



CLASS NOTES BY NEERAJ ARORA

FOR CA INTER AND CA FINAL CLASSES VISIT WWW.EDU91.ORG



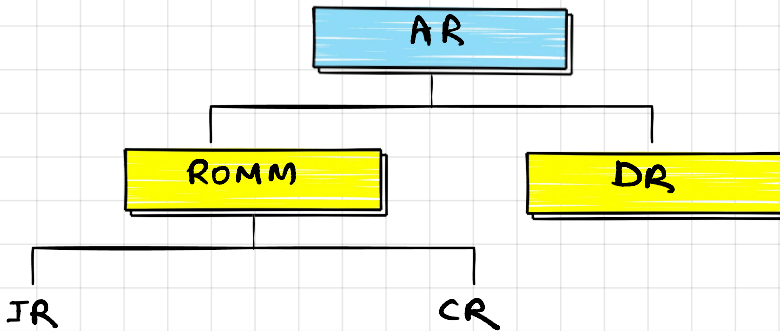
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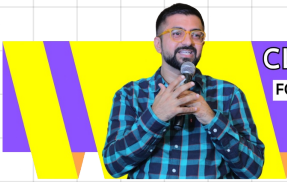


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Audit ← FS - MMS — Auditor — Clean
Opin ILA opinion

~~FS - MMS_{xx} — Audit — Modified
Opinion~~





Audit Risk → Meaning

Inappropriate opinion, when financial statements are materially misstated

→ what is not included

- opinion FS are Materially Misstated when they are Not

→ Does not Refer to Auditor's Business Risk

Such as loss from litigation

COMPONENTS

IR — Susceptibility of A/c Bal or transaction to a MMS
Because of Nature

A/c Bal, transaction Mein MMS Ke changes
Because of their Nature

— Higher for Some A/c Bal, transaction, Disclosure
Example Complex calculation

— Considered while designing TOC/SP

— affected by

External

- Change in Law/Regulation
- Tech Development

Internal Mgt's Misunderstanding

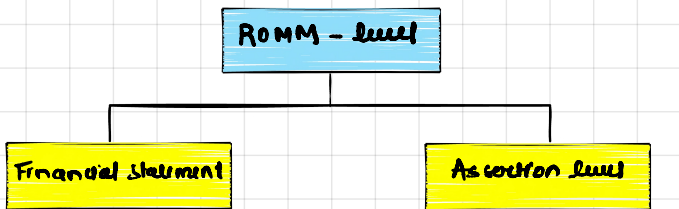


Control Risk — Risk of MMS in Assertion —
NOT Rewritten / Deleted / Corrected
On timely basis by Entity's IC.

- IC Missing
- IC Not operating effectively
- Flaw in Design of IC

CR — Efficiency of IC — Inverse Relationship

- IR CR — Risk of entity
- exist independently of Audit.
- Not influenced by Auditor



Affecting Entire FS

Pervasive - Impact
all FS items

Going Concern & C - Inappropriate

- Response - Audit strategy

Affecting Assertions
of Line items of FS

Response NET of AP



Detection Risk

- Risk that Auditor's Procedure will Not be able to detect MMS.

Elements

Sampling

Conclusion Reached based on Sample
MAY BE Different from Conclusion
if Population was tested

Auditor Concludes

- CR Low but Actually High
- MMS does Not Actually exist
Actually it exist.
- Inapt opinion
- Affects **AUDIT EFFECTIVENESS**

Auditor Concludes

- ②
- CR High, Actually Low
 - MMS exist Actually NO
 - More work - ✓
 - Affects **efficiency**
 - opinion will Not be inapt.

Non-sampling

Factors Not Related to
Sampling

Not adequate understanding of entity.
Not able to carry out risk assessment
properly.

Inadequate audit strategy.

Inadequate plan.

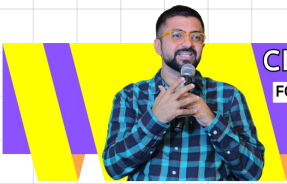
Incompetent audit program.

Misapplication of audit procedures by the
team.

Miss interpretation of test result.

Poor quality audit management. **D/SIR**

Can be minimised through proper planning,
assigning appropriate staff, application of
professional judgement, proper direction,
supervision, and review.



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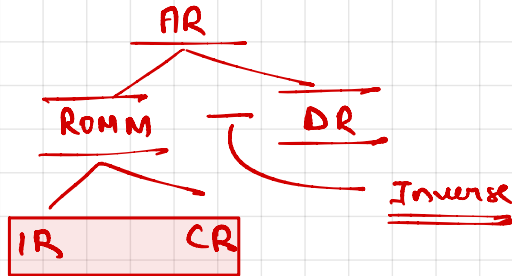
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ROMM ↑

DR ↓

ROMM ↓

DR - Appropriate level