

### 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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