8 Types of Audit Procedures and Examples

- inquiry
- confirmation
- inspection of records or documents
- inspection of tangible assets
- observation
- recalculation
- re-performance
- analytical procedures

Inquiry

Inquiry is the process of asking the clients for an explanation of the process or transactions related to financial statements. This type of audit procedure usually involves collecting verbal evidence. Likewise, auditors use inquiry procedure for a wide range in the audit process.

For example, auditors may inquire clients to understand the business and control environment; or they may inquire about transactions or balances of financial statement line items.

Evidence gathered by formal or informal inquiry generally cannot stand alone as convincing. Hence, auditors usually perform other procedures together with the inquiry such as inspecting the supporting documents to ensure that the explanation provided by clients can be relied upon.

Confirmation

Confirmation is similar to the inquiry as it is also the procedure of asking for the information. However, confirmation is usually done by asking the third party, instead of the client, to confirm transactions and balances.

This type of audit procedures is usually done through formal written letters. Auditors usually perform the confirmation procedure for testing account balances such as accounts receivable, accounts payable, and bank balances, etc.

For example, auditors usually perform confirmation on the client's bank balances in order to obtain evidence about its existence as well as rights and obligations assertion.

Inspection of records or documents

Inspection of records or documents is the process of gathering evidence by examining the records or documents. This type of audit procedures may be done by vouching the transaction records to the supporting documents or tracing the supporting documents to transaction records.

For example, auditor may use the inspection procedure to test the occurrence assertion of expense transactions by vouching them to receiving reports, supplier's invoice and purchase orders.

Audit assertions such as occurrence, accuracy, and cut-off are usually tested by inspecting the documents to support the accounting transactions in the company's records (vouching). And completeness assertion is usually tested by selecting documents and trace them back to the company's records (tracing).

Inspection of tangible assets

Inspection of tangible assets is the process of physical examination of the company's tangible assets such as property, plant and equipment. This type of audit procedures can provide the evidence of tangible assets' existence.

For example, auditors may test the existence assertion of fixed assets by performing physical inspection of assets that are recorded in the fixed assets register.

Also, it is useful to note that the inspection alone will not provide evidence about the rights and obligations. For this audit assertion, auditors may need to inspect the legal documents of the assets.

Observation

Observation is different from physical examination of assets as the physical examination of assets is actually the same as counting assets while observation focuses only on the client's activities.

For example, the auditor may perform an observation procedure by witnessing the counting of inventories by the client. This observation procedure is to test the existence of the client's inventories counting procedures, not the accuracy of the client's inventory.

Recalculation

Recalculation is the process of re-compute the work that the client has already done to see if there are different results between auditor's work and the client's work. This type of audit procedures is usually used to test the valuation and allocation assertion of the financial statements.

For example, auditors may perform recalculation on the depreciation of fixed assets to test their valuation assertion.

Re-performance

Re-performance is the process that auditors independently perform the control procedures that were originally done as part of the internal control system by the client. This type of audit procedures is used to test the client's control procedures.

Analytical procedures

Analytical procedures are the processes of evaluating financial information through analysis of trend, ratio or relationship between data including both financial and non-financial data. Auditors usually perform this type of audit procedures by building their expectations about typical transactions or account balances and comparing them to the client's record.

If auditors find that the client's record is inconsistent with their expectations, they will investigate further on the variance that exists. The investigation might involve performing more substantive tests.

For example, auditor may perform the analytical procedure on interest expense account by multiplying the average interest rate with the average outstanding balance of the borrowings. Then, the auditor will use the result to compare with the amount recorded by the client. Any significant difference will be investigated further.

Audit Procedures and Assertions

Audit assertions that auditors need to test in the audit procedures include:

Class of transactions	Account balances	Present and disclosure
• Occurrence • Completeness • Accuracy • Cut-off • Classification	• Existence • Rights and obligations • Completeness • Valuation and allocation	• Occurrence • Completeness • Classification and understandability • Accuracy and valuation

For example, auditors may perform the audit procedure on fixed assets addition by vouching a sample of new items in fixed assets register to the supporting documents. This procedure tests the occurrence assertion of fixed assets addition.

Meanwhile, auditors may test the completeness assertion of fixed assets by performing audit procedure of:

- tracing the physical fixed assets to fixed assets register and
- reconciling the fixed assets register to the general ledger

In summary, it is important for auditors to be aware of what types of audit procedures are suitable for testing different audit assertions. This may also depend on different levels of assessed risks and quality of audit evidence that auditors seek to obtain.

Audit Procedures and Evidence

Auditors can gather evidence by using various audit procedures such as examining various records and supporting documents. These documents and records can be either from internal or external sources.

However, external sources usually provide a better quality of evidence. They are more reliable comparing to the internal source of evidence that is provided by the client.
Audit procedures for obtaining audit evidence are usually performed in the audit evidence gathering stage that may include both test of controls and substantive procedures.

In the test of controls, audit procedures are performed to obtain evidence about the effectiveness of the client's internal control.

On the other hand, audit procedures in the substantive procedures are performed to gather evidence about various audit assertions of different classes of transactions and account balances.

Audit Procedures and Sampling

Audit sampling is the method of audit procedure where auditors test less than 100% of items within the population of account balance or class of transaction. Auditors usually use audit sampling techniques when performing the audit examination on the client's financial statements.
This is due to it is impractical for auditors to examine all items in the client's record. Hence, audit procedures and sampling techniques are usually used together.

Also, it is important that auditors use audit sampling in a way that all sampling units in the population have a chance of being selected.

When performing audit procedures and sampling, auditors usually need to determine what is their sample of the records or documents to review. Likewise, auditors may use different sampling methods to determine their sample.

These audit sampling methods may include:

- random selection
- systematic selection
- monetary unit sampling
- haphazard sampling
- block selection