

THE ANALYTICAL REVIEW PROCEDURES IN AUDIT: AN EXPLORATORY STUDY

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Abstract: This study investigates the relationship between the audit objective and the choice of substantive procedures used to ensure the satisfaction of the auditor. The research that gave support to the current study is exploratory and adopted a non-probabilistic sample comprising 28 auditors of an Undergraduate and Master's degree programs in Accounting of a Brazilian University. Thus, to preserve the maturity and skill expected of the respondents of the research we restricted a minimum of one year of auditing experience for the auditor that might have served in one of the Big Four Auditing firm. Methodology wise, we applied a qualitative ordinal approach and the research question is as follows: What are the characteristics of Analytical Review Procedures that guide auditors' judgment while choosing among a mix of procedures to meet the requirements of the substantive tests? Our analysis was based on absolute frequency analysis of the use of the substantive procedures. In this respect, our results revealed that auditor's satisfaction is anchored on the materiality of the accounts or group of accounts to be audited. Yet they give a relative importance to judgment of risk and relevance of misstatement that each account presents. In so doing, auditors give preference to substantive procedures in which one is able to gather information from third parties to confirm accounting balances while giving less priority to recalculation of routine tests developed by the audited entities.

Keywords: Substantive testing. Auditing. Big-four. Analytical review. Analytical procedure.

1 INTRODUCTION

An audit is divided into four major parts: *agreement by the parties* – where service level agreement is established between the involving parties (client/auditor) concerning the scope and purpose, *planning* - which is drawn across the audit strategy, the extent of testing based on apparent risk; *performance* - the audit phase where the effective test of controls and substantive procedures are executed; and *conclusion* - drawing and issuance of opinion, management letters, sending users communication across stakeholders network (if sustainability reporting), review and filing of the engagement.

In this respect, the auditor in order to issue his opinion with consistency and unbiased, concludes on some essential elements in order to underpin his work and

demonstrate a judgment with credibility. These elements usually have a backing of Analytical Review Procedures (ARP).

For this purpose therefore, there exists several procedural tasks for auditor to perform and one of the most important part is the substantive test. There are a range of substantive tests available to be applied by the auditor. However, one is not obliged to perform all substantive tests in all accounts or group of accounts, because some are more efficient in certain situations than others. It is the auditor based on his knowledge and professional judgment who will decide on the most effective combination of tests to be performed.

If two auditors with extensive knowledge and experience do analyze the same account in an organization, it is possible that each of them would choose a different type of test to be done to meet their audit objectives, owing to different audit approaches. Notwithstanding, it is expected that they arrive at the same judgment at the final analysis based on principles and audit standards that guide their services.

1.1 Rationale of this research

The present study is justified mainly due to a lack of literature on the subject, either by search in periodic scientific journals in Brazil, or online books and international peer reviewed journals on international level.

Due to the apparent importance that the theme suggests, the study is extremely timely to complete and enrich the literature that addresses concern of researchers.

1.2 Research Problem Statement

Substantive testing within an audit environment is typically time-consuming. Consumes man-hours and audit resources that could prejudice efficiency of an audit work. Therefore, as the task could encumber an audit engagement, so a better mix of substantive tests to assist in saving hours that usually pleases the customer would be and added value. This in turn can result in a more efficient audit.

The combination of downward pressure on audit fees and demand that auditors take more responsibility for detecting misstatements in their clients' financial

information has led auditors to seek audit procedures that are both efficient and effective (WHEELER and PANY, 1990).

Allied to this line of thought is a common worry of junior auditors on what causes the audit engagement team to choose a particular substantive test in the expense of the other.

Additionally, this study also consider the preoccupations of researchers such as Eichenseher and Shields (1983); Cushing and Loebbecke (1986); Danos and Eichenseher (1986); Kinney (1988); Imoniana (2001), Almeida (2003), Almeida (2005 etc., concerning efficiency of audit and substantive tests.

Given this reality, the question that governs the development of this study is as follows: What are the characteristics of Analytical Review Procedures that guide auditors' judgment while choosing among a mix of procedures to meet the requirements of the substantive tests?

1.3 Objectives

Given the above preamble, it is imperative to present the main and secondary goals of the study, as shown below:

1.3.1 Main Goal

The current study aimed to investigate the relationship between the audit objective and the choice of substantive procedures used to ensure the satisfaction of the auditor.

1.3.2 Secondary Objectives

As secondary objectives, the current study objectifies:

- a) Understand how the auditor maximizes audit security, through substantive and analytical procedures used in relation to the audit objectives;
- b) Identify a combinatorial substantive tests to best ensure the satisfaction of the auditor in a given audit engagement.

2 LITERATURE REVIEW

2.1 Audit Procedures

In order to verify the adequacy of the financial statements and the company's internal controls, one performs a series of audit procedures. According to Boynton et al (2002, p. 209) audit procedures are methods or techniques the auditor uses to assess and collect material, sufficient and competent evidence.

Souza (1999, p.2) asserts that the accounts are correct and that internal controls are safe, with the certification of quality and credibility of the reports, constituting a clear flag for the conduct of business.

The application of these procedure results in obtaining the necessary evidence to support the work of the auditor. Auditing is concerned with the verification of accounting data and with determining the accuracy and reliability of accounting statement, it means looking for sufficient evidence to satisfy oneself as auditor that the accounts show a true and fair view (MILLICHAMP, p. 225 1996). Analytical and substantive tests are part of these procedures.

2.2 Analytical Tests

Internal controls play an important role within the organization. Boynton (2002, p.320) states that internal control is a process operated by the board, administration and others, designed to provide reasonable assurance regarding the achievement of objectives in specific categories.

To ensure that internal controls established by senior management of an organization, are in fact respected by all parties involved, it is necessary for the application of analytical tests, also known as compliance testing. Santi (1988, p. 88) defines compliance test as tests of the set of procedures and audits designed to confirm whether the critical functions of internal control, which the auditor will depend on subsequent phases of the audit are being implemented effectively.

NBC T 11(1997) conceptualizes the compliance tests in its item 11.1.2.2, saying they aimed to obtain reasonable assurance that internal control procedures established by the administration are in effective operation and in enforcement.

The compliance tests are performed in the more detailed format, in which, due to its importance and risk, needs more attention by the auditor. Beuren and Cunha (2006, p. 69.) argues that tests of compliance are made in the areas that require greater control because they are more exposed to a proportionately greater risk in terms of accounting balances and distortions in the financial statements.

2.3 Substantive Tests

According Imoniana (2001, pg. 163) substantive tests are audit procedures designed to obtain reasonable and competent corroborative evidence of validity and ownership of the accounting treatment of transactions and balances and evidence to detect material misstatement in the financial statements. This author adds that the substantive tests are all tests with the exception of tests of internal controls.

Beuren and Cunha (2006, p. 69.) complements that the substantive procedures in audit are used to establish the reasonableness or otherwise of transactions and account recorded balances. Substantive testing is inversely related to the tests of controls. The higher the confidence found in internal controls, the lower the extent and depth in the application of substantive testing. Moreover, the greater the application of substantive tests, when the auditor found weakness in internal controls.

There are innumerable tests that can be used by the auditor to review company's operations and in that respect, it depends on him to choose which will be more useful to verify certain account and thereby ensure the veracity of the account balances. From tests that have been selected to verify all records, documents and intangible assets for instance, one may in addition to the test of controls, adopt a confirmation of individuals and legal entities which holds some knowledge of company operations.

According to Millichamp (1996, p. 463), substantive techniques include:

- i. Review of exception reports – the auditor will attempt to confirm these with other data. An example is the comparison of an outstanding dispatch note listings with actual dispatch notes;
- ii. Totaling – relevant totals , for example of debtors and creditors can be manually verified to certify their veracity;

- iii. Reperformance – the auditor may reperform a sample of computer generated calculations for example stock extensions, depreciation or interest;
- iv. Reconciliations – these will include reconciliation of computer listings with creditors' statements, bank statements, actual stock, personnel records, etc.

Therefore, it is necessary to adopt an analytical review in order to understand the goals of a business, or better say, what degree of confidence the results have been achieved, using the knowledge acquired in previous audits, one should still observe the nature of operation, the information available that will have relevance in the process, its reliability and comparability. NBC T 11 (1997) in its analytical review of item 11.2.6.2 defines how to verify the behavior of significant figures through indexes, absolute amounts or other means in order to identify atypical trends or situation of an operation.

Thus, surrounded by all this information, the auditor will test accounting balances, using substantive testing. Several tests are pre-established and others that will be selected by the professional to make sure that the balances are valid and are consistent with results found. The choice of tests is performed on a personal basis, as is the professional who chooses the combination of tests that he thinks is most appropriate for any given situation.

Very often, these substantive tests are carried out by using statistical sampling, because this is an efficient and effective way of testing. Moreover, statistical sampling makes the audit work less vulnerable to misjudgments by audit staff when deciding on the selection of the elements to be tested (Van BATENBURG, O'HAGAN and VEENSTRA, 1994).

2.3.1 Performing Substantive Review

The accounting audit function is to review the documents, books and records in order to increase the confidence of the financial statements of the company being audited. To achieve this goal it is necessary that the auditor expresses an opinion, by assessing whether the financial statements are in accordance with auditing standards, ethical and financial reporting.

The audit includes the examination of documents, books and records, inspections, and obtaining information about bookkeeping, internal and external, related to the control of the assets, aiming to measure the accuracy of those records and financial statements resulting from them (FRANCO and MARRA, 1995).

However, before starting work, auditors' responsibility is streamlined as he verifies that the structures of the financial report that will be applied in the financial statements is indeed acceptable and still get the administration to recognize that it understands and accepts its responsibility. By analyzing the statements the auditor may encounter an error or fraud, although it is not the auditor's primary task and function to detect fraud, during the course of his audit if there is indication or trace of any misappropriation, he should report to the management and indicate the corrective action or in-depth procedure that is appropriate to address the situation.

Albeit the continuity of audit jobs are hampered in the alerts giving above, that results in the deviation of the original objective, the auditor should perform some procedures that are essential considering the importance of the engagement that is deemed necessary and sufficient.

Therefore, for the auditor to complete the scope of work on their objectives, that generally complements those performed with internal controls and also be able to make adjustments, substantive procedures are performed by applying the following techniques: circularization, reconciliations, checking calculations, physical examination, rerunning of account operations, among others (IMONIANA, 2001).

All measurements, adjustments, executions, significant errors that are made and / or found in the process must be reported by auditors in their work papers, which shall include evidence that justifies his opinion. It is the duty of the auditor to keep custody of working papers for five years from the date of issuance of this opinion. And it is extremely confidential and may be presented by management to review if requested (NBC T 11, 1997).

Suffice it to mention that the audit evidence of substantive procedures are recorded in working papers, these generally are acquired in the following ways shown in Frame 1 below:

Frame 1 – Audit Evidence and the gathering procedures

Audit Evidence	Gathering Procedures
Physical	Through the proof of existence (direct evidence) of assets and financial liabilities, say plants & machineries, vehicles, utensils, human resources presented by the entity
Documental	Through the records of the operations of organization which consists in documents, contracts and agreements, information which could internal and external. Note that external information produces more confidence on the audited entity.
Analytical	Through conference and matching of calculations. Besides, analytical procedures could involve comparison of balances and analysis of auditor balances in relation to the client.
Testimonial	Through posing of questions (corroboratory and observatory inquiry) questionnaires being answered in and outside the organization by people who own trustworthy information.
Confirmation with Third parties	Through obtainment of document from third parties which validates information being presented. Note that the accounts and groups of accounts in which this audit evidence could be applied are: Supplies, Accounts Payable, Banks Balances, Clients and Accounts Receivable, etc.

Besides these evidences that the auditor needs to prepare his opinion, which may be derived from several other analytical procedures, generally, the accounts balances needs to be tested to ensure the fairness of the financial statements and also ensure its validity. It is from this information that he can guarantee the accuracy or not of the audited organization's operation.

2.3.2 Detection risk and potential errors in the substantive test

The auditor should be at alert for errors that may lead users to a misinterpretation of financial statement. For this reason, it is also imperative to note if the value generated by this error would be significant in relation to operations. The internal control system of the organization aims to reduce errors. Based on the efficiency of internal control the auditor determines the amplitude of the tests. Still, be prepared for a substantive test, should be considered the risk of detection. Detection risk is the risk that the auditor did not detect a material error or irregularity that exists in an assertion (BOYNTON, 2002). For this is provided an acceptable level of risk of detection. This risk is based on the audit risk, inherent risk and control risk, which are measured before they started the ARP.

Thus, the acceptable level of risk is essential to the planning of substantive tests. In this regard, one should also consider the totality of the tests of controls, the client's industry and procedures already performed.

According to Boynton (2002, p. 426), the design of substantive tests involves

determining the nature, timing and staffing necessary to achieve an acceptable level of risk of detection for each statement.

The nature of a substantive test is related to the type of test to be performed; this should vary within the risk of detection or mitigation spectrum. If it is low, it is recommended to use more efficient procedures and, if high, procedures less effective because they are cheaper.

A substantive test may also have affected their chance at an acceptable level of risk of detection. The opportunity is related to the time that the test should be performed. When risk is high, the tests could be carried out months in advance. When it is low, the test is usually performed near the balance sheet date.

If the auditor requires further evidence to reach an acceptable level of low risk, then you can change the extent of substantive testing. The extension is related to the volume of evidence obtained. The auditor may, for example, increasing a sample of 50 accounts receivable to 100, if deemed necessary.

For Boynton (2002, p.433), auditors should be assigned to tasks and supervised commensurate with their level of knowledge. And, according to the level of risk may be required a higher level of knowledge to perform a certain procedure. Then, the substantive test should be assigned to a professional possessing the skills, abilities and experience to accomplish it.

2.3.3 Developing audit programs

The auditor may, in most cases; use audit software to make his job more effective and efficient. One can apply substantive tests, test controls, to facilitate the filing of evidence, among other activities.

While developing audit programs (IDEA, ACL, etc.) software can be designed to meet specific needs of the auditor, replacing procedures that were previously performed manually. As examples of substantive testing, selection and printing of samples, testing and performing calculations, summarization of data and performance reviews may be essential for the substantive procedures.

2.3.4 Direction of Substantive Test

For Ferreira (2007) through substantive tests, the auditor determines whether the account balances indicate adequately the situation of its heritage and variations, trying to identify if there are undervalued or overvalued accounting balances. There are tests that the auditor can perform to find out whether there have been overvaluation and / or undervaluation in the assets and liabilities. Because the test for overstatement of assets and secondary test for overstatement of revenue.

According to Imoniana (2001) generally the directions of substantive test can be summarized as in the following Frame 2.

Frame 2 – General directions of substantive tests

<u>Tests</u>	<u>Debit</u>	<u>Credit</u>
Primary Direction	Overvaluation	Undervaluation
<u>Direct results is to test:</u>		
Assets and Expenses	Over	Over
Liabilities and Revenue	Under	Under
<u>Indirect results is to test:</u>		
Assets and Expenses	Under	Under
Liabilities and Revenue	Over	Over

Adapted from Imoniana (2001)

Better still, in key test for overstatement of assets and secondary test for overstatement of income: the audit of accounts receivable (current assets), the auditor may hold that a sale was recorded in 20X1 and 20X0 respectively. And consequently the result of the account of trade receivables (primary test) and the account of gross sales (ALMEIDA, p.48, 2003).

Another test that is part of this group is to examine the possible understatement of its liabilities and secondary test of understatement of expenditure.

For instance, the primary test for understatement of liabilities and secondary test for understatement of expense: the auditor noted, during the inspection of loans that interest due and unpaid, until the closing date of the fiscal year, were not provided. As a result, the account of interest payable (primary test) and the account of interest expense (secondary test) were undervalued.

Finally, we are concerned with the testing for understatement of liabilities and secondary test for overstatement of revenue.

For the case we exemplify with Almeida (2003 p.49) in this case, the audited accounts for freight payable, the auditor noted that freight costs incurred but not yet paid were wrongly credited in the income account. Therefore, the account of freight payable (primary test) was undervalued and revenue account (secondary test) was overvalued.

It is imperative to observe that in all directions of tests of accounts or groups of accounts, conservatism is handled with care since everything considers the interest of the business operations.

2.3.5 Special considerations in the preparation of substantive testing

Tests of details of balances are effective for balance sheet accounts but an income statement account requires different treatment. They relate the accounts balance, but can not be analyzed in the same way. For a more efficient analysis of this type of account requires a more analytical procedures and tests of fewer account balances.

Analytical procedures may represent a powerful tool in obtaining audit evidence about account balances result. That kind of substantive testing can be used directly or indirectly. Direct tests occur when an income or expenditure is compared with other relevant data to determine the reasonableness of the balance. Tests run when indirect evidence on account balances result can be derived from analytical procedures and applied to the corresponding balance sheet accounts (BOYNTON, 2002).

The auditor should have knowledge of accounts involving related party transactions. This type of account should be identified in the study of understanding the business and industry. These transactions deserve greater attention because the auditor's independent parties involved can not be defending their best interests. For Boynton (2002, p. 444), to audit such transactions, the auditor aims to obtain evidence as to the purpose, nature and extent of transactions and their effect on the financial statements.

2.4 Group of accounts analyzed

In order to apply a substantive test the audit normally chooses the six major groups of ledger accounts that are essential to the achievement of a company's business objectives, these being: a) cash and bank; b) sales / accounts receivable / collections; c) purchases / accounts payable / payments; d) payroll; e) stocks and cost of productions; f) fixed assets; (see Frame 3).

Frame 3 – Six major groups of ledger accounts

Group of Accounts	Description
1. Cash and Bank	Represents the actual cash flow of the company during the period.
2. Sales / Accounts Receivable / Collections	Represents the cycle to a cash inflow in the company. the same value of the sale must be recorded in accounts receivable and the actual receipt
3. Purchases / Accounts Payable / Payments	Represents the cycle for the cash outflow in the company, the total value of purchases should be properly divided between accounts payable and the actual payment, so that it will sum up the total purchases.
4. Payroll	Represents the calculations made for purposes of payroll taxes
5. Stocks and Cost of Production	Represents the end of the production chain where products must be included in inventory and their costs in regard to production costs, as well as the outputs of stock.
6. Fixed Assets	Represents all purchases and reductions of fixed assets account.

2.5 Criteria for the choice of substantive tests

There are some criteria more relevant than others, when the auditor chooses to apply a substantive test in a particular account. In the normal circumstances, the experience of the auditor counts and this result in a professional judgment drawn out of the maturity of the auditor that characterizes his responsibility on the work done.

According Beuren and Cunha (2009, p.77), the materiality of the accounts or group of accounts is the test most frequently used by auditors.

In this respect, one takes advantage of the experience of this author, having worked for more than 15 years in the Big-Four Audit Firms, to signal the usual 3% of Total Assets or same 3% of Total Equity as the bases of engagement materiality.

Even though there may be problems positioning in this respect as has been stated in previous studies, the volume of transactions and subjectivity, etc. this seems to be the most common in use.

Based on these aspects, and deciding on the level of accuracy and reliability that will be applied in substantive testing we crave this indulgence in our study.

3 METHODOLOGY

3.1 Type of Research and Approach

This study is characterized as an exploratory study because it is an issue that is rarely addressed in the auditing literatures. In another look, because it requires certain level of practicing experience to bring it to academia which is not readily available in our literatures.

In this same perspective Gil (1999), highlights that the exploratory research is developed in order to provide an overview of a particular fact under study. Therefore, this type of research is carried out, especially when the theme is well explored and it is difficult to formulate accurate and actionable hypothesis.

Thus, the exploratory research will help to encompass the knowledge and bring new in-depth reflection research levels of once unknown due to lack of relevant information on the subject.

The research approach is ordinal qualitative method, by questioning the choice that an auditor must make to choose from a range of substantive procedures, tests which will ensure audit satisfaction for the area tested.

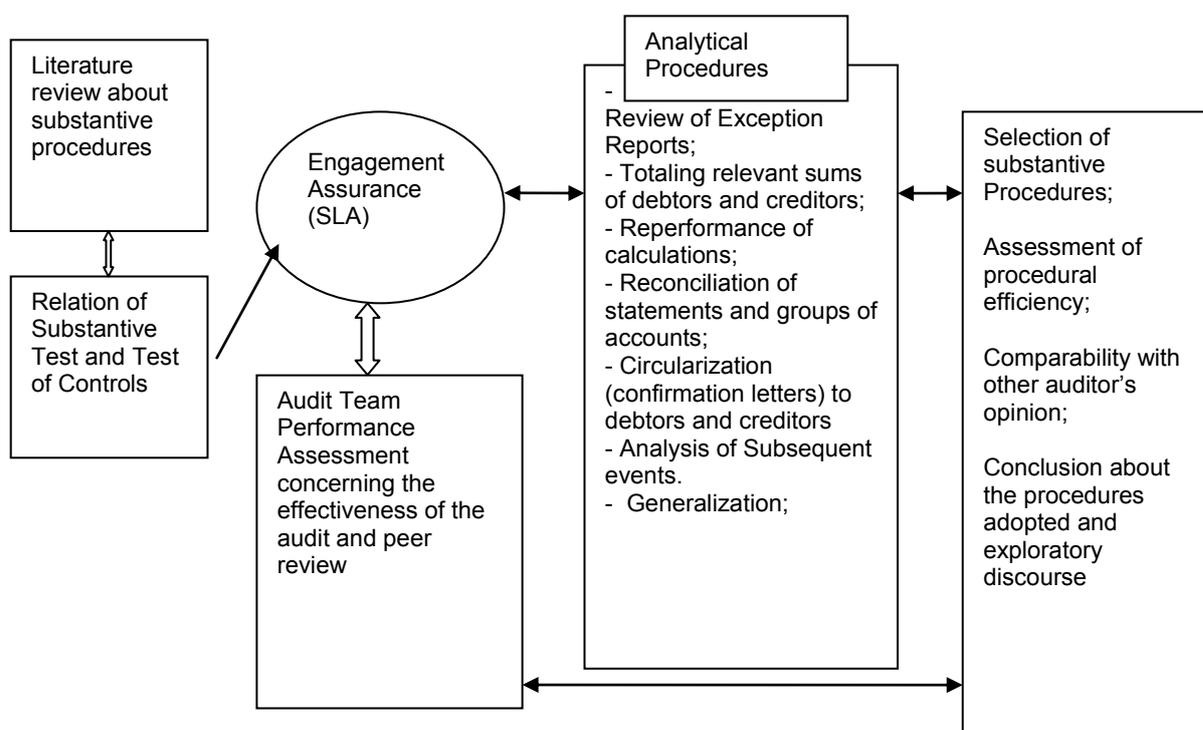
In qualitative research, to conceive further analysis in relation to the phenomenon that is being studied, the qualitative approach seeks to highlight features not observed by means of a quantitative study, the superficiality of the latter view (BEUREN, 2009, p.92).

3.2 Research Framework

As already mentioned, this study is an exploratory study of the involvement of auditors in the process of financial audit. Thus, it tried to explain the variables, relationships and influences that exist when auditors based on their service level agreements and auditor objectives tried to determine certain levels of substantive and analytical procedures to be tested to cover the expectations of audit teams.

It gathered exhaustibly a great number of literatures which discusses the theme. This was within the issues presented in the conceptual and research framework cited in figure 1. The framework as we can see, summarized themes as presented in the literature, the existing relationship between substantive test and test of controls. Additionally, it includes a description of analytical procedures and relates it with the engagement assurance that correlates with the service level agreement. Finally, we discourse the information obtained through the questionnaires with the experience of the author, approximately 23 years in auditing thereby provoking a good number of inductions.

Figure 1 - Synthetic Research frameworks



In the end, we perform a detailed analysis of the factors that influence the decision of the auditors in the engagement teams for choosing out of range of substantive procedures to meet audit objectives.

3.3 Sample

The sample used in this study is a non-probability sample. Consisting a random sampling of the Undergraduate students in their third and final years (approximately 150) and Masters degree students (Approximately 50) all in Accounting who have worked or currently working in the big-four audit firms. Additionally, the respondents might have performed analytical review procedures or a substantive test, which means that the auditor must have more than one year working experience. This capacitates him knowledge and experience in responding to the questionnaire.

The non-probabilistic method aims to select the sample required to prepare the study in accordance with the criteria that meet the needs of researchers. Martins (2000) explain that the non-probabilistic sampling occurs when there is a deliberate choice of the sample elements.

Overall, the questionnaire administered to a universe of 200 students received a sample of 28 auditors as respondents. The limitation of mostly undergraduate and master's degree in accounting sciences, and most importantly to those who have worked or are currently working in the Big-four Audit firm reduces the range of the respondents.

3.4 Collection

To collect the data we used a questionnaire containing semi-structured questions directed to the groups of accounts reviewed and the primary tests that it can be applied. The auditor had to mark the tests, in order of importance, where 5 represents the most important test and 1 the least important. Data were also collected on the criteria used and more about the profile of respondents.

4 DATA ANALYSIS AND DISCUSSION

Our analysis is based on the frequency description of the responses, by comparing the responses of all auditors, and also checking what actually occurs to the choice of tests by prioritizing among a range of existing procedures, and thereby

supporting their conclusions.

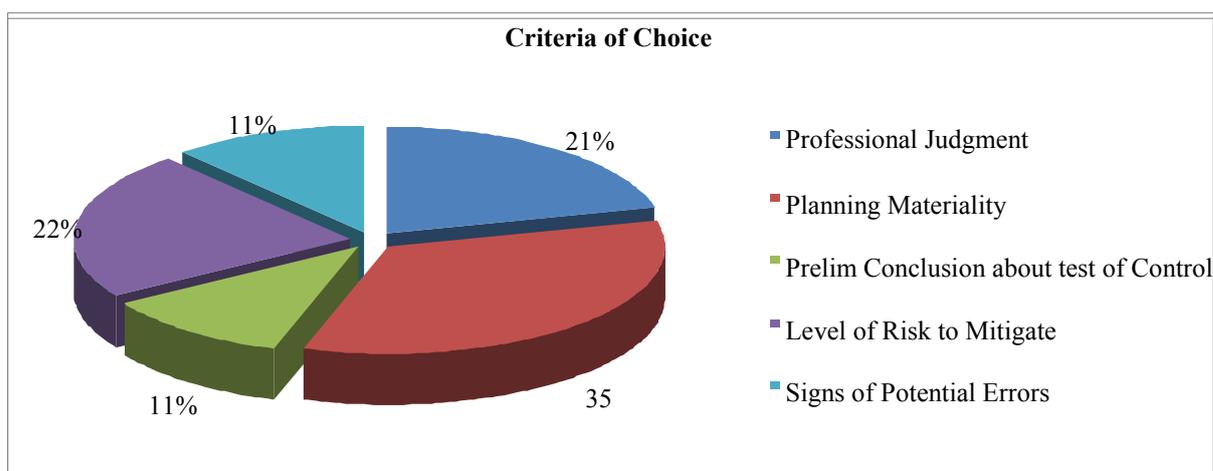
Regarding the data of surveyed respondents (see Table 1), all had experience in auditing in companies that make up the Big-Four and most have participation in planning the audit of substantive test, a factor that indicates deeper knowledge on the subject.

Table 1 - Average data from respondents of the questionnaire

Average data of respondents	
Age:	24.4
Average Year of Experience in Auditing	3
Experience of Audit in Big-Four Firm	100%
Time of execution of substantive procedures (give in years):	2.1
Participation in audit planning of substantive test:	80%

Regarding the selection of criteria (see Figure 2) the option of materiality was deemed more important by the auditors questioned. This criterion is to measure what value is important to be examined, adjusted according to company size. For example, for a large company, an account balance of R \$ 800,000.00 can be considered as immaterial, however, a midsize company may deem that a material amount. It is important to optimize the time of the audit work while defining the scope and relevant accounting balance. The most important criteria after the planning materiality, is the desired level of risk to mitigate.

Figure 2 – Criteria of Choice for substantive test



In the group of Sales / Accounts Receivable / Collection (Table 2), circularization of the customers has been chosen as the most important being

applied in this group. This choice was preferred equivalent to 78% of the total. In this test, the auditor should send letters to customers with whom the company has accounts receivable. An examination of subsequent events proved to have considerable importance, being chosen as the second most effective test for 41% of the sample.

Table 2 - Result of Group Sales / Accounts Receivable / Reception

Sales / Accounts Receivable / Collections						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Conciliation of Trail Balance to the General Ledger	3	1	12	5	7	28
Circularization of Clients	21	5	1	0	0	27
Verification of Subsequent Events	3	11	2	4	7	27
Provision for Doubtful Debts	1	9	6	6	4	26
Unusual items	2	3	7	9	5	26

For the group of accounts Purchasing / Accounts Payable / Payment (Table 3), circularization of suppliers test was chosen as most effective by respondents. This test consists of sending letters to suppliers that the company has payables to confirm the amount. The valuation of accounts payable was chosen as the most important by at least 44% of the auditors.

Table 3 - Result of Group Purchasing / Accounts Payable / Payment

Purchases / Accounts Payable / Payments						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Conciliation of Trail Balance to the General Ledger	2	2	10	8	5	27
Cut-Off of Accounts Payable (untimely recording)	2	12	4	4	3	25
Verification of unrecorded liabilities	0	7	14	3	2	26
Valuation of Accounts payable	2	4	2	6	11	25
Circularization of Suppliers	21	2	1	2	1	27

Regarding Payroll (Table 4), the overall calculation of the sum was considered the most effective. In the overall calculation, the auditor confirms the calculation made by the company relating to payment of payroll taxes. Then the choice of auditors was the provision for calculating the 13th salary, vacation and bonuses.

Table 4 - Result of Payroll

Payroll						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Global Calculation of Payroll	14	4	8	2	0	28
Calculation of provision for 13th Salary, Vacation Allowance and profit distribution	6	17	4	0	0	27
Conciliation of Trail Balance to the General Ledger	8	4	6	6	2	26
Analysis of Payroll	1	3	6	11	0	21

As relating to fixed assets (Table 5) the test of items concerning the inclusion and exclusion was the most important procedures chosen by the respondent. In that test, scores are analyzed for purchases of property and equipment items were properly added to the accounts and any such disposal or loss of any item of property was properly excluded from the list. The test of rent, repairs and maintenance was considered the least effective for 44% of respondents.

Table 5 - Results of Fixed Assets

Fixed Asset						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Physical count	8	2	13	2	3	28
Addition and Exclusion (disposal)	11	11	4	1	0	27
Depreciation, exhaustion and Amortization	5	10	7	5	0	27
Deterioration of Fixed Assets	0	4	4	9	8	25
Rents, Servicing and Maintenance	5	0	2	7	11	25

In the group of Inventory and production costs (Table 6) the test chosen as most preferable was the physical inventory test, which consists of the physical count of items that the company keeps in stock. The recalculation of the Cost of Sales test is considered the least effective for this group.

Table 6 - Result of group Inventories and Cost of Production

Inventory and Cost of production						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Inventory Count	20	1	5	1	0	27
Circularization of stocks with third parties	2	10	4	6	4	26
Valuation in accordance with Accounting policies	4	7	7	1	6	25
Costing test	1	8	6	4	2	21
Recalculation of Cost of Sales	0	0	3	9	8	20

In the group of Cash and banks, (Table 7) the test chosen was as relatively more important was the circularization of the banks. This consist in mailing the supposed owing banks balances to the bank branches in which the company maintains accounts to confirm the ending balances for the period.

Table 7 - Result of group Cash and bank

Cash and Bank						
Test	Frequency of Relative Importance					Total
	5	4	3	2	1	
Conciliation of Trail Balance to the General Ledger	6	15	3	0	2	26
Circularization of banks	18	4	1	2	1	26
Cutt-off of bank deposit and withdrawals	0	4	9	7	1	21
Valuation of Cash & Bank	2	1	7	11	3	24

After consolidating test responses considered more important and less important (see Frame 4) one could observe that in groups of accounts where one can perform the circularization, this test was considered the most important. This means that when audit has the chance to confirm a balance in possession of the third parties, the auditor obtains greater confidence to validate or not the balance shown by the audited company. This evidence is called third-party confirmation.

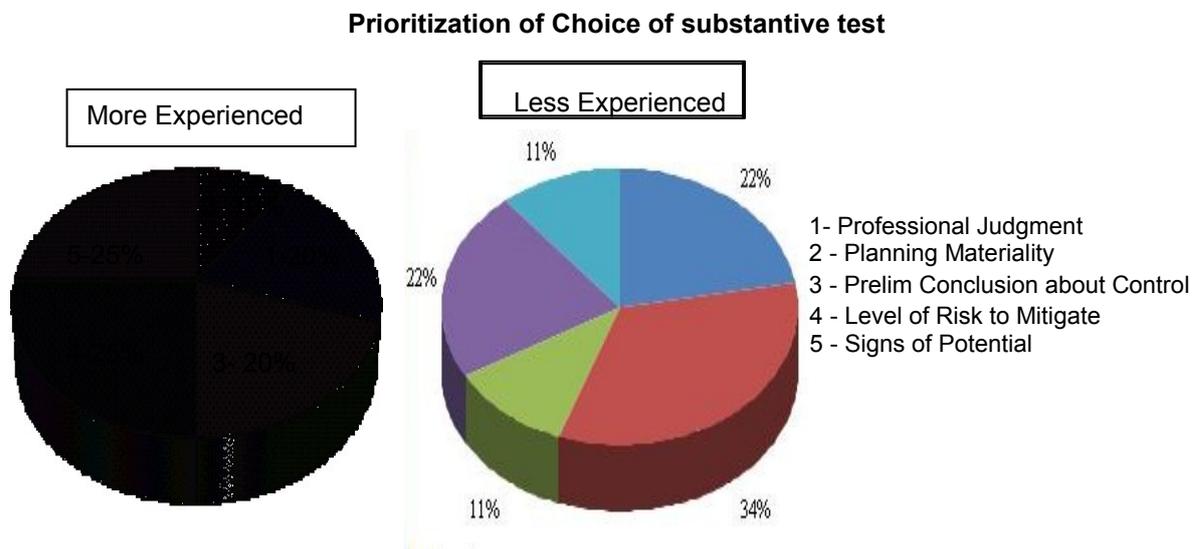
Also in accordance with Table 11 it worthy of observation the tests which is less important. Among them was reconciliation, normally related to internal check, the test less remembered due to the fact that it is a routine for all companies. Although as an important procedure, it is not as effective for auditing purposes as well as tests that consist only of reviewing the calculations is routine transaction for businesses. It is very important to start with it as a junior auditor's approach.

Frame 4 – Groups of accounts and test considered as most/less important

Group of Accounts	Tests Considered as Most important	Tests Considered as Less Important
1. Sales / Accounts Receivable / Collections	Circularization of Clients	Conciliation of Trial balance and General Ledger
2. Purchases / Accounts Payable / Payments	Circularization of Suppliers	Conciliation of Trial balance and General Ledger
3. Payroll	Global Calculation of Payroll Statements	Conciliation of Trial balance and General Ledger
4. Fixed Assets	Additions and Reduction (Exclusion or Disposal)	Rents, Servicing and Maintenance
5. Stocks and Cost of Production	Physical Inventory Count	Recalculation of Cost of Sales
6. Cash and Bank	Circularization of Banks	Cash Evaluation

Also, as we perform a separate analysis of data collected from experienced auditors (mostly respondents of the Masters Program) those considered here that have 4 or more years of experience, we detected only a significant difference when comparing the results. In the case, upon questioning about the choice and prioritization of tests, the auditors pointed to be more experienced showed a concern about the verification and mitigation of risk and the hint of potential errors as the most relevant criteria to be considered, while the average to the less experienced opted for materiality for audit planning. This explains the concerns given to risk analysis today by high echelon of auditing engagement so as to reduce field hours.

Figure 3 - Comparison between more experienced and less experienced in the selection and prioritization of testing



Compared to other groups of accounts, there was no change in the choice test the most important and less important, when segregated by level of experience.

6 CONCLUSION

Based on studies, we concludes that the auditor, before all the possibilities of testing requirements, choose the combination of tests that most pleases him to achieve the audit objective, based on the materiality of the accounts to be audited. This however matches the level of identified risk and the potential errors each account has to portray in a material misstatement due to fraud or error by the

reporting entity. These are the factors considered most important for increasing the effectiveness of an audit when selecting analytical procedures to be tested.

It also conclude that the tests most commonly used by auditors are the ones that can use third-party information to confirm balances presented, while auditors less prioritize testing recalculation of routines developed by the company being audited, chosen for test in cases when audit engagement need to test additional procedures to enrich audit judgment.

Finally this study concludes that for each type of account audited, there is a test or more which gives the auditor the necessary satisfaction to issue audit opinion while minimizing the audit risk, guiding him unchallenged when issuing an unqualified opinion when the financial statements are materially misstated.

Given the difficulty of obtaining specialized literature on the subject studied, the work can be continued or expanded and a new study regarding the importance of planning the audit and control tests, focusing on the design testing and impact of results in defining the nature, timing and extent of substantive testing could be very interesting.

Nota: Aprovado em: CONTECSI – 2011.

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