# Chapter 1

**Attest services** occur when a practitioner is engaged to issue … a report on subject matter, or an assertion about subject matter, that is the responsibility of another party.

**Assurance services** are independent professional services that improve the quality of information, or its context, for decision makers.

## Three Fundamental Concepts: Materiality, Audit Risk, and Evidence

### Materiality

Definition – The magnitude of an omission of misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Reflects what the auditor perceives as the view of reasonable person who is relying on the financial statements.

### Audit Risk

Definition – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. The risk that the auditor may unknowingly give a “Clean” opinion on financial statements that are materially misstated.

### Evidence relating to management’s assertions

Internal Controls are implemented to ensure appropriate capturing and recording of individual transactions, which are then collected into ending account balances.

The auditor’s job ultimately is to express an opinion on *whether the financial statements are fairly stated.*

Three Different Stages in a client’s accounting system to help determine whether the financial statements are fairly stated:

* The internal control put in place by the client to ensure proper handling of transactions (Evaluate and test the controls)
* The transactions that affect each account balance (Examine a sample of the transactions that happen during the period)
* The ending account balances themselves (examining a sample of the items that make up an ending account balance at year-end)

Materiality

Audit Internal Control

* Reliability of financial reporting
* Effectiveness and efficiency of operations
* Compliance with applicable laws and regulations