

Identifying Significant Risks

Signi. Risk are IR with More chances होने की संभावना है

- Higher Likelihood of Occurrence
- Higher Magnitude of Potential Misstatement

Incase more wahi
Misstatement ka Size
ही Big है

often Relates to

- Non-routine - transaction
- Judgmental - Matters

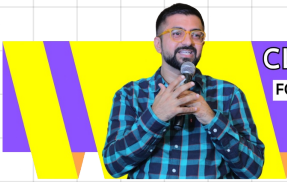
Non-Routine — unusual — because of size, Nature

Judgmental — involves — development of Accounting estimate.
— Having Measurement uncertainty

Always Significant Risk

- Fraud

- Significant transaction with Related party outside Normal course of Business



Non-Routine transactions – Matters – Example

1. Greater Mgt Intervention

o Mgt Intervening in Accounting Treatments

- o Revenue
- o Sale of Substantial Machinery

2. Greater Manual Intervention

- o Data May be Collected Manually Leading to High chance of Risk.
- o Transactions related to valuation of Complex Financial Instruments.

3. Complex Calculations / Accounting Principles

Example Mergers / Acquisition.

4. Controls are difficult to be implemented on Non-Routine transaction

Example – Mergers / Acquisition
– Switching IT Systems



Judgemental Matters Leading to Significant Risks

- Accounting Principles subject to Diff Interpretation

- Example - Recognising Revenue for Long-term Contracts

Accounting standards different tarike se interpret kiye ja sakte hain ki revenue ko kaise aur kab recognize kiya jaaye.

- Judgement May be - Subjective or Complex

↓
or Requires Assumption About Future events
Example Future Cash Flow } - involves Assumption



For the purpose of Identifying and assessing the risk of material misstatement, the auditor shall

1. Identity Risk — Throughout the Process of understanding
2. Assess the Identified Risk — Evaluate whether they are FS level risk.

what can go wrong

3. Relate Risk to WCQW at Assertion level

4. Consider Likelihood of MS, Multiple MS, Could it Result in MMS

- Overvaluation risk in Debtor balance
How Natural it is → Can it lead to MMS
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CLASS NOTES BY NEERAJ ARORA

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