

Checklist to Identify Financial Statement Risks

1. By observing the operational environment and enquiring from management and key staff members to evaluate whether:
 - 1.1 There is a good ethical culture implemented within the organisation. Evaluate the tone at the top and the overall workplace culture regarding ethics and integrity in financial reporting. Consider how leadership's attitude towards ethical behaviour and transparency could affect financial statement risk.
 - 1.2 There is evidence of management override or lack of segregation of duties.
 - 1.3 Company resources are used for private purposes, misappropriated, or have been lost.
 - 1.4 New technologies and systems have been implemented and the adequacy of security measures put in place.
 - 1.5 The company had recent issues with complying with legal requirements, i.e. Companies Act, SARS, CIPC. Find out about new or changed legal requirements.
 - 1.6 Key staff and management must meet strict performance targets creating financial pressure, i.e. pressure to meet financial targets or bonuses.
2. Review financial information and identify the nature and purpose of complex or unusual transactions to understand their impact on the financial statements and whether they are being used to conceal fraud.
3. Analyse financial statements to identify unusual trends or discrepancies in revenue, expenses, and asset valuations that may indicate fraudulent reporting or misappropriation of assets.
4. Evaluate the company's financial performance against industry benchmarks to identify potential manipulation of financial statements to appear more favourable.
5. Consider the company's financial health and any external pressures it may face from economic, industry, or regulatory changes that could influence financial reporting.
6. Evaluate the risks associated with technological changes and cybersecurity, particularly how these risks are managed to prevent unauthorised access to financial information.