

ASSURANCE		ATTESTATION (cont)		ADVISORY / CONSULTING (Non-assurance)	
Definition	Any independent professional service that improves the quality of information, or its context, for decision makers.	Standards	SSAE / AT-C standards (nonissuers) PCAOB attestation standards (issuers)	Definition	Providing recommendations to management for specific outcomes.
Purpose	To lend credibility to information used in decision making.			Focus	Design and operations, system improvements, decision support.
Core Elements	Independence (fact & appear) Professional judgment Due professional care Improves information quality or context For decision makers	Definition (AAA)	A systematic process of objectively obtaining and evaluating evidence regarding assertions to determine correspondence with established criteria and communicating results to users.	Restrictions (impairing independence)	Bookkeeping Appraisal or valuation services Internal audit outsourcing Management or HR Legal and expert services
Report?	no	Purpose (AICPA)	To enhance the degree of confidence intended users can place in the financial statements.		
Key signals	lending credibility improves quality independent professional service	Objective	Express an opinion on whether financial statements are presented fairly, in all material respects, in accordance with GAAP or applicable financial reporting framework.		
ATTESTATION		Core	Systematic process	Phase	all phases of audit
Definition	An engagement in which a practitioner issues a report on subject matter or an assertion that is the responsibility of another party.	Charac-teristics	Evidence-based Materiality-driven Independent Communicated via auditor's report	Components	Competence fact and appearance; financial or relationship Practical independence no subordinating judgement Due professional care (GAAS)
Purpose	To provide assurance through a written report regarding reliability of management's assertion.				education, training, experience execution and reporting conduct, special training, supervision and review,
Levels of Assurance	Examination = high Review = moderate Agreed-upon procedures = no opinion, findings only				
Report?	Yes — always				



RESPONSIBILITIES PRINCIPLE (cont)		PERFORMANCE PRINCIPLE (cont)		TYPES OF AUDITS	
Skepticism	Professional judgment	extent	how much (sample size)	FINANCIAL STATEMENT AUDIT	Opinion on fair presentation under GAAP
Procedures may change.		Evidence Gathering	sufficient quantity	INTERNAL AUDIT	Evaluates risk management, governance, internal control.
Standards do not.			appropriate quality	OPERATIONAL AUDIT	Evaluates efficiency and effectiveness.
Reasonable person standard applies.			Relevance & Reliability	COMPLIANCE AUDIT	Determines adherence to laws, regulations, policies.
PERFORMANCE PRINCIPLE		REPORTING PRINCIPLE		PERFORMANCE AUDIT	Economy and efficiency Program effectiveness
Phase	execution phase	Phase	conclusion and communication		
Objective	Obtain reasonable assurance that financial statements are free of material misstatement (error or fraud).	Purpose	Standardize reporting and communicate conclusions clearly.		Key signals "following laws" = compliance "efficient and effective" = operational "economy and efficiency" = performance audit
Requires	Planning and supervision Determining materiality	Requires auditor to:	State whether financial statements follow GAAP Identify inconsistencies Address adequacy of disclosures Express an opinion or explain why none is given		
	Risk assessment	Types of Opinions	Unqualified (unmodified) Qualified Adverse Disclaimer	PCAOB — PERCV	
	understanding entity & internal control	Audit documentation must:	Show who performed work Show who reviewed work Support planning, supervision, and conclusions	Present & Disclosure	M.A. that all transactions and events have been presented correctly and that all relevant information has been disclosed to financial statement users.
Execution phase	properly plan and supervise				Existence / Occurrence
	Risk Assessment			Existence	Management assertion that all assets, liabilities, and equity interests do actually exist.
	understanding of the entity				
	Materiality Determination (NTE)				
Risk determinants	Nature	type of procedure			
	timing	when performed			



FINANCIAL STATEMENT ASSERTIONS (cont)		ATTESTATION STANDARDS		QUALITY CONTROL (Responsibilities) (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.	General	Training and proficiency Independence Due professional care Suitability measurable complete relevant	Acceptance and continuance	Resolving independence violations promptly Management integrity Firm competence to perform the engagement Risk profile of the client Firm competence to perform the engagement
Rights & Obligations		Availability	Publicly By presentation or assertion Practitioner's report Well understood Only to specified parties	Human Resources	
Rights	the entity is entitled to all rights of the assets	Fieldwork	Planning and supervision Sufficient evidence Representation letter	Engagement performance	Proper planning and supervision Consultation on difficult matters Review of work performed Documentation standards
Obligations	the liabilities are the legal responsibility of the entity, and all of the disclosed events and transactions pertain to the entity.	Reporting	Identify subject matter State nature of engagement Express conclusion	Monitoring	Identifying deficiencies
Completeness	All items that should be included are included.		Key signals "suitable criteria," "representation letter," "subject matter evaluated against criteria"	RISK & EVIDENCE	
Valuation / Allocation	Amounts recorded appropriately.	QUALITY CONTROL (Responsibilities)		RISK TYPES	
Tracing Direction		Leadership responsibilities	Communicating /Tone at the Top	Business Risk	entity fails to meet objectives
Source → books	completeness	Relevant ethical requirements	Maintaining independence in fact and appearance Annual independence confirmations Monitoring financial relationships Identifying prohibited nonattest services	Information Risk	Probability information is false or misleading.
Books → source	occurrence			Inherent Risk	Risk of misstatement assuming no controls
Key signals				Control Risk	Risk controls fail to prevent/detect misstatement.
liabilities and revenue = completeness focus				Detection Risk	Risk auditor procedures fail to detect misstatement.
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					



### RISK & EVIDENCE (cont)

Detection risk assigned by 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 knowledge auditor physically inspected

Fully external evidence third-party confirmation

External-internal evidence bank statement obtained from client records

Internal documentation internal reports

### RISK & EVIDENCE (cont)

Inquiry of management discussion with 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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