

# NINJA NOTES

Auditing & Attestation 2026



## Introduction

# Content Area Allocation

The following table summarizes the content areas and the allocation of content tested in the AUD section of the CPA Exam:

Area I	Ethics, Professional Responsibilities and General Principle	15% - 25%
Area II	Assessing Risk and Developing a Planned Response	25% - 35%
Area III	Performing Further Procedures and Obtaining Evidence	30% - 40%
Area IV	Forming Conclusions and Reporting	10% - 20%

## Skill Allocation

Remembering and Understanding	30% - 40%
Application	30% - 40%
Analysis	15% - 20%
Evaluation	5% - 15%

## Scoring Weight

The table below presents the scoring weight of MCQs and TBSs

	Multiple-Choice Questions (MCQs)	Tasked-Based Simulations (TBSs)
AUD – Core	50%	50%

## Section Time and Question Type

The table below presents the design of the CPA Exam by section time and question type.

	Section Time	Multiple-Choice Questions (MCQs)	Tasked-Based Simulations (TBSs)
AUD – Core	4 Hours	78	7

# Content

AUD-1 Ethics & Professional Responsibilities

AUD-2 Engagement Acceptance

AUD-3 Audit Planning & Supervision

AUD-4 Internal Control

AUD-5 Substantive Procedures & Audit Completion

AUD-6 Audit Reports for Non-Issuers and Issuers

AUD-7 Post-Audit Responsibilities & Audit Quality Control

AUD-8 Audit Sampling

AUD-9 Accounting and Review Services (SSARS)

AUD-10 Attestation Engagements (SSAE)

AUD-11 Audit of Governmental Organizations and Single Audits

AUD-12 Information Technology and Auditing

AUD-13 Audit Data Analytics

AUD-14 Economics

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**Ethics & Professional Responsibilities**

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# Ethics & Professional Responsibilities

## Standards for Different Types of Engagement

Engagement Type	Standard	Code of Conduct
Audit of Non-Issuers	<ul style="list-style-type: none"> <li>Generally Accepted Auditing Standards (GAAS) issued by AICPA</li> </ul>	<ul style="list-style-type: none"> <li>AICPA Code of Professional Conduct</li> </ul>
Audit of Issuers	<ul style="list-style-type: none"> <li>PCAOB Auditing Standards + GAAS</li> </ul>	<ul style="list-style-type: none"> <li>AICPA Code of Professional Conduct</li> <li>Securities Exchange Commission</li> <li>Sarbanes-Oxley Act</li> </ul>
International Audits	<ul style="list-style-type: none"> <li>International Standards on Auditing (ISA)</li> </ul>	<ul style="list-style-type: none"> <li>IESBA Code of Conduct</li> </ul>
Governmental Audits	<ul style="list-style-type: none"> <li>Generally Accepted Government Auditing Standards (GAGAS)</li> </ul>	<ul style="list-style-type: none"> <li>AICPA Code of Professional Conduct</li> </ul>
Attestation Engagements	<ul style="list-style-type: none"> <li>Statements on Standards for Attestation Engagements (SSAEs)</li> </ul>	<ul style="list-style-type: none"> <li>AICPA Code of Professional Conduct</li> </ul>
Accounting & Review Services	<ul style="list-style-type: none"> <li>Statements on Standards for Accounting and Review Services (SSARs)</li> </ul>	<ul style="list-style-type: none"> <li>AICPA Code of Professional Conduct</li> </ul>

# AICPA Code of Professional Conduct

- Sets the ethical standards for CPAs and provides a framework for resolving ethical dilemmas.
- Designed to ensure that CPAs carry out their duties with professionalism, integrity, objectivity, and in the best interests of the public.

Part 0 - Principles
Part 1 - Members in Public Practice
Part 2 - Members in Business
Part 3 - All Other Members

- Rules that apply to each member are as follows:

Part 1 - Members in Public Practice	Part 2 - Members in Business	Part 3 - All Other Members
Integrity & Objectivity	Integrity & Objectivity	Integrity & Objectivity
Independence		
General Standards	General Standards	
Compliance with Standards Rule	Compliance with Standards Rule	
Accounting Principles Rule	Accounting Principles Rule	
Confidentiality		
Contingent Fees		
Commission & Referral Fees		
Advertising and Other Solicitation		
Forms of Practices and Names		
Discreditable Acts	Discreditable Acts	Discreditable Acts

- Part 0 – Principles
  - Responsibilities Principle
    - Responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's high standards.
  - Public Interest
    - Obligation to serve the public interest, honor the public trust, and commit to professionalism.
  - Integrity
    - Should perform all professional responsibilities with the highest sense of integrity.
  - Objectivity Principle
    - Should be impartial, intellectually honest, and free of conflicts of interest.

- Independence Principle
  - Should be independent in fact and appearance.
  - Independence is required for audit and attest services only.
- Due Care
  - Uphold both the technical and ethical standards of the profession
- Scope and Nature of Services
  - Practice should observe each of the above-described principles in determining the scope and nature of services to be provided
- Integrity & Objectivity
  - Applies to:
 

Part 1	Members in Public Practice
Part 2	Members in Business
Part 3	Other Members
  - Integrity and Objectivity implies the following:
    - Honesty
    - No Conflict of Interest
    - Free from Bias
    - Impartiality
    - No Misrepresentation of Facts
    - Auditors' Judgment

- Independence

- Applies to:

**Part 1** Members in Public Practice

- Independence Required

Engagements Requiring Independence	Engagement Not Requiring Independence
<ul style="list-style-type: none"> <li>• Audit of Financial Statements of Issuers (PCAOB AS)</li> <li>• Audit of Financial Statements of Non-Issuers (GAAS)</li> <li>• Audit of Interim Financial Statements (PCAOB AS / GAAS)</li> <li>• Governmental Audits (GAGAS)</li> <li>• Examination (SSAE)</li> <li>• Review (SSAE)</li> <li>• Agreed-Upon Procedures (SSAE)</li> <li>• Review Services (SSARs)</li> </ul>	<ul style="list-style-type: none"> <li>• Consulting Services</li> <li>• Tax Services</li> <li>• Valuation Services</li> <li>• Accounting Services</li> <li>• Bookkeeping Services</li> <li>• Training Services</li> <li>• Preparation Engagement (SSARs)</li> <li>• Compilation Engagement (SSARs)</li> </ul>

- Covered Members

- Audit Firm
- Audit Team
- All Partners of the Audit Firm Office/Members with an Influencing Position in the Firm
- Partner, Partner Equivalent or Manager Providing More Than 10 Hours of Non-Attest Services to Client
- Employee Benefit Plans of the Audit Firm
- Immediate Family of Covered Members
  - Spouse
  - Related Dependents
  - Unrelated Dependents
- Close Relatives of Covered Member
  - Parents

- Sibling
- Non-Dependent Child
- Duration of Independence
  - Sustained from the date the engagement letter is signed until the professional relationship's termination.
- Threats to Independence
  - Adverse Interest Threat
    - Threat where a member will not act with objectivity because the member's interests are opposed to the client's interests.
  - Advocacy Threat
    - Threat when a member promotes or supports a client's interests or positions to such an extent that the member's objectivity or independence is compromised.
  - Familiarity Threat
    - Threat when a member becomes overly sympathetic to the client's interests or excessively accepting of the client's work or products, which may jeopardize their objectivity.
  - Management Participation Threat
    - Threat when a member takes on the role of client management or assumes management responsibilities.
  - Self-Interest Threat
    - Threat arises when a member, like an auditor, could benefit, either financially or in some other manner, from an interest in, or relationship with, a client or persons associated with the client.
  - Self-Review Threat
    - Threat arises when a member is required to evaluate the results of a previous judgment made or service performed by them or supervised by them.
  - Undue Influence Threat
    - Threat arises when a member's judgment is subordinated or compromised due to external pressures, coercion, or influences.

- Safeguards Against Threats to Independence
  - Profession-Based Safeguards
    - Code of Conduct
    - Continuing Professional Education
    - Legislation
  - Client-Based Safeguards
    - Corporate Governance Structures
    - Internal Audit Function
    - Policies on Hiring Audit Firm Personnel
  - Audit Firm-Based Safeguards
    - Quality Control Standards
    - Peer Reviews
    - Rotation of Audit Partners
    - Policies to Limit Non-Audit Services to Audit Clients

- Independence Impairment
  - Independence Impaired by Financial Relationships

- Direct Financial Relationship

- ⇒ Owning Stocks
      - ⇒ General Partnership in Partnership Interest

	Covered Member's except Close Relatives	Close Relatives
Material	Impairs Independence	Impairs Independence
Immaterial	Impairs Independence	Doesn't Impair Independence

- Indirect Financial Relationship

- ⇒ Shares in Mutual Funds
      - ⇒ Limited Partnership Interest

	Covered Member's except Close Relatives	Close Relatives
Material	Impairs Independence	Impairs Independence
Immaterial	Doesn't Impair Independence	Doesn't Impair Independence

- Independence Impaired by Loans

- Compromised when a member, their firm, or a close relative has a loan or guarantee to or from an audit client.
      - Loans will not impair independence when:
        - ⇒ Grandfathered Loans
        - ⇒ Market Terms and Conditions
        - ⇒ Fully Collateralized
        - ⇒ No Delinquency
        - ⇒ Original Terms and Conditions Remain
      - Following types of loans does not impair Independence:
        - ⇒ Credit Card Debt with balances up to \$10,000 per month.
        - ⇒ FDIC Insured Checking Accounts.

- ⇒ Fully Collateralized Automobile Loans.
- ⇒ Loans fully collateralized by the Cash Surrender Value of an Insurance Policy.
- ⇒ Loans fully collateralized by Cash Deposits at the same Financial institution.
- Independence Impaired by Gifts
  - Gifts are any items or services of more than nominal value.
- Independence Impaired by Employment Relationships
  - Client Employee Joins Audit Firm
    - ⇒ Participates on the audit/attest engagement team.
    - ⇒ In a position to influence the engagement.
    - ⇒ Doesn't disassociate from the client.
  - Audit Firm Member Joins Client
    - ⇒ In a position to influence the CPA firm's operations or financial policies.
    - ⇒ They participate or seem to participate in the firm's business, such as in a consultancy role.
    - ⇒ Move happens within one year of leaving the CPA firm
  - Audit Firm Member Discusses Job Offer with Client
  - Audit Firm Member's Family Employed by Client
  - Simultaneous Employment with Audit Firm and Client.
- Independence Impaired by Unpaid Fees
- Independence Impaired by Unsolicited Financial Interests
  - Acquiring a financial interest through gifts or inheritance can impair independence.
  - Exceptions
    - ⇒ Prompt Disposal
    - ⇒ Engagement Non-participation
    - ⇒ Immaterial Investment

- Independence Impaired by Trusts and Estates
- Independence Impaired by Business Relationships

Business Relationships that Impair Independence	Business Relationships that do not Impair Independence
<ul style="list-style-type: none"> <li>• <b>Roles in Client's Management or Oversight</b> <ul style="list-style-type: none"> <li>○ Serving as a director, officer, employee, promoter, underwriter, voting trustee, or in any managerial position with a client.</li> <li>○ Acting as a trustee for a client's pension or profit-sharing trust.</li> </ul> </li> <li>• <b>Providing Non-Audit Services</b> <ul style="list-style-type: none"> <li>○ Bookkeeping Services.</li> <li>○ Internal Audit Functions.</li> <li>○ Designing or Implementing Internal Controls.</li> <li>○ Certain Consulting Services.</li> <li>○ Supervisory Activities.</li> <li>○ Legal and Valuation Services.</li> </ul> </li> <li>• <b>Financial Relationships</b> <ul style="list-style-type: none"> <li>○ Accepting a contingent fee from a client.</li> <li>○ Engaging in a finance lease agreement with a client.</li> <li>○ Participating in a joint venture with a client.</li> </ul> </li> <li>• <b>Litigation:</b> <ul style="list-style-type: none"> <li>○ Being involved in actual or potential litigation with the client.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Certain Social Memberships:</b> <ul style="list-style-type: none"> <li>○ Membership in a country club client where membership entails obtaining a pro-rata share of equity.</li> </ul> </li> <li>• <b>Honorary Positions:</b> <ul style="list-style-type: none"> <li>○ Serving as an honorary trustee for a not-for-profit client.</li> </ul> </li> <li>• <b>Certain Financial Relationships:</b> <ul style="list-style-type: none"> <li>○ Holding accounts in a financial institution that are fully insured by the appropriate state or federal insurance agency.</li> </ul> </li> <li>• <b>Tax Services for Issuers:</b> <ul style="list-style-type: none"> <li>○ Tax services are permitted if they are pre-approved by the audit committee and disclosed to the SEC. However, tax services related to aggressive tax positions or for corporate officers and their immediate family members are prohibited. Providing tax services to members of the Board of Directors is acceptable.</li> </ul> </li> </ul>

- General Standards

- Applies to:

Part 1	Members in Public Practice
Part 2	Members in Business

- General Standards include the following:

- Professional Competence
- Due Professional Care
- Planning and Supervision
- Sufficient Relevant Data
- Third-Party Provider

- Compliance with Standards Rule

- Applies to:

Part 1	Members in Public Practice
Part 2	Members in Business

- Must adhere to the standards laid down by the respective governing bodies, as designated by the Council.

Audit of Non-Issuers	Generally Accepted Auditing Standards (GAAS) as issued by the AICPA
Audit of Issuers	Public Company Accounting Oversight Board (PCAOB) Auditing Standards and GAAS
International Audits	International Standards on Auditing (ISA)
Governmental Audits	Generally Accepted Government Auditing Standards (GAGAS)
Attestation Engagements	Statements on Standards for Attestation Engagements (SSAEs)
Accounting & Review Services	Statements on Standards for Accounting and Review Services (SSARs)
Consulting	Statements on Standards for Consulting Services
Financial Planning	Statement on Standards in Personal Financial Planning Services
Valuation	Statement of Standards for Valuation Services
Taxes	Statements on Standards for Tax Services

- Accounting Standards Rule
  - Applies to:
    - Part 1 Members in Public Practice
    - Part 2 Members in Business
  - Members in public practice and members in business adhere to the recognized and prevailing accounting
  
- Confidentiality
  - Applies to:
    - Part 1 Members in Public Practice
  - Confidentiality Rules, members in public practice are required not to disclose any confidential information pertaining to their clients outside of their audit firm.
    - Exceptions
      - Investigations and Inquiries
      - Quality Reviews
      - Subpoena or Court Orders
  
- Contingent Fees
  - Applies to:
    - Part 1 Members in Public Practice
  - Contingent Fees Allowed
    - Fees Fixed by Courts
    - Representing in Tax Cases
  - Contingent Fees Not Allowed
    - Audit or Review
    - Attestation Services
    - Review & Compilation

- Preparing Tax Returns
- Commission & Referral Fees
  - Applies to:
    - Part 1 Members in Public Practice
  - Commission & Referral Fees Rules are allowed for Non-Attest Clients and not allowed for Attest Clients.
- Advertising and Other Solicitation
  - Applies to:
    - Part 1 Members in Public Practice
  - Advertising
    - Allowed, unless
      - False
      - Misleading
      - Deceptive
  - Cannot Claim a Guaranteed Refund
- Forms of Practices and Names
  - Applies to:
    - Part 1 Members in Public Practice
  - Misleading Names Not Allowed
  - Continue in Name of Past Owners
  - Membership in AICPA
    - Can't represent itself as a member of the AICPA unless all of its owners are members of the AICPA.
  - Use of CPA Designation
    - Individuals can use the "CPA" designation after their name, but if they are employed in a position that does not require a CPA license (for instance, in an industry or government position), they must also disclose their employment title.

- Discreditable Acts

- Applies to:

Part 1	Members in Public Practice
Part 2	Members in Business
Part 3	Other Members

- The following Acts are considered Discreditable to Profession:

- Discrimination
- Tax Compliance
- Negligence in Work
- Withholding Client Records
- Violation of Confidentiality
- Fraudulent Marketing
- Solicitation & Disclosure of CPA Exam Questions
- Question and Answer Sharing of any Professional Education Course Exam
- Falsifying or misrepresenting attendance at a professional education class
- Tampering with the administration or grading of any professional education course or material

# Sarbanes-Oxley Act, 2002

- Title I: Public Company Accounting Oversight Board, (PCAOB)
  - Establishment of PCAOB
  - Registration Requirement
    - Auditors for Issuers, i.e., public companies, must register with the PCAOB
  - PCAOB is empowered to establish and adopt standards relating to auditing, attestation, quality control, ethics, and independence.
    - Audit working papers and related documentation to be retained for a period of seven years.
    - An Engagement Quality Control Review (EQCR) to be mandated to ensure quality.
  - Routine Inspections
    - Firms auditing more than 100 issuers: Inspected annually.
    - Firms auditing 100 or fewer issuers: Inspected once every three years.
  - PCAOB holds the authority to conduct investigations.
  - Foreign accounting firms that audit U.S. public companies are also subject to the rules and regulations established by PCAOB.
  - SEC Oversight
- Title II: Auditor Independence
  - Restriction on Non-Audit Services
  - Rotation of Key Audit Personnel
    - Lead (or primary) audit partner and the concurring (or review) partner must rotate off the audit engagement every 5 years.
  - Enhanced Communication with Audit Committees
    - Critical accounting policies used.
    - Alternative accounting treatments discussed with management.
    - Written communications between the auditor and management.

- Title III: Corporate Responsibility
  - Independent Audit Committee
  - Audit Committee Financial Expert
  - Audit Committee Responsibilities
    - Oversight of External Auditors.
    - Handling of Complaints
  - Corporate Responsibility for Financial Reports
  - Prohibition on Improper Influence on Conduct of Audits
  - Forfeiture of Certain Bonuses and Profits
- Title IV—Enhanced Financial Disclosures
  - Disclosures in Periodic Reports
    - Material Corrections Identified by the Auditor
    - Off-Balance Sheet Transactions
    - Pro Forma Financial Information
  - Prohibition on Personal Loans to Executives
  - Disclosure Requirements for Directors, Officers, and Principal Stockholders
  - Management's Assessment of Internal Controls
  - Each issuer shall disclose in its periodic reports whether they have adopted a code of ethics for senior financial officers.
  - Real-Time Issuer Disclosures
- Title V: Analysis Conflict of Interest
- Title VI: SEC Resources & Authority
- Title VII: Studies & Reports

- Title VIII—Corporate and Criminal Fraud Accountability
  - Criminal Penalties for Altering Documents.
  - Criminal Penalties for the Destruction of Audit Records
  - Statute of Limitations
    - Violations of security laws may be brought within two years after the discovery of the facts constituting the violation; or five years after the violation, whichever event is earlier.
  - Whistle-Blower Protection
  - Criminal Penalties for Defrauding Shareholders
- Title IX—White Collar Crime Penalty Enhancements
  - Elevating the status of attempt and conspiracy to the same level as a completed action.
  - Penalty for those corporate officers who fail to certify corporate financial reports are:
    - Misstatement: \$1 Million or Imprisoned up to 10 Years or both
    - Willful Default: \$5 Million or Imprisoned up to 20 Years or both
- Title X: Corporate Tax Returns
- Title XI—Corporate Fraud Accountability
  - Tampering
    - Shall be fined or imprisoned for not more than 20 years, or both.
  - Prohibit Persons from Serving as Officers/Directors
  - Can be fined or imprisoned for not more than 10 years, or both for Retaliation Against Informants

## Other Laws and Regulations

- Private Securities Litigation Reform Act of 1995
  - Enacted to curb perceived abuses in securities class action lawsuits.
  - Key provisions include:
    - Enhanced Auditor Procedures
      - Related Party Transactions
      - Illegal Acts
      - Going Concern Issues
    - Reporting of Illegal Acts
      - Investigate the act promptly.
      - Notify the management about the act.
      - Notify the Audit Committee (or, in its absence, the Board of Directors) is adequately informed.
- Dodd-Frank Wall Street Reform and Consumer Protection Act
  - It aimed to reduce risks in the U.S. financial system through a myriad of reforms.
  - Key provisions of Dodd-Frank Act include:
    - No Integrated Audit for Non-Accelerated Filers
- Jumpstart Our Business Startups Act (JOBS Act)
  - Its primary goal was to ease various securities regulations to encourage the funding of small businesses in the United States.

- Securities and Exchange Commission (SEC)
  - Key responsibilities of SEC include:
    - Oversight & Enforcement Authority over PCAOB
    - Approval of PCAOB Rules/Pronouncements
    - Sanction Authority
    - Censure or Impose Limitations
    - Removal of PCAOB Members
    - SEC Regulation S-K
- Department of Labor (DOL)
  - Responsible for ensuring the welfare of wage-earning workers, job seekers, and retirees.
  - Key provisions of the DOL include:
    - The DOL establishes specific guidelines to ensure that CPAs who audit Employee Benefit Plans are independent and free from any conflicts of interest.
      - They must not have any financial interests in the plan or the plan sponsor that would be considered material.
      - They also shouldn't have any direct business relationships with the plan or plan sponsor outside of the audit engagement.
- Governmental Accountability Office (GAO)
  - The Governmental Accountability Office (GAO) is an independent, non-partisan agency that works for the U.S. Congress.
  - Its primary function is to audit federal agencies to ensure the effective, efficient, and transparent use of public funds.
  - Additionally, the GAO investigates how the federal government spends taxpayer dollars.