

Domain 2 of 4

# Overview

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AUD tests knowledge of auditing procedures, standards, and ethics. It covers financial statement audits, attestation engagements, reviews, compilations, and preparation engagements.

The exam consists of 72 multiple-choice questions (50%) and 8 task-based simulations (50%) in 4 hours. Key standards include GAAS (Generally Accepted Auditing Standards) and PCAOB standards for public companies.

## Audit Risk Model

- Audit Risk (AR) = Inherent Risk (IR) × Control Risk (CR) × Detection Risk (DR)
- Inherent Risk: susceptibility of an assertion to material misstatement before controls
- Control Risk: risk that controls will not prevent or detect material misstatement
- Detection Risk: risk that audit procedures will not detect material misstatement
- Relationship: if IR and CR are high, set DR low (more substantive testing needed)
- Materiality: quantitative and qualitative factors; planning vs. performance materiality

■ **Exam Tip:** The auditor controls Detection Risk by adjusting the nature, timing, and extent of audit procedures. IR and CR are assessed, not controlled. Lower DR = more audit work.

## Internal Controls

- COSO framework: Control Environment, Risk Assessment, Control Activities, Information & Communication, Monitoring
- Control activities: authorization, segregation of duties, physical controls, reconciliations, reviews
- IT general controls: access controls, change management, computer operations, program development
- IT application controls: input, processing, and output controls
- Deficiency vs. significant deficiency vs. material weakness: severity levels

## Audit Evidence and Procedures

- Assertions: existence, completeness, accuracy, valuation, rights/obligations, presentation/disclosure
- Substantive procedures: tests of details (vouching, tracing) and analytical procedures
- Tests of controls: to assess control risk; performed when relying on controls
- Confirmations: external evidence; most reliable for accounts receivable
- Observation, inspection, recalculation, reperformance, inquiry: evidence types by reliability

■ **Exam Tip:** Evidence reliability hierarchy (most to least): auditor's own observation > external confirmation > external documents > internal documents with strong controls > internal documents with weak controls > oral representations.