



Overall Audit Plan and Audit Program

Chapter 13



Learning Objective 1

Use the five types of audit tests to determine whether financial statements are fairly stated.



Types of Tests

- Risk assessment procedures
- Further audit procedures

Further Audit Procedures and the Audit Risk Model

Audit risk model

$$\frac{AAR}{IR \times CR} = PDR$$

Tests of controls

+

Substantive tests of transactions

+

Analytical procedures

+

Tests of details of balances

=

Sufficient competent evidence per GASS

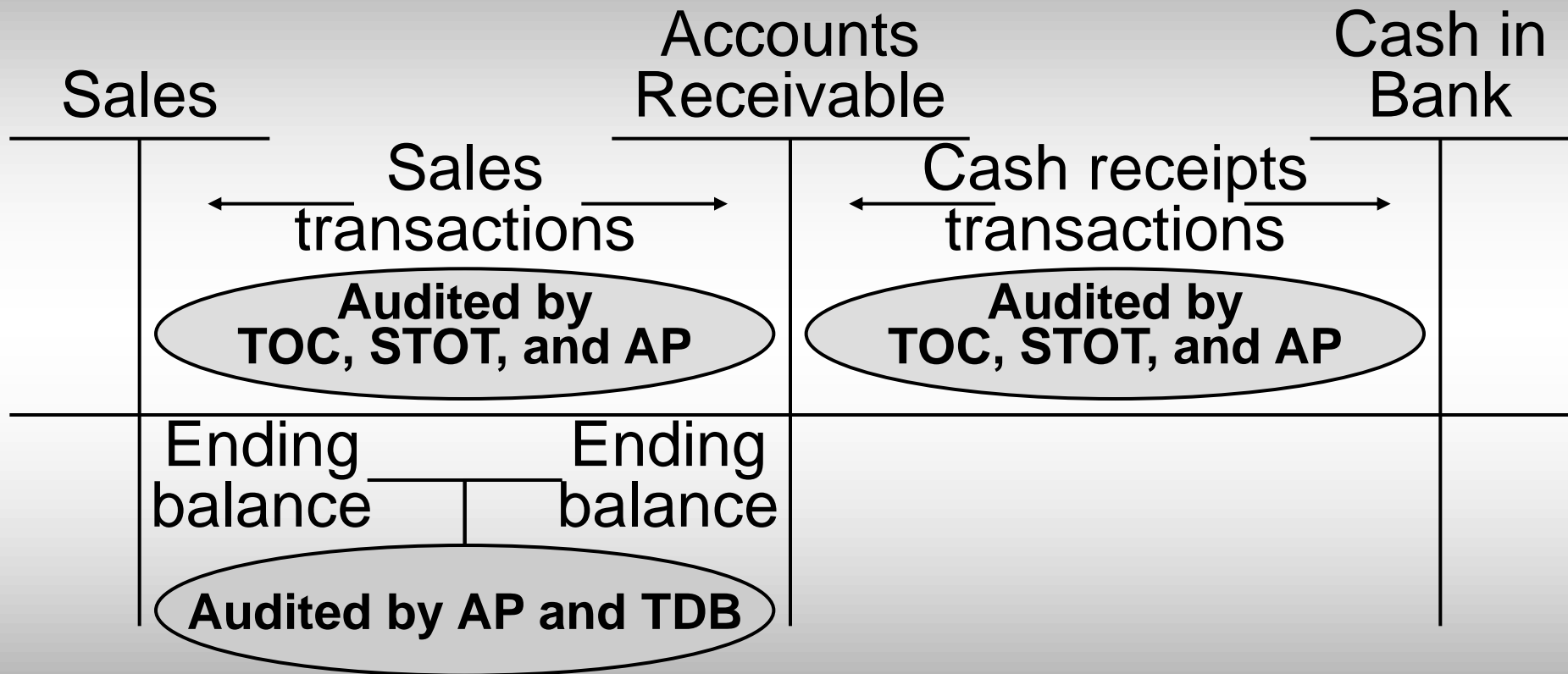
Further audit procedures



Risk Assessment Procedures

A major part of these procedures are done to obtain an understanding of internal control.

Role of All Audit Tests in the Sales and Collection Cycle



TOC + STOT + AP + TDB
= Sufficient appropriate evidence per GAAS



Learning Objective 2

Select the appropriate types of audit tests.



Relationship Between Further Audit Procedures and Evidence

Type of Evidence

Further Audit Procedures	Physical examination	Confirmation	Documentation	Observation
Tests of controls			√	√
Substantive tests of transactions			√	
Analytical procedures				
Tests of details of balances	√	√	√	



Relationship Between Further Audit Procedures and Evidence

Type of Evidence

Further Audit Procedures	Inquiries of the Client	Reperformance	Analytical Procedures	Recalculation
Tests of controls	√	√		
Substantive tests of transactions	√	√		√
Analytical procedures	√		√	
Tests of details of balances	√	√		√



Learning Objective 3

Understand how information technology affects audit testing.



Impact of Information Technology on Audit Testing

SAS 80 (AU 326) and SAS 109 (AU 319) provide guidance for auditors of entities that transmit, process, maintain, or access significant information electronically.



Impact of Information Technology on Audit Testing

Computer assisted audit techniques may be used to test automated controls or data.

Reports produced by IT may be used to test the effectiveness of IT general controls.

- Program change controls
- Access controls



Learning Objective 4

Understand the concept of evidence mix and how it should be varied in different circumstances.



Variations in Evidence Mix

	Tests of Controls	Substantive Tests of Transactions	Analytical Procedures	Tests of Details of Balances
Audit 1	E	S	E	S
Audit 2	M	M	E	M
Audit 3	N	E	M	E
Audit 4	M	E	E	E

Amount of testing: **E**xtensive, **M**edium, **S**mall, **N**one



Learning Objective 5

Design an audit program.



Audit Program

Part 1:

Tests of controls and substantive tests of transactions

Part 2:

Analytical procedures

Part 3:

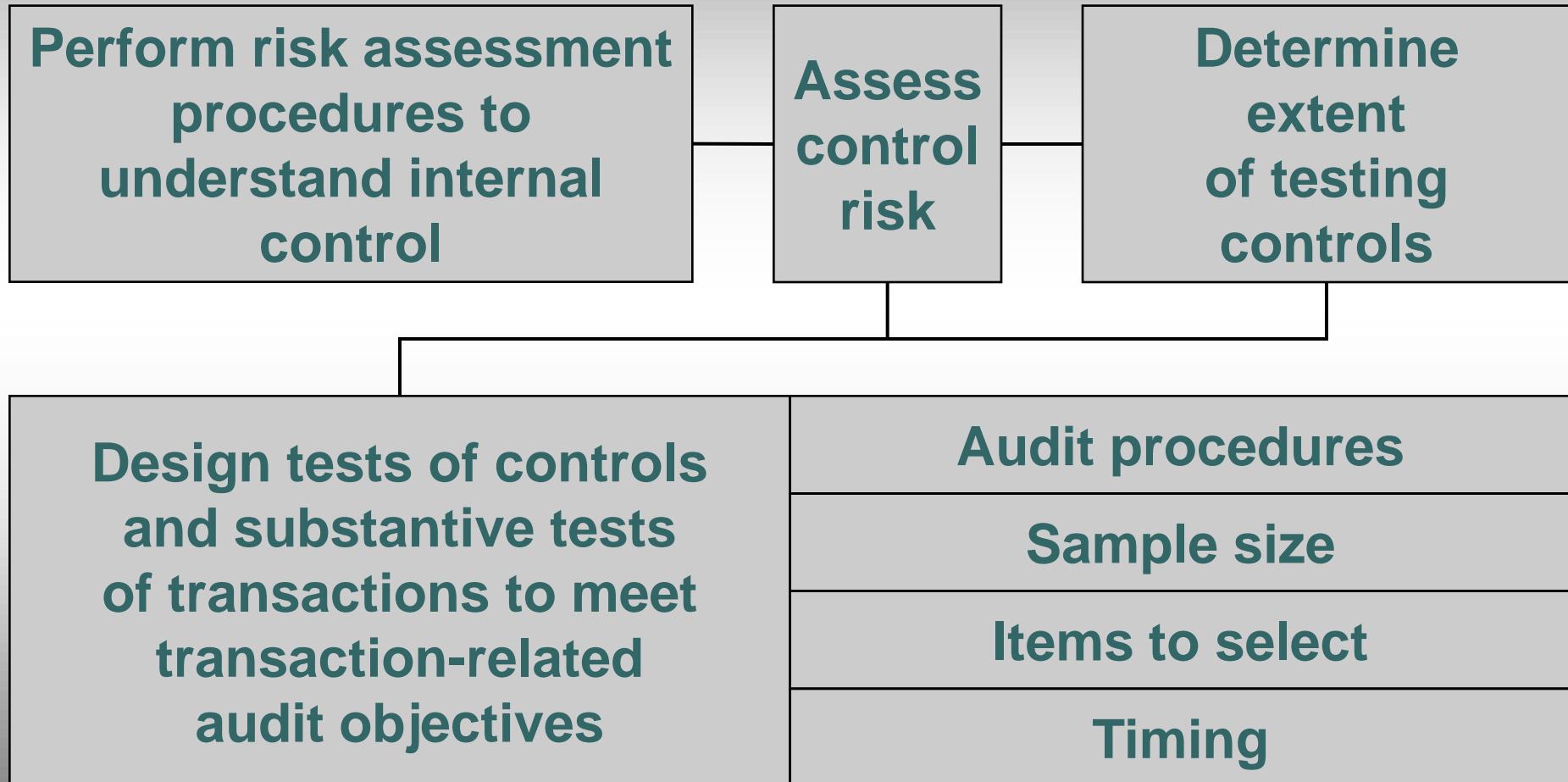
Tests of details and balances



Tests of Controls and Substantive Tests of Transactions

1. Apply the transaction-related audit objectives to the class of transactions being tested.
2. Identify key controls that should reduce control risk for each audit objective.
3. Develop appropriate tests of controls.
4. Design substantive tests of transactions.

Methodology for Designing Controls and Substantive Tests



Four-Step Approach to Designing Control and Substantive Tests

Apply transaction-related audit objectives to a class of transactions (Step 1)

Identify key controls and make a preliminary assessment of control risk (Step 2)

Design substantive tests of transactions (Step 4)

Design tests of controls (Step 3)

Audit procedures

Audit procedures

Sample size

Sample size

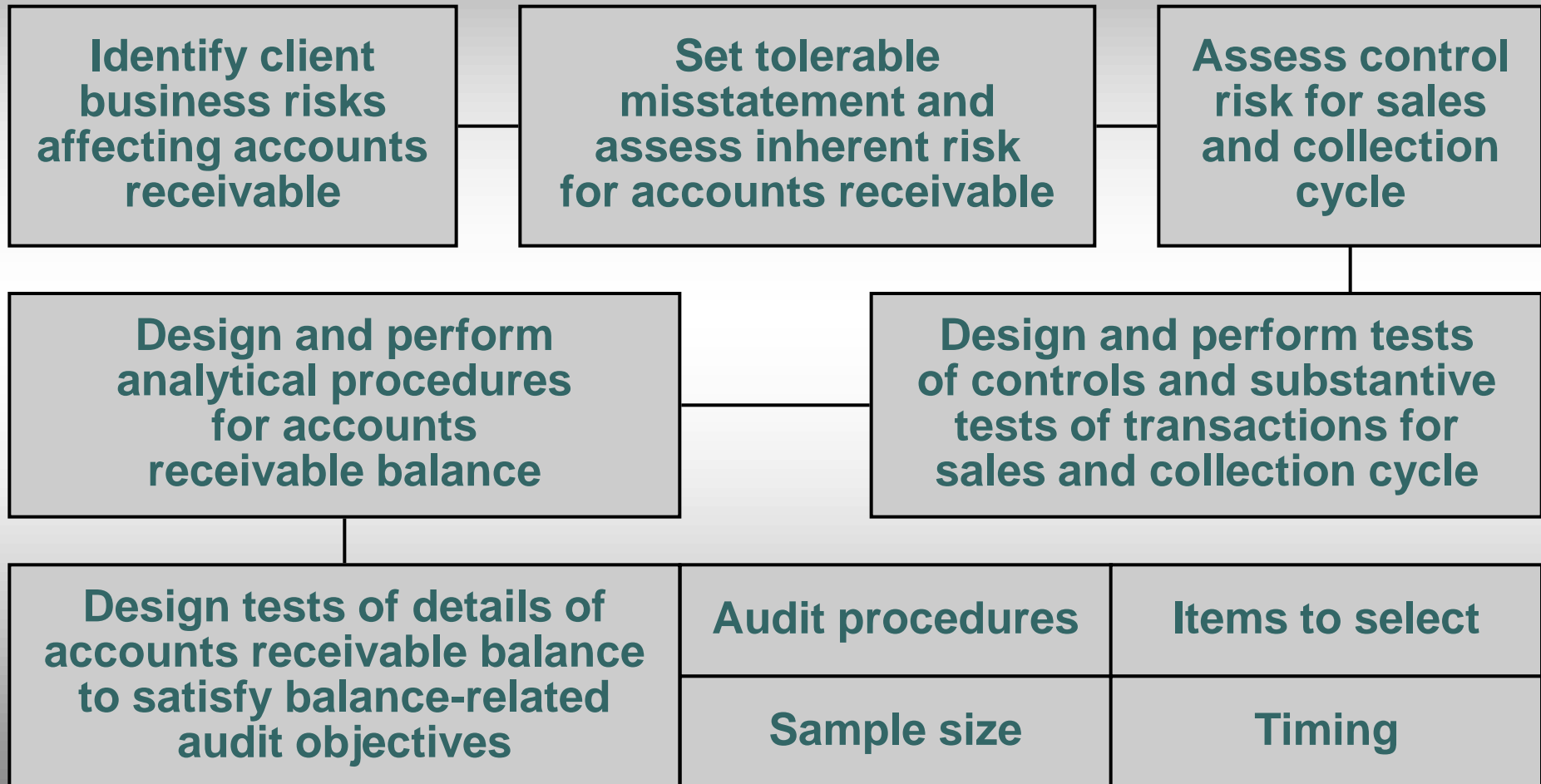
Items to select

Items to select

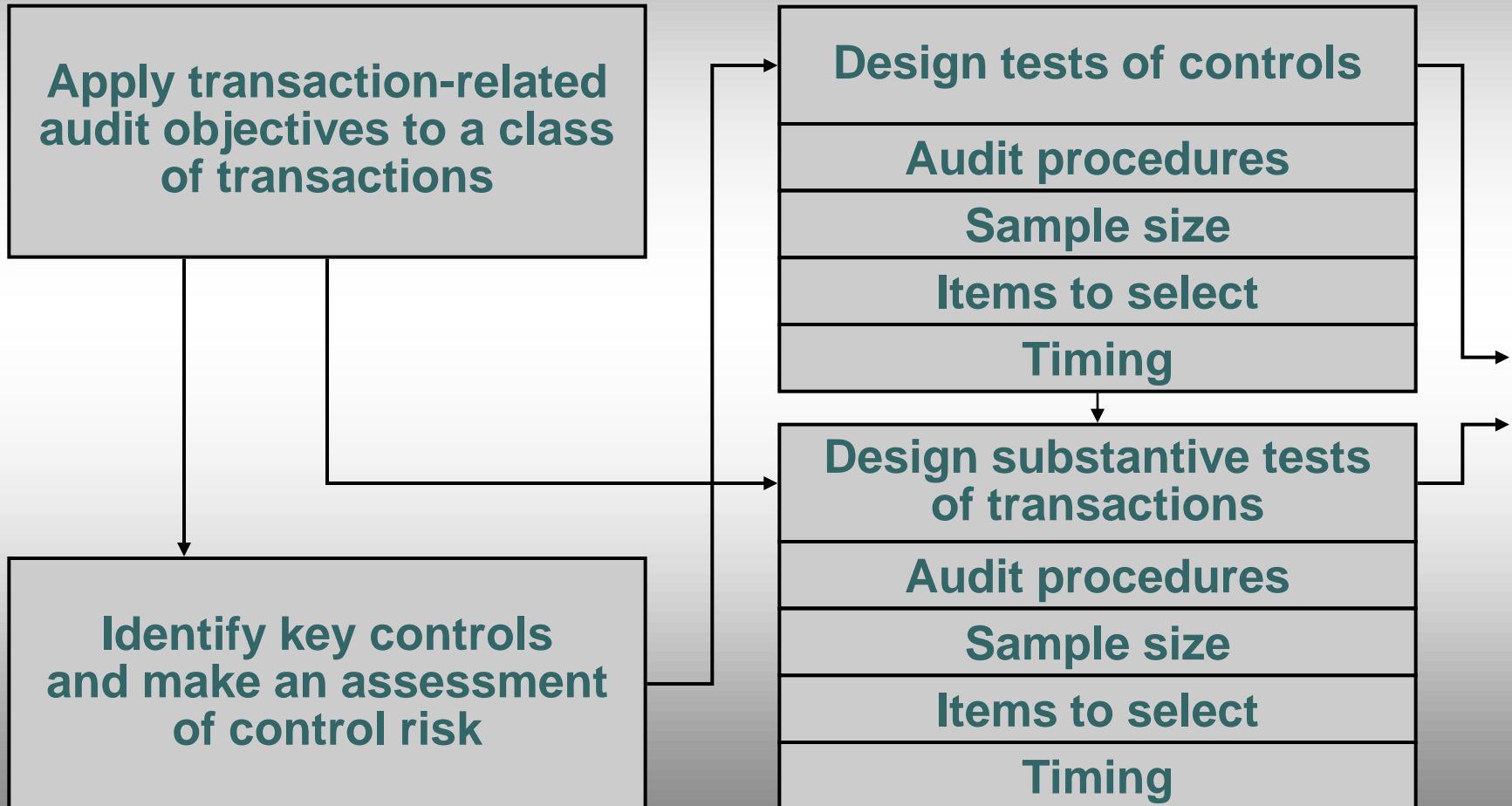
Timing

Timing

Methodology for Designing Tests of Balances – Accounts Receivable



Approach to Designing Tests of Details of Balances





Learning Objective 6

Compare and contrast transaction-related audit objectives and balance-related audit objectives.



Relationship of Transaction-related Audit Objectives to Balance-related Audit Objectives

Transaction- related Audit Objective	Balance- related Audit Objective	Nature of Relationship
Existence	Existence or completeness	Direct
Completeness	Completeness or existence	Direct
Accuracy	Accuracy	Direct
Posting and summarization	Detail tie-in	Direct
Classification	Classification	Direct
Timing	Cutoff	Direct
	Realizable value	None
	Rights and obligation	None



Relationship Among Five Key Evidence-related Terms

- Phases of the audit process
- Audit objectives
- Types of tests
- Evidence decisions
- Types of evidence



Phases of the Audit Process

- I. Plan and design an audit approach.
- II. Perform tests of controls and substantive tests of transactions.
- III. Perform analytical procedures and tests of details of balances.
- IV. Complete the audit and issue an audit report.



Audit Objectives

- Transaction-related
- Balance-related
- Presentation and disclosure-related



Types of Tests

- Risk assessment procedures
- Tests of controls
- Substantive tests of transactions
- Analytical procedures
- Tests of details of balances



Evidence Decisions

- Audit procedures
- Sample size
- Items to select
- Timing



Types of Evidence

- Documentation
- Inquiries of the client
- Analytical procedures
- Observation
- Reperformance
- Recalculation
- Physical examination
- Confirmation



Learning Objective 7

Integrate the four phases
of the audit process.



Summary of the Audit Process

Phase I

**Plan and design
an audit approach**

Phase II

**Perform tests of
controls and
substantive tests
of transactions**

Phase III

**Perform analytical
procedures and
tests of details
of balances**

Phase IV

**Complete the
audit and issue
an audit report**



Summary of the Audit Process: Phase I

Accept client and perform initial planning

Understand the client's business and industry

Assess client's business risk

Perform preliminary analytical procedures



Summary of the Audit Process: Phase I

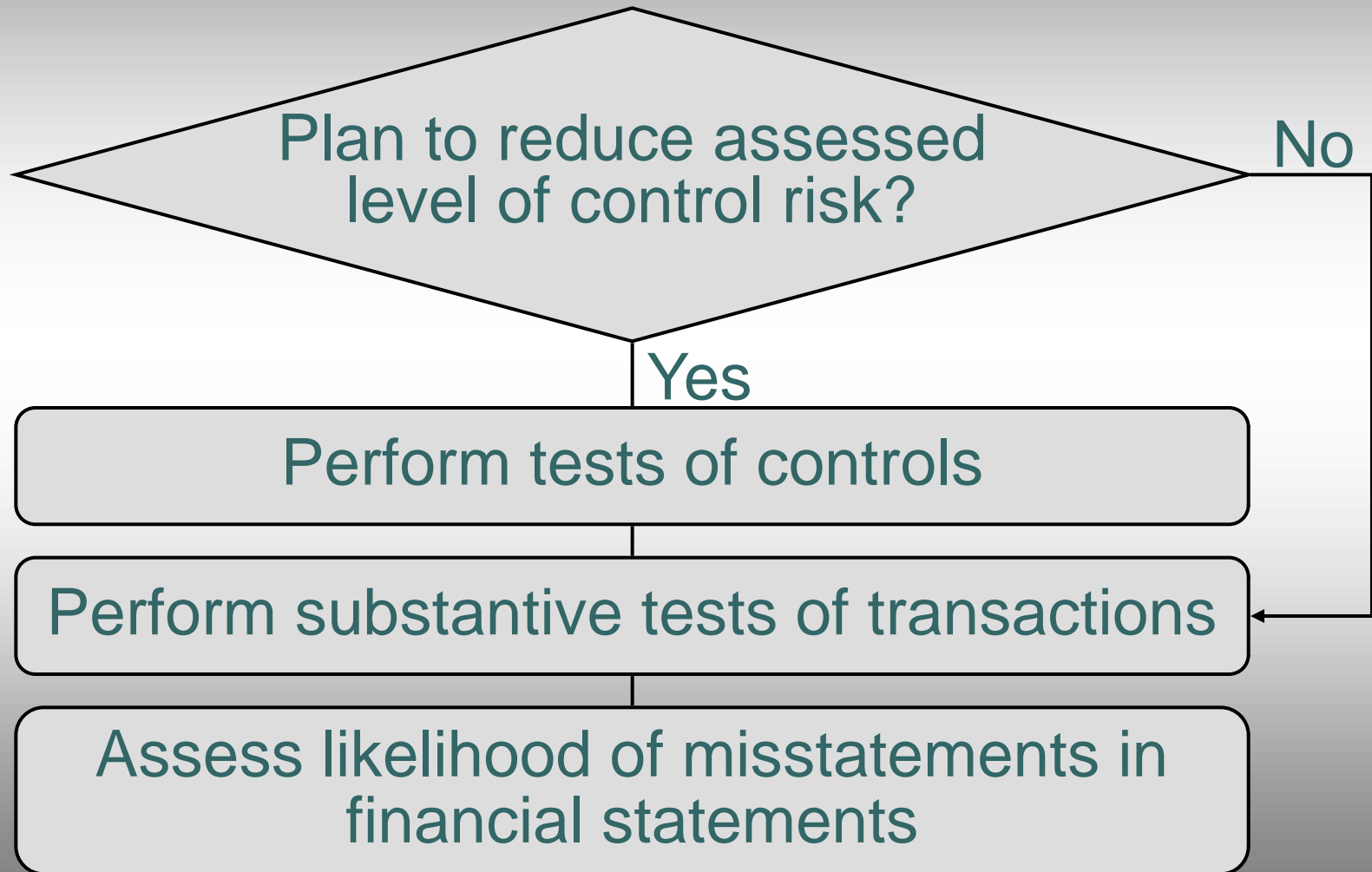
Set materiality and assess acceptable audit risk and inherent risk

Understand internal control and assess control risk

Gather information to assess fraud risks

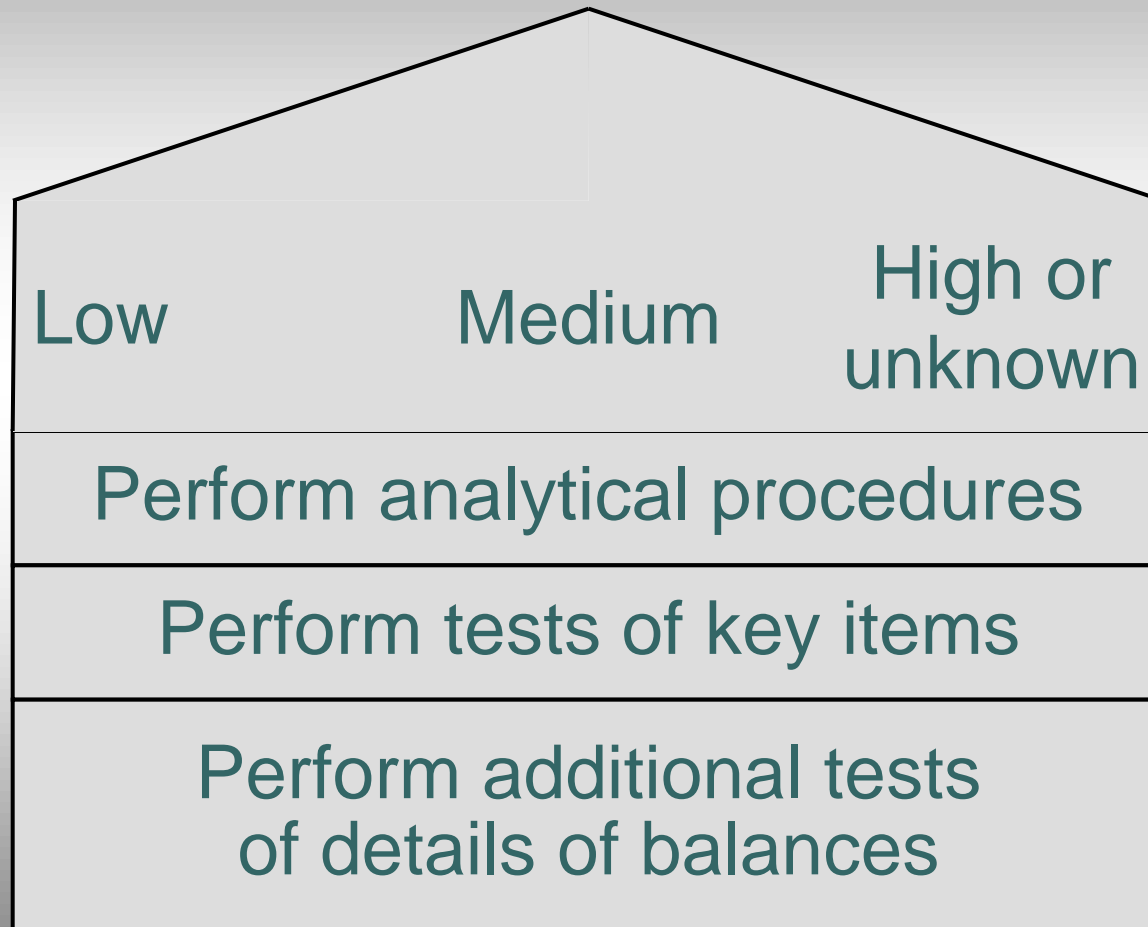
Develop overall audit plan and audit program

Summary of the Audit Process: Phase II





Summary of the Audit Process: Phase III





Summary of the Audit Process: Phase IV

Perform additional tests for presentation and disclosure

Accumulate final evidence

Evaluate results

Issue audit report

Communicate with audit committee and management



End of Chapter 13