

Index

Audit Area	Significant Audit Area? (✓ = Yes)	Risks of Material Misstatement		Risk Assessment			Response		
		Identified Risks/ Assertions Affected	Indicate If Significant Risk (S=Significant, F=Fraud)	Assertions	I/R (H,M,L)	C/R (H,M,L)	Assessed RMM (H,M,L) ^a	Audit Approach (L, B, E, S) ^b	Linkage/ Comments ^c
Income Taxes				E/O C R/O V A/CL CO					
Equity				E/O C R/O V A/CL CO					
Inc./Exp.				E/O C R/O V A/CL CO					
Other:				E/O C R/O V A/CL CO					
Other:				E/O C R/O V A/CL CO					

If you did not identify improper revenue recognition as a fraud risk in the risk assessment summary table, document the reasons supporting your conclusion.

Notes:

- a Use your judgment in determining the combined risk of material misstatement. Consider the nature of the risk, likelihood of potential misstatement, and magnitude of potential misstatement. Based on the assessed levels of inherent and control risk, the combined assessed risk of material misstatement may be determined as follows:

<u>Inherent Risk (IR)</u>	×	<u>Control Risk (CR)</u>	=	<u>Risk of Material Misstatement (RMM)</u>
High		High		High
High		Moderate		High
High		Low		Moderate to High
Moderate		High		Moderate to High
Moderate		Moderate		Low to Moderate
Moderate		Low		Low to Moderate
Low		High		Moderate to High
Low		Moderate		Low to Moderate
Low		Low		Low

This RMM table is intended as a guide. Risk assessment is ultimately based on the auditor's professional judgment and may vary. For example, if, based on the facts and circumstances of a specific engagement, an auditor determines that the IR assessment is Low, the CR assessment is High, and the overall RMM assessment is Low for an assertion, the authors believe this could be appropriate so long as each assessment is supportable and appropriately documented.

Several of the combinations of separate assessments of IR and CR above indicate a range for RMM rather than a single level of risk. Combining risks always requires auditor judgment about the specific risks identified. Further, the need for a range of combined risk results from using a qualitative rather than a quantitative level of assessed risk. When a quantitative assessment of risk is made, the auditor calculates RMM based on specific percentages for assessed IR and CR. When a qualitative assessment of risk is made, the level of risk corresponds to a range of percentages rather than a specific percentage. Using a qualitative approach, IR and CR can only be assessed as a level of risk (such as high, moderate, or low) rather than a percentage, and the result of combining these risks is better expressed as a range. See section 403.

- b Possible audit approaches are as follows:

L (Limited Procedures) = Preliminary analytical procedures, other risk assessment procedures, and final analytical procedures are considered sufficient. This approach is not appropriate for significant audit areas. No additional audit program is needed for this audit area or assertion.

Core Audit Programs

B (Basic Procedures) = The basic procedures in the core audit program are sufficient. This approach includes primarily substantive analytical procedures (includes some tests of details, many of which are required by professional standards). If you plan to perform procedures in the

Index _____

basic program to respond to an identified risk, document that response in the Linkage/Comments column. (This approach is generally not appropriate for fraud risks or other significant risks. Tailoring of basic procedures may be necessary as indicated below.)

E (Extended Procedures) = Basic substantive procedures plus selected extended procedures (procedures for additional assurance) or other audit procedures are needed for specific relevant assertions in this audit area. If this approach is selected, go to the appropriate core audit program and select or develop extended procedures (procedures for additional assurance) or other audit procedures to respond to the risks at the relevant assertion level.

Specified Risk Audit Programs

S (Specified Risk) = A set of substantive audit programs based on certain underlying risk assumptions at the assertion level for each audit area. If your risk assessment for any assertion(s) differs from the specified risk assumption in an audit area, modify the audit program for that audit area to adequately respond to the risk assessment. Tailoring will be necessary to ensure that the final audit program for each audit area reflects the procedures necessary to address the assessed risks of the entity. Additional procedures can be selected from the Basic, Extended, or Other Procedures sections included in the core audit programs.

Tailoring Necessary

The particular tests selected, whether they are in the Basic, Extended, or Specified Risk programs, need to be tailored to the nature, cause, and direction of potential misstatements at the relevant assertion level. The auditor should also consider whether it is appropriate or necessary to alter the extent or timing of the procedures to adequately respond to the risk assessment.

- c Examples of linkage/comments include:
- Information that clarifies how the audit procedures have been tailored to respond to your risk assessment.
 - Descriptions of the procedures that will be performed to specifically respond to fraud risks or other significant risks and how the nature, timing, and extent of procedures respond to assessed risks.
 - Information about the nature, timing, or extent of further audit procedures in response to other identified risks.
 - Whether you plan to perform procedures in the Basic Procedures section of the audit programs to respond to an identified risk.
 - A reference to documentation of tests of controls and how they affect the nature, timing, and extent of substantive procedures.
 - Documentation of the basis for your assessment of inherent risk for an assertion. A documentation example for property might be, "The property area has no complex accounting, auditing, judgmental, or other issues, except for the evaluation and categorization of related repairs and maintenance. As such, inherent risks for the assertions E/O, R/O, A/CL, and CO are considered to be low; inherent risk for completeness (C) is deemed to be moderate."

Index _____

ASB-CX-7.2: Inherent Risk Assessment Form

Entity: _____ Balance Sheet Date: _____

Completed by: _____ Date: _____

Instructions: This form may be used to assist with your assessment of inherent risk (discussed in section 403). While this form is optional, it can be used as a tool to identify and document the factors that significantly influence inherent risk. For each relevant assertion for each account balance, transaction class, or disclosure in the audit area, indicate whether the inherent risk factors represent a high (H), moderate (M), or low (L) level of risk. (Alternatively, you may place a checkmark for those factors that significantly influence inherent risk for each assertion.) Based on the significance of the identified inherent risk factors, assess overall inherent risk for each relevant assertion as high, moderate, or low and document your overall assessment at ASB-CX-7.1. Space is provided for comments, if desired, on the factors or assessments reflected in the table.

Audit Area	Assertions	Engagement Risk ^a	Accounting Issues ^b	Auditing Issues ^c	Inherent Risk Factors				Comments	
					Prior Period Misstatements ^d	Susceptibility to Fraud ^e	Need for Judgment ^f	Nature of Items ^g		Complexity ^h
Cash	E/O C R/O V A/CL CO									
AR/Revenue	E/O C R/O V A/CL CO									
Inventory/ Cost of Sales (including Inventory Observation)	E/O C R/O V A/CL CO									
Property	E/O C R/O V A/CL CO									