Audit Testing

The Basics of Internal Auditing
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Agenda

To identify the different types of audit tests and discuss the purpose for each type.

Audit Testing

- IIA Standard 2320
  - Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.
Audit Testing

- Types of Tests
  - Test of Controls
  - Substantive Test of Transactions
    - Analytical Procedures
  - Test of Details of Balance
  - Test of Compliance

TESTS OF CONTROLS consist of procedures directed toward the evaluation of the effectiveness of the design and implementation of internal controls. When tests of controls look at design issues, the auditors evaluate whether the control has been properly designed to prevent or detect material misstatement.

- Identify key controls that should reduce control risk for each audit objective.
- Assess control risk.
- Determine extent of testing control.
- Design tests of controls to meet audit objectives.
Audit Testing

• Examples of tests of controls:
  • Inquiries of appropriate management, supervisor, and staff personnel.
  • Inspection of documents, reports, and electronic files.
  • Observation of the application of specific controls.
  • Re-performance of the application of the control by the auditors.

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Audit Testing

SUBSTANTIVE TESTS are those activities performed by the auditor to detect material misstatement or fraud related to transactions or account balances.

There are two categories of substantive tests - analytical procedures and tests of detail.

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Audit Testing

Analytical Procedures consist of the comparison of data from different sources to determine if reported information looks ‘odd’ or ‘wrong’.

Unexpected differences or variations in the data indicate a need for further review.
Audite Testing

- Analytical Procedures include comparison of financial information with:
  - Prior Period Information
  - Budgets
  - Forecasts
  - Data from similar programs or organizational units
  - Related non-financial information

Audite Testing
During the audit, analytical procedures can be performed:
- At the start to better understand the agency and to obtain information necessary to plan the nature, timing and extent of audit procedures;
- In the middle to obtain the evidence related to account balances and classes of transactions; and
- At the end as an overall final review of the financial information tested.

Audite Testing
Tests of details include tracing figures to supporting documentation to determine if transactions are valid, properly classified, accurate and complete. Tests also include recalculating and confirming recorded information.
Audit Testing

Relationship Between Audit Procedures and Evidence

<table>
<thead>
<tr>
<th>Type of Audit Evidence</th>
<th>Test of Controls</th>
<th>Substantive Test of Controls</th>
<th>Audit Procedure</th>
<th>Test of Details</th>
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</thead>
<tbody>
<tr>
<td>Physical Examination</td>
<td>X</td>
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<tr>
<td>Confirmation</td>
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<td>Documentation</td>
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<td>Observation</td>
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<td>Inquiries of the Auditee</td>
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<td>Reperformance of Procedure</td>
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<tr>
<td>Analytical Procedures</td>
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<tr>
<td>Recalculation</td>
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</tbody>
</table>


Audit Testing

• In **substantive testing**, you gather evidence to evaluate the integrity of data, a transaction or other information, e.g., you trace a transaction to the accounting records to verify that it was properly recorded.

• In **compliance testing**, you gather evidence with the objective of testing an organization’s compliance with control procedures, e.g. when you run a report to verify that certain controls had been applied over a database table.

Audit Testing

• When designing any tests, determine:
  • Test criteria to meet audit objective
  • Audit procedures to be applied
  • Sample Selection Methodology
    • Statistical
    • Random
    • Judgmental
Audit Testing

• When designing any tests, also consider:
  • Sample Size
  • Items to Test
  • Timing

Audit Testing

• When testing is completed, make sure:
  • Test objective has been met
  • Test results are clearly documented
  • Documentation supporting exceptions are included in working papers
  • Test worksheets are neat and easy to follow

Audit Testing

• Reference Materials
  • Internal Auditing: Basics & Best Practices
    (CD available in IIA – Tallahassee Chapter Library)
  • 2008 Prentice Hall Business Publishing,
    Auditing 12/e, Arens/Beasley/Elder
Thank you

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