Audit Procedures

- Understand client and management
- Understand internal control
- Design and perform tests of controls
- Design and perform substantive procedures
  - Analytical procedures (relating financial and non-financial)
  - Tests of transactions & Test of balances
- Timing: more assurance is provided from year end
  - Interim procedures relies on controls
- Extent: samples must be cost effective and enough
- Types of procedures
  - Comparison of different internal records
  - Tracing follows a transaction through records (completeness)
  - Vouching goes back to source document (existence)
  - Inspection involves reading and reviewing
  - Reconciliation brings agreement of 2 independent sets of records
  - Confirmation: obtaining and evaluating a response
  - Physical examination
  - Observation (usually of controls)
  - Re-performance: repeat a client activity
  - Inquiry involves questions

Analytical Procedures

- Trends and ratios applied in models can tell if financial data is reasonable; comparison of financial and non-financial data
- Used to plan the nature, timing and extent of audit procedures
- Develop expectation
  - Use financial data from prior periods
  - Get anticipated results from budgets and forecasts
  - Highlight relationships among elements in financials
  - Use information from similar firms
- Resources: Dun and Bradstreet: Key Business Ratios
  Robert Morris: Annual Statement Studies
- Types of Analysis
  - Trends: Changes in account balances over time
  - Ratios: Relationship between two or more accounts
    - Liquidity: Current and quick ratios tell the ability a company has to meet current liabilities with assets easily convertible into cash
    - Leverage: Debt relative to equity
    - Profitability: Earnings per share & return on assets
    - Turnover activity: how assets are tied up/moving
      - Inventory: from purchase of inventory to sale
      - Receivable: from sale to collection
    - Regression: Statistical models quantify expectation
    - Reasonableness: less formal, more heuristic