of and response to identified risks. The content of those discussions can inform students about the processes that companies undertake.

► HOW AUDITORS APPROACH RISK ASSESSMENTS

In this video, the expert panel discusses the factors that auditors take into account when performing the risk assessment. The PCAOB has a suite of risk assessment standards that addresses audit procedures performed throughout the audit, from the initial planning stages through the evaluation of the audit results. In addition to providing insight into some of the business issues that are considered in their procedures, the panel provides an overview of the different data sources that they consult. *(Length 9:01)*

► HOW MATERIALITY IMPACTS THE AUDITOR'S RISK ASSESSMENT

PCAOB auditing standards establish requirements regarding the auditor's consideration of materiality in planning and performing the audit. This consideration is one of the most important judgments that an auditor makes. In this video, the expert panel discusses the challenges that auditors face in determining the quantitative and qualitative elements of risk assessment at the consolidated financial statement level and at the individual component level. *(Length 5:03)*

► CONSIDERATION OF RISKS IN MULTILOCATION AUDITS

Under PCAOB auditing standards, the auditor should determine tolerable misstatement for the individual locations or business units. In this video, the expert panel describes some of the key challenges that auditors face in making those decisions. *(Length 4:18)*

► DOCUMENTATION ISSUES

In this video, the expert panel discusses the challenges that auditors face in adequately documenting their judgments and conclusions around the risks identified in the risk assessment process. They mention the importance of articulating the variable audit response required for low, medium, and high risks. The panel also addresses the question of how management documents its response to their identified risks. *(Length 5:26)*

► IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

The implementation of new accounting standards can present a unique set of challenges for preparers (and their auditors). Public companies must begin to apply the new revenue recognition standard to annual reporting periods beginning after December 15, 2017; the new leasing standard will be applicable to annual reporting periods beginning after December 15, 2018. In this video the expert panel discusses how this "new GAAP" could impact the auditor's assessment of the risk for misstatement in the financial statements. *(Length 5:58)*

► HOW MANAGEMENT THINKS ABOUT RISKS THAT IMPACT ITS BUSINESS

Companies are confronted with myriad of risks that can impact their business, such as an emerging competitor, loss of market share, and obsolescence of their product line. The pace of change has also brought on disruptive innovations such as Blockchain, cryptocurrencies, and risks such as cybersecurity breaches. In this video, the panel explores the challenges that company management and boards face as they attempt to assess and manage risks. *(Length 9:23)*

► MANAGEMENT'S RESPONSE TO IDENTIFIED RISKS

Company management faces considerable challenges when it comes to addressing the wide range of business risks. In this video, we learn how some companies address risks that have been identified, including how they communicate that information to the board. *(Length 3:30)*