

Explain the components of audit risk and, for each component, state an example of a factor which can result in increased audit risk. (6 marks)

Examiners Report

This 20-mark question was based on a manufacturer of pharmaceuticals, Abrahams Co. The question tested knowledge of audit risk, the areas of risk identification and substantive procedures for inventory.

Part (a) for 6 marks required an explanation of the components of audit risk and for each component an example of a factor which increased audit risk. This question was unrelated to the scenario, was knowledge based and candidates performed well.

Where candidates did not score full marks this was because they failed to read the question properly. The question clearly required an example for each component of audit risk, being inherent, control and detection risk.

A minority of candidates did not provide three examples, and just gave one example, or in many cases did not give any examples at all. Also some gave valid examples but for the wrong component.

A significant proportion of candidates wasted time by providing a definition of audit risk along with how the components fit together into the audit risk model, as well as which components the auditor had control over. This generated no marks as it was not part of the requirement. Candidates are reminded yet again that they must answer the question asked as opposed to the one they wish had been asked.