4.59 Audit Risk Model. Audit risks for particular accounts and disclosures can be conceptualized in the model:

Audit risk (AR) = Inherent risk (IR) X Control risk (CR) X Detection risk (DR).

Use this model as a framework for considering the following situations and decide; whether the auditor's conclusion is appropriate.

1. Paul, CPA, has participated in the audit of Tordik Cheese Company for five years, first as an assistant accountant and the last two years as the senior accountant. Paul has never seen an accounting adjustment recommended and believes the inherent risk must be zero.
2. Hill, CPA, has just (November 30) completed an exhaustive study and evaluation of the internal controls of Edward Foods, Inc. (fiscal year ending December 31). Hill believes the control risk must be zero because no material errors could possibly slip through the. many error-checking procedures and review layers that Edward used.
3. Fields, CPA, is lazy and does not like audit jobs in Philadelphia. On the audit of Philly Manufacturing Company, Fields decided to use substantive procedures to audit the year-end balances very thoroughly to the extent that the risk of failing to detect material errors and irregularities should be 0.02 or less. Fields gave no thought to inherent risk and conducted only a very limited review of Philly' s internal control system.
4. Shad, CPA, is nearing the end of a "dirty" audit of Allnight Protection Company. All- night's accounting personnel all resigned during the year and were replaced by inexperienced people. The comptroller resigned last month in disgust. The journals and ledgers were a mess because the one computer specialist was hospitalized for three months during the year. "Thankfully," Shad thought, "I've been able to do this audit in less time than last year when everything was operating smoothly."

(AICPA adapted