**Risk Assessment**

**Practical Matters**
- When is risk assessment done?
- Why is it done?
- Who does it?
- What types of risks are we talking about?
- How is it done?
- Informed professional judgment

**Audit Risk**
- Definition?
- What affects AR?
- Never reduce to zero.
- Misstatements – errors and fraud (intent).
- Set

**Inherent Risk**
- Definition?
- What affects IR?
- Scale, percentage, linguistic scale
- Assessed

**Control Risk**
- Definition
- What affects CR?
  - COSO framework: Control environment, risk assessment, control activities, information and communication, and monitoring.
  - Big COSO vs. Small COSO?
- Determined
- Pre-SOX 404 / Post-SOX 404

**Detection Risk**
- Definition?
- Computed target for substantive testing
- \( DR = \frac{AR}{(IR \times CR)} \)
- What affects DR?
  - IR and CR?
  - AR?
- Think of like this: IR↑ Substantive testing↑ Sufficient / competent evidence↑ DR↓
- How do we increase the scope of substantive testing?