


RISK ASSESSMENT PROCEDURES IN AUDIT PLANNING

The case of Mazars Vietnam Co., Ltd

Hung Viet Do



Bachelor's thesis
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Degree Programme in International Business
Option of Financial Management

ABSTRACT

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The recent rapid development of Vietnam's economy has required the transparency and accuracy of business information. Especially, the quality and reliability of financial statements have been significantly important to different types of stakeholders such as investors, business owners and tax authority. Thus it has resulted in niche market for financial professional services.

The thesis commissioner of this thesis is Mazars Vietnam – a professional services provider including audit, tax and advisory. Mazars is well known around the world not only because of extensive global network with many talented professionals but also brings an in-depth local experience. During the internship at the firm, the thesis author developed a genuine interest in the accounting and auditing field and essentially chose risk assessment procedures in audit planning as final thesis topic.

The thesis aims to get an understanding about the risk assessment procedures in audit planning at Mazars Vietnam. Based on that, a comparison between risk assessment procedures applied in Mazars Vietnam and standard of sample audit program issued by Vietnam Association of Certified Chartered Accountants (VACPA) has been established.

The main research method is qualitative analysis. Documents related to audit process has been obtained from internal resources of the firm and also from auditing-related academic papers. Moreover, by observing the senior-level colleagues who have years of experience in the field performing the risk assessment procedures, a more in-depth practical knowledge has been greatly generated.

Obviously, names of some entities in the thesis have been changed to ensure the confidentiality of information.

Key words: Risk assessment, financial statements audit, internal control, audit risk

CONTENTS

1	INTRODUCTION	5
1.1	Necessity of thesis	5
1.2	Research objectives.....	5
1.3	Research methodology.....	6
1.4	Research scope.....	7
1.5	Thesis structure	7
2	THEORETICAL FRAMEWORK	8
2.1	Definition of audit risk assessment.....	8
2.2	Components of audit risk.....	8
2.2.1	Risk of material misstatement.....	9
2.2.2	Risk of detection	17
2.3	Audit risk model	18
2.3.1	Definition	18
2.3.2	Correlation between audit risk and performance materiality of financial statements audit	19
2.4	Risk assessment procedures in audit planning of VACPA sample audit program.....	20
2.4.1	Risk assessment procedures at the prior to planning stage of VACPA sample audit program.....	21
2.4.2	Risk assessment procedures in audit planning VACPA sample audit program.....	22
3	RISK ASSESSMENT PROCEDURES IN AUDIT PLANNING AT MAZARS VIETNAM.....	30
3.1	Introduction of the company.....	30
3.1.1	Establishment and development of Mazars Vietnam.....	30
3.1.2	Business lines and services offered.....	30
3.1.3	Organizational structure	31
3.2	Overall audit process in Mazars Vietnam.....	32
3.2.1	Audit planning stage	34
3.2.2	Fieldwork	36
3.2.3	Completion and opinion.....	37
3.3	Risk assessment in audit planning at Mazars Vietnam.....	37
3.4	Example of a real customer	42
3.4.1	Introduction to ABC Company	42
3.4.2	Risk assessment procedures applied for ABC Company.....	44
4	COMPARISON OF THE RISK ASSESSMENT PROCEDURES BETWEEN MAZARS VIETNAM AND VACPA SAMPLE AUDIT PROGRAM.....	46

4.1 Comparison with the VACPA standard form	46
4.2 Opinions about the risk assessment procedures in audit planning at Mazars Vietnam	47
5 CONCLUSION	48
REFERENCES	50
APPENDICES	51
Appendix 1. Detailed Coso	51
Appendix 2. Related Parties	55
Appendix 3. Detailed Fraud Checklist	56
Appendix 4. Going-Concern Checklist	59
Appendix 5. Detailed Assessment Of Risk Of Material Misstatement At Financial Statement Level	60
Appendix 6. Detailed Assessment Of Inherent Risk	63
Appendix 7. Detailed Assessment Of Control Risk	70
Appendix 8. Assessment Of Risks At Assertion Level	74

1 INTRODUCTION

1.1 Necessity of thesis

Along with the development of market economy, independent audit activities have been developed in Vietnam for more than twenty years, becoming indispensable for business activities to contribute to quality of corporate management.

To issue a report on the audit of financial statements, auditors must perform different audit procedures on different items. In particular, the risk assessment in the audit planning is very crucial to the overall process. In the fast-changing economic environment, the assessment of risks in the period before accepting the audit contract to a company that will limit the risks may affect the audit firm and auditors. At the planning stage, the auditors can help identify risks, assess the impact of such risks on a certain item or on the entire financial statements. Assessing the risks will help audit better form the audit plan, identify personnel needed for the audit and the audit period.

1.2 Research objectives

Currently, the quantity and quality of audit companies have been significantly improved, yet the risk assessment of the client's company has not been focused accordingly. Risk assessment is normally the responsibility of managers and seniors who have more than 5 years of experience. However, with the knowledge obtained from prior education together with the internship in Mazars Vietnam to expose this particular issue, the thesis author decided to choose and pursue this topic.

Considering the importance of risk assessment on the financial statement audit and the actual work done in the company, the thesis topic will help to get an insight to the risk assessment procedures in audit planning at Mazars Vietnam. On that basis, limitations of this practice will be brought into the limelight and it will serve as purpose for potential improvement of the companies.

The thesis topic will address the following research objectives:

- The overall process of a financial statement audit in Mazars Vietnam
- The importance of audit risk assessment at the planning stage in Mazars Vietnam
- Illustrate the risk assessment procedures at the planning stage applied in a specific client of Mazars Vietnam
- Give opinions on the risk assessment procedures at Mazars Vietnam and compare the procedures applied in Mazars Vietnam with the standard of sample audit program issued by Vietnam Association of Certified Public Accountants (VACPA).

1.3 Research methodology

The research methodology used throughout this thesis is qualitative analysis.

Document analysis

Document analysis is used in qualitative research which allows to utilize the function of documents as data source (Bowen, G. A., 2009). In this thesis, many documents were studied either in the internal resources of Mazars or from reliable websites related to chosen topic.

Observation

The process that behaviors, events or artifacts are described systematically is called observation (Marshall & Rossman 1989, 79). Participant observation is defined as "the process of learning through exposure to or involvement in the day-to-day or routine activities of participants in the researcher setting (Schensul, L, Schensul, J, & Lecompte, M 1999, 91).

When the senior-level colleagues performed the risk assessment procedures, the thesis author carefully observed in order to gain more understanding about the procedures in practice.

1.4 Research scope

The thesis topic only covers the risk assessment procedures in Mazars Vietnam. In addition, due to the limited research scope, only one client's example has been presented and summary of client's example presented in accordance with standard form.

The risk assessment procedure at the planning stage in Mazars Vietnam is conducted by the audit seniors and audit managers. Interviews with stakeholders are possible but not applied here as method because of limited timeframe and author's knowledge about this fairly complex topic. Hence, the thesis author can only deal with the issue on the documents.

The confidentiality of the client database needs to be taken into consideration.

1.5 Thesis structure

The thesis is divided into 5 parts. It begins with the reason to choose this topic, thesis objective, research methodology and research scope. It will be followed up by the definition about the audit risk, types of audit risks, correlation among different types of risk (audit risk model) and standard risk assessment procedures issued by VACPA. In chapter 3, the risk assessment procedures in audit planning at Mazars Vietnam is presented. In chapter 4, the comparison between risk assessment procedures in Mazars Vietnam with standard of VACPA. In chapter 5, a brief conclusion shall be given to summarize the main results found in the thesis.

2 THEORETICAL FRAMEWORK

2.1 Definition of audit risk assessment

In any public audits, there are also potential drawbacks which might come from many different reasons. These causes are often because auditors only choose samples to test not to test the all. The collection of evidence is to prove the truthfulness and relevance of information and not the complete accuracy of the figures on financial statement, professional judgment of the auditor... Therefore, errors in the audit process that leads to the audit risk are unavoidable. The critical point is how to minimize these risks to a minimum level.

The overall objective of auditors and auditing firms to conduct audits in accordance with Vietnam Standards on Audit: "The audit risk is the risk that auditors and audit firms give inappropriate opinion when the audited financial statements still contain material misstatements. Audit risk is the consequence of the risks of material misstatement (including inherent risk, control risk) and detection risk." (VSA 200)

2.2 Components of audit risk

There are two main components contributing to the audit risk. First factor is dependent on the enterprise and the material misstatements on the financial statements which are known as inherent risk and control risk. Second factor is dependent on auditors and the risk that auditors did not detect material misstatements on the financial statement which is known as detection risk (ACCA Paper F8, 2012).

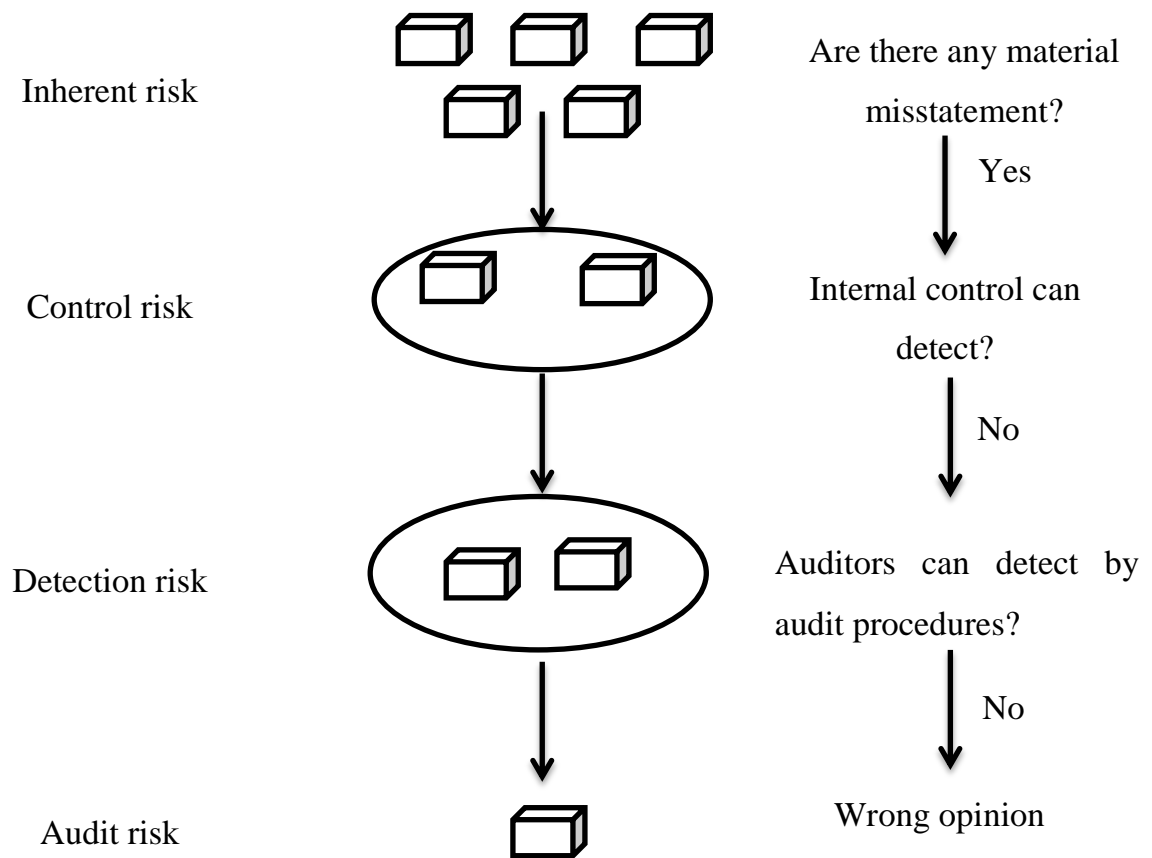


FIGURE 1. COMPONENTS OF AUDIT RISKS

2.2.1 Risk of material misstatement

2.2.1.1. Definition

According to International Standards on Auditing No. 200, Risk of material misstatement is the risk when the financial statements contain material misstatements before the audit. At assertion level, risks of material misstatement include two parts:

- **Inherent risks:** The risks, which may, due to assertion of a group of transactions, account balances or disclosures of information may contain material

misstatements, individually or aggregately, before consideration of any related public control.

- Control risk: The risks of material misstatement, when considered individually or aggregately, to the assertion of classes of transactions, account balances or disclosures of information which internal controls the unit cannot be prevented or detected and corrected in time.

2.2.1.2. Influential factors

➤ On the inherent risks

Based on the definition described above, the inherent risks arise from the nature of the profession and the business environment or due to the nature of the item on the financial statements. The identification and assessment of these risks depends on the professional judgment and understanding of the auditors about that industry.

Specifically, the factors that influence the inherent risks at the overall level:

1. Characteristics of business activity: If as a profession in which there is constant change, dizziness of the production technology, the inventory will increase the potential risk. The electronics manufacturing industry, the smartphone is a typical example.
2. The economic policy: The growth rate of the economy, the change in policy requiring businesses to update and apply to be able to survive and grow.
3. The integrity, experience and understanding of the board of directors as well as the change management component occurred in the accounting year.
4. Qualifications, professional experience of the chief accountant, primary bookkeeper, internal auditors and the change (if any) of them.
5. The unprecedented pressure on the board of directors, for chief accountants, especially those circumstances required the board of directors and chief accountants must present financial statements dishonest.
6. Access to capital: The policy on interest rates is also related to the operation of the business. If a customer is having a problem in the payment of current liabilities, the ability to borrow at preferential interest rates compared with the same industry will be very low and likely to be closed.

Factors affecting the level of the items, the account balances and the type of transactions:

1. The determination of the balance and the rise of the accounts, economic transactions such as provision, recognized professional expenses incurred after the initial recognition of fixed assets (included in expenses or recording their cost).
2. Level of easy loss, misappropriation of assets such as generating large cash collection operations, advances in bulk, long payment periods.
3. The level of complexity of transactions or significant events requiring expert opinions as litigation, theft...
4. The recording of unprecedented and complex transactions, especially near the end of the accounting period.
5. The economic operations, financial or other unexpected.

➤ **On the control risks**

Risk control is showing the effectiveness of the design, operation and maintenance of internal control by management to address identified risks that could hamper the achievement of the objectives of the company during the preparation and presentation of financial statements. However, due to the inherent limitations of internal control, although it is appropriately tailored and efficiently operated, the risks of material misstatement in the financial statements cannot completely be eliminated but only mitigated. Examples of the inherent limitations of internal control include the possibility that people cause confusion or error, some control is disabled due to collusion or power abuse of managers. Therefore, some control risk will always exist. The audit standards have given the conditions under which the auditors are required to, or may choose, check the effectiveness of control activities (control test) to determine the content, schedule, scope of the basic tests to perform.

Internal control is the process designed and influenced by a Board of Directors, managers and other personnel to provide reasonable assurance to achieve the objectives related to the integrity of the financial statements, operational efficiency, effectiveness and compliance with the law and related policies.

Internal control system of the company is designed and operated for the purpose of achieving the following objectives: operational effectiveness and efficiency; the reliability of the preparation and presentation of financial statements; compliance with laws and regulations. Therefore, if the internal control system is operating efficiently, it will help the audit process run more smoothly. If the internal control is strong and auditor's assessment is at high level of confidence, the auditors will increase the control test and reduce the substantive test. Conversely, if the internal control system is weak, auditors must increase the substantive test, to ensure that no material misstatement may exist on the audit report.

According to COSO, internal control system consists of five components:

1. Environment control
2. Risk assessment
3. Information and communication
4. Control activities
5. Monitoring activities

❖ **Environment control**

Environment control affects all activities of a business, including accounting, reliability and accuracy of the financial statements. Environment control includes the governance and management of various functions, attitudes, awareness and actions of senior managers involved in internal control.

Environment control reflects the general nuances of a unit, its dominant control consciousness of all members of the unit and is the foundation for other components of internal control. The table below shows the factors related to obtaining the understanding of the environment control:

TABLE 1. Factors affecting the environment control

Factors	Explanation
Integrity and ethical value	- This is an important factor affecting the design, administration and management of the control. To achieve

	<p>this, senior managers must build ethical standards in entities and behave in order to prevent members of unethical behavior or delinquency. Managers must set an example for subordinates on compliance with the standards and requirements need common rules to all members with the appropriate procedures.</p> <ul style="list-style-type: none"> - The entity must eliminate or minimize pressures or conditions that can lead to employees' dishonesty behaviors (staff being forced to follow unrealistic goals or interests of managers tied the business situation of the company).
Competency	The review of the management of the capacity of each level for each specific task to be assigned to work accordingly.
Board of Directors and Audit Committee	<ul style="list-style-type: none"> - Independence with managers. - Experienced and influential. - The level of participation and supervision of activities. - Behave fit and interact with internal auditors and independent auditors.
Managerial philosophy and managerial style	<ul style="list-style-type: none"> - How to access and manage business risks. - The attitude and actions in the preparation of financial statements - Attitudes in accessing and managing user information channels and relationships with subordinates.
Organizational structure	This is the division of responsibilities and powers between the parts of the entity, greatly contribute to achieving the objectives that have been planned, operated, controlled and supervised activities.
Methods of specification of rights and responsibilities	This is an extension of the organizational structure, specifying the powers and responsibilities of each member in the activities of the unit, allowing each member to understand their specific tasks and how their activity affects others in accomplishing goals.
Human resources policy	In relation to recruitment, orientation, training, appointment, evaluation, dismissal, promotion, reward and discipline.

❖ Risk assessment

All activities of an entity may generate risk and it is difficult to control everything. Therefore, managers must evaluate and analyze the factors that influence the risk created to make these objectives - including the common objectives and specific activities of the entity may not be achieved and must try to control to minimize the losses caused by this risk triggers.

Auditors will learn about the process of risk assessment of an entity through:

1. Identify business risks related to the objectives of financial reporting
2. Estimate the risks can impact the organization at the level of the entire entity or only affect each specific activity.
3. Assess the possibility of probable risks.
4. Decide what actions to address those risks.

❖ Control activities

Control activities are the policies and procedures to ensure that the directive of managers is done. Control activities include activities designed to prevent or detect and correct the problems that exist in the enterprise. For example, issues related to decentralization and activities assessment, information processing...

TABLE 2. Control Activities

Main activities	Explanation
Adequate separation of responsibilities	<p>A member is not allowed to solve all aspects of procedure from the beginning until the end. No member functions concurrently ratification, implementation, business records and property preservation.</p> <p>The aim is to make employees control each other, if there are errors will promptly detect, reduce opportunities can lead to errors but, embezzlement, errors.</p> <p>Dividing responsibility to separate between:</p> <p>-Preserve of assets and accounting</p>

	<p>-Approval of procedure and preserve of assets.</p> <p>-Implementation of procedure and accounting.</p>
Control of information process and procedures	<p>For reliable information, it is required to perform multiple control activities in order to check the veracity, completeness, and the approval of procedure. When controlling the information process, ensure that: (1) The system of vouchers, books must be controlled tightly (2) The approval of procedure must be correct</p>
Physical control	<p>- This operation is carried out for the books and assets, including those prints were numbered before but have not been used; as well as the need to restrict access to computer programs and data files ...</p> <p>- For example, the property can be controlled by using the safe, locked, fences, guards and only authorized persons are allowed access to the assets of the entity.</p> <p>- The comparison and contrast between accounting books and assets is required to be done periodically. When there is any difference would need to investigate and find out the reasons, which will detect the weaknesses of the procedural protection of property and related books. Without doing this, the assets may be abandoned, lost or cannot detect the theft.</p>
Check the independence of implementation	<p>As the check was carried out by individuals (or departments) other than individuals (or departments) are engaged in the procedure. The need for independent check derives from the internal control systems tend to be diminished in effectiveness unless there is a mechanism to regularly check.</p>
Review analysis or revise the work done	<p>This activity is the review of the work done by comparing actual data with planned data, estimates and prior period data and other relevant non-financial information; It also considers the relationship at the overall level to assess the implementation process. Revise the implementation process to help administrators know in a general way that all its members have pursued the objective of an entity efficiently and effectively or not.</p>

❖ **Information and communication**

Information and communication are indispensable conditions for establishing, maintaining and improving the capacity to control the entity via the creation of reports to provide information on operational, financial and compliant perspectives, including internal and external.

Information needed for all levels of an organization for helping to achieve the control objectives are different. Information is provided through the information system. The information system of an entity can be processed on a computer, via the manual system or a combination of both, as long as required to ensure the quality of information is relevant, timely, updated, accurate and conveniently accessed.

Communication is part of the information system and to emphasize the network's role in transmitting information.

❖ **Monitoring activities**

Monitoring is the process by which the managers assess the quality of control system. The important thing in monitoring is to identify whether the internal controls have operated as designed and whether it is necessary to modify them to suit each stage of development of the entity or not. To achieve good results, managers need to carry out regular or periodical monitoring.

Regular monitoring is achieved through the receipt of comments from customers, suppliers ... or considers the activity report and discover the extraordinary volatility.

Periodic monitoring is done through periodic audits by the internal auditors, or by the independent auditors.

❖ **The potential limitations of internal control system**

In any entity, despite being invested heavily in designing and operating system, it still cannot have an entirely effective internal control system. Because even if the design is perfect, the effectiveness of the system really depends on human factor, which is heavily related job performance and reliability of human. In other words, internal

control system can only help minimize the mistakes because it has the potential limitations arising from the following causes:

1. The limitations related to people such as the inadvertent, careless, forgetful, wrong estimate or assessment, misunderstood the instructions of superiors or subordinates reports
2. The ability to deceive, evade employee through collusion with each other or with parts outside the entity.
3. Control activity often targets solely on regular operations generated little attention to the irregularities in these transactions irregular, so the irregularities in these transactions injured or abandoned.
4. Regular and above all requirements of the managers are the cost spent for operations control must be less than the estimated value of damage caused by errors or fraud.
5. It is always likely that individuals that are responsible for control have abused their powers to serve personal purposes.
6. The changes of conditions of entity's operation lead to the control procedures that are no longer appropriate

It was the above limitation of internal control that cause internal control not absolutely reliable but only reasonable assurance can help achieving objectives.

2.2.2 Risk of detection

2.2.2.1. Definition

The risk of detection: is the risk that during the audit, the auditor's procedures that take to reduce audit risk to acceptable low levels but they still cannot detect all material misstatements when considered individually or aggregately. (VSA No. 200)

2.2.2.2. Influential factors

With a predefined level of audit risk, accepted level of detection risk has a reverse relationship with risk of material misstatement that is assessed at the assertions level”.

For example, if the auditors determine that the higher the risk of material misstatement is, the lower the level of detection risk is and the more convincing audit evidence is required. (VSA No. 200)

Detection risk related to the content, schedule and scope of the auditor's procedures that are determined to reduce audit risk to an acceptable low level. Therefore, detection risk is a combination of the appropriateness of the audit procedures and how the auditor performs such procedures. The following issues help increase the appropriateness of the audit procedures and the auditor perform such procedures, reduces the ability of auditors selected audit procedures inappropriate, wrong implementation audit procedures or incorrect understanding of audit findings:

- Planning for comprehensive and appropriate audit;
- Allocating suitable staff for audit group;
- Maintaining professional skepticism;
- Supervising and inspecting the work done.

2.3 Audit risk model

2.3.1 Definition

Because of existing independently of the substantive test of auditors, inherent risk and control risk are different from detection risk. Despite being audited or not, inherent risks and control risk still remains in operation and business environment as well as in the nature of the account balance or transactions.

In contrast, the risk of detection may be controlled by the auditor through the adjustment of the content, as well as the time and scope of the substantive test. Depending on the situation of the entity, the auditors will increase or decrease the audit procedures in order to achieve the ultimate goal that the audit risk is mitigated to a tolerable level within reasonable audit budget.

To assist in the study the relationship between risks, audit risk model is established and demonstrated by the following formula:

$$\mathbf{AR = IR \times CR \times DR \text{ or } DR = AR / (IR \times CR)}$$

Where: AR: Audit Risk

IR: Inherent Risk

CR: Control Risk

DR: Detection Risk

Through this formula, it is easy to find the detection risk inversely proportional to the level of inherent risk and control risk. When inherent risk and control risk are determined at high level by the auditors, detection risk must be set at low level to reduce audit risk to an possible acceptable level, which means that the auditor must perform more audit procedures to be able to gather sufficient evidence to give reasonable opinions and vice versa.

Despite being represented by the above formula, it should be aware that this is not a mere mathematical formula, which is used to assist the auditor to judge and determine the acceptable level of errors get to foundation for designing and operating audit process.

2.3.2 Correlation between audit risk and performance materiality of financial statements audit

According to paragraph 09 - 320 standards - material level in planning and executing the audit stated, "Materiality is the term used to express the importance of the information (the accounting data) in the financial statements. Information is considered material means the absence of such information or the lack of accuracy of the information which will affect the economic decisions of users of financial statements.

Materiality level: As a value determined by the auditor depending on the importance and nature of the information, or mistakes are evaluated in specific circumstances. Material is a threshold level, a split rather than the content of the information required. The materiality of the information is to be considered in terms of both quantitative and qualitative."

Auditors must apply the concept of materiality in planning, executing the audit and assessing the impact of the errors detected during the audit, including the influence of the wrong uncorrected errors (if any) for the financial statements and forming the audit opinion. When planning the audit, the auditors make judgments about the scale of the errors that will be considered as material. These judgments provide a basis for:

- a. Determine the content, schedule and scope of the risk assessment procedures;
- b. Identify and assess the risks of material misstatement;
- c. Determine the content, schedule and scope of the audit procedures followed.

When planning the audit, materiality level was determined, not necessarily the value below which, the errors are not adjusted, when considered individually or collectively, is always immaterial. In some specific cases, mistakes can be rated as material although the value of such errors is below the materiality level. Although it is difficult to establish audit procedures to detect individual errors due to the nature of materiality of errors, when assessing the influence of the errors are not adjusted for reporting, the auditor must consider simultaneously both the scale and nature of the errors as well as specific situations such errors occur.

2.4 Risk assessment procedures in audit planning of VACPA sample audit program

Figures 2 presents the overview of VACPA sample audit program:

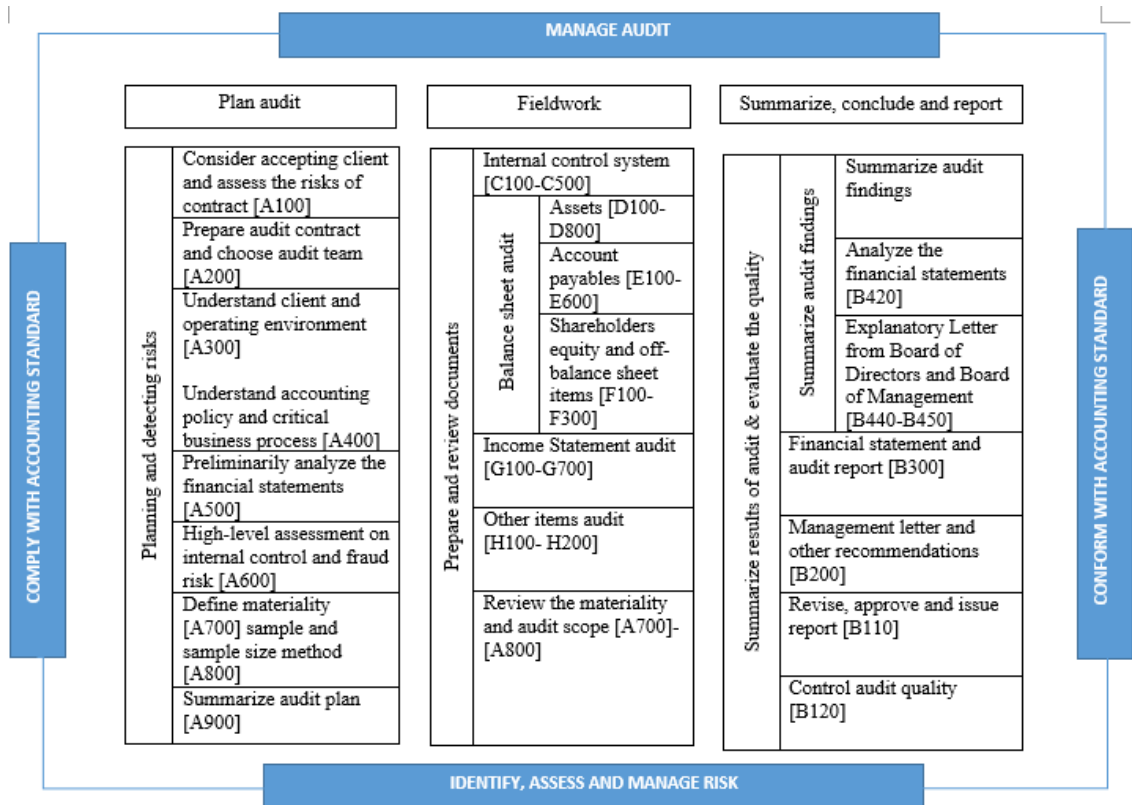


FIGURE 2. VACPA SAMPLE AUDIT PROGRAM

2.4.1 Risk assessment procedures at the prior to planning stage of VACPA sample audit program

First of all, potential clients approach the audit companies; auditors will obtain necessary information and assess associated risk before signing the contract.

The assessment before agreeing to accept the audit is a mandatory requirement should be implemented fully. Because the nature of the audit is a sensitive profession, it can affect many people (investors, employees, customers, creditors...) and must bear legal high responsibility (maybe opposite sued if given incorrect audit opinion). When evaluating the customers before accepting the contract, auditors will determine the level of risk is high or low and based on their capabilities whether to accept or not this contract and its associated fees.

2.4.2 Risk assessment procedures in audit planning VACPA sample audit program

2.4.2.1. Identify and assess risks of material misstatement by understanding the business environment and internal control

Auditors are required to collect understanding of entities and the business environment in order to assess the risks of material misstatement. Understanding the business environment of the entity by using the form A310 in the audit program is under the guidance of VACPA.

Operating environment and external factors affecting the business - Information about industry, trend, legal environment that businesses are operating. Other external factors affecting business need to be taken into consideration such as general situation of the economy (recession / growth ...); Plus, auditor need to look at fluctuations in interest rates, exchange rates, inflation (Vietnam economy, inflation, growth, interest rates...);

Understanding of nature of the business – which includes key operations and business situation, type of ownership and corporate governance and investment activities of business.

Knowledge of accounting policies applied - The accounting policies applied for significant transactions (sales, inventory, cost of goods sold). Key focused areas are also the accounting treatments for fair values of assets and liabilities and foreign-currency transactions as well as unusual transactions. The accounting policies for new or controversial issues (if any), new rules or accounting policies take place.

Objectives, strategy and related-business risks – i.e. the development of the industry, new products or service; Expanding the scope of business; New requirements on accounting; The new legal provisions; Use of information technology; Implementation of a strategy, particularly the influence lead to new accounting requirements

The measurement and evaluation of operational performance - The assessment criteria mainly focus on performance (financial and non-financial), important ratios, the

trends and operating statistics. Analyze results at each stage. Auditor is required to examine the financial planning, forecasting, variance analysis, information about the department and the operational assessment of the division, department or other levels. Additionally, the key performance indicators for staff's salary and numerations are vital. Comparison the performance of audited firm with the competitors. Other issues which need to be taken into account are the key personnel of audit firms, accounting staffs, other administrative information.

After obtaining an understanding of the nature and business environment affecting businesses, auditors will identify the risks of material misstatement of the financial statements and then assess those so as to determine the risks that require special consideration of the auditors. The consideration of the risks that could cause material misstatement depends on professional judgment of the auditor, and the auditor is usually based on factors such as fraud, economy, the business environment, the stock market, a change from the recent accounting policies, complexity of its transactions, unusual transactions, transactions with related parties

Risk assessment procedures

❖ Interview with the Board of Directors and other positions in the firm

The board of directors is responsible for preparing the financial statements. Therefore, interviews with board of directors and other individuals within the organization enable auditors to gather necessary information in order to determine the significant risks due to fraud. Such individuals may belong to different levels within the organization to gather useful information or views, different opinions about identifying risks of material misstatement.

This form includes information about the interviewed individuals, who are member of the Board of Directors, other individuals within the firm, member of the Executive Board. By using the open questions (i.e. the respondents to reply to the knowledge and their opinions and not simply as "Yes / No"), the auditor will receive answers from the interviewee about the descriptions and notes.

The interview with board of directors will help auditors understand the evaluation of the Board of Directors about fraud and risk control, prevention and detection of fraud. Moreover, the content, scope and frequency of the risk assessment together with control environment of the firm will also be disclosed accordingly. Last but not least, auditor will probably know the view of Board of Directors and how they communicated that view to the entire staff in the firm which fairly demonstrates the ethical behavior.

On the other hand, when interviewing other important personnel such as the internal control department, chief accountant), auditors will be able to assess whether employees have ever been under pressure posed by the board of directors to carry out frauds. Similarly, this action might be disclosed if staffs know any actual cheating in real life, or suspected fraud.

In case the interviewee is the internal auditors who can provide information about the procedure that he or she has done during the year, related to the design and effectiveness of internal control and whether the Board has the appropriate measures against the findings of the internal auditors or not. In case the interviewee is the staff of a certain department, the interview may indicate relevant policies applied in that department, the strategy and the agreements for customers.

Interviewing with the Executive Board will help auditors understand the environment of financial reporting and whether the Executive Board have known or suspected any fraud of the Board of Directors or employees that would affect the firm or not.

❖ **Analytical procedures**

Analytical procedures include the evaluation of financial information through the relationship between the financial data and non-financial data, investigation of the significant volatility (ACCA Paper F8, 2012). Analytical procedures are performed during the audit in the planning phase, the audit conducted portions (analytical procedures are also part of the basic test) and in phase summation at the end of audit process. Methods are to be used in such case are scanning, trend analysis, variance analysis, ratio analysis, reasonableness test.

The analysis procedure relies upon evaluation of auditors, the size and complexity of audit clients. For some cases, the analysis is a review of the changes on the balance of assets and liabilities between the current period and prior to use or balance sheet ledger accounts. In other cases, the auditor may expand the analysis on the quarterly financial statements. Depending on the specific case, the auditors will apply the appropriate analytical procedures based on the auditor's knowledge of the business sectors.

❖ **Observation and investigation**

Observations and investigations may support the Board of Directors and interview other individuals in the audit client, also provides additional information about audit clients and environmental audit of the audit clients.

Auditors often observe and investigate the business operation (production processes, sales processes...), infrastructure, equipment and machinery in the factory. Additionally, they will also look at documents on strategic planning and business, records and documentation of internal controls. Variety of reports established by the Board of Directors (financial statements, interim management report), established by the Managing Board (Meeting minutes of Board of Directors) are also carefully studied.

2.4.2.2. Internal control

Auditors use their professional judgment to assess the internal control at the company level by interview, observation or inspection of documents. Compared to the "Internal Control System" issued by COSO including 5 content: control environment, risk assessment, monitoring activities, information and communication and control activities, content that auditors need to learn about the internal control system in the form A610 (Appendix 3) only includes 3 elements:

❖ **Control environment**

Environment control is evaluated based on the following factors:

Information communication and requirement of performance of integrity and ethical values in business - Board of Directors has issued general regulations for the company, has been monitoring the implementation of these regulations, there the disciplinary measures in the event of a breach occurs or reward for employees to fulfill)

Commitment to competency and qualifications of staff - which is related to entity with job descriptions and staff proficiency requirements in each particular location

The involvement of the Board of Trustees – especially whether a member of the Board of Trustee is also a member of the Board of Directors

Management style and philosophy of Board of Directors - the Board is interested and serious about the design and implementation of internal control or whether the income of the Board of Directors have been affected by the operations of the companies

Organizational structure - structure of the company in line with the objectives, scope, business activity and geographical location

Segregation of powers and responsibilities (Principle Real concurrently,)

The policies and practices of human resources (enterprise has policies and for hiring, promotion, dismissal)

❖ **Risk assessment procedures**

Risks that are assessed in this form are business risks related to financial statement. Auditors will interview Board of Directors or Board of Trustees to find out whether company has set up a system or process of business risks assessment related to financial statement (including risk assessment, effect and probability estimation, response to cases).

❖ **Observation of controls**

In this particular section, auditor will look at the two things: **frequency of observation** and **report of deficiency in internal control**

Internal control at entity level has an extensive impact on many parts of business operations and it will also affect the audit planning. The better the control system, the less work load the auditor need to carry out but still ensure the quality of audit of financial statement.

2.4.2.3. Identify and assess the risk of material misstatement

2.4.2.3.1. At the financial statement level

Risks of material misstatement at the financial statement level are the risks that possess pervasive influence on many items on the financial statements and have the potential to affect multiple databases. Based on their knowledge and understanding of the internal control system of the unit has to learn, auditors will have doubts about being able to survive the risks of material misstatement on the financial statements.

❖ Inherent risks

Factors are leading to potential risks are characteristics of business operations, economic policies and the access to capital.

❖ Control risks

Auditors will use A610 Model: Assess internal control system of the unit to perform this task. This form is limited to include three components: control environment, risk assessment procedures, monitoring activities.

Complete the questionnaire by interviewing the managers, to observe the work in the firm, thereby helping auditors have a comprehensive view and understanding of the internal control system of the customer row. Each answer "Yes" will help increase confidence in the effectiveness and efficiency of internal controls in the firm. Conversely, the answer "No" shown a lack of controls necessary or effective, requires understanding the control to see if any alternative or not. Based on the results obtained and their professional judgment, the auditor will evaluate the internal control system of

the unit cannot operate efficiently; thereby controlling the risk assessment should be noted.

2.4.2.3.2. At the assertion level of classes of transactions, account balances and disclosures

❖ Inherent risks

Based on the audit procedures performed in the previous step with the understanding of the auditors will give auditors the supporting evidence for assessing potential risks. When auditors identify significant risks or other factors that make auditors believe that there is a high likelihood of material misstatements, auditors assess the potential risks based on the size basis of data resulting financial statements. When assessing the potential risks at the level of items or databases of financial statements the auditor should consider the following items:

- Review the accounts with great balance
- Flaws untreated from prior period
- The sensitivity of the item on the financial statements (prone to theft or fraud)

❖ Control risks

To assess control risk at the level of the item, the auditor will have to collect information on basic process, such as Sales - Receivables – Collection of money; Purchasing - Payables – Payment of money; inventory - price – cost of goods sold; salary and deductions; fixed assets and capital construction.

The steps should be done in this cycle includes:

- Knowledge of aspects of that cycle
- Understanding of the accounting policies applied to that cycle
- Description of the process
- Review of the design and implementation of primary control

Auditors will summarize general risk of detection of material misstatements of each process, the scope affected, and suggest audit procedures that should be implemented. Then the auditor will have concluded the internal controls of each cycle whether each of them is designed and operated effectively or not. This process is done based on the form A400 in "audit program template".

3 RISK ASSESSMENT PROCEDURES IN AUDIT PLANNING AT MAZARS VIETNAM

3.1 Introduction of the company

3.1.1 Establishment and development of Mazars Vietnam

About Mazars Worldwide

Mazars is one of the multi-national companies focusing on accounting, audit, tax, consulting and legal advisory services. Its headquarter is in Paris, France. Mazars is present in 72 countries worldwide with 14,088 professionals (including the Asia - Pacific region accounted for 137 experts of the total) (Mazars Annual Report 2013/2014)

Mazars Group had revenues of 1,080.8 million euros at 31.08.2014 in euro, up by 3.3% compared with the period ended on 31/08/2014, Asia - Pacific 56.9 million euros. This revenue increased by 60% compared to 2007 (657 million Euro). Worldwide Mazars set ambitious revenue milestone of 2 billion euros in 2020.

About Mazars Vietnam

Mazars Vietnam was established in Vietnam in 1994 and is a company with 100% foreign capital (according VACPA) with two offices in Hanoi and Ho Chi Minh City. According to the 2013/2014 annual report of the Group, although revenue growth in the Asia - Pacific region decreased 12.7% from the same period last year, Mazars Vietnam still achieved good growth (21% of the total revenue of the Asia - Pacific).

3.1.2 Business lines and services offered

Mazars offers a diverse range of financial services, including:

- Audit and Assurance Services: For this service, Mazars offers audit services of financial statements in accordance with accounting standards and auditing Vietnam, audited consolidated financial statements under IFRS, US GAAP, HK and GAAP. In addition, Mazars can advise enterprises on the internal control

system and accounting system to help customers improve the efficiency of business operations.

- Accounting Services (Accounting and Business Process Outsourcing): Some specific professional Mazars provides clients include setting up financial statements and monthly financial report last year, in accordance with Vietnamese accounting standards / International Accounting Standards; consider accounting, tax settlements; establish systems and procedures accounts work now.
- Payroll (Payroll Outsourcing): With this service, customers are Mazars consultancy to ensure their businesses to meet the requirements of the Labour Law, Social insurance; Management salaries for foreign workers and Vietnam.
- Service tax calculation and abroad (Local and International Taxation): Some specific professional customer Mazars provides for this type of services includes tax consulting (Tax Advisory); customer support operations in order to comply with tax rules (Tax compliance) as a monthly tax declaration / settlement of personal income tax, corporate income tax and value added tax.
- Concierge established businesses (Business Start-up Assistance): For this service, the customer advises Mazars models most effective management, consultancy and support in the following tasks licensing established companies or offices, assistance in applying for work permits, residence permits, and visas.

3.1.3 Organizational structure

Figures 3 and Figure 4 below present the organizational structure of all departments in Mazars Vietnam and in audit department in that order.

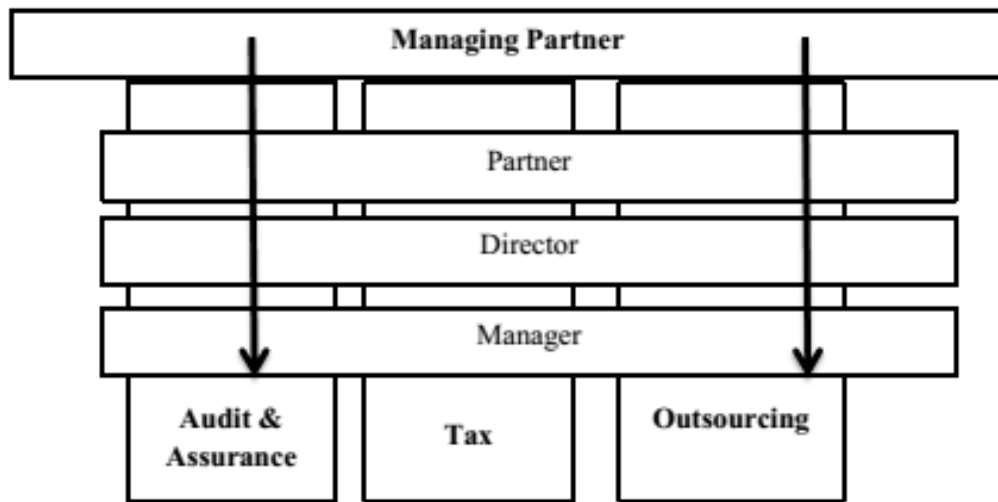


FIGURE 3. ORGANIZATIONAL STRUCTURE OF ALL DEPARTMENTS

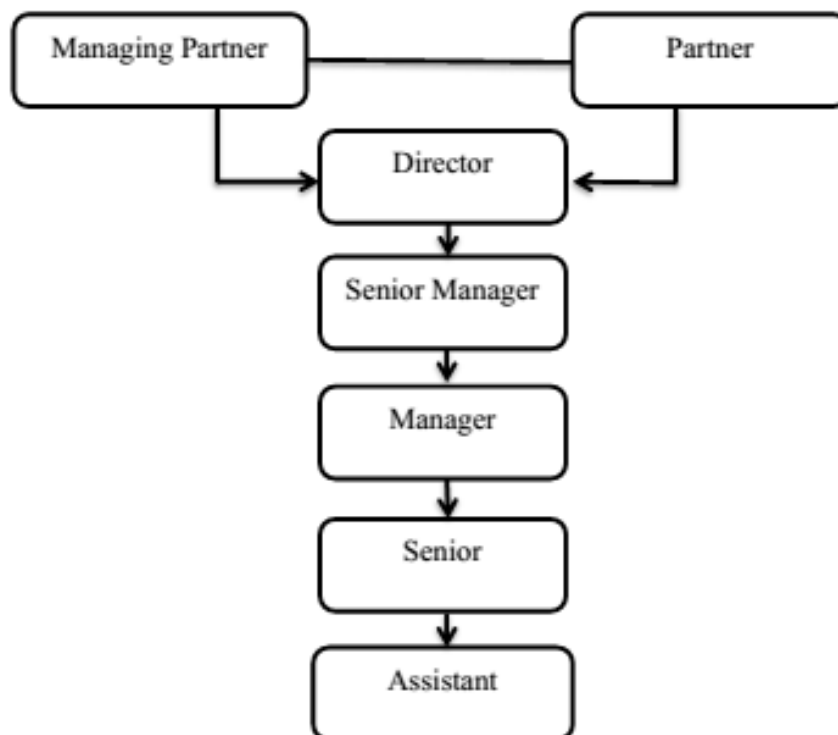


FIGURE 4. ORGANIZATIONAL STRUCTURE OF AUDIT DEPARTMENT

3.2 Overall audit process in Mazars Vietnam

The audit guidelines of the Group are defined in Mazars Audit Manual (MAM) (published in 12/2012, updated on 26/05/2014). The guidelines were established based on international auditing standards ISAs (International Standard on Auditing) issued by the International Auditing and Assurance Standard Board (IAASB). MAM includes specific guidance that auditors need to perform in the audit preparation phase (including pre-planning, planning), perform audits and audit completion. General audit process that Mazars applies to all countries in the group to comply with the risk-oriented principles (Audit Risk Approach), including risk assessment, establish risk response) and reporting before giving an audit opinion.

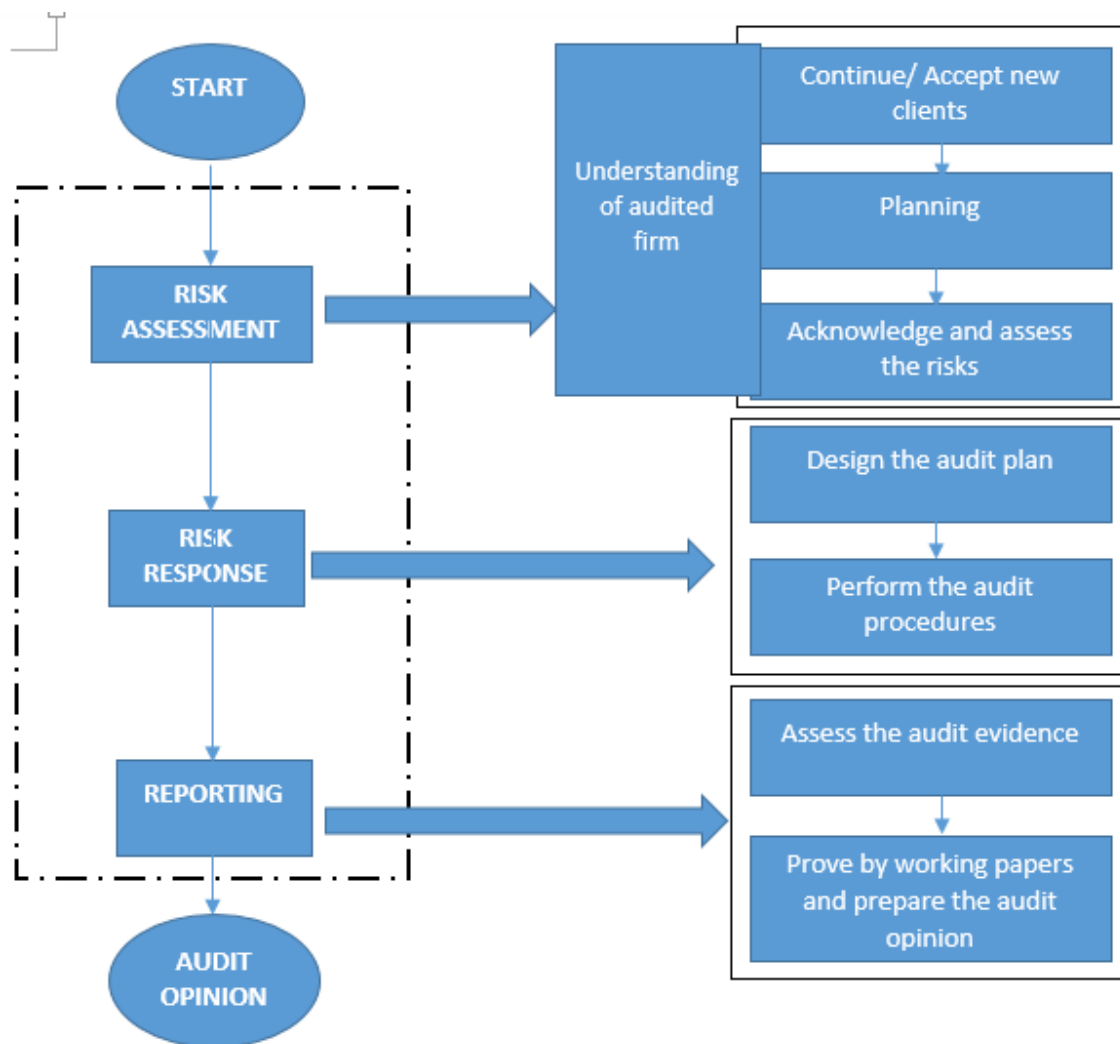


FIGURE 5. OVERALL AUDIT PROCESS AT MAZARS VIETNAM

3.2.1 Audit planning stage

Audit planning stage is corresponding to Risk Assessment in the Audit Risk Approach. According to MAM and Mazars University, this stage consists of 3 main activities:

1. Continuance of existing client/ Acceptance of new clients
2. Understanding of audited entity and its business environment
3. Identify, assess risk and plan audit

Important documents required in this stage comprises: Questionnaire for acceptance/ Continuance of the engagement – A&C checklist, Engagement letter, Audit Strategy Memorandum, Related Parties, Fraud Checklist, Going-concern checklist, Assessment of risk at material misstatement at financial statement level, Assessment of inherent risk, Assessment of internal control risk.

First of all, the process starts when the audit manager considers whether accept new clients as well as continue with existing clients. Manager will assess some issues such as fraud, money laundering, audit fees, budget (resources and time) and audit standard for some specific type of companies. Subsequently, the audit Partner will approve he potential clients based on the risk assessment results and associated information.

Secondly, after accepting new clients or continuing with existing clients, Manager will create a client's code on AuditSoft. Then the audit Senior will provide the necessary information and prepare audit plan. Specifically, audit Manager and Senior will obtain understanding of clients regarding its operation, for example: organizational structure, legal issues, changes in business operations (new product...), on-going concern basis, fraud, accounting system; especially internal control. Besides that, for first-time client, business license, tax code will also be obtained appropriately. In this stage, preliminary analytical procedures are performed on all Mazars' clients. Audit Manager will perform the analysis of financial statement of this year in comparison with that of last year audited. This analysis is conducted on the whole financial statement in new client or some items of it with high risk. The purpose is to fully understand the business operation of audited client as well as unusual transactions and potential risks so that auditor can plan the audit appropriately.

Thirdly, audit Senior identify and assess risks, define materiality level and plan the audit. Audit plan is then reviewed and approved by audit Manager and audit Partner.

At Mazars Vietnam, the materiality level is calculated during the interim audit and then recalculated in the final audit. The Overall Materiality (OM) is calculated based on some specific criteria presented in the table 2 below:

TABLE 2. OVERALL MATERIALITY CALCULATION

Criteria	%	Comment
Earnings before tax (EBIT)	5-10	<ul style="list-style-type: none"> • Commonly used for trading-type companies. • Do not use when at break-even level or a loss, except if the loss is stable. Consider using another base or an average of EBIT level over a number of years.
Total assets	0.5-2	<ul style="list-style-type: none"> • Used for companies with a 'heavy' balance sheet, e.g. investment holding companies.
Total revenues	0.5-2	<ul style="list-style-type: none"> • Used for companies at break-even level, or where the revenue levels provide the best indicator of the level of economic activity during the period. • Used for companies which are 'measured' by turnover activity, e.g. software companies or telecommunications industry.
Total equity (or net assets)	1-5	<ul style="list-style-type: none"> • Used for companies with a 'heavy' balance sheet (but need to negate impact on liabilities) and few activities (or very regular activity, e.g. monthly rental collections) in the P&L account, e.g. brokers or agents.
Earnings Before Interest, Taxes, Depreciation and Amortization	4-6	<ul style="list-style-type: none"> • Primarily used in industries with large balances of intangible or tangible long-term assets. • Consider non-recurring charges. • Consider when there is a CY loss when auditor used PBT as the benchmark in the PY.

("EBITDA")		
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To calculate the Performance Material (PM), it is normally defined by 50-80% of the Overall Materiality. However, this is not a mere mathematic formula but auditors need to combine with other factors such as understanding of clients, the reliability of the internal control system to give a reasonable number. Besides that, the Clearly Trivial Threshold (CTT) is also calculated by 2%-3% OM.

Audit Senior will estimate numbers on year-end Income Statement and calculate the materiality level. Items which are greater than Performance Materiality (PM) or less than PM but potentially high risk will be focused while designing audit procedures. All of the information regarding understand of clients, audit plan will be stored on Auditsoft.

3.2.2 Fieldwork

The fieldwork stage in Mazars Vietnam is corresponding to risk response stage presented in FIGURE 5. There are two important steps to be taken in to consideration as follows:

- Design the detailed audit plan
- Perform audit procedures (test of control, substantive procedures)

The figure bellows illustrates an example of planning for audit:

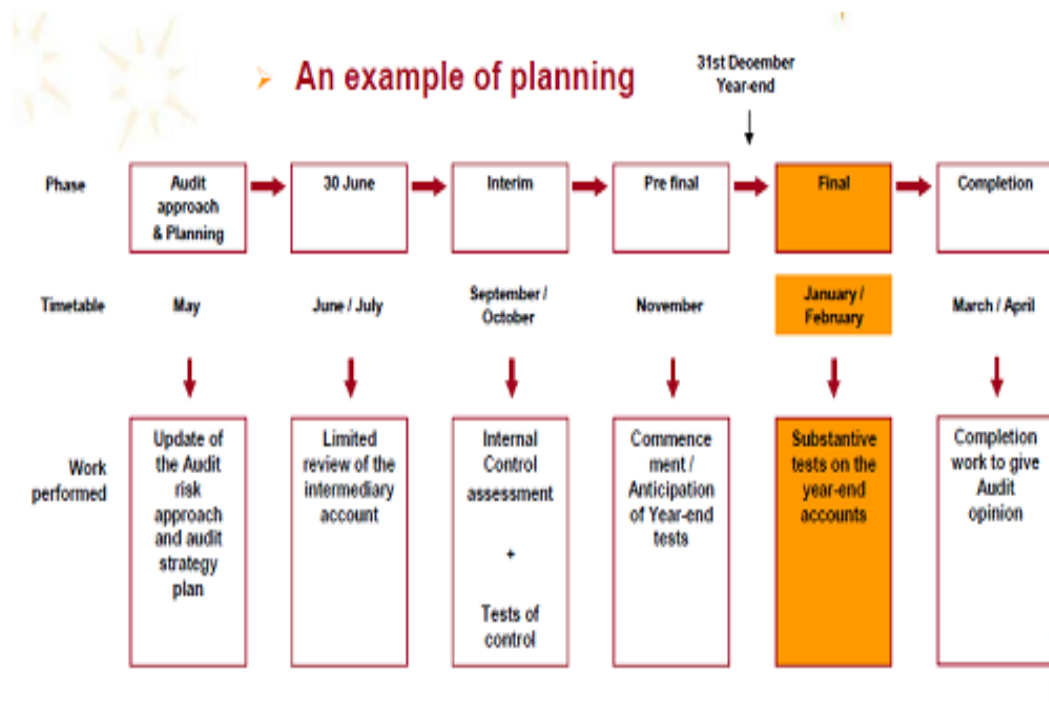


FIGURE 6. AUDIT TIMELINE AT MAZARS VIETNAM (Mazars Audit Manual, 2014)

3.2.3 Completion and opinion

The completion and opinion stage is corresponding to Reporting presented in FIGURE 5. Two key activities are evaluating obtained audit evidence and documenting and preparing to give to audit opinion.

In this stage, documents are required to file in either Permanent Audit File (PAF) or Current Audit File (CAF) depending its types. Also, the working papers references are mandatory.

3.3 Risk assessment in audit planning at Mazars Vietnam

Not all the identified risks are material. Auditors only concentrate on the risks that cause material misstatement on financial statements. Risk identification and assessment are vital part of defining the audit approach by obtaining sufficient (amount) and appropriate (quality) to eventually give the audit opinion free of material misstatement.

As a result, auditors will identify risks of material misstatement by understanding clients and their business environment including related control practices through looking at the classes of transactions, account balances and disclosures. After that, the identified risks will be assessed whether they are affecting other items of the financial statements. Additionally, inherent risks and minor mistakes are also considered because they might be illegally interpreted from material misstatement to immaterial misstatement.

Risk assessment procedures in Mazars Vietnam concentrate on the following subjects:

1. COSO

Auditors will assess the design and operations of the internal control system. There are 5 aspects in the form: Control environment, Risk assessment, Information and Communication, Control Activities, Monitoring Activities. After answering the form, there will be a Section- Materiality of cycles. If the cycle's balance is greater than Performance Materiality (PM), it will be marked YES and vice versa. COSO at this level is primarily focused on the

Auditor will use the form "Detailed COSO" in Appendix 1.

2. Related parties

The focused areas in this part consists of: Material misstatement derived from transactions, and the relationships between related parties; Identifying any related parties and changes from the previous period; Nature of relationship between parties; Transactions between related parties that potentially related to inherent risks, Approval of transactions between related parties.

Auditor will use the form "Related Parties" in Appendix 2.

3. Fraud

Audit Manager will attend meeting with client Managers to discuss about the audit. The content of this meeting will be documented and included in the audit document package. Fraud will be assessed based on 3 key factors:

- **Pressure:** pressure from generating profits, the intense competition in the field of active companies, the constant change of technology, interest rates, supply - demand, the threat leads to bankruptcy , difficulties in cash flow, the development too "hot" professions, policies, new accounting policies are applied, ...
- **Opportunities:** transaction between related parties not take place in a transparent manner; transactions, complex economic transactions; the business took place in global scope, the difference between the policies of the country
- **Attitude:** the attitude of managers influence corporate culture and attitudes of employees during work

Auditor will use the form “Detailed Fraud Checklist” in Appendix 3.

4. Going-concern

The assessment of the ability of continuous operation is performed as part of the planning phase, the auditor should consider whether there are events or conditions that may lead to doubt the ability of continuous operation the entity in the future. Aspects assessed include finance (debt, capital, cash flow), operations (customers, suppliers, market), other factors (government policy,)

In order to evaluate the possibility of continuous operation, the auditor in Mazars will gather sufficient audit evidence relating to the financial statements based on the going concern assumption. Second is the conclusion, based on evidence collected, though not entirely sure whether the existence of relevant events or conditions may be significant doubt about the ability of continuous operation of an entity. Next, the auditor needs to determine the impact on the audit report. Last but not least, auditor shall consider whether the notes of the possibility of continuous operation in the financial statements are appropriate...

Auditors will use the form “Detailed assessment of inherent risks” in Appendix 4.

5. Assess the inherent risks

At Mazars Vietnam, auditors will use the form “Detailed assessment of inherent risks” in Appendix 6. Specifically, in each cycle, there will be different aspect to understand:

- **Sales and Receivables:** bad debt ratio, classification of customers before approving credit sales, with specific processes for sales, and describes how the auditor deal with risks
- **Inventory:** inventory ratio current year over the previous year, volatilities of production, a narrowing or expanding the warehouse, how to assess inventory, and describe how to deal with risks
- **Intangible, tangible fixed assets:** changes in the year (up, down, disposal, ...), the implementation of capitalizing assets, the current status of the asset classes, leased property from third parties, depreciation policy, how to deal with risks
- **Cash:** limitation of the use of short-term loans, short-term investments, foreign currency used in the business, how to deal with risks
- **Purchasing/ Payables:** purchasing process, payment, purchase on credit, how to deal risks.
- **Salary:** staffing ratios, issues related to social insurance, health care, unemployment, restructuring plans, significant changes in accounting estimates related to the process of salary and how for dealing with risks.
- **Capital:** the change in equity, equity ratio, how to deal risks.
- **Taxes:** Tax inspection, the taxes related to business operations of the entity.
- **Transactions with related parties:** the materiality level of value transactions, balances, ...

6. Control risk assessment

Internal risk control will be assessed in the circumstances specified, cycle such as:

- **Sales / receivables:** the ordinal numbering, solutions for undelivered orders, frequency of orders with large value, the design of selling process, times to issue invoices to buyer, delivery notes and invoices can be reconciled with each other, the amount on the bill has been properly recorded in the book, the classification of customers, ...
- **Inventory:** Responsibility of inventory accounting and warehouse managers have been separated, limited entry to warehouse, warehouse protection, insurance for the worst scenarios, , numbered, warehouse orders and vouchers for export goods have been approved by a competent person, slow-moving goods, obsolescence is treated like, ...
- **Intangible, tangible fixed assets:** choose from the list of guests dental provider or not, prepare funds for procurement of fixed assets, there is a distinction between fixed assets and lease assets, policies capitalization, depreciation policy, purchase invoices of new fixed asset, fixed assets counting, repairs and maintenance expenses are handled, how the disposal of assets is approved, with records of fixed assets liquidated, has purchased insurance for the property or not, ...
- **Purchasing/ payables:** approval of the purchase orders, control quality and quantity (co-ordination between Q&A and storekeepers), archive of the original purchase receipt and a copy, the record of goods, the amount paid to the system.
- **Compensation:** the hiring of workers follows the recruitment process, contracts, payrolls have been reviewed by the appropriate persons, procedures for approval and review is appropriate,...

These are only outlined the main processes of an enterprise, the other items in the form will be specified in Appendix 8.

3.4 Example of a real customer

3.4.1 Introduction to ABC Company

Business description

ABC Company is a manufacturer of high-tech electrical equipment and spare parts for assembly into products, including switches, sockets, exhaust fan, circuit breaker, PVC pipe and fittings, equipment lighting, cable and telephone accessories, installation materials ...The competitors in the market: P, S, M, L. Most of their customers are related parties. In 2013, the ABC Company also acquired some new machinery and maintained existing machines to improve productivity and expand their operations. For transactions with related parties, the price is determined at the beginning of each year based on the cost of the product plus 10%. For other customers, the price is calculated case by case basis.

Most sales are internal sales, are not affected by market prices. A change in technology does not greatly affect manufacturing operations. Accounting policies applied are under the guidance of Vietnam Accounting Standards (VAS). Legal policy applies under Vietnamese law concerned. Taxes affecting the Company include Value Added Tax (VAT), Personal Income Tax (PIT), Corporate Income Tax (CIT), and Foreign Contractor Tax (FCT). Among them, the tax rate for corporate income is 15% main activity and other activities is 25%. The monetary policy of the companies affected by the change of exchange rates, and interest rates. The global financial crisis is still affecting customer demand, the number of sales from existing market still not as expected. However, the situation remains more positive than last year. Rising interest rates affect loans from the parent company. Inflation remained stable in five and there was not any significant influence on the company. No significant fluctuations in foreign currency exchange rates.

The nature of the company is a manufacturing enterprise, customers are mostly companies in the same group: SBC, ABC China,... and most of the products are manufactured in Vietnam ABC used to export. SBC conditions Vietnam payments for

60 days, and other companies is 85 days. According to the Group's policies, conditions for foreign delivery is FCA Ho Chi Minh, the inland is in the company's warehouse. ABC company has three warehouses: in N, A, M all in Dong Nai province. Suppliers of raw material are the C, B, P and Q. Some local companies support the assembly as Q, O...Employees receive a 13th month salary according to their employment contracts. ABC Company applies the policies on social insurance, health insurance, and unemployment insurance as prescribed. Bonuses for employees shall comply with company policy, based on the quality of work completed. Transactions with major related parties are sales, purchases, loans. In 2013, the company's transfer of all activities of the ABC China, this transfer has not been completed. Vietnam ABC purchased a new production line in warehouse A. ABC Company leased office and warehouse for production and business activities. ABC and SBC is a famous brand in its field, to help businesses be advantageous. The company's inventories are valued based on a standard rate (standard rate). All related party transactions use foreign currencies for trading. There are some fixed assets are not followed Circular 45, but the company still recorded in the book. This issue will be focused in fieldwork.

Objectives and strategies:

The company's new products have been tested and have been copyrighted. Wire transfer is being tested new in March 2014. The accounting software is reliable software to convert (mapping) between Vietnam and account keeping accounts according to corporate policy.

Measure and assess the financial situation:

Key indicators and operating statistics: Gross profit decreased slightly from 16% (2013) to 11% (2014). This was because in 2014, the company had one adjustments and raw material prices unit of inventory. These factors which are primarily interested are sales, gross profit, working capital, net profit after tax. Normally, the bonus will be 5-month base salary, depending on the degree of completion of work. Revenue increased over last year because the economy is getting better, increase by 8%.

Internal Control

- **Environmental control:** No internal audit department, the board of directors perform management operations separately, depending on the department, the monthly financial status report will be prepared and transferred to Group.
- **Risk assessment:** The risk assessment is performed by FC (Financial Controller) and is monitored by CFO who is appointed by the conglomerate.
- **Information and communication:** Since October 2011, the company uses SAP system for all production operations and business. Therefore, the inventory has been controlled more efficiently.
- **Control Activities:** All documents are made directly in SAP and to use electronic signatures for approval.
- **Management:** There are monthly meetings to review activities, updated forecasts and budgets of companies. Since 2012, the Company will allocate budgets for each department to better control costs.

Affected by the accounting policy

Pursuant to Circular 45, the fixed assets that are lower than 30 million have been classified in prepaid expenses and will be allocated but not exceeding 3 years. Sum of original costs and the current book value of fixed assets that do not meet the Circular 45 respectively 12.6 billion and 3.9 billion. This issue will be monitored and adjusted in the fieldwork.

According to Circular 194/2010 / TT-BTC issued by the Ministry of Finance, ABC Company meets the conditions to defer payment of import duties and value added tax importing raw materials to produce goods for export. However, the accountant has not recorded Income Tax liabilities and Value-added tax of imported goods in the General Ledger since October 2011 till now.

3.4.2 Risk assessment procedures applied for ABC Company

In Mazars, ABC customer is seen as a major customer (non-VSE), so the implementation of the evaluation procedure will be more detailed level, the number of questions to assess and more.

If a customer is not considered a non-VSE, auditors will conduct another evaluation panel again, to see whether the average sized customer (VSE) or small (micro-entity). When customers are VSE or Micro-entity, the evaluation procedure will be less, not go into too much detail but just stopped at the general.

The selection of the ABC is a big customer for demonstrating an adequate process in detail:

- COSO
- Related parties
- Fraud
- Going-concern
- Assessing risks of material misstatement report on the financial statement level
- Assess the inherent risks
- Assess internal control
- Risk Assessment by cycles and at the assertion level

Specific forms and answers will be expressed in concrete form in the Appendixes 1-8.

4 COMPARISON OF THE RISK ASSESSMENT PROCEDURES BETWEEN MAZARS VIETNAM AND VACPA SAMPLE AUDIT PROGRAM

4.1 Comparison with the VACPA standard form

Audit program and risk assessment in audit planning at Mazars Vietnam are primarily based on International Standards on Auditing (ISA). Therefore, there will be some differences in audit planning in comparison with that of VAPCA sample audit program.

Similarities are the understanding of clients, internal control system of clients. Overall, the risk assessment procedures is quite similar. However, when considering each aspect, there will be some certain level of differences.

Differences between the two programs are presented in the table below:

Categories	Mazars	VACPA
Assessed aspects	<ul style="list-style-type: none"> • COSO • Understanding the customer and operating environment • Related parties • Fraud • Going concern • Assessment of risks of material misstatement at financial level • Inherent risks • Internal control risks • Assessment of risks at assertion level 	<ul style="list-style-type: none"> • Understanding the customer and the operating environment. • Understand applied accounting policies and critical business cycle. • Preliminary analysis of financial statements • High-level assessment of internal control systems and fraud risk
COSO (internal control)	<ul style="list-style-type: none"> • Environment Control • Control activities • Risk assessment • Information and Communication • Monitoring activities 	<ul style="list-style-type: none"> • Environment Control • Risk assessment • Monitoring activities
Related parties	<ul style="list-style-type: none"> • There are separate forms, assess the inherent risks 	<ul style="list-style-type: none"> • As part of the understanding

	from the relationship with stakeholders	customer, not detailed analysis of relationships that can lead to risks of material misstatement.
Going concern	<ul style="list-style-type: none"> There are separate forms, assess factors that may affect the going-concern assumption 	<ul style="list-style-type: none"> No specific form
Assessment of risks of material misstatement at the financial statement level	<ul style="list-style-type: none"> There are specific forms 	<ul style="list-style-type: none"> No specific form

4.2 Opinions about the risk assessment procedures in audit planning at Mazars Vietnam

Risk assessment procedures in Mazars Vietnam are in compliance with international auditing standards and complete basic under Vietnam Auditing Standards.

This work is done primarily by the audit managers and audit senior, who have at least 3-4 years of experience. This allows risk assessment to be carried out more efficiently. Simultaneously, under the supervision of audit managers (Manager) and director of audit (Partner) will ensure that the risk assessment is on track. Prior to each audit, there will be a kick-off meeting between the audit managers, audit seniors and the audit team members to communicate about the risks that have been assessed and consequently it makes the audit be done better.

Along with a system provided by Mazars Worldwide-one of the world's largest companies in the field of auditing with the leading experts, the questions were designed in a scientific way so that auditors give accurate assessment for the new case in Vietnamese business environment. However, sometimes, questions seem to carry a similar sense which makes the audit team leader must repeat their response several times. It creates a potential topic for further research for improvement.

5 CONCLUSION

External audit has long played an important part of business world. Especially in the fast-changing and volatile economic environment, there is a constant need for assurance services of the quality and reliability for company's financial statements, especially in companies listed on stock exchange. External audit will ideally ensure the transparency and improve company's public image. In addition to this, during the audit, many issues regarding the internal control system might be disclosed and reported to management with a view to adding value for improvement within the organization.

Currently, the audit is primarily based on the audit risk approach. Therefore, from the audit firm's point of view, it is crucial to perform the risk assessment procedures sufficiently and appropriately in planning stage because it will reduce the efforts and resources in the subsequent steps. Essentially, audit firm needs to manage their proposed fees to client in order to remain competitive in the market. In other words, the more detailed the audit risk assessment is, the better the resources such as time, money and efforts are utilized.

The commissioner of the thesis was Mazars Vietnam which has high reputation of providing professional services. Thesis author had three months internship as an audit internee. Combining the technical skills learnt from the university with genuine interest in accounting and auditing subject, the thesis author chose the topic of risk assessment procedures in audit planning. The topic has been carefully analyzed and received constructive feedback from colleagues, peers, thesis supervisor and audit managers before starting the writing part.

The main research method of this thesis was qualitative research which particularly involved document analysis and observation. Documents regarding the overall audit process together with information gathered from reliable sources on the internet have been utilized to establish a solid theoretical framework. Additionally, the process of risk assessment in audit planning was also studied by observing the audit seniors and managers perform the audit.

In general, the risk assessment in audit planning at Mazars Vietnam is in compliance with Vietnam Standard on Auditing (VAS) and International Standard on Auditing

(ISA). Comparing with the standard issued by Vietnam Association of Certified Public Chartered Accountant (VACPA), there are some differences in the number of forms used in Mazars Vietnam to assess the potential risks the concept aligned.

The thesis serves thesis author as a self-study guideline about risk assessment procedures. It also provides the knowledge of internal control and Vietnamese accounting basics. By choosing this topic, the knowledge about financial accounting and management control system has been greatly useful in order to understand general concept of the daily job. Also, learning-on-job experience by guidance of colleagues, senior and my Manager was utterly important for the completion of this thesis.

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APPENDICES

Appendix 1. Detailed Coso

2013 DETAILED COSO - Materiality of the cycles (ISA 315)		
QUESTION	ANSWER	COMMENT / REF
GUIDANCE		
<p>If the cycle is not material + no fraud risk on the cycle + no significant risk on the cycle, then:</p> <ul style="list-style-type: none"> - You do not assess the internal control for the cycle in the Internal Control risks questionnaire. That is why the internal control is High by default in the matrix - The cycle disappears in Branch 6 - The lead schedule of the cycle is stored in branch 6/A General controls - The WP with basic work to be performed on the cycle, if any, is stored in branch 6/A General controls 		
UNDERSTANDING THE COMPONENTS OF INTERNAL CONTROL		
1/ Control environment		
Have you obtained an understanding of the control environment? Please refer to the guidance, and document.	YES	
The elements of the control environment are detailed below. Have you obtained an understanding of these elements?	YES	
Communication and Enforcement of Integrity and Other Ethical Values: Integrity and ethical values and how they influence the effectiveness of the design, administration, and monitoring of other controls.	YES	The management always concern and focus on the internal control very carefully.
Commitment to Competence : Management's consideration of the competence levels for particular jobs, and how those levels translate into requisite skills and knowledge.	YES	<p>Job description is effectively used</p> <p>Head of each department is responsible to training for employees to make sure that they are known clearly about their job.</p>
<p>Participation by Those Charged with Governance :</p> <p>Attributes of those charged with governance such as:</p> <ul style="list-style-type: none"> - Their independence from management; - Their experience and stature; - The extent of their involvement and the information they receive, and the scrutiny of activities; and <p>The appropriateness of their actions, including the degree to which difficult questions are raised and pursued with management, and their interaction with internal and external auditors.</p>	YES	
<ul style="list-style-type: none"> - Management's Philosophy and Operating Style : - Management's approach to taking and managing business risks, 	YES	- The management really concern about

and management's attitudes and actions toward financial reporting, information processing, accounting functions, and personnel.		the internal control of ABC. There is a clearly procedures to each cycles and other related activities issued by SBC - Group.
Organizational Structure : The framework within which an entity's activities for achieving its objectives are planned, executed, controlled, and reviewed.	YES	
Assignment of Authority and Responsibility : How authority and responsibility for operating activities are assigned, and how reporting relationships and authorization hierarchies are established	YES	There is a clearly segregation of duties in the Company. Head of each department is responsible for reviewing and approving all department's activities before submitting to top management for final approval
Human Resources Policies and Practices : Recruitment, orientation, training, evaluating, counselling, promoting, compensating, and remedial actions.	YES	There is no change on HR policy about the recruitment, orientation, training....
2/ The entity's risk assessment process		
Have you obtained an understanding of the entity's risk assessment process? Please refer to the guidance, and document.	YES	Please refer to internal control risk assessment for more detail
A. Have you obtained an understanding of whether the entity has a process for the following?		
- Identifying business risks relevant to financial reporting objectives	YES	There is no risk relevant to financial statement
Changes in operating environment	NO	
New senior personnel	NO	
- New or revamped information systems	NO	

- New business models, products, or activities	YES	Since last year, all activities and products of ABC China were transferred to ABC. The new products were tested and launched to the market since March 2014
B. Have you identified risks of material misstatement that management failed to identify?	NO	
If yes, is it a risk that should have been identified by the entity's risk assessment process?		
C. If the entity has not established risk assessment process, please answer the following 2 questions:		
Have you discussed with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed?	N/A	
Does the absence of a documented risk assessment process represent a significant deficiency in internal control?	NO	
3/ The information system, including the related business processes, relevant to financial reporting, and communication		
Have you obtained an understanding of the information system, including the related business processes, relevant to financial reporting, and communication? Please refer to the guidance, and document.	YES	Please see IT Orientation Memorandum
The classes of transactions in the entity's operations that are significant to the financial statements	YES	Sales, purchases, COGS
4/ Control activities relevant to the audit		
A. Have you obtained an understanding of control activities relevant to the audit? Please refer to the guidance, and document.	YES	Please see sales, purchase, inventory and payroll cycles for more detail
5/ Monitoring of controls		
Have you obtained an understanding of the monitoring of the controls? Please refer to the guidance, and document.	YES	Please refer to internal control risk assessment for more detail

MATERIALITY OF THE CYCLES		
Are the following cycles material? (in this question: material = from a quantitative point of view)	YES	
Sales / receivable cycle (*)	YES	
Inventories cycle (*)		
Tangible and intangible assets cycle (*)	YES	
Cash cycle (*)	NO	
Financial assets cycle (*)	NO	
Purchase / payables cycle (*)	YES	
Payroll cycle (*)	YES	
Borrowings and financial liabilities cycle (*)	YES	
Equity cycle (*)	NO	
Provisions cycle (*)	NO	
Taxation cycle (*)	YES	
Other assets cycle (*)	NO	
Other liabilities cycle (*)	YES	
Other income and expenses cycle (*)	YES	
Interco-Current accounts - Related parties cycle (*)	NO	

Appendix 2. Related Parties

2013 Related parties		
QUESTION	ANSWER	COMMENTS
Risk Assessment Procedures and Related Activities		
Understanding the Entity's Related Party Relationships and Transactions		
Has the engagement team discussion that ISA 315 and ISA 240 require included specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions?	YES	
Have you inquired of management regarding: (a) The identity of the entity's related parties, including changes from the prior period; (b) The nature of the relationships between the entity and these related parties; and (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions?	YES	
Have you inquired of management and others within the entity, and performed other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to: (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (b) Authorize and approve significant transactions and arrangements with related parties; and (c) Authorize and approve significant transactions and arrangements outside the normal course of business?	YES	Transactions with related parties are approved by the GD. There are no transactions outside the normal course of business.
Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions		
Are any of those risks significant risks? In making this determination, you must treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks. If yes, please report it/them in the inherent risk questionnaire.	NO	No significant risks identified
Have you identified fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties? If yes, you must consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with ISA 240, in the fraud questionnaire.	NO	

Appendix 3. Detailed Fraud Checklist

2013 DETAILED FRAUD CHECKLIST		
QUESTION	ANSWER	COMMENT / REF
<p>GUIDANCE</p> <p>If the cycle is not material + no fraud risk on the cycle + no significant risk on the cycle, then:</p> <ul style="list-style-type: none"> - You do not assess the internal control for the cycle in the Internal Control risks questionnaire. That is why the internal control is High by default in the matrix - The cycle disappears in Branch 6 - The lead schedule of the cycle is stored in branch 6/A General controls - The WP with basic work to be performed on the cycle, if any, is stored in branch 6/A General controls 		
<p>Has the audit engagement team's meeting on fraud been held (planning meeting among the audit engagement team members in order to discuss the degree of exposure of the audited entity to material anomalies resulting from fraud)?</p> <p>Document here in the comment column:</p> <ul style="list-style-type: none"> - date of fraud meeting, - attendees, - matters discussed, - conclusion reached, - impacts on risk assessment, etc. <p>In case the audit team is composed of only one person (the engagement partner), please specify your fraud risk considerations.</p>		
<p>Has a fraud meeting with management/key contacts been held? Document here in the comment column:</p> <ul style="list-style-type: none"> - person(s) concerned, - date of meeting, - matters discussed, - has management performed his own assessment of the risk of fraud and error? - what is management's assessment of the risk of fraud and errors? 	YES	<p>Person: Duy, ABC VN FC, SBC Vietnam FC and Boris, MIC</p> <p>Matter discussed: Controls on assets, financial statement, issues identified</p> <p>Conclusion: There is no fraud risk</p>
<p>Has this meeting enabled us to assess management's understanding of the audited entity's accounting and internal control systems designed to prevent and detect fraud?</p>	YES	
<p>Has this meeting enabled us to determine whether management has any knowledge either of frauds committed within the entity or of suspicions of fraud giving rise to investigation within the entity?</p>	YES	<p>There are internal control for each department to prevent fraud</p>

Has a meeting been held with the person(s) responsible for corporate governance? (identify the person(s) concerned in the minutes of the meeting)	YES	We discussed with ABC FC for whole SBC Group in Vietnam
IDENTIFICATION OF RISKS		
Have we identified any sources of fraud risk related to: - external factors, - nature of the entity, - performance indicators, - accounting policies, - internal control, that may lead to manipulation of financial statements or misappropriation of assets?	NO	There is no risk identified
Is there a risk of misappropriation of assets, that could be accomplished in a variety of ways including: - Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts). - Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment)?	NO	No such case identified
AUDIT RESPONSE TO FRAUD RISKS		
Is there a fraud risk on the Sales / receivable cycle that we need to address? (*) If you conclude that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, you must include in the audit documentation the reasons for that conclusion.	NO	There is no incentives given to sales/management which is related to sales achievement of the Company, thus, the presumption that sales has significant risk, is not applicable.
Is there a fraud risk on the Inventories cycle that we need to address? (*)	NO	
Is there a fraud risk on the Tangible & Intangible assets cycle that we need to address? (*)	NO	
Is there a fraud risk on the Cash cycle that we need to address? (*)	NO	
Is there a fraud risk on the Payroll cycle that we need to address? (*)	NO	

Appendix 4. Going-Concern Checklist

GOING CONCERN CHECKLIST		
QUESTIONS	ANSWER	COMMENTS
<p>Do you have any knowledge about whether the company is facing challenges in its ability to continue operating as a going concern?</p> <p>For instance, sources of liquidity may be strained because of reduced availability of lines/letters of credit from financial institutions or because of a violation of a debt covenant or other covenant.</p> <p>Additionally, management may encounter limited access to the commercial paper markets, a decrease in valuation of collateral, difficulty restructuring loans, and delays in payment from customers.</p>	NO	<p>Since 2013, the Company has started to generate profit. In addition, the Company also expands its operation by transferring all activities of ABC China. There is no any indicator about going concern</p>
<p>Based on your knowledge of relevant conditions and events that exist at audit inception, is there a substantial doubt about the company's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited?</p>	NO	
<p>If you believe that there is substantial doubt about the company's ability to continue as a going concern for a reasonable period of time, are you aware of any management's plans that are intended to mitigate the effect of such conditions or events?</p> <p>Management plans may include the following – Plans to dispose of assets; Plans to borrow money or restructure debt; Plans to reduce or delay expenditures; Plans to increase ownership equity.</p>	NO	
<p>Does the entity depend on one client or one supplier?</p>	NO	
<p>If the entity does depend on one client or one supplier, have the appropriate safeguard measures been implemented?</p>	NO	
<p>Do you wish to perform specific procedures designed to determine if these factors are liable to have compromised the use of the going concern assumption? (*)</p>	NO	

Appendix 5. Detailed Assessment Of Risk Of Material Misstatement At Financial Statement Level

Detailed Assessment of risk of material misstatement at financial statement level		
QUESTION	ANSWER	COMMENT
RISKS INHERENT TO THE BUSINESS SEGMENT		
Does the company operate within a business segment experiencing any difficulties or recession?	NO	As discussed with Mr. Duy-FC, there is a slightly recession in electric industry. As consequence, actual sales up to September 2014 is lower than sales forecast
Are any specific risks associated with the products or services sold by the company?	NO	Most of the products are switches and cables for personal houses and buildings. All products are tested carefully by testing machine & QC before delivery.
Is the operating market associated with any specific risks or subject to any specific regulations?	NO	
RISKS INHERENT TO THE FINANCIAL ENVIRONMENT		
Does management attach sufficient attention to the quality of accounting data and financial reporting?	YES	All financial accounts are reviewed and double checked per cycle by Mr. Duy-Financial controller. The FS are also sent to Group monthly for their review.
Have previous audits disclosed numerous errors in accounting data and financial reporting?	YES	ABC did not book audit adjustments from 2011-2013 to GL. We have to adjust in 2013. There were many adjustments relating to tax, COGS, fixed assets, purchase, inventories, and variance expenses. ABC is under developing VAS mapping and book all adjustments
Does the analysis of ratios relating to financial position disclose any particular fragility?		Liquidity ratios are better than last year - Total assets/total liabilities 2014: 1.38 (2013: 1.28) - Current assets/current liabilities 2014: 1.09 (2013: 1.08)

RISKS INHERENT TO THE LEGAL ENVIRONMENT		
Does management attach sufficient attention to compliance with legal and regulatory provisions?	YES	
Are there numerous contracts involving company directors or subsidiary, parent or associated companies?	YES	All of the Company's goods are sold to related parties
GENERAL CONTROL ENVIRONMENT		
Have you identified numerous deficiencies in internal control in previous years?	NO	
Does the company use a procedures manual in managing its operations?	YES	There is a procedures manual issued by Schneider Group
Is each employee aware of his or her exact role in the company?	YES	All roles are mentioned in their contract
Does the company use the services an external lawyer in tax and legal matters?	YES	The Company use tax service from PwC to help them to calculate CIT
ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENTS AT FINANCIAL STATEMENTS LEVEL		
GUIDANCE		
A106. Risks at the financial statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as management's lack of competence may have a more pervasive effect on the financial statements and may require an overall response by the auditor.		
A106. Risks at the financial statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as management's lack of competence may have a more pervasive effect on the financial statements and may require an overall response by the auditor.		
Do you have knowledge of any risk(s) of material misstatement at the financial statement		

level? (*)		
RISK OF MATERIAL MISSTATEMENT AT THE FINANCIAL STATEMENTS LEVEL (*)	Medium	
Describe the overall responses to address the assessed risk(s) of material misstatement at the financial statement level if any (*)		Review list of inventories at year and ensure that all inventories items have appropriate cost. Check proper allocation of variance cost to inventory unit cost. Check the calculation of unit costs.
INFORMATION SYSTEMS		
Please make sure you have already filled in the IT Orientation memorandum		
Do you have knowledge of any risk(s) of material misstatement associated with information systems? (*)		
RISK OF MATERIAL MISSTATEMENT RELATED TO INFORMATION SYSTEMS (*)		
Work to be performed on information systems (*)		
Describe the audit procedures to address the assessed risk(s) of material misstatement associated with information systems if any (*)		
PROCESSING VOLUMES		
Have you identified any cycle(s) with a significant volume of transactions? If yes, note which cycle(s).	YES	Sales, Inventory, Purchase
For cycles with a significant volume of transactions, do you intend to use Computer Assisted Audit Techniques (Data analysis)? If yes, note which cycle(s)	NO	

Appendix 6. Detailed Assessment Of Inherent Risk

2013 DETAILED ASSESSMENT OF INHERENT RISKS		
QUESTION	ANSWER	COMMENT / REF
<p>GUIDANCE</p> <p>If the cycle is not material + no fraud risk on the cycle + no significant risk on the cycle, then:</p> <ul style="list-style-type: none"> - You do not assess the internal control for the cycle in the Internal Control risks questionnaire. That is why the internal control is High by default in the matrix - The cycle disappears in Branch 6 - The lead schedule of the cycle is stored in branch 6/A General controls - The WP with basic work to be performed on the cycle, if any, is stored in branch 6/A General controls 		
RISKS INHERENT TO THE SALES / RECEIVABLE CYCLE		
Has the customer credit ratio deteriorated?	NO	Most of customers are related parties and they usually pay on time. Debtor's day is usually from 70 to 80 days
Do you have knowledge of any significant risk(s) associated with the sales /receivable cycle? (*)	YES	
If Yes : describe the significant risk(s) (*)	The ownership of RM sold to Processing suppliers.	Investment Certificate does not mention about selling RM activities but ABC sold its RMs to processing suppliers to produce a part of its goods
RISKS INHERENT TO THE SALES / RECEIVABLE CYCLE (*)	Medium	

RISKS INHERENT TO THE INVENTORIES CYCLE		
Has there been any deterioration in inventory ratios?	NO	Inventory level is higher than last year, 2014: 111 days (2013: 49 days) due to as at 31/8/2014, ABC bought new RMs for new project, adjusted unit cost of RMs due to wrong posting
Have margins changed significantly compared to the previous accounting period?	YES	Profit margin of this year is lower than last year, 2014: 4.8% (2013: 11.1%) because ABC adjusted unit cost of RMs due to wrong posting, unit cost of FGs which have no unit cost
RISKS INHERENT TO THE INVENTORIES CYCLE (*)	Medium	
Describe the audit procedures to address the significant risk(s) in case of significant risk(s) (*)		- Review list of inventories at year end; obtain the approval standard cost and check any significant change in BOM.
RISKS INHERENT TO THE TANGIBLE AND INTANGIBLE ASSETS CYCLE		

Have margins changed significantly compared to the previous accounting period?	YES	Profit margin of this year is lower than last year, 2014: 4.8% (2013: 11.1%) because ABC adjusted unit cost of RMs due to wrong posting, unit cost of FGs which have no unit cost
RISKS INHERENT TO THE INVENTORIES CYCLE (*)	Medium	
Describe the audit procedures to address the significant risk(s) in case of significant risk(s) (*)		- Review list of inventories at year end; obtain the approval standard cost and check any significant change in BOM.
RISKS INHERENT TO THE TANGIBLE AND INTANGIBLE ASSETS CYCLE		
Have there been any major changes (additions, disposals, retirements) in property, plant and equipment since the previous balance sheet date?	YES	The Company is expanding its operation, especially in assembling so it bought more FA to replace old machine. There is also transfer of product line from ABC China.
Are production facilities showing signs of obsolescence?	NO	All of them are in good

		condition
Has the audited entity entered into significant rental or leasing arrangements?	YES	There are warehouses and factories rental contract.
RISKS INHERENT TO THE TANGIBLE AND INTANGIBLE ASSETS CYCLE (*)	Medium	
Describe the audit procedures to address the significant risk(s) in case of significant risk(s) (*)	Obtain contracts and other supporting documents and investigate the nature of the transactions (quality accreditation expenses and product line transfer from China). Checked proper recording of transactions and any tax impact	
RISKS INHERENT TO THE CASH CYCLE		
Has the audited entity used its short- term borrowing facilities to the limit?	NO	
Have there been any major fund movements lacking economic justification?	NO	
RISKS INHERENT TO THE CASH CYCLE (*)	Low	
RISKS INHERENT TO THE FINANCIAL ASSETS CYCLE		
Do you have knowledge of any significant risk(s) associated with the financial assets cycle? (*)	NO	
RISKS INHERENT TO THE FINANCIAL ASSETS CYCLE (*)	Low	
RISKS INHERENT TO THE PURCHASES / PAYABLES CYCLE		
Has there been any deterioration in the supplier credit ratio?	NO	

Do you have knowledge of any significant risk(s) associated with the purchases / payables cycle? (*)	NO	
RISKS INHERENT TO THE PURCHASES / PAYABLES CYCLE (*)	Low	
RISKS INHERENT TO THE PAYROLL CYCLE		
Do the audited entity's payroll ratios show any particular fragility?	NO	
Do you have knowledge of any significant risk(s) associated with the payroll cycle, in particular as regards disputes? (*)	NO	
RISKS INHERENT TO THE PAYROLL CYCLE (*)	Low	
RISKS INHERENT TO THE BORROWINGS AND FINANCIAL LIABILITIES CYCLE		
Has there been any major change in the audited entity's borrowings and financial liabilities?	NO	
RISKS INHERENT TO THE BORROWINGS AND FINANCIAL LIABILITIES CYCLE (*)	Low	
RISKS INHERENT TO THE EQUITY CYCLE		
Do you have knowledge of any significant risk(s) associated with the equity cycle? (*)	NO	
If Yes : describe the significant risk(s) (*)	There is no significant risk identified	
RISKS INHERENT TO THE EQUITY CYCLE (*)	Low	
RISKS INHERENT TO THE PROVISIONS CYCLE		
Do you have knowledge of any significant risk(s) associated with the provisions cycle? (*)	NO	
Have previous audits disclosed any cut-off problems or failure to recognize required provisions?	N/A	
If Yes : describe the significant risk(s) (*)	Not applicable	
RISKS INHERENT TO THE PROVISIONS CYCLE (*)	Low	
RISKS INHERENT TO THE TAXATION CYCLE		
Do you have knowledge of any significant risk(s)	YES	

associated with the taxation cycle, in particular as regards disputes? (*)		
If Yes : describe the significant risk(s) (*)	There is no recording for Import tax and import VAT in G/L as the client can be exempted after exportation of products produced from imported raw materials	
RISKS INHERENT TO THE TAXATION CYCLE (*)	Medium	
Describe the audit procedures to address the significant risk(s) in case of significant risk(s) (*)	To estimate the total impact at year end and propose adjustment if it is significant. To consider to disclose this as commitments (Off-balance sheet item)	
RISKS INHERENT TO THE OTHER ASSETS CYCLE		
Has there been any major change in the audited entity's other assets?	NO	
RISKS INHERENT TO THE OTHER ASSETS CYCLE (*)	Low	
RISKS INHERENT TO THE OTHER LIABILITIES CYCLE		
Do you have knowledge of any significant risk(s) associated with the other liabilities cycle? (*)	NO	
RISKS INHERENT TO THE OTHER LIABILITIES CYCLE (*)	Low	
RISKS INHERENT TO THE OTHER INCOME AND EXPENSES CYCLE		
Have there been major changes in the audited entity's other income and expenses?	NO	
Do you have knowledge of any significant risk(s) associated with the other income and expenses cycle? (*)	NO	
RISKS INHERENT TO THE OTHER INCOME AND EXPENSES CYCLE (*)	Low	
RISKS INHERENT TO THE INTERCO-CURRENT ACCOUNTS - RELATED PARTIES CYCLE		
Are intercompany balances material in amount?	YES	All sales of

		ABC VN are to inter-companies
Do you have knowledge of any significant risk(s) associated with the interco-current accounts - related parties cycle, whether in terms of balances or transactions? (*)	YES	
If Yes : describe the significant risk(s) (*)	Every month, the accountant send internal confirmation to all related parties to confirm the balance and transactions during the month	
RISKS INHERENT TO THE INTERCO-CURRENT ACCOUNTS - RELATED PARTIES CYCLE (*)	Low	
Describe the audit procedures to address the significant risk(s) in case there of significant risk(s) (*)	To send confirmation to all related parties for transactions during the year and balance at the end of the year	

Appendix 7. Detailed Assessment Of Control Risk

2013 DETAILED ASSESSMENT OF INTERNAL CONTROL RISKS		
QUESTION	ANSWER	COMMENT / REF
<p>GUIDANCE</p> <p>If you answer "No" to the question "Is the Design & Implementation (D&I) OK?", then: no more work on internal control on the assertions for which D&I is not OK</p> <p>If you answer "Yes" to the question "If the D&I is OK, do you intend to rely on the Internal Control? (*)", then you will have to test the effectiveness of the internal control.</p>		
SALES / RECEIVABLE CYCLE		
Do internal customer order forms exist?	YES	
Are they pre-numbered?	YES	They are pre-numbered by SAP system
Are undelivered orders subject to tracking / monitoring procedures?	YES	Undelivered orders are tracked by SAP and update status by Ms. Tram-Sales/AR accountant
Are dispatches and invoices regularly reconciled?	YES	Mega - export agency - reconcile with each PO
Do the amounts shown on invoices correspond to those recorded in debtor's ledger accounts?	YES	Accountant use billing module to issue invoices, then is automatically transferred to GL by SAP system
INVENTORIES CYCLE		
Are physical warehousing and the associated administrative functions performed by distinct individuals?	YES	Mr. X - Head of supply chain and Mr. Y - Head of warehouse always attend
Are internal goods received notes in use?	YES	for RM, the client use "Material Received Note"; For FGs is "Transfer note by work order"
Do inventory transfer notes require approval by an authorized signatory?	YES	All are approve and check within SAP system

Does the audited entity specifically identify slow-moving inventories?	YES	Slow movings are identified by the customer demand in next year
Are inventory differences analyzed?	YES	Supply chain department is responsible for this
Are specific precautions taken to ensure the mathematical accuracy of inventory records?	YES	MR. D - FC double check and approve the calculation
TANGIBLE AND INTANGIBLE ASSETS CYCLE		
Are preliminary studies undertaken prior to the acquisition of fixed assets?	YES	The Purchase department obtain some price list from some suppliers
Does a specific procedure exist for selling or otherwise disposing of fixed assets?		They make disposal list & it is approved by GD. the disposal of fixed assets usually are intergroup transaction.
INTERNAL CONTROL RISK RELATED TO THE TANGIBLE AND INTANGIBLE ASSETS CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	Medium	We performed TOC for purchasing new FA but we do not perform TOC for FA disposal.
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)	We will perform substantive testing as it is more efficient	
PAYROLL CYCLE		
Is employee recruitment subject to a specific procedure?	YES	
Is timekeeping appropriately monitored?	YES	They have timekeeper machine for recording and then review with manual record from Head of each department.
Is payroll data appropriately reviewed?	YES	Payroll is prepared by Ms. H - deputy HR, & approved by Ms.

		Ha - HR manager, FC, GD
INTERNAL CONTROL RISK RELATED TO THE PAYROLL CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)		We will perform substantive tests as it is more efficient
BORROWINGS AND FINANCIAL LIABILITIES CYCLE		
Have you considered to perform a walk-through and/or other work in order to check implementation on the key controls, if they are properly and adequately designed? (*)	NO	not a significant cycle
INTERNAL CONTROL RISK RELATED TO THE BORROWINGS AND FINANCIAL LIABILITIES CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)		We will perform substantive tests as it is more efficient
TAXATION CYCLE		
Have you considered to perform a walk-through and/or other work in order to check implementation on the key controls, if they are properly and adequately designed? (*)	NO	not a significant cycle
Is the Design & Implementation (D&I) OK?	N/A	
INTERNAL CONTROL RISK RELATED TO THE TAXATION CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)		We will perform substantive tests as it is more efficient
OTHER LIABILITIES CYCLE		

Have you considered to perform a walk-through and/or other work in order to check implementation on the key controls, if they are properly and adequately designed? (*)	NO	not a significant cycle
INTERNAL CONTROL RISK RELATED TO THE OTHER LIABILITIES CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)		We will perform substantive tests as it is more efficient
OTHER INCOME AND EXPENSES CYCLE		
Have you considered to perform a walk-through and/or other work in order to check implementation on the key controls, if they are properly and adequately designed? (*)	NO	
INTERNAL CONTROL RISK RELATED TO THE OTHER INCOME AND EXPENSES CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
INTERCO-CURRENT ACCOUNTS - RELATED PARTIES CYCLE		
Have you considered to perform a walk-through and/or other work in order to check implementation on the key controls, if they are properly and adequately designed? (*)	NO	
INTERNAL CONTROL RISK RELATED TO THE INTERCO- CURRENT ACCOUNTS - RELATED PARTIES CYCLE (*) (In case you do not intend to rely on the Internal Control, the answer to this question should be High)	High	
Describe the substantive procedures to address the deficiency(is) in internal control in case of existence of deficiency(is) in internal control (*)		We will perform substantive tests as it is more efficient

Appendix 8. Assessment Of Risks At Assertion Level

CYCLE	Sales / receivable	Inventories	Tangible and intangible assets	Cash	Financial assets	Purchase / payables
Fraud risk	NO	NO	NO	NO	NO	NO
Going concern	NO	NO		NO		NO
Work on Information systems						
Can you rely on Internal control?	YES	YES	YES			YES
Risk of Material Misstatement	Medium	Medium	Medium	Low	Low	Low
Account. policies & Classification	Low	Low	Medium	Low	Low	Low
Appropriateness of entries	Low	Low	Low	Low	Low	Low
Completeness	Low	Low	Low	Low	Low	Low
Cut Off	Medium	Medium	Low	Low	Low	Medium
Existence	Low	Low	Low	Low	Low	Low
Valuation & Accuracy	Low	Medium	Medium	Low	Low	Low
Rights & Obligations / Tax & Legal	Low	Medium	Low	Low	Low	Low
Disclosures & Presentations	Low	Low	Low	Low	Low	Low

CYCLE	Payroll	Borrowings and financial liabilities	Equity	Provisions	Taxation	Other assets
Fraud risk	NO	NO	NO	NO	NO	NO
Going concern	NO	NO	NO	NO	NO	
Work on Information systems						
Can you rely on Internal control?	N/A	N/A	N/A		N/A	NO
Risk of Material Misstatement	Medium	Medium	Low	Low	High	Low
Account. policies & Classification	Low	Low	Low	Low	Low	Low
Appropriateness of entries	Low	Low	Low	Low	Low	Low
Completeness	Low	Low	Low	Low	High	Low
Cut Off	Medium	Low	Low	Low	Low	Low
Existence	Low	Low	Low	Low	Low	Low
Valuation & Accuracy	Medium	Medium	Low	Low	Medium	Low
Rights & Obligations / Tax & Legal	Low	Low	Low	Low	High	Low
Disclosures & Presentations	Low	Medium	Low	Low	Medium	Low

CYCLE	Other liabilities	Other income and expenses	Interco-Current accounts - Related parties	CONSO PACKAGE	INFORMATION SYSTEMS	
Fraud risk	NO	NO	NO			
Going concern						
Work on Information systems					IT Cartography	
Can you rely on Internal control?	N/A	NO	N/A			
Risk of Material Misstatement	Medium	Medium	Medium			
Account. policies & Classification	Low	Low	Low			
Appropriateness of entries	Low	Low	Low			
Completeness	Low	Low	Medium			
Cut Off	Low	Low	Low			
Existence	Low	Low	Low			
Valuation & Accuracy	Medium	Low	Low			
Rights & Obligations / Tax & Legal	Low	Low	Low			
Disclosures & Presentations	Low	Low	Medium			