

Introduction to Auditing and Assurance Services

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Designed as a quick-reference guide for students and new practitioners.

1. What Is Auditing?

Aspect	Description
Definition	An independent examination of financial (or non-financial) information to express a conclusion about its fairness and compliance with applicable standards.
Primary Objective	Provide reasonable assurance that the statements are free from material misstatement, whether due to error or fraud.
Key Characteristics	• Independence • Objectivity • Systematic approach • Evidence-based judgment
Types of Audits	• Financial statement audit (most common) • Compliance audit – checks adherence to laws, regulations, contracts. • Operational audit – evaluates efficiency and effectiveness of processes. • Forensic audit – focuses on fraud detection and litigation support.

2. Assurance Services – The Bigger Picture

Concept	Explanation
Assurance	A broader category that includes any professional service that improves the confidence of users about information, processes, or systems. • Reasonable (moderate) assurance – typical audit opinion (high, but not absolute, confidence).
Levels of Assurance	• Limited (negative) assurance – review engagements, providing only a conclusion that nothing came to the auditor's attention that would cause them to believe the information is not presented fairly.

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Concept

Explanation

Services

Common Assurance Engagements

- Audits of financial statements
- Reviews of interim financial information
- Agreed-upon procedures (specific tests requested by the client)
- Sustainability and ESG reporting assurance
- Internal control examinations (e.g., SOC 1, SOC 2)

Why Assurance Matters

Increases credibility of information, reduces information asymmetry, supports decision-making for investors, lenders, regulators, and other stakeholders.

3. The Auditing Process – Step by Step

1. Engagement Acceptance & Ethics

- Evaluate independence, competence, and integrity.
- Obtain written engagement letter (scope, responsibilities, fees).

2. Planning

- Understand the client's business, industry, and environment.
- Perform risk assessment (inherent, control, detection risks).
- Set materiality thresholds.
- Develop an audit strategy and detailed audit plan.

3. Internal Control Evaluation

- Document control design and implementation.
- Test key controls (if relying on them to reduce substantive testing).

4. Substantive Procedures

- **Test of Details** – verify individual transactions, balances, disclosures.
- **Analytical Procedures** – compare relationships, trends, ratios to expectations.

5. Evidence Gathering

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- Obtain sufficient and appropriate audit evidence (inspection, observation, confirmation, recalculation, reperformance, analytical procedures, inquiries).

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6. Evaluation & Documentation

- Assess whether evidence supports the audit opinion.
- Document findings, conclusions, and judgments in the audit file.

7. Reporting

- Formulate the audit opinion (unqualified, qualified, adverse, disclaimer).
- Prepare the auditor's report and any required communications (management letter, internal control report).

4. Core Auditing Standards

Standard?Setting Body	Main Framework
International Auditing and Assurance Standards Board (IAASB)	International Standards on Auditing (ISA)
American Institute of Certified Public Accountants (AICPA)	Generally Accepted Auditing Standards (GAAS) – U.S.
Public Company Accounting Oversight Board (PCAOB)	Standards for audits