

ASSURANCE

Definition Any independent professional service that improves the quality of information, or its context, for decision makers.

Purpose To lend credibility to information used in decision making.

Core Elements Independence (fact & appear)

Professional judgment

Due professional care

Improves information quality or context

For decision makers

Report? no

Key signals lending credibility

improves quality

independent professional service

ATTESTATION

Definition An engagement in which a practitioner issues a report on subject matter or an assertion that is the responsibility of another party.

Purpose To provide assurance through a written report regarding reliability of management's assertion.

Levels of Assurance Examination = high

Review = moderate

Agreed-upon procedures = no opinion, findings only

Report? Yes — always

ATTESTATION (cont)

Standards SSAE / AT-C standards (nonissuers)

PCAOB attestation standards (issuers)

AUDITING

Definition (AAA) A systematic process of objectively obtaining and evaluating evidence regarding assertions to determine correspondence with established criteria and communicating results to users.

Purpose (AICPA) To enhance the degree of confidence intended users can place in the financial statements.

Objective Express an opinion on whether financial statements are presented fairly, in all material respects, in accordance with GAAP or applicable financial reporting framework.

Core Characteristics Systematic process

Evidence-based

Materiality-driven

Independent

Communicated via auditor's report

ADVISORY / CONSULTING (Non-assurance)

Definition Providing recommendations to management for specific outcomes.

Focus Design and operations, system improvements, decision support.

Restrictions (impairing independence) Bookkeeping

Appraisal or valuation services

Internal audit outsourcing

Management or HR

Legal and expert services

RESPONSIBILITIES PRINCIPLE

Phase all phases of audit

Components

Competence education, training, experience

fact and appearance; financial or relationship

Practical independence

no subordinating judgement

Due professional care (GAAS) execution and reporting

conduct, special training, supervision and review,



RESPONSIBILITIES PRINCIPLE (cont)

Skepticism Professional judgment

Procedures may change.

Standards do not.

Reasonable person standard applies.

PERFORMANCE PRINCIPLE

Phase execution phase

Objective Obtain reasonable assurance that financial statements are free of material misstatement (error or fraud).

Requires Planning and supervision

Determining materiality

Risk understanding
assessment entity & internal
control

Sufficient & Appropriate
evidence

Execution phase Planning properly plan
and supervise

Risk understanding
Assessment of the entity

Materiality Determination
(NTE)

Risk Nature type of
determ- procedure
inants

timing when performed

PERFORMANCE PRINCIPLE (cont)

extent how much
(sample size)

Evidence sufficient quantity
Gathering

appropriate quality

Relevance &
Reliability

Relevance Reliability —
— the source and
assertion nature of the
being tested evidence

REPORTING PRINCIPLE

Phase conclusion and commun-
ication

Purpose Standardize reporting and
communicate conclusions
clearly.

Requires State whether financial
auditor to: statements follow GAAP

Identify inconsistencies

Address adequacy of disclo-
sures

Express an opinion or
explain why none is given

Types of Unqualified (unmodified)
Opinions

Qualified

Adverse

Disclaimer

Audit Show who performed work
docume-
ntation
must:

Show who reviewed work

Support planning, superv-
ision, and conclusions

TYPES OF AUDITS

FINANCIAL Opinion on fair presen-
STATEMENT tation under GAAP
AUDIT

INTERNAL Evaluates risk manage-
AUDIT ment, governance,
internal control.

OPERAT- Evaluates efficiency and
IONAL AUDIT effectiveness.

COMPLIANCE Determines adherence to
AUDIT laws, regulations,
policies.

PERFOR- Economy and efficiency
MANCE
AUDIT

Program effectiveness

Key signals

"following laws" = compliance

"efficient and effective" = operational

"economy and efficiency" = performance
audit

FINANCIAL STATEMENT ASSERTIONS

PCAOB — PERCV

Presen- M.A. that all transactions and
tation & events have been presented
Disclosure correctly and that all relevant
information has been
disclosed to financial
statement users.

Existence / Occurrence

Existence Management assertion that all
assets, liabilities, and equity
interests do actually exist.

FINANCIAL STATEMENT ASSERTIONS (cont)

Occurrence Management assertion that all of the transactions and events that have been recorded are valid, pertain to the entity, and have actually taken place.

Rights & Obligations

Rights the entity is entitled to all rights of the assets

Obligations the liabilities are the legal responsibility of the entity, and all of the disclosed events and transactions pertain to the entity.

Completeness All items that should be included are included.

Valuation / Allocation Amounts recorded appropriately.

Tracing Direction

Source → completeness books

Books → occurrence source

Key signals

liabilities and revenue = completeness focus
assets = existence focus
inventory consignment = rights focus
consignment = rights and obligations
accrued liabilities = completeness
credit ratings = valuation
ASC 606 accuracy = valuation/allocation
push/pull revenue = cutoff/occurrence

ATTESTATION STANDARDS

General

Training and proficiency

Independence

Due professional care

Suitability objective measurable

complete

relevant

Availability Publicly

By presentation or assertion

Practitioner's report

Well understood

Only to specified parties

Fieldwork Planning and supervision

Sufficient evidence

Representation letter

Reporting Identify subject matter

State nature of engagement

Express conclusion

Key signals

"suitable criteria," "representation letter," "subject matter evaluated against criteria"

QUALITY CONTROL (Responsibilities)

Leadership responsibilities Communicating /Tone at the Top

Relevant ethical requirements Maintaining independence in fact and appearance

Annual independence confirmations

Monitoring financial relationships

Identifying prohibited nonattest services

QUALITY CONTROL (Responsibilities) (cont)

Resolving independence violations promptly

Acceptance and continuance Management integrity

Firm competence to perform the engagement

Risk profile of the client

Firm competence to perform the engagement

Human Resources

Engagement performance Proper planning and supervision

Consultation on difficult matters

Review of work performed

Documentation standards

Monitoring Identifying deficiencies

RISK & EVIDENCE

RISK TYPES

Business Risk entity fails to meet objectives

Information Risk Probability information is false or misleading.

Inherent Risk Risk of misstatement assuming no controls

Control Risk Risk controls fail to prevent/detect misstatement.

Detection Risk Risk auditor procedures fail to detect misstatement.

RISK & EVIDENCE (cont)

Detection risk assigned
my audit firm?

INTERNAL CONTROL

Purpose Prevent or detect misstatements.

Effective control Reduces control risk

Allows reliance on
management

May reduce substantive
testing

Weak control Increases substantive
procedures

SUFFICIENCY VS APPROPRIATENESS

Sufficiency Quantity of evidence

Appropriateness Quality of evidence.

Relevance – does it
relates to assertion

Reliability – trustworthy
source

HIERARCHY OF EVIDENCE

Direct personal auditor physically
knowledge inspected

Fully external third-party confirmation
evidence

External-int- bank statement obtained
ernal evidence from client records

Internal internal reports
documentation

RISK & EVIDENCE (cont)

Inquiry of discussion with
management controller

Key signals

“absence of controls” = inherent risk

“internal control effectiveness” = control risk

“sufficient appropriate evidence” = detection
risk

Key signals

“more internal control” = lower control risk

“less effective controls” = increase
procedures



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