**Terms of Reference for an Extended Scope Financial Statements Audit of**

* **Kyrgyz Audit and Reporting Enhancement Project (KAREP)**

for the period began January 01, 2020 ended February 28, 2022 including grace period, if applicable

* **Integrated Dairy Productivity Improvement Project (IDPIP)**

for the period began January 01, 2020 ended June 30, 2021 including grace period, if applicable

* **Second Capacity Building in Public Financial Management Project (CBPFM-II)**

for the period began January 01, 2020 ended February 28, 2022 including grace period, if applicable

***Introduction***

1. Projects’ Objectives and Description:

**KAREP:**

The objective of the KAREP is to equip the Recipient, for the  
benefit of the Member Country, with a sound institutional framework for corporate financial reporting and  
auditing, compliant with the relevant international standards, by drawing on good international practices and building capacity for teaching, applying, monitoring and using sound financial information.

The KAREP consists of the following parts:

**Part 1:** Improving the statutory framework in the area of corporate financial reporting and  
incorporation of international accounting and financial standards.

**Part 2:** Strengthening accountancy education and literacy through training on financial statements,  
enhancing university accounting education, establishing professional education of  
accountants and auditors, raising public awareness of financial reporting and transparency.

**Part 3:** Provision of technical and operational support for the day-to-day management and  
monitoring and evaluation of the Project.

**Executing Agency:** State Service for Regulation and Supervision of Financial Markets (SSRSFM)

**Implementing Agency:** CLMU IDPIP/PIU CBPFM-II/CLMU under MFKR/PIU KAREP under SSRSFM

**Donor:** IDA

**Source of Financing:** Grant No. TF 0A3153 in amount of USD 1,235,000.00

**IDPIP:**

The objective of the IDPIP is to enhance dairy animal productivity and milk quality on Beneficiary Farms.

The IDPIP consists of the following parts:

**Part 1: Strengthening Public and Private Services in the Dairy Sector**

1. Quality Platform for the Milk Value Chain.
2. Support to the Regional Centers for Veterinary Diagnostics.
3. Procurement of high-quality semen straws.
4. Establishment of veterinary-check points.

**Part 2: On-farm Productivity Enhancement**

Support for on-farm improvements with respect to:

1. Fodder production and feeding management.
2. Animal husbandry and farm management, including: (i) animal housing, general management and handling; (ii) animal health, farm hygiene and clean milk production; (iii) breeding management; and (iv) manure management.
3. Milk collection, cooling and handling.

**Part 3: Farm-level Investments**

1. Provision of Sub-financings to DBGs or DBG Members, as the case may be, to finance eligible Sub-projects aimed at: (i) addressing short-term needs to improve dairy animal productivity, such as financing for seeds, fertilizer and other inputs for spring and winter planting and harvesting activities and animal feeding; or (ii) herd improvement and other productive assets improvement.
2. Provision of technical assistance to DBGs, farmers, milk collection agents and dairy processors to enhance their awareness of, and their capacity to gain access to, existing financing programs.

**Part 4: Project Management**

Strengthening the ABCC’s and CLMU’s capacity for Project management, monitoring and evaluation, through provision of goods, consultants’ services, Training, and financing of Incremental Operating Costs.

**Executing Agency:** Ministry of Finance of the Kyrgyz Republic (MFKR),

Ministry of Agriculture, Food Industry and Land Reclamation

**Implementing Agency:** CLMU IDPIP/PIU CBPFM-II/CLMU under MFKR/PIU KAREP under SSRSFM

**Donor:** IDA

**Sources of Financing:**

Credit No.5918-KG in amount of SDR 2,000,000.00 (eqv. USD 2,750,000.00),

Grant No.D147-KG in amount of SDR 1,700,000.00 (eqv. USD 2,250,000.00)

**CBPFM-II:**

The objective of the CBPFM-II is to improve budget predictability, control and transparency in the Kyrgyz Republic.

The CBPFM-II consists of the following parts:

## **Part 1. Strengthening Budget Planning and Execution**

Support MOF to: (a) carry out selected assessments and summary of necessary changes to strengthen PFM framework; (b) improve budget revenue and expenditure forecasting;   
(c) improve program-based budgeting and investment planning, including improvements in sector-level expenditure planning; (d) improve budget transparency through improved coverage and quality; and (e) implement Training programs for participating stakeholders in the relevant sector.

## **Part 2. Building Capacity of the Ministry of Finance in Public Finance Management**

Capacity building of MOF to: (a) implement PFM development strategy action plan; (b) carry out analysis of implementation processes and user requirements of budget information system; (c) public debt management; (d) carry out certification program of selected internal auditors and pilot internal audits and Training;   
(e) implement financial management and internal control system;   
(f) further expand the government e-Procurement system; and (g) carry out Training needs assessment and development and implementation of selected Training programs.

## **Part 3. Strengthening of Intergovernmental Fiscal Relations and Sub-National PFM**

Support MOF to: (a) operationalize the intergovernmental fiscal relations development concept, including *inter alia* through:(i) carrying out analysis of expenditure assignments, equalization mechanisms and improvements in tax capacity assessments; and (ii) developing a methodology for monitoring and evaluation of PFM quality at the sub-national level; (b) carry out two sub-national public expenditure and financial accountability assessments; and (c) implement Training programs in such areas.

## **Part 4. Project Management**

Provision of technical and operational support for the day-to-day management and monitoring and evaluation of the Project.

**Executing Agency:** Ministry of Finance of the Kyrgyz Republic (MFKR),

**Implementing Agency:** CLMU IDPIP/PIU CBPFM-II/CLMU under MFKR/PIU KAREP under SSRSFM

**Donor:** IDA

**Source of Financing:** Grant No. TF 0A3998 in amount of USD 3,014,000.00

***Objective***

1. The objective of the audit of the project financial statements (PFS) is to enable the auditor to express a professional opinion on the projects’ financial position as at the end of December 31, 2020-2021-2022-2023 (will be specified on each project) and in addition upon Closing date of each project, including grace period of each project, of the income and expenditure for the accounting period ending on that date. The projects’ books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of each project.

***Responsibility for preparation of financial statements***

1. The projects’ management is responsible for the preparation of financial statements, including the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

***Scope***

1. The audit will be conducted in accordance with [International Standards on Auditing](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf). Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
2. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:
3. In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud, as required by [International Standard on Auditing 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
4. When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements, as required by [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
5. The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by [International Standard on Auditing 260: Communication with those Charged with Governance](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
6. The auditor should appropriately communicate to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of financial statements, as required by [International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
7. To reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level, as required by [International Standard on Auditing 330: The Auditor’s Responses to Assessed Risks](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
8. When certain aspects of an entity’s operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
9. As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by [International Standard on Auditing 580: Written Representations](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
10. When the external auditor decides to use the work of an entity’s internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with [International Standard on Auditing 610: Using the Work of Internal Auditors](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
11. In determining whether to use the work of an auditor’s expert or the extent to which the work of an auditor’s expert is adequate for audit purposes, the determination shall be made in accordance with [International Standard on Auditing 620: Using the Work of an Auditor’s Expert.](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf)
12. In evidencing compliance with agreed project financing arrangements, the auditor is expected to carry out tests to confirm that:
13. All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include:

* KAREP: Letter-Agreement dated December 5, 2016 Re: Grant No.TF0A3153 between State Service for Regulation and Supervision of Financial Markets of Kyrgyz Republic and the International Bank for Reconstruction and Development /International Development Association, acting as administrator of grant funds provided by the Swiss State Secretariat for Economic Affairs under the Kyrgyz Audit and Reporting Enhancement Single-Donor Trust Fund;
* IDPIP: Financial Agreement (Credit No. 5918-KG and Grant No. D147-KG) dated August 10, 2017 between Kyrgyz Republic and International Development Association;
* CBPFM-II: Letter-Agreement dated December 15, 2017 Re: Grant No.TF0A3998 between the Ministry of Finance of Kyrgyz Republic and the International Bank for Reconstruction and Development /International Development Association, acting as administrator of grant funds provided by various donors under the Kyrgyz Republic Capacity Building in Public Financial Management II Multi-Donor Trust Fund; Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;

1. Goods, works, and services financed have been procured in accordance with relevant financing agreements,[[1]](#footnote-1) including specific provisions of the [World Bank Procurement Framework.](http://www.worldbank.org/en/projects-operations/products-and-services/procurement-projects-programs)
2. All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account.

***Extended scope (only for KAREP and CBPFM-II)***

1. **Assessment of the Accounting System.**
2. **Review of internal controls**.
3. Regardless of the level of risk, the auditor is required to review and evaluate the recipient’s internal control to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been operated as intended (see paragraphs 23 and 24). The auditor must then prepare a report identifying significant deficiencies in the design or operation of internal control and other material weaknesses and reportable conditions.[[2]](#footnote-2)
4. The major internal control components to be studied and evaluated include, but are not limited to, the controls related to each revenue and expense account in the project financial statements. The auditor must:
5. Obtain a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of tests to be performed. This will include obtaining an understanding of the project objectives, project components and activities, institutional arrangements, the accounting and internal control environment, procurement arrangements, management oversight, and reporting arrangements. It will also include reviewing the terms of the Loan Agreement.
6. Assess inherent risk[[3]](#footnote-3) and control risk[[4]](#footnote-4) and determine the combined risk.[[5]](#footnote-5) Summarize the risk assessments for each assertion in a working paper. The risk assessments should consider the following broad categories under each assertion: (i) existence or occurrence; (ii) completeness; (iii) rights and obligations; (iv) valuation or allocation; and (v) presentation and disclosure. At a minimum, the working papers should identify the name of the account or assertion, the account balance or the amount represented by the assertion, the assessed level of inherent risk (high, moderate, or low), the assessed level of control risk (high, moderate, or low), the combined risk (high, moderate, or low), and a description of the nature, timing, and extent of the tests performed based on the combined risk. These summary working papers should be cross-indexed to the supporting working papers that contain the detailed analysis of the fieldwork. If control risk is evaluated at less than the maximum level (high), then the basis for the auditor’s conclusion must be documented in the working papers.

If the auditor assesses control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of project financial statements when such assertions are significantly dependent upon computerized information systems, the auditor must document in the working papers the basis for such conclusions by addressing (i) the ineffectiveness of the design and/or operation of controls, or (ii) the reasons why it would be inefficient to test the controls.

1. Evaluate the control environment, the adequacy of the accounting systems, and control procedures. Emphasize the policies and procedures that pertain to the recipient’s ability to record, process, summarize, and report financial data consistent with the assertions embodied in each account of the project financial statements. This should include, but not be limited to, the control systems for:
2. Ensuring that charges to the project are proper and supported.
3. Managing cash on hand and in bank accounts.
4. Procuring goods, works, and services in accordance with agreed arrangements.
5. Maintaining proper custody and management of procured goods and works and providing due acknowledgement of services received.
6. Ensuring compliance with the terms of funding agreement and applicable laws and regulations that collectively have a material impact on the project financial statements.
7. Include in the study and evaluation other policies and procedures that may be relevant if they pertain to data the auditor uses in applying auditing procedures. This may include, for example, policies and procedures that pertain to nonfinancial data the auditor uses in analytical procedures.
8. In fulfilling the audit requirement relating to an understanding of internal control and assessing the level of control risk, the auditor must follow, at a minimum, the guidance contained in applicable International Standards on Auditing (as described in paragraph 19).

***Project financial statements***

1. The auditor should verify that the financial statements have been prepared in accordance with Cash Basis IPSAS ([International Public Sector Accounting Standards](http://www.ifac.org/system/files/publications/files/Handbook-of-International-Public-Sector-Accounting-Pronouncements-Volume-1.pdf)) issued by the International Public Sector Accounting Standards Board (the IPSASB). The financial statements should include:
   1. A summary of funds received from the World Bank, other financiers and counterpart contributions from the borrower, all presented separately;
   2. A summary of expenditures paid, presented under project account headings and main categories of expenditures; and
   3. Additional disclosures in explanatory notes, including details of statements of expenditures (SOE) supporting Withdrawal Applications submitted during the period, a reconciliation of movements on the Designated Account, and a statement of fund balances
   4. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
   5. Notes, comprising a summary of significant accounting policies and other explanatory notes.

[*The explanatory notes should include reconciliation between the amounts shown as “received by the project from the World Bank” and those disbursed by the Bank and a summary of movements on the projects’ designated account.*]

***Review of Statements of Expenditure and Interim Unaudited Financial Statements***

1. The auditor is required to audit all SOE/IFS submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s). Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. The auditor should report any ineligible expenditures identified as having been included in withdrawal applications and reimbursed. The auditor should pay particular attention to whether:
2. the Summary Reports (or SOEs) have been prepared in accordance with the provisions of the relevant financing agreement;
3. expenditures have been made wholly and necessarily for the realization of project objectives;
4. information and explanation necessary for the purpose of the audit have been obtained;
5. supporting records and documents necessary for the purpose of the audit have been retained, and
6. the Summary Reports (or SOEs) can be relied upon to support the related withdrawal applications.

***Review of designated accounts***

1. During the audit of the project financial statements, the auditor is required to review the activities of the projects’ designated account(s). Activities to be examined will include deposits received, payments made, interest earned, and reconciliation of period-end balances.

**Audit Reports**

***Audit opinion***

1. The auditor will issue an audit opinion on the project financial statements. The auditor’s opinion shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for that opinion. The audit report shall be prepared in accordance with [International Standard on Auditing 700: Forming an Opinion and Reporting on Financial Statements](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
2. A modified audit opinion shall be rendered in the financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with [International Standard on Auditing 705: Modifications to the Opinion in the Independent Auditor’s Report](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).
3. The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the financial statements, seeks to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of clear additional communication in the auditor’s report. The paragraphs will refer to either a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users’ understanding of the financial statements; or as appropriate, any other matter that is relevant to users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report. This form of opinion will be presented in accordance with [International Standard on Auditing 706: Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor’s Report](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf).

***Other audit reports***

1. In addition to the audit opinion, the auditor will also, either in the audit report or in the report to management:
   1. provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
   2. identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
   3. report on instances of noncompliance with the terms of the financial agreement(s);
   4. quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or claimed from the World Bank;
   5. communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project;
   6. draw to the borrower’s attention any other matters that the auditor considers pertinent; and
   7. responses from management, including implemented and proposed remedial actions.
2. If, during the audit nothing has come to the attention that the auditor considers pertinent to be brought to the attention of the borrower, and a management letter is therefore not prepared, the auditor will issue a letter stating this.
3. The auditor’s opinion on the financial statements and management letter should be received by the Bank no later than [*three to six*]months after the end of [*the audit reference date*].

***Public Disclosure***

1. In accordance with "*The World Bank (the Bank) Policy on Access to Information*", the Bank requires that the borrower makes the audited project financial statements publicly available in a timely fashion and manner acceptable to the Bank. In addition, following the Bank’s formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.
2. Management Letters, special audits (i.e. whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be part of the definition of the audited financial statements for the purposes of disclosure.
3. Only in exceptional cases the Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required to disclose an abridged version of them in a form acceptable to the Bank. Exceptions are approved by World Bank management.

***General***

1. The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit, including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.
2. The auditor is encouraged to meet and discuss audit-related matters, including input to the audit plan, with the World Bank project task team.
3. It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in Operational Policies [OP 10.00 Investment Project Financing](http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:23463264~pagePK:64141683~piPK:64141620~theSitePK:502184,00.html); [Bank Policy: Program for Results Financing](http://siteresources.worldbank.org/OPSMANUAL/112526-1124459412562/23678982/PforRPolicy-July2015.pdf); [OP 8.60 Development Policy Lending](http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:23113171~menuPK:64701637~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html). The auditor should also be familiar with the 2017 Bank’s [Disbursement Guidelines for Investment Project Financing](http://siteresources.worldbank.org/BORROWERPORTAL/Resources/DisGuideEng.pdf) and the [Loan Handbook for World Bank Borrowers](http://siteresources.worldbank.org/BORROWERPORTAL/Resources/257203-1254337906960/Disbursement6109screen.pdf) (the Loan Handbook)and *Financial Monitoring Reports for World Bank-Financed Projects: Guidelines for Borrowers, November 30, 2001*; *and* [*World Bank Procurement Guidelines*](http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20060840~pagePK:84269~piPK:60001558~theSitePK:84266,00.html)*.*
4. *This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded*.

**LIST OF KEY EXPERT POSITIONS WHOSE CV AND EXPERIENCE WOULD BE EVALUATED**

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| --- | --- | --- | --- |
| **No.** | **Key Expert Position** | **Area of Specific Expertise required** | **Minimum Qualification and Professional Experience Required** |
| K1 | Audit partner-Team Leader | * ISA; * IFRS/IPSAS; * National Accounting Standards and tax regulations; * Overall management and review | Minimum 7 years of relevant project experience |
| K2 | Senior Auditor | * ISA; * IFRS/IPSAS; * National Accounting Standards and tax regulations; * Primary management, client communication and review | Minimum 5 years of relevant project experience |
| K3 | Audit in charge | * ISA; * IFRS/IPSAS; * National Accounting Standards and tax regulations; * Performance of detailed audit procedures | Minimum 4 years of relevant project experience |

1. Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement, in compliance with provisions of [International Standard on Auditing 620: Using the Work of an Expert](http://www.ifac.org/system/files/publications/files/2014-IAASB-HANDBOOK-VOLUME-1_0.pdf). Consideration of using of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance. [↑](#footnote-ref-1)
2. Material weaknesses are reportable conditions in which the design or operation of the specific internal control elements do not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements may occur and not be detected in a timely manner by management performing its normal functions. Reportable conditions involve matters coming to the auditor’s attention relating to significant deficiencies in the design or operation of internal control that, in the auditor’s judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. [↑](#footnote-ref-2)
3. Inherent risk is the susceptibility of an assertion, such as an account balance, to a material misstatement, assuming there are no related internal control policies or procedures. [↑](#footnote-ref-3)
4. Control risk is the risk that a material misstatement that could occur in an assertion will not be prevented or detected in a timely manner by the entity’s internal control policies or procedures. [↑](#footnote-ref-4)
5. Combined risk (sometimes referred to as detection risk) is the risk that the auditor will not detect a material misstatement that exists in an assertion. Combined risk is based upon the effectiveness of an auditing procedure and the auditor’s application of that procedure. [↑](#footnote-ref-5)