Audit Procedure

What Are Audit Procedures?
Audit procedures are the steps that the auditors from an audit firm would carry out to acquire all the information related to the quality of the financial statements that a company has provided. This allows them to establish a point of view on the firm's financial statements, whether they are showing the true and fair condition of the financial position of the business. The auditors should determine and apply the audit procedures at the planning stage after they have found out the audit objectives, approach, scope, as well as risks involved.

Methods Of Audit Procedures
Throughout the process of a preliminary assessment, an auditor needs to determine and establish the amount of risk included and appropriately create an audit plan. The plans need to specify the audit procedures that the auditor will apply to acquire audit evidence.

There are two types of audit procedures:

Substantive Audit Procedures
Substantive procedures are the steps, processes or tests that the auditors will carry out that will create conclusive evidence about the existence, accuracy, valuation, rights, disclosure or completeness of the books of accounts, assets or liabilities, or the financial statements. For any substantive audit procedures, an auditor should gather sufficient audit evidence so that when there is another proficient auditor who carries out the same procedures on the same documents, he will make the same conclusion. For instance, is the double entry accounting for a particular transaction correctly posted? One may regard substantive audit procedure as a complete checking. Auditors typically utilise this audit procedure when he thinks that the audit sector possesses a high risk.

Analytical Audit Procedures
One may define analytical audit procedure as the evaluations, study or tests of financial information via analysis of reasonable relationships between financial as well as non-financial data. In other words, such procedures are particular tests or checks that an auditor would carry out according to the amounts of the previous years, the studies or knowledge to inspect and create a viewpoint on the financial statements prepared under the financial accounting (Also see How to distinguish Financial Accounting and Management Accounting). As the audit area differs, the analytical audit procedures might vary. For instance, the external auditor (Also see The Audit Objective of External and Internal Audit) may review two sets of financial statement from the same company referring to two different financial years, or sometimes he might compare the financial data from two distinct entity to acquire audit evidence.

Benefits
Below are some benefits of audit procedures:

- It assists the auditors to acquire considerable and conclusive audit evidence so that they could establish their opinions on financial statements.
- Specified audit procedures determine the amount of energy and time an auditor needs to deploy to look for audit evidence.
- Pre-established procedures aid auditors to comply with a specified set of steps that are necessary for the process of finding audit evidence.
- They assist auditors in planning well ahead of time in areas they should focus as well as determining the kind of audit procedures that they should apply.

Restrictions / Limitations

Regardless of the audit procedures the auditors have applied, they are unable to conclude whether the financial statements an organisation has prepared shows an accurate and true view despite one prepared by professional accounting firms in Malaysia tends post lower risk. The auditors express their point of view that is often subjected to some inherent restrictions of the audit. Some of the examples are as follows:

- Human Error: In spite of examining at an in-depth level, there are still chances that an auditor has expressed an inadequate audit opinion as a result of omissions as well as human errors.
- Judgement: In the process of the preparation of financial statements, there may be some circumstances where the management has to make judgements that might be different from each other. As the judgement has changed, an auditor might be unable to portray the real position of that company.
- Lack of Clear Instructions in Accounting: It is an undeniable fact that auditing standards have prescribed a set of rules that the auditors should follow when they conduct audits. However, some conditions are still undefined. To treat these cases, an auditor needs to make some assumptions.
- Presence of Management Fraud: There is a possibility where the high-level management or conspiracy of the workers to commit fraud. As the auditors form an opinion according to the information their auditee has shared to them, the auditee might not be able to notice such fraud.

Important Points

With the change in the business environment, business models, the auditor needs to ensure changes in predefined audit procedures. Since with the change in environment, these procedures also become obsolete. For example, with the increased automation, an auditor needs to implement audit procedures keeping in mind the computerized environment involved. An audit without a system audit may be incomplete and may result in forming the wrong audit opinion.

Conclusion

Audit Procedures are a series of steps/processes/ methods applied by an auditor for obtaining sufficient audit evidence for forming an opinion on financial statements, whether they reflect the true and fair view of the organization's financial position. It is mainly of two types – substantive and analytical procedures. Depending on risk assessment, auditor applies audit procedures. These help an auditor to plan audit and accordingly invest time for obtaining audit evidence. Audit opinion, still, is subjected to inherent limitations of an audit.

Source : https://www.backoffice.com