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https://www.100test.com/kao_ti2020/625/2021_2022_Topic_E2_E3_80_c52_625734.htm Substantive tests may be incorporated with other procedures such tests of control. Types of substantive procedures ISA500 sets out the types of substantive procedures that an auditor will carry out. （1）Inspection of records and documents （2）Inspection of tangible assets （3）Observation （looking at processes and procedures being performed） （4）Inquiry （seeking information from knowledgeable persons） （5）Confirmation （a specific type of enquiry, the process of obtaining a representation from a third party） （6）Recalculation （checking the mathematical accuracy of documents or records） （7）Re performance （the auditor ’s independence execution of procedures previously performed by entity staff） （8）Analytical procedures The evidence should be reliable. Sources and relative merits of the different types of evidence available Although the reliability of audit evidence is dependent upon the particular circumstances, the following general presumptions may be found helpful. （1）Evidence obtained from independent external sources is more reliable than that obtained from the entity ’s records （2）Evidence obtained from the entity ’s records is more reliable where the accounting and internal control system operate effectively （3）Evidence obtained directly by auditors by such means as analysis and physical inspection is more reliable than evidence obtained by or from the entity （4）Documentary evidence is more reliable than oral evidence （5）Original documents are more reliable than copies, telexed or faxes Documentary evidence Created by held by Least reliable entity entity More reliable third party entity Most reliable third party auditor Conclusions drawn from differing types of evidence should be consistent with one another （1）Synergy （2）Reliability in doubt when inconsistent No hard and fast rules measured for the reliability of evidence. need the judgment of auditors When obtaining confirmation from third parities as a source of evidence the auditor should consider: （1）When such evidence is appropriate （2）Which assertions are satisfied （3）How can such evidence be obtained and what use（s） can be made of it Typical situations where such evidence is invaluable is with receivable confirmations, bank confirmations （and, in some cases） payable confirmations. Where third party evidence relates to specific balances e.g. bank, receivables, payables then it provides persuasive evidence as to rights and obligations and where relevant ownership of assets. Analytical procedures as substantive tests Analytical procedures deal with comparisons of financial and non-financial information and were considered in the stage of planning. Analytical procedures used as substantive tests can be used alone where the total amounts involved are immaterial and in conjunction with detailed tests of transactions and balances elsewhere. These procedures provide good ‘ overall ’ evidence as to the accuracy of a balance or class of transactions. Examples include the following: （1）A comparison of payroll costs on a monthly basis taking account of wage rises, starters and leavers and seasonal work. （2） A comparison of sales with expenses, on a monthly basis and as a comparison with prior years （3） A comparison of the ageing of inventory or receivables on a monthly or quarterly basis and calculation of receivable days or inventory turnover Analytical procedures are used widely but are limited by factors such as the accuracy and predictability of relationships and the availability, relevance and comparability of information. They are also limited by the auditor ’ s knowledge of the business and the availability of other types of evidence. A key feature of analytical procedure is the investigation, explanation and corroboration of significant fluctuations and unexpected relationships. This emphasizes the need for predictable patterns in the business. The use of accounting estimates In some case, amounts in the financial statements have to be estimated as it is not possible to state a definite value for them. For example: （1） Legal claims （2） Provisions for depreciation, deferred tax, write-downs to NRV such as doubtful debt and obsolescence provisions （3） Profit and loss recognition on long-term contracts, （4） Warranties, guarantee or rectification provisions, contingent liabilities （5） Accruals and prepayments （6） Other areas in which a significant element of judgment Such items are inherently more risky than non-judgmental items and control risk is usually higher as these are non-routine transactions. ISA540 Audit of accounting estimates Essentially, the principles to be followed are any or all of: （1） Review and test the process used by management to develop the estimate （2） Use an independent estimate （generated by the auditor） to compare with management

’s estimate （3）Consider the use of an expert in the relevant field to obtain an independent view as to whether or not the estimate is accurate （4）Review subsequent events Where, in the case of contingent liabilities, subsequent events ‘ crystallize ’ the liability, there will be no need to review management ’s processes or use independent estimates. The auditor will normally test the calculations of the estimate, assess the assumptions made （e.g. the court is 90% likely to find in our favor）, compare estimates with those made in previous periods and ensure that the estimate is in accordance with the auditor ’s knowledge of the business and the other audit evidence obtained. 这部分具体在考试中的运用将在历史考题分析中给大家讲解. Small company audit issues The audit of small companies creates additional issues for the auditor when it comes to obtaining independent audit evidence. This is principally due to the very nature of small companies. And the fact that control is often centralized in the form of the managing director. There are also issues surrounding segregation of duties in small managing companies. History Exam Question Analysis （B5/D2004） 5 International Standards on Auditing（ISAs） apply equally to the audit of all antities, whatever their size, However, the manner in which ISAs are applied differs from entity to entity and depends on the use of the auditor ’s judgement. The characteristics of smaller entities may include: （a） Common ownership and management. （b） A control framework that is different to the control framework for larger entities. （c） The use of standardized computer packages. （d） Reliance on the auditor for accounting expertise. （e） A lack of sufficient appropriate audit evidence to support financial statement assertions relating to income from cash transactions. These characteristics have an effect on the way the audits of smaller entities are approached, how audit risk is assessed, how the audit is conducted, the auditor ’ s report and the relationship between auditor and client. Required: Describe the nature and effect of each of the five characteristics listed in （a）-（e） above on the audit of smaller entities and on the relationship between auditor and client. NB: The five characteristics （a）-（e） carry equal marks （20 marks） 答案： （a） Common ownership and management （i） The existence of an owner-manager who is actively involved in the day-to-day running of the business is a common feature of smaller entities. （ii） This characteristic can be seen as increasing audit risk because such and owner-manager is easily able to override any internal controls that have been set up （although the management override of internal controls is not restricted to smaller entities and has been a feature of many large corporate scandals）. （iii） On the other hand, this characteristic can also be seen as decreasing audit risk because the presence of the owner-manager on a day-to-day basis can be seen as an effective substitute for formal internal comtrols. （iv） Risk assessment will depend on the auditor ’ s knowledge of the integrity and competencies of the owne-manager （of any single manager to whom the owner has delegated his management duties）. （v） The owner-manager may not understand why an audit is necessary and may fail to oo-operate with the auditor. The owner-manager may also be buying a suite of services from the auditor, including tax, accounting and systems advice which may give rise to problems of independence for the auditor, particularly if the auditor is a sole practitioner （see below）. （b） A control framework that is different to the control framework for larger entities （i） Intrnational Standards on Auditing need to accommodate the needs of auditors of larger and smaller entities and always make reference to a full range of intemal formal controls. Many smaller entities lack formal internal controls. a lack of staff amongst whom to segregate duties for example and a lack of authorization controls. （ii） As noted above, the presence of the owner-manager can compensate for this lack of control in the auditor ’ s risk assessment. Auditors should not assume that because formal internal controls do not exist, there is no intemal control framework to be assessed. （iii） High-level general or environmental controls, such as those relating to entity requirements for integrity in those in whom trust is placed, and controls involving the overall of day to day accounting records （such as invoices, the bank statement and management accounts） may or may not be formally documented, but such controls can be evidenced in other ways and can therefore be tested. （iv） It is always efficient for auditors to rely on internal controls wherever possible. However, where to such controls exist, auditors may decide that a wholly substantive approach is more appropriate. （c） The use of standardized computer packages （i） Well-established standardised computer packages are generally more reliable and ‘ auditor-friendly ’ than they used to be. Computer Assisted Audit

Techniques （CAATS） have been developed for use with some such packages, for example, and many small firms of auditors advise their clients on the 0selection of such packages, although this can create independence problems （see below）. （ii） Such packages may not be easily adaptable to the particular needs of very small entities and some such packages still fail to provide an adequate audit trail. （iii） The common use of well-established computer packages enables auditors become familiar with their advantages and disadvantages, which makes planning audits more efficient and enables auditors to provide useful recommendations to clients where problems are encountered. （iv） The proper use of computer packages by adequately trained staff means that, to extent, there is less scope for a certain type of human error. this may have an effect on the auditor ’ s risk assessment. However, systematic errors resulting from inadequate programming or from the inappropriate use of such packages can give rise to significant risks such as large volumes of data that lack integrity. （d） Reliance on the auditor for accounting expertise （i） The packages referred to to above mean that staff at many smaller entities are able to produce a trial balance, which might not have been possible with a manual system. However, many smaller entities still rely on auditors for the preparation of the final statutory financial statements. ACCA ’ s Rules of Professional Conduct permit this. （ii） The Rules do not permit the auditor to prepare the basic accounting records, to initiate transactions or to prepare journal entries, for example. This is because auditors must not perform the function of management, otherwise they will be reporting on their own work. （iii） In practice, the dividing line between what constitutes ‘ advice ’ to the client, and what constitutes doing the client ’ s job for the client, can be difficult to draw, and clients often want their auditors to do their jobs for them. For example, a client might wish the auditor to help ‘ sort out ’ a difficult reconciliation. It is therefore important for auditors to explain clearly to the directors of their clients that directors have responsibilities for the accounting records. Auditors should also ensure that properly drafted engagement letters are in place. （iv） It is important that where auditors are involved in the preparation of the financial statements in any way, that other audit staff review their work. （v） Where auditors are providing a suite of services （accounting expertise, tax advice and advice on computer packages, for example）, they may wish to consider whether they can be seen to be independent （as required by the Rules） and whether appropriate safeguards can be put into place to maintain the auditor ’ s independence and objectivity. （e） A lack of sufficient appropriate audit evidence to support financial statement assertions relating to income for cash transactions （i） Where auditors are unable to obtain sufficient appropriate audit evidence on any material area in the financial statements, they must qualify their audit report on the grounds of a limitation in the scope of the audit （ ‘ except for ’）. （ii） If the effect of the lack of evidence is pervasive and affects the view given by the financial statements as a whole, the auditor may need to disclaim an opinion （the auditor cannot form a view as to whether the financial statements give a true and fair view）. （iii） Qualifications and disclaimers of opinion may be regarded as problematic if they are attached to financial statements that are presented to banks or other providers of finance. If they are attached to financial statements supporting tax computations this may give rise to the possibility of a tax investigation. This may harm the relationship between auditor and client and the client may seek to persuade the auditor to issue an unqualified opinion where it is not appropriate. （iv） Auditors should consider carefully whether they wish to accept audit engagements where they know at the outset that the client is unable or unwilling to provide them with sufficient appropriate audit evidence （auditors should not be associated with fraud）. （v） Owner-managers may seek to persuade auditors, either verbally, or by written management representations, that cash transactions are complete, despite the lack of written evidence. Management representations are no substitute for audit evidence that should be present. （B6/J2004） 6 There are a number of different methods of obtaining audit evidence. Methods include: （i） analytical procedures. （ii） audit sampling. （iii） tests of controls. （iv） detailed testing of transactions and balances. （v） computer assisted audit techniques （CAATs）. These methods overlap and may be used for different purposes during an audit of financial statements. Required: （a） Explain the advantages and disadvantages of each of the five methods of evidence gathering listed above. （15 marks） NB: You are not required to describe the methods listed above. （b） Describe the relationship between the five methods of evidence gathering described above. （5 marks）（20 marks） 答案：（a）Advantages and disadvantages （i） Analytical procedures Advantages 1.The main advantage of analytical procedures is that they can be used at all stages of the audit to enquire into the absolute amounts to be included in the financial statements, and into the relationships between those amounts. 2.Analytical procedures are a good test for the overall reasonableness of an amount. They can be used on a global basis, and they can be split down into their constituent elements. 3. Analytical, procedures enable the auditor to make comparisons on a continuous basis, taking prior years into account, and providing the auditor with a better understanding of both the business as a whole, and of individual account areas. Disadvantages 1.Analytical procedures often have to be performed on management accounts, or draft or incomplete accounts before the final financial statements have been prepared. This means that significant adjustments, which are often made at a late stage, are not taken into account. 2. Without a prior and proper understanding of the business, the auditor may be tempted to accept the results of analytical procedures that show no unusual variations as evidence that there is nothing wrong, which may not be the case if there have been significant changes in the business of which the auditor is unaware （and which management may wish to hide from the auditors）. 3. Auditors may also be tempted to accept ‘ plausible ’ explanations for changes and variations without much further substantiation, where further investigation may actually be warranted. （ii） Audit sampling

Advantages 1. Audit sampling enables the auditor to draw conclusions about a population without testing all of the transactions or balances in the population as a whole. 2. Audit sampling also enables the auditor to concentrate on high risk or high value items, and to differentiate between elements of a population which may be subject to differing internal controls. Disadvantages 1. There is always a risk that the auditor ’ s sample is not representative of the population as a whole （known as ‘ sampling risk ’ ）. Auditors calculate and accept this risk, and perform other procedures to compensate for it, but it always remains a risk. 2. Sampling relies on the use of judgement in relation to materiality, exceptions, and in drawing conclusions, for example. Judgement can be abused, or simply fail, particularly where staff are inexperienced. （iii） Tests of controls Advantages 1. Tests of controls enable the auditor to establish whether a control system in operation is effective. If properly designed controls are operating as prescribed, auditors can reduce the level of substantive testing required at the period-end. 2. Tests of controls mean that auditors do not have to concentrate all of their efforts on substantive procedures at the period-end which would in many cases be impractical, inefficient and not cost-effective. Disadvantages 1. Tests of controls are often performed on a sample basis （disadvantages noted above）. 2. Tests of controls are often performed on routine transactions for which there are high quality automated controls. The very high risk areas in financial statements are often outside this area and relate to non-routine transactions and more intangible environmental or general controls which are not easy to test. （iv） Detailed testing of transactions and balances Advantages 1. In detailed testing of transactions and balances, auditors are directly examining the figures figures and assertions that appear in the financial statements. 2. Detailed testing enables the auditors to form a view to whether the figures on which he is reporting are fairly stated and often involves third party, written confirmation which is a good source of audit evidence. Disadvantages 1. Detailed testing of transactions and balances is often performed on a sample basis （disadvantages noted above）. 2. The level of testing of transactions and balances is determined by the level of comfort obtained by the auditor from tests of controls. If too much comfort has been obtained from tests of controls, it is likely that any error will be compounded by an inadequate level of testing of transactions and balances. （v） Computer assisted audit techniques （CAATs） Advantages 1. CAATs enable the auditors to test a large volume of data, or the operation of the controls in a system, accurately and quickly. They are therefore very-cost efficient when operated properly. 2.CAATs reduce the level of human error in testing and enable a very high level of audit evidence to be derived. 3. The use of CAATs frees up expensive human resources that would otherwise be engaged in routine, mechanical work to concentrate on judgemental areas. Disadvantages 1. CAATs are expensive to set up and require the co-operation of the client. It is usually necessary for a continuing audit relationship to be present before it is worth committing the audit resources. 2.Major changes in client systems often require major changes in CAATs, which is expensive. If the audit fee is based on the assumption that the prior year ’s CAATs can be used, and a change is made without warning, the client may have unrealistic expectations about the level of service that can be provided for the fee. （b） Relationship between the methods of evidence gathering （i） Analytical procedures are often first used during the planning stage of the audit. Materiality levels and levels of tolerable error are often derived （at least in part） from analytical procedures. These are in turn used in audit sampling procedures. （ii） Analytical procedures help the auditor determine the audit approach （the levels and areas for tests of controls and detailed testing）. （iii） The results of tests of controls determine the level of detailed testing of transactions and balances. Analytical procedures provide indirect evidence as to the effective operation of internal controls （if controls are working, analytical procedures may help prove that the population as a whole is fairly stated）. （iv） Detailed tests of transactions and balances are often performed towards the end of the audit in conjunction with analytical procedures-analytical procedures compensate to an extent for the weaknesses in sampling procedures both for tests of controls and detailed testing of transactions and balances （and vice versa）. （v） Sampling is used for both tests of controls and detailed testing of transactions and balances. Where CAATs are used, sampling may not be necessary because CAATs can often be used to the whole population, either for tests of controls, or for detailed testing of transactions and balances.