

## **Chapter 8—Materiality, Risk and Preliminary Audit Strategies**

**The financial statement level—as the opinion on fairness extends to the financial statements as a whole**

**The account balance level**

### **Audit Risk**

**desired audit risk—subjectively determined risk that the auditor is willing to take that the financial statements are not fairly stated after the audit is finished and an unqualified opinion has been reached . The more certain an auditor wants to be of expressing the right opinion the lower the level of audit risk.**

**achieved audit risk—is the actual level of risk after the audit is completed and an unqualified opinion is issued that the statements are materially misstated. The lower the desired audit risk the more evidence the auditor must gather. The auditor has sufficient competent evidence when achieved audit risk equals desired audit risk.**

**1—when users place heavy reliance on financial statements**

**--client size**

**--publicly traded**

**--when statements include a large amount of liabilities**

**2—the likelihood a client will have financial difficulty**

**3—when the auditor has more legal liability exposure**

**--more third party users**

## **Audit Risk Model**

**The auditor should consider certain factors here:**

**1—dollar amount of account balances**

**--more evidence needed for larger balances**

**2—population size**

**--more errors in a large population**

**3—population composition**

**--related parties transactions**

**--fewer accounts with larger balances**

#### **4—nature of client's business and/or industry**

- some businesses have more inherent risks**
- some businesses have weaker internal control**
- composition of assets, liabilities, revenues, and expenses**

**The auditor can change the assessed level of control risk through:**

**1—procedures used to obtain an understanding of the internal controls (related to an assertion)**

**2—procedures used to do tests of controls**

## Relationships Among Risk Components

$$DR = \frac{AR}{DR \times IR}$$