

### 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

### ATTESTATION (cont)

**Report?** Yes — always

**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

### 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

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

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### 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 assessment** understanding entity & internal control

Sufficient & Appropriate evidence

**Execution phase** Planning properly plan and supervise

**Risk Assessment** understanding of the entity

**Materiality Determination (NTE)**

**Risk determinants** Nature type of procedure

### PERFORMANCE PRINCIPLE (cont)

**timing** when performed

**extent** how much (sample size)

**Evidence Gathering** sufficient quantity

appropriate quality

Relevance & Reliability

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

### 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.

Detection risk assigned my audit firm?

#### INTERNAL CONTROL

**Purpose** Prevent or detect misstatements.

**Effective control** Reduces control risk

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### RISK & EVIDENCE (cont)

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 relate 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

Inquiry of discussion with controller management

#### 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

### TYPES OF AUDITS

FINANCIAL STATEMENT AUDIT Opinion on fair presentation under GAAP

INTERNAL AUDIT Evaluates risk management, governance, internal control.

OPERATIONAL AUDIT Evaluates efficiency and effectiveness.

COMPLIANCE AUDIT Determines adherence to laws, regulations, policies.

PERFORMANCE AUDIT Economy and efficiency

Program effectiveness

#### Key signals

“following laws” = compliance

“efficient and effective” = operational

“economy and efficiency” = performance audit

### FINANCIAL STATEMENT ASSERTIONS

#### PCAOB — PERCV

Presentation & Disclosure M.A. that all transactions and events have been presented 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



### REPORTING PRINCIPLE

Phase conclusion and communication

Purpose Standardize reporting and communicate conclusions clearly.

Requires auditor to: State whether financial statements follow GAAP

Identify inconsistencies

Address adequacy of disclosures

Express an opinion or explain why none is given

Types of Opinions Unqualified (unmodified)

Qualified

Adverse

Disclaimer

Audit documentation must: Show who performed work

Show who reviewed work

Support planning, supervision, and conclusions

### ATTESTATION STANDARDS

#### General

Training and proficiency

Independence

Due professional care

Suitability objective

measurable

complete

relevant

Availability Publicly

By presentation or assertion

Practitioner's report

### ATTESTATION STANDARDS (cont)

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"

