

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

C

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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"

