Auditing Principles Cheatsheet

A concise cheat sheet covering fundamental auditing principles, procedures, and standards essential for conducting effective audits and ensuring financial statement reliability. It provides a quick reference to key concepts, audit types, and ethical considerations for auditors.

Core Auditing Concepts

Fundamental Principles

Integrity: Auditors must be honest and candid, prioritizing objectivity and independence.
Objectivity: Auditors must be impartial and unbiased, free from conflicts of interest.
Independence: Auditors must maintain independence in both mind and appearance.
Confidentiality: Protecting client information is paramount.

Professional Skepticism: Maintaining a questioning mind, critically assessing evidence.
Due Professional Care: Exercising diligence, competence, and thoroughness in audit work.

Reasonable Assurance: Audits provide a high, but not absolute, level of assurance.
Materiality: Information is material if its omission or misstatement could influence economic decisions of users.

Audit Risk Components

Inherent Risk	The susceptibility of an account balance or class of transactions to misstatement, assuming there are no related controls.
Control Risk	The risk that a misstatement that could occur in an account balance or class of transactions will not be prevented or detected and corrected on a timely basis by internal control.
Detection Risk	The risk that the procedures performed by the auditor will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
Audit Risk	The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. AR = IR * CR * DR

Types of Audit Opinions

Unmodified (Unqualified) Opinion: Financial statements are presented fairly in all material respects.
Qualified Opinion: Financial statements are fairly presented except for a specific matter.

Adverse Opinion: Financial statements are not fairly presented.
Disclaimer of Opinion: Auditor does not express an opinion on the financial statements.

Audit Planning and Procedures

Audit Planning Activities

Acceptance/Continuance: Evaluate client relationship and audit team competence.
Engagement Letter: Defines scope, responsibilities, and fees.
Preliminary Planning: Assess overall audit strategy and risks.

Understanding the Entity: Industry, regulatory environment, and business operations.
Materiality Determination: Establishing thresholds for material misstatements.

Risk Assessment: Identifying and assessing risks of material misstatement.
Audit Program Development: Creating a detailed plan for audit procedures.

Audit Evidence

Sufficiency	Quantity of evidence needed to support the audit opinion. Affected by risk of misstatement and quality of evidence.
Appropriateness	Quality of evidence. Relevance and reliability are key factors. Reliability is influenced by source and nature.
Types of Evidence	Inspection of records, physical examination, observation, inquiry, confirmation, recalculation, reperformance, analytical procedures.

Internal Control Evaluation

Understanding Internal Control: Evaluate design and implementation of controls.
Testing Internal Control: Perform tests to evaluate operating effectiveness of controls.

Documenting Internal Control: Flowcharts, questionnaires, narratives.
Assessing Control Deficiencies: Identify and evaluate the severity of deficiencies.

Specific Audit Areas

Cash and Cash Equivalents

Key Assertions	Existence, completeness, valuation, rights and obligations, presentation and disclosure.
Common Procedures	Bank reconciliations, cash counts, confirmation of bank balances, review of cutoff bank statements.
Fraud Risks	Kiting, lapping, unauthorized disbursements.

Accounts Receivable

Key Assertions	Existence, valuation, rights and obligations, completeness, presentation and disclosure.
Common Procedures	Confirmation of balances, review of subsequent collections, analysis of aging schedule, testing of sales cut-off.
Fraud Risks	Fictitious sales, improper revenue recognition, failure to record returns.

Inventory

Key Assertions	Existence, valuation, rights and obligations, completeness, presentation and disclosure.
Common Procedures	Physical inventory observation, testing of pricing and obsolescence, review of inventory costing methods.
Fraud Risks	Overstatement of inventory quantities, improper valuation, theft.

Audit Reporting

Elements of an Audit Report

Title: Includes the word "independent." **Addressee:** Directed to the appropriate parties (e.g., shareholders, board of directors). **Introductory Paragraph:** Identifies the financial statements audited.
Management's Responsibility: States management's responsibility for the financial statements and internal control. **Auditor's Responsibility:** Describes the auditor's responsibility to express an opinion.
Opinion Paragraph: Expresses the auditor's opinion on whether the financial statements are presented fairly. **Report on Other Legal and Regulatory Requirements:** If applicable. **Signature, Date, and Location:** Of the auditor.

Going Concern Considerations

Substantial Doubt: If conditions indicate substantial doubt about the entity's ability to continue as a going concern. **Auditor's Response:** Evaluate management's plans to mitigate the conditions and assess the adequacy of disclosures.
Report Modification: May include an emphasis-of-matter paragraph or disclaim an opinion depending on the circumstances.

Subsequent Events

Type 1 (Adjusting Events)	Provide additional evidence about conditions that existed at the balance sheet date. Require adjustment of the financial statements.
Type 2 (Non-Adjusting Events)	Indicate conditions that arose after the balance sheet date. May require disclosure in the notes to the financial statements.
Auditor's Responsibility	Actively search for subsequent events up to the date of the auditor's report. Limited procedures after the report date.