Types of Audit Procedure

Key methods of obtaining evidence:

- Analytical Procedures.
- Enquiry & Confirmation.
- Inspection of records & Tangible assets.
- Observation.
- Recalc - U - lation & Re-performance.

Analytical Procedures used as Substantive Tests

- Cannot be used in isolation
  - should be corroborated by other forms of testing.
  - e.g. Price rise – confirm to an invoice for the same item this year and last year
- Includes Ratio / trend analysis
  - e.g. Ascertain why GP% has risen / fallen
- Proof in Total
  - Create expectation e.g. Payroll costs
- Basic Analytical Review
  - obtain reasons for changes in balances from one year to the next (Remember to corroborate these reasons)
- Good analytical review
  - create an expectation first (changes / forecasts) & then compare to actual figures

Sampling

- Usually it is not possible to test every item in an accounting population
- It is not necessary to test every item as the requirement is to provide reasonable assurance, not absolute assurance
- Audit evidence is gathered on a 'test basis' (or sample basis)

Audit Sampling =

- Testing less than 100% of items within a population
- All sampling units have a chance of selection
- Reasonable basis on which to draw conclusions about the entire population

Audit Sampling Methods

- **Random** - e.g. use random number tables
- **Systematic** - An interval is used (every ninth item)
- **Haphazard** - No structured technique, but tries to avoid bias.
- **Block** - Select several items next to each other
- **Monetary Unit** - Based on monetary value e.g. Higher values

Statistical - 'Random selection such that probability theory can used to evaluate results (e.g. Extrapolation)
Sample size - The larger the sample the lower the sampling risk.