

# Conducting Audit

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## The Field Work

# Preliminaries of Field Work

Permanent file;

Planning file;

Audit planning memorandum;

**Audit programmes;**

Staffing requirements, and the staff to be assigned to each component of the audit;

Budget requirements;

Timing considerations; and

List of information to be obtained from entity officials.

# Preliminaries of Field Work

**Identification of Significant Auditable Areas**



**Identification of related Issues**



**Identification of Key Controls**



**Audit Program**

Audit Tests

Samples



**List of documentation required from the entity.**

# Essentials of Field Work

Collection of evidence against the designed audit program

Verifiable documentation of the field work

External Checks - Supervision and documentation review

# Evidence Collection

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# Evidence Collection Procedures

Inspection/  
Physical  
examination

Confirmation

Verification of  
account  
balances

Re-computation

Re-performance

Vouching/Tracing

Analytical  
procedures

Observation

Year-end Cutoff  
tests

Documentation  
Reviews

Walk through

Interviews/  
Inquiries

# Planned Sources of Assurance

Control Systems

Substantive Testing

- Analytical Procedures
- Test of Details

# Control Testing

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# Two Stages of Controls Evaluation

## Planning Stage

- Evaluation of Control Environment
  - Identification of Key Controls

Execution Stage *(to verify that controls are giving the planned assurance)*

- Testing operational effectiveness of Key Controls

Testing may result in revision of planned parameters.

# CONTROL TESTING

Generally, for compliance testing, basing the assumptions on a zero deviation (or error) rate and a tolerable rate of 5%, the auditor would take a sample size of between 30 and 60.

Thus, with a sample size of, say, 45 items, if the auditor finds;

- no errors, then the controls can be assessed as having a low control risk.
- one error is found, then the auditor can determine control risk is moderate.
- more than one error is found in the sample, the auditor cannot place much reliance on the controls (and therefore would increase the amount of substantive testing).

# Types of Control Tests

## Tests of Control Design

Interview/ inquiry

Observation

Policy/Procedure review

Process "Walk Through"

## Tests of Operating Effectiveness

Tracing and Vouching

Inspection

Re-performing

Re-calculating

Evaluating work performed by others

# Substantive Tests

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# Analytical Procedures

Develop an expectation

Define a Significant  
Difference/Threshold

Compare Expectation with  
Recorded Amount

Investigate Significant differences

Document and Conclude

# Analytical Procedures

Exploratory  
Analysis

General Reviews  
for  
Reasonableness

Comparative  
Analysis

Predictive  
Analysis

Statistical  
Analysis

Overall  
Verification  
Methods

# Substantive Test of Details

Tests of details are the application of one or more of the evidence gathering procedures to individual transactions that make up an account balance

# Substantive Tests of Details

reasonableness of the aggregate result is inferred from the evidence of reliability of the individual details that have been tested.



# Evidence Gathering Procedures

Strong

Direct Knowledge of auditor

- Re-performance or re-calculation by auditor

Documents from Independent External Source

- Confirmations given directly to auditor

Documents from outside client's data processing system

- Bank Statements kept by entity

Internal Evidence – documents produced, circulated and stored within entity

- Purchase Requisitions

Verbal and written representations given by client

- Interview Responses

Weak

# Sampling

Selecting key and high value items; or

Taking a representative sample; or

A combination of both.

# Key and High Value Items

## Key items are normally selected when:

- Good internal controls and assurance from analytical (and therefore require relatively little substantive audit evidence from tests of details); or,
- A small number of high value items form a large proportion of the account (therefore testing these items will include a high proportion of the total value of the account); or
- The population consists largely of non-routine transactions and therefore the account is unlikely to consist of similar items that could be sampled.

## As well as having a high value, key items can be other unusual or suspicious items, such as:

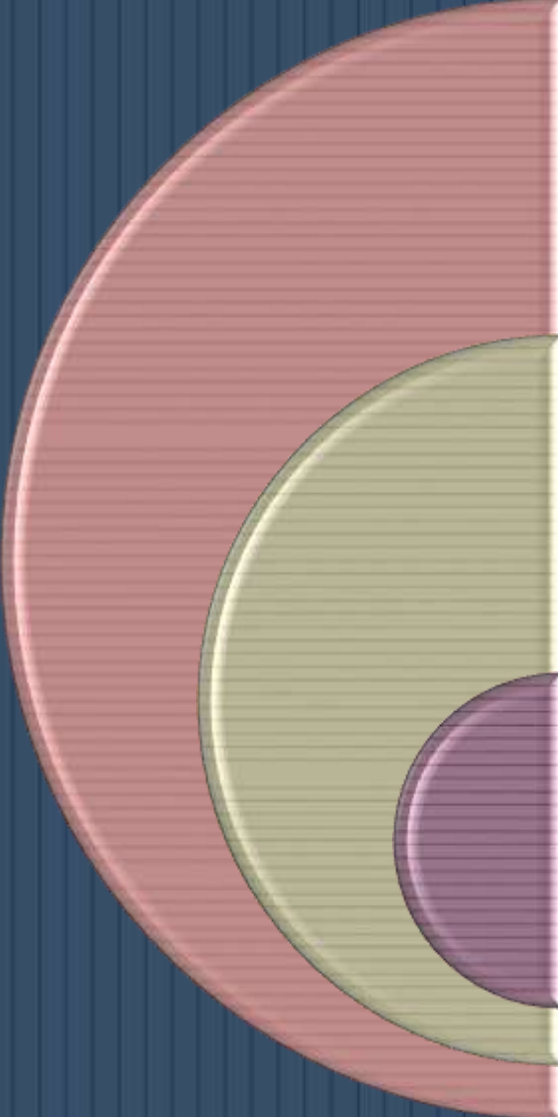
- multiple transactions with very similar values/dates/suppliers;
- apparently duplicate transactions;
- items which are unmatched; or,
- items with other specific characteristics that catch the auditors' attention.

# Key and High Value Items

**Representative sampling is likely to be most effective when:**

- There is little or no evidence from analytical procedures so the auditor has to rely on substantive audit evidence from tests of details;
- The population contains a large number of individually insignificant items; and/or
- The population contains routine transactions and therefore the account is likely to consist mostly of similar items (i.e. a homogeneous population).

# Substantive Sampling



It is important to ensure that whatever sampling is chosen, an estimate of the total level of errors in the population can be deduced from the sample on a scientific basis.

Without having a scientifically selected sample that is

- **sufficient and**
- **representative,**

no assurance on the financial statements can be concluded and no projection of other quantitative concerns can be concluded.

# Sampling Decisions

**In implementing a substantive sampling plan, the following need to be considered:**

- Decide what is to be tested;
- Define the sample and select the sample;
- Audit the sample items; and
- Evaluate and interpret the results.

# What to test

**First, the auditor needs to define the objective of the test. This includes defining**

- **what assertions are being tested,**
- **what constitutes an error,**
- **associated risk – acceptable risk of material error,**
- **population from which a sample is to be selected,**
- **sampling technique and**
- **definition of a sampling unit (physical unit to be selected).**



# Define the sample and select the sample

For the sample to be representative,

- each item in the population should have an equal chance of being selected (i.e. the sample is random) or,
- if the sample is stratified (for example, large transactions are treated differently from the rest of the population), the sample from each stratified component is representative of that component and thus conclusions can be determined for each stratified selection.

The sample size is determined by

- Materiality
- the level of confidence that the auditor wishes to have about the conclusions and
- the assumed level of error in the population.



# Audit the sample items

**to determine whether the projected errors are greater than the materiality in which case, the auditor may not be prepared to accept the reliability of the financial statements.**

**the causes of the errors. There are two reasons to follow up on identified errors:**

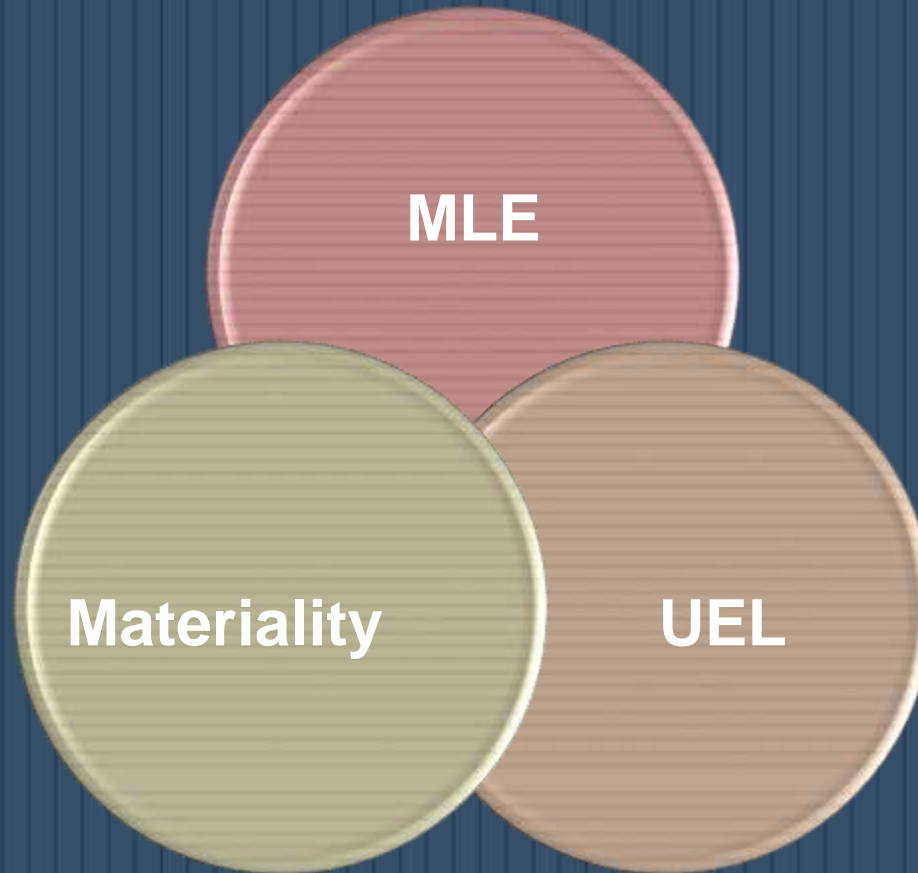
- To assess the internal controls (and where necessary, adjust the level of reliance on the controls as a result of the substantive testing) which will assist the auditor in concluding whether reliance can be placed on the financial statements; and
- To conduct a compliance audit on any errors that suggest that the transactions were not carried out in compliance with relevant and applicable laws, regulations and internal controls.
- To identify the underlying cause of the errors and thus be able to provide practical recommendations on corrective action.

# Audit the sample items

**Where the compliance with authority work is being performed as part of a financial certification audit, the auditor should only be concerned with compliance where the impact of non-compliance is significant.**

**Minor cases of non-compliance should be picked up by the internal audit function.**

# Evaluate and interpret the results.



# EVIDENCE

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# Attributes of Evidence

To support the auditors' findings, conclusions and recommendations the evidence must be:

- Sufficient;
- Relevant;
- Reliable; and
- Objective.

- Evidence should be sufficient to lead a reasonable person to the same conclusions as the auditor.

## Sufficient



- The relevance of audit evidence refers to the relationship of the evidence to its use and applicability.

## Relevant



- To be admissible, evidence should be objective and free from bias.

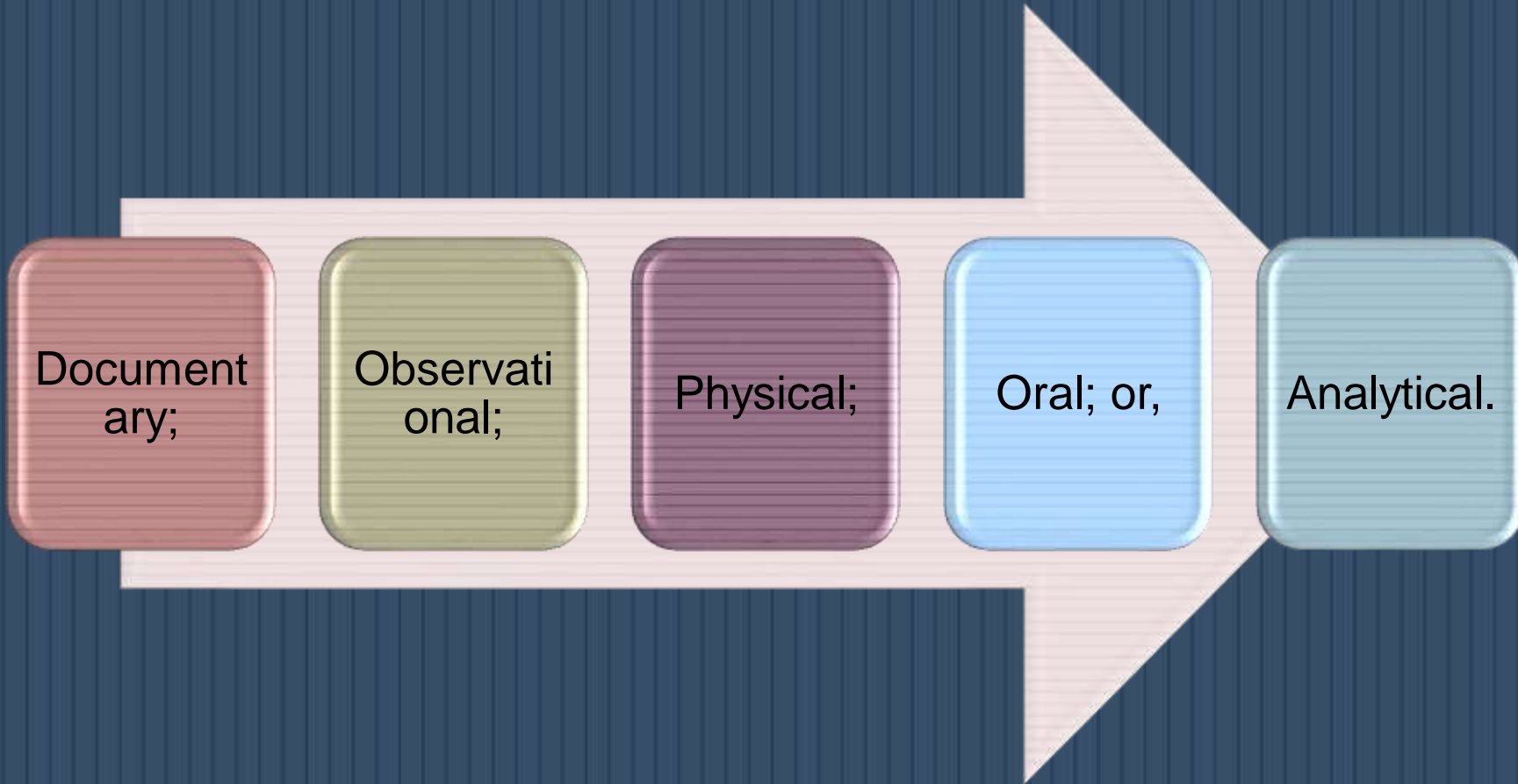
## Objective



## Reliable

- based on fact, not opinion;
- an accurate reflection of reality;
- from a reliable source;
- consistent with other evidence; and
- remains true for all situations within the audit domain.

# Types of Evidence



Documentary;

Observational;

Physical;

Oral; or,

Analytical.



# Field work Documentation

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# Audit Documentation

Permanent File

Current File

- Planning File
- Execution File
- Reporting File

Briefing File

Besides Strategic Plan and Annual Plan.

# Purpose of Audit Documentation

serve as evidence of the auditor's compliance with DAGP's Auditing Standards;

help to ensure that delegated work has been satisfactorily performed;

increase the efficiency and effectiveness of the audit;

serve as a source of information for preparing reports;

provide information to answer enquiries from entity officials, the Legislature and its committees, or from any other party;

assist in the planning of the audit for the following year; and

help auditors in the following year to perform their work.

# Making the Audit Visible

## Strategic Plan

- Gives Strategic Direction

## Annual Plan

- Convert strategy into annual audit work
- Gives focuses for each audit assignments

## Audit Plan

- Gives planned sources of assurance and audit program for focused areas

## Execution File

- Gives evidence collected against each audit program

## Audit Report

- Ultimate message and recommendations against focused areas

# Fieldwork Documents

Primarily these  
comprise;

auditing  
procedures  
applied,

evidence  
obtained,  
and

conclusions  
reached by  
the auditor.

# Characteristics of Audit Documentation

Documentation should be indexed and cross-referenced

Completed documentation must clearly indicate the audit work performed.

It should include sufficient information.

It should plainly state the conclusions reached

# Sufficient Details

**To illustrate, assume that:**

the auditor selected a sample of 20 supplier invoices and performed numerous procedures on them;

one of the procedures was to trace the supplier invoices to receiving reports or to other evidence that the goods were received or the services were performed;

in one case there was no receiving report; and

the auditor was unable to find other evidence to support the validity of the expenditure.



# Sufficient Details

In this illustration, as a minimum the audit working papers would need to include:

a description of the sampling procedure used – the population from which the sample was selected, the parameters used to determine the sample size, etc.;

sufficient information with respect to the 20 supplier invoices for the auditor to be able to find the 20 invoices again

sufficient additional information with respect to the one supplier invoice whose validity could not be adequately verified to support the audit  
Observation;

description of the efforts made by the auditor to locate the missing receiving report, and to otherwise support the validity of the transaction;  
and

an indication, through a signed audit program that all of the work called for in the audit program has been completed.



# Sufficient Details

**The minimum documentation called for above does *not* call for photocopies of the 20 supplier invoices and the supporting documentation.**

# Cross Referencing

Audit Step No.



Performance Sheet (e.g., Vouching Sheet) No.



Observation No.

Related Evidence

Entity Response

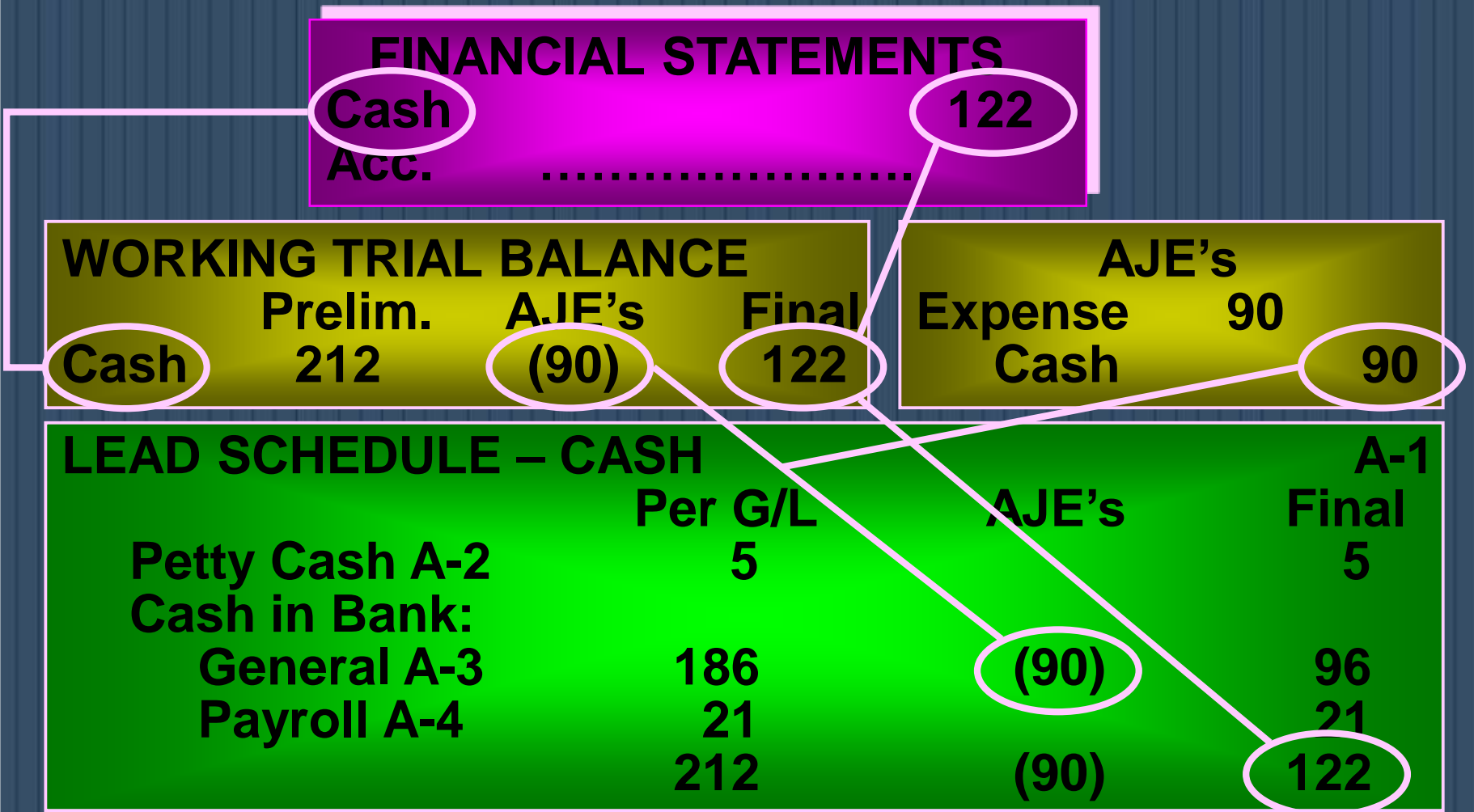


Conclusions referenced to Observation Nos.



Recommendations referenced to Conclusions

# Relationship of Audit Documentation to Financial Statements



# Supervision And Documentation Review

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# DAGP Standards

## (paragraph 3.2.2 of DAGP's Auditing Standards),

- “Supervision is essential to ensure the fulfillment of audit objectives and the maintenance of the quality of the audit work. Proper supervision and control is therefore necessary in all cases, regardless of the competence of individual auditors.”

# Supervision

The members of the audit team fully understand all of the planning decisions before commencing the fieldwork;

The audit programs are completed as planned, unless changes are approved;

If changes are required to the audit plan, the additional areas are properly planned and the work is properly performed;

Only essential work is being performed;

Sufficient evidence will have been obtained when the work is completed;

Audit findings and conclusions are being adequately supported by evidence in the working papers;

The audit is performed within the time budget and by the deadline dates set.

# Post Execution Review

## To ensure that:

all planned areas are audited and evaluations and conclusions are soundly based and are supported by competent, reliable, relevant and reasonable audit evidence;

all errors, deficiencies and unusual matters have been properly identified, documented and evaluated; and

changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities.

# During Execution Review

While the working paper files need to be reviewed at the completion of the audit work, there is no need for the reviewer to wait until then before commencing a review.

A preliminary review at an interim date could detect problems with the work at an earlier date, allowing for speedier correction and saving valuable audit hours. ■



THANK YOU

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