THE RISK APPROACH: AN ALTERNATIVE TO THE CLASSIC AUDIT APPROACH

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Abstract: *This study will focus on addressing risk. The purpose of this article is to highlight the importance of the risk approach in the pursuit of effectiveness and efficiency in audit work. To demonstrate this, we will first show the limitations of the classical audit approach, then illustrate the importance of the risk-based approach, and finally present the approach to auditing according to this approach. A risk-based approach also improves an organization's decision-making process, regardless of its industry focus. Therefore, a risk-based approach consists of identifying, assessing, and understanding risks, as well as the subsequent application of measures proportionate to these risks to ensure their effective mitigation.*
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1. Introduction

The business world has changed dramatically in recent years. Indeed, thanks to technological development, companies have become more competitive and their structures have changed significantly. This development has led to significant flows both within companies and to or from third parties (customers, suppliers, credit organizations), but mainly an unprecedented development of fraud techniques that now affect all hierarchical levels and all sectors of activity. Audit quality has become a major issue for the accounting and auditing fields. Traditional audit approaches have some limitations against the regularity and honesty of financial statements. The statutory auditor, whose role is to control the regularity of the companies' accounting records and the veracity of their observations regarding the documents that justify them, has a right to alert if they find irregularities. The failure of auditors to detect numerous anomalies, despite changes in professional standards, calls into question a model of legal auditing centered on the larger objective of fair image and candor. The audit approach is a technique that is based on an in-depth and preliminary reflection on the nature of the risks that characterize the company. And only after this evaluation process will the auditor define his control program. This may lead him, compared to a traditional approach, to lighten his checks on sections or areas of accounts on which his reflection allows him to believe that the risks are low, and on the other hand, to initiate much more extensive investigations. This approach not only allows auditors to reduce the time budget but also to detect risks and protect themselves in the future. This approach also helps to strengthen the level of reasonable assurance and assurance that remains the ultimate objective of every auditor. In this regard, the question I would try to answer in this article is the following: To what extent can the use of a risk-based audit approach be a better alternative to the traditional audit approach? To answer this question, I will first reveal the limitations of the classical audit approach, then we will present the importance of the risk-based approach, and finally, we will cite its, different stages.

2. Review of the specialty literature

From the classical approach to the risk-based approach

Inadequacies of the classical approach Audit can be defined as the examination carried out by a competent and independent professional to express a reasoned opinion on the regularity and honesty of the financial statements. The objective is to conclude the image", so the sincerity and not the accuracy of the accounts. The traditional audit app to accounts was based on of analysis of internal control and inventory controls but in controls or only slightly differentiated way. The summary documents (financial statements, balance sheet, general register, journal, accounting ng documents) restart ting point of the audit. Its mode of operation consists in performing a cycle opposite to that of the mechanics of building financial statements. The auditor will limit his control over the financial statements to the control of accounting documents, he does not situate the audit problem as a whole and is limited to figures and documents. They are then interested either in the areas that represent a significant part of the activity reflected in the annual accounts or accounts elements of the final statements that present significant variations compared to those of the last financial year or in the study of the evolution of certain reports over time. The main objective of the auditor is simply to ensure that the information contained in the accounts is supported by supporting accounting documents. Auditing is done in a routine and unintelligent manner. If the audit is done in a routine and unintelligent manner, then this approach has many limitations resulting from insufficient planning and failure to consider (insufficient consideration) internal control.

Insufficient planning: In this approach, the auditor does not situate the audit problem as a whole. It focuses all its attention on ensuring that the information contained in the financial statements is justified by convincing accounting documents. This then leads him to verify the reality of the accounting records.

Insufficient consideration of internal control: The fact that the auditor verifies that the financial statements are justified by supporting accounting documents very often leads him to perform an exhaustive examination of said documents. However, it will be difficult for him to understand an accounting fact that has not been recorded in the accounts. This could then lead them to issue a favorable opinion when there are material anomalies in the financial statements due to the non-recognition of certain transactions. Consequently, it will be difficult for the auditor to follow this approach, perform an effective audit, and reach an opinion that reflects both the result and the financial and patrimonial situation of the company, from where a new audit approach appears: the risk-based approach, which is based on an in-depth and prior reflection on the nature of the risks that characterize the company.

Risk-based audit approach The statutory audit is insurance against the risks of poor accounting and financial information. Therefore, the auditor must identify these risks before performing his controls. What type of risk should be identified? These may be risks specific to the company, given the nature of its business, the weaknesses or dysfunctions of its organization or its financial situation, as well as risks specific to the company's sector of activity, the company or company. Only after this evaluation of the process will the auditor define his control program. This can lead him, compared to a traditional approach, to ease his controls on sections or areas of accounts where his thinking will help him undertake much larger investigations in other sectors. This risk-based approach, the logic of which is based on common sense, is not necessarily familiar to all auditors, as it banishes systematicity and requires making choices in controls. However, it has three major qualities: it allows the anticipation of problems before closing, the adaptation of controls over the accounts to the environment of the audited organization; responds to companies' desire to quickly communicate their financial statements. However, the auditor cannot list all the risks borne by the company. Indeed, the assessment carried out by the statutory auditor complies with the sampling rules which make it possible to limit the amount of work to be carried out, while providing an assurance reasonable about the faithful image. Thus, at the beginning of the audit mission, it is appropriate to target the risk-generating activities and to define not all the risks associated with each activity, but only the key risks likely to compromise the achievement of the objectives of the activity in question.

3. Research methodology

Forty semi-structured individual interviews were conducted by the author, of this study. Interviews took place from September to December 2022. This type of interview allowed me to receive information on a series of guiding questions and to provide the various interlocutors with a framework in which they could express themselves freely, from a qualitative perspective. The inventory of the communications carried out and their analysis made it possible to better understand the different elements related to audit risk. The conclusions of this analysis are presented in the RESULTS section. Also, the use of articles, information leaflets and, brochures, newsletters, allowed me to create the interview, guide. The topics covered in the interviews with the auditors were aimed at knowing the information about the different types of risks, as well as the ways to prevent and eliminate or reduce them.

4. Result

Risk-based audit approach

The approach proposed below is inspired by that used by auditors in major international audit firms. The techniques used are:

Knowledge and identification of risks The first step of the audit process is the knowledge of the audited company, which is of particular importance because it determines the progress of the other phases of the process. The auditor must therefore acquire a general knowledge of the company, its particularities, and its economic and social environment to better understand the events that may have a significant impact on the accounts subject to his audit, it also makes possible better planning of its mission so that it can focus its checks on the areas that pose the greatest risk. General awareness can generally include four essential phases:

• Collecting information;
• Analysis of different families of risks;
• Determination of significant areas;
• Summary of risks and plan of action.

Gathering information about the company The auditor must have a general knowledge of the company that allows him to direct his mission and understand the significant areas and systems. The information to be collected in this phase should allow the identification of the general risks borne by the company. The two major components of this phase are:

Preliminary work to know the company: At the end of this work we must highlight the external factors and the internal factors or influencing factors that affect the company's activity. The premiums are not directly controllable by management. When reviewing external factors, the auditor's main objectives are to obtain information to help him understand the company's business and the changes that have occurred and to identify situations that indicate potential areas of risk. These external factors are obtained through external documentation: specific regulations applicable to companies, documentation of the profession, etc. Internal factors are the financial and operational characteristics of the company: these are the conditions and circumstances of the company's business that have an impact on its operations. By reviewing the financial and operational characteristics of the company's activity, the auditor becomes aware of the company's internal conditions and circumstances that impact its operation. This knowledge also relates to the consideration of the control environment that responds to the identified risks.

The second part consists in establishing the first contacts with the company: interviews with the leaders and the various heads of departments, on-site visits, etc., which will make it possible to develop the work program and break it down.

Analysis of different risk families This involves identifying and defining the main types of risk that the auditor may detect as part of his mission. These different types of risks are the potential risks commonly accepted in this sector of activity but which weigh differently on firms depending on the orientation of their activities and their internal organization.

Determining significant areas and systems At the end of these first two stages of gathering information and identifying risks related to the audited firm, the auditor identifies significant areas and systems. The identification of these significant areas presupposes the prior determination of a significance threshold. It can be defined as the amount from which an error, inaccuracy, or omission can affect the regularity and honesty of the summary statements, as well as the true picture of the result of the financial year, and the financial situation of the company. This threshold is quantified by taking into account several quantitative and qualitative benchmarks.

Risk summary and approach plan The preliminary stage of risk understanding and analysis allows the auditor to gather all the general information about the firm. It can:

• understand the elements that influence the figures to be verified;
• evaluate the general degree of risk that will be faced;
• identify the significant transactions and accounts on which he will focus his efforts;
• adapt its control program accordingly.

The analysis of the particular characteristics of the companies, related to their activities and their general environment, allows the auditor to identify those that could have the effect of reducing the audit risk or, on the contrary, increasing it. Both will guide the audit process. The companies have the following distinctive characteristics, which could result in a reduction of the audit risk:

• The existence of a regulated internal control function on which the audit activity can be based;
• The importance of assets managed on behalf of third parties;
• Repetitiveness of transactions and automation of processing, which play an essential role in the reliability of information systems;
• Absence of specific accounting principles and schemes to facilitate the control of accounts;

From these observations, it emerges that the following should be prioritized in the audit strategy:

• Good functioning of the internal control;
• Coherence of the formation of the result through detailed analytical examination and analysis of information systems.

Evaluation of internal control The quality of internal control exercised within a company largely determines the final phase of the audit process and especially the control of accounts. Indeed, a good assessment of internal control provides greater assurance to the auditor and will therefore allow him to significantly reduce the work of auditing the accounts that the auditor will have to perform. On the contrary, a weak appreciation of internal control leads to the deepening of account controls. Internal control consists of all control measures, accounting or otherwise, that management defines, applies, and monitors, under its responsibility, to ensure:

• Completeness of records;
• Accuracy of accounts;
• Authorization of transactions;
• Authorization of access to assets and records;
• Accounting and audit control.

The auditor assesses the company's internal control according to its objective of certifying the summary statements. Accordingly, it will only perform a review and assessment of internal control for the systems leading to significant accounts that it has identified in the planning phase of its engagement. The assessment of internal control primarily involves understanding the data processing procedures implemented in the company to verify the proper function and correct application of these procedures by performing compliance tests. The procedure to be followed by the auditor, to evaluate the degree of risk control through internal control, is the following:

• To communicate the organization manual or arrange the systems and procedures used in entering data into the accounting programs;
• Ensure that he has understood and retained this description (using compliance tests);
• To deduce the satisfactory (strong points) and less so (weak points) procedures and ensure that they are applied permanently (permanence tests);
• Conclude by highlighting strengths and weaknesses.

The auditor should proceed to the detailed description of the internal control procedures. The company's procedures manual (if any) can be used to gather useful information. In addition to the operations described in the classic audit missions, special attention must be paid to the IT environment of the audited company. Among the points that the description must take into account imperatively, we mention:

• Highlighting the accumulation of tasks within the company, a fundamental source of risks;
• Detailed description of flows and operations that do not respect the principle of separation of duties;
• At the end of his work of studying and understanding the internal control procedures, the auditor must be able to distinguish the strengths that he must validate and the weaknesses that can generate fraud to prevent it and determine the threshold of meaning.

Auditing accounts The approach to auditing accounts relies heavily on the auditor's assessment of internal control given the large volumes and number of accounts to be processed. The strengths identified during the internal control review work will make it possible to ease or deepen the closing work on certain accounts. The auditor must, however, perform at each closing:

• Overall analytical examination;
• Reconciliations between management data and accounting data;
• Analysis of suspended accounts.

These checks should enable him to form an opinion on the balances of the balance sheet accounts and to ensure that income and expenditure have been recorded correctly and exhaustively. This stage aims to ensure the reality of the assets and the exhaustive nature of the liabilities. The degree of importance given to this phase depends on the understanding and evaluation of internal control. In the course of his engagement, the auditor obtains sufficient and appropriate evidence to establish reasonable assurance that allows him to issue certification. To this end, it has various control techniques, in particular plausibility document checks, physical observation, direct confirmation, and analytical examination.

• Checks on the documents: refers to the examination of documents received by the company, documents created by it, internal checks, etc.

• Physical observation: consists of examining goods, accounts, or how a procedure is applied. This is one of, the most effective ways to ensure the existence of an asset. However, only the existence of the good is confirmed, the other elements such as ownership of the asset, and the assigned value must be verified by other techniques. Among the elements that can be the subject of a physical examination, we note:

- tangible fixed assets;
- inventories;
- commercial receipts;
- cash.

• Direct confirmation: consists of obtaining directly from third parties who have commercial or financial relations with the company, information about the balance of their accounts or the transactions made with it. The main ca direct confirmation refers to fixed assets, stocks, receivables, payables, banks, personnel, etc. the choice of the balances to be confirmed must take into account all the particularities of the controlled enterprise. These are mainly: large balances, old balances, canceled accounts, and abnormal and l balances.

The analytical examination consists of:

• Making comparisons between the data resulting from the annual accounts and previous, subsequent and forecasted data;

• Analyze fluctuations and trends;

• Studying and analyzing the unusual elements resulting from these comparisons. The overall review of the annual accounts aims to verify that the balance sheet, the profit and lo, the account, and the annex:

• They are consistent, given the general knowledge of the company, its sector of activity and economic context;

• They are consistent with the accounting data;

• They are presented according to the accounting principles and regulations in force;

• I take into account events after the closing date.

It also makes it possible to verify that the annex complies with the legal and regulatory provisions and that it contains all the information of significant importance regarding the company's financial situation and results. Several analysis procedures can be used, including:

• Comparing the data from the annual accounts with those from previous or projected accounts etc.;

• Comparison as a percentage of turnover of various items in the profit and loss account.

Any significant deviation must be analyzed and explained by the company.

Following his checks, the auditor will certify that the annual accounts are regular, honest and give a true and fair view of the results of the operations of the previous financial year, as well as of the financial position and assets of the company at the end of that year. It will state that it has performed the due diligence considered necessary according to the standards of the profession. The annual accounts will be attached to the report. If he certifies with reservations or refuses to certify, the auditor must clearly state the reasons for this and, if possible, in figures, the incidence. The report is presented in two parts:

- Opinion on the annual accounts
- Checks and specific information.

5. Conclusions

Without context, the risk-based approach has multiple advantages for auditors in that it allows them to perform shorter, but also better-targeted tasks. This risk-based approach has at least three major qualities: it allows anticipation of problems before closing, an adaptation of controls over accounts to the environment of the audited firm; finally, it responds to companies' desire to communicate their financial statements quickly. The application of the risk-based audit approach in the current context made it possible to measure the importance of this method, which is based on common sense and banishes systematicity and repetition and forces to make choices in the verifications. This advantage allows auditors to focus on areas of risk and vulnerability in the company and detect fraud, if applicable. It also makes it possible to prevent several cases of fraud that did not appear during the statutory audit missions carried out by another firm, applying the traditional audit approach.

However, despite its importance, this approach is not used by most auditors. Therefore, there are several reasons for this reluctance.

First, the concepts of risk are generally not clearly understood.

Auditors believe that risk assessment requires special skills or specialized IT tools. Although the auditor's activity consists in verifying the accounting data and in particular the balance sheet and the profit and loss account, the scope of his investigations must go beyond this narrow framework. If it wants to carry out its mission effectively, it is important to also examine a certain number of factors whose accounting impact is more or less direct. Indeed, one cannot judge the company's financial statements by ignoring the technical, commercial, legal, fiscal, and social realities. The auditor will have to use all his reasoning qualities to detect these anomalies that can be fatal to the company; indeed, conducting an audit engagement requires minds to be trained and techniques to be mastered.

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