

You are a manager in Ryder & Co, a firm of Chartered Certified Accountants, and you have taken on the responsibility for providing support and guidance to new members of the firm. Ryder & Co has recently recruited a new audit junior, Sam Tyler, who has come across several issues in his first few months at the firm which he would like your guidance on. Sam's comments and questions are shown below:

I know that auditors are required to assess risks of material misstatement by developing an understanding of the business risks of an audit client, but I am not clear on the relationship between business risk and risk of material misstatement. Can you explain the two types of risk, and how identifying business risk relates to risk of material misstatement? (4 marks)

Required:

For each of the issues raised, respond to the audit junior, explaining the ethical and professional matters arising from the audit junior's comments.