

The Risk Assessment Process



DRAFTWORX
Financial Statements | Working Papers



Firm risk assessment process



Establish quality objectives

Identify and assess quality risks

Design and implement responses

Continual cycle of Quality



Identification of risks

- Sources of information

- Results of firm's monitoring and remediation process (own processes)
- Information from network or service providers
- Results of monitoring activities from network and/or regulator (external)
- Complaints and allegations
- Regulatory actions and litigation
- Risk register
- Sub sectors with specific risks

Firm is required to understand...

01

The complexity and operating characteristics of the firm

02

The strategic and operational decisions and actions, business processes and business model of the firm

03

The characteristics and management style of leadership

04

The resources of the firm, including the resources provided by service providers

05

Law, regulation, professional standards and the environment in which the firm operates

06

The nature and extent of the network requirements and network services

07

The types of engagements performed by the firm and the reports to be issued

08

The types of entities for which engagements are undertaken



Risk assessment

Identify quality risks and assess

(to assist in designing and implementing responses)

Considerations

- Possibility of **occurrence** (not taking any internal controls into account)
- Significance of the **impact** should the risk occur

- **Important**

Risks should be assessed as inherent, without taking into account any controls or processes already in place in the firm.

		Significance of the effect		
		1	2	3
Possibility of occurrence	1	Low -1-	Low -2-	Medium -3-
	2	Low -2-	Medium -4-	High -6-
	3	Medium -3-	High -6-	High -6-

Possibility x Significance = Risk rating

Risk response

Responding to risks

- Low risk → No response needed
- Medium risk → Judgement needed to determine if response is needed
- High risk → Specific response needed

Panel discussion