

EVALUATION OF RESULTS

The Process

Identifying errors/deviations

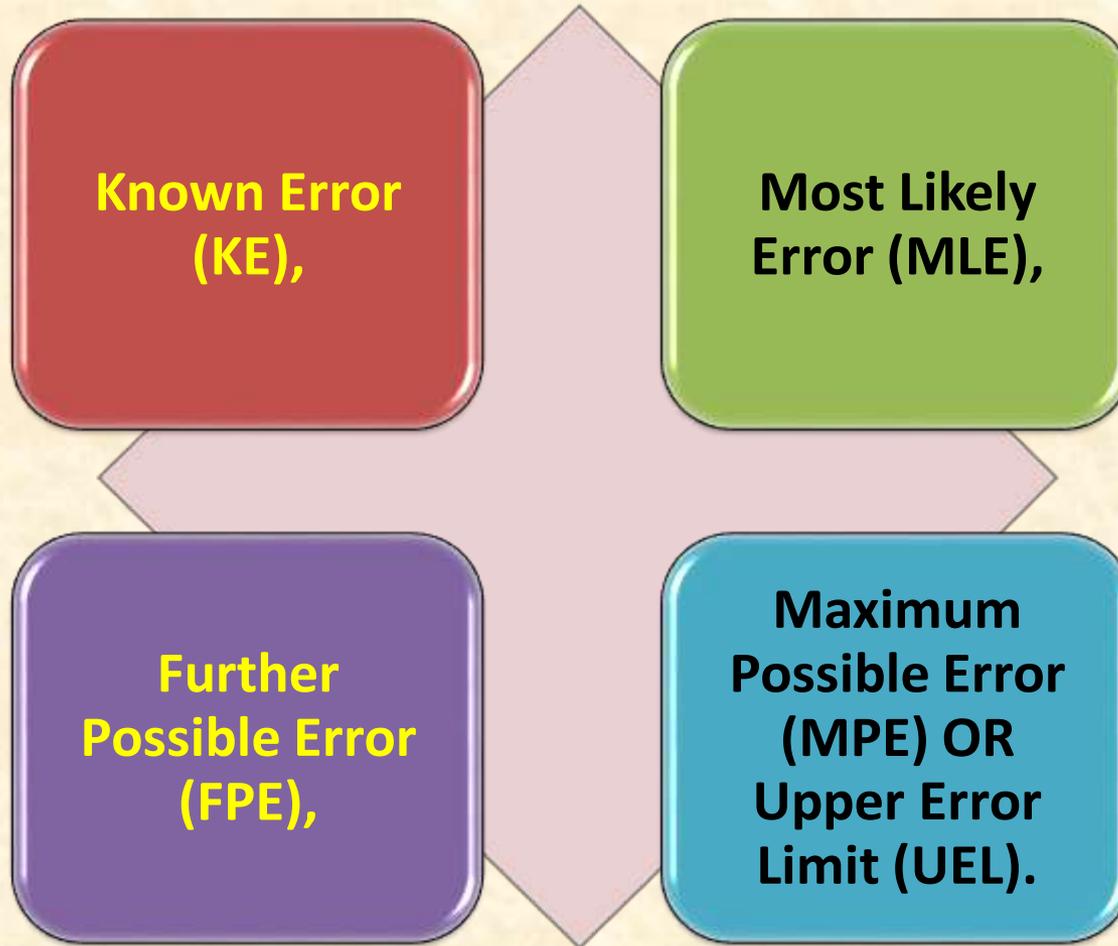
Determining causes of
error/deviations

Concluding on the result of each
test

Concluding on the result of
component

Concluding on Financial Statement
as a whole

Types of Errors



Projection and Cause Analysis

There may be cases where a particular error/irregularity is not representative of the entire population – the cause is so unique that it is safe to assume that there could not be too many other similar items in the entire population.

- E.g., auditor selects one sample of transactions from a population made up of numerous ministries and finds an error that clearly could only relate to one ministry.

Therefore, the auditor needs to consider the cause to determine if there is any reason why the sample results should not be projected over the entire population.

Concluding on the Results of Each Test

Concluding on the Results of Each Test of Internal Control

- comparing the maximum possible deviation rate to the tolerable deviation rate.
- Should the maximum possible deviation rate be less than or equal to the tolerable deviation rate, the auditor can place the desired level of reliance on the control.
- Should the maximum possible deviation rate exceed the tolerable deviation rate, the auditor reduces reliance on the internal control, and obtains additional assurance through other procedures.

Concluding on the Results of Each Test

Concluding on the Results of Each Analytical

- If the investigation is completed successfully, the auditor will have obtained the desired amount of assurance from the analytical procedure.
 - If the investigation is not completed successfully, the auditor will normally not have obtained the desired amount of assurance from the analytical procedure, and will need to obtain additional assurance through other procedures.

Concluding on the Results of Each Test

Concluding on the Results of Each Substantive Tests of Details

- compares the upper error limit to the materiality amount to determine if there is the required amount of assurance.
- Should the upper error limit be less than or equal to the materiality amount, the auditor can obtain the desired amount of assurance from the procedure.
- Should the upper error limit exceed the materiality amount, the auditor's results are not acceptable

Concluding on the results of each component



Having concluded on the results of each individual test of internal control, analytical procedure and substantive test of details, the auditor must combine these results to reach a conclusion on the component being audited.

Conflicting Evidence

analytical procedures indicate that material error exists in a particular component, while the auditor's substantive tests of details indicate that there are no errors in the component.



In this case, it is not appropriate for the auditor to ignore the results of analytical procedures. The auditor should seek further evidence to determine whether the results of the analytical procedures or the results of the substantive tests of details are correct.



One way to resolve conflicting audit evidence is to seek input from entity officials. Entity officials may be able to provide the auditor with additional information that helps to explain the fluctuation identified by the analytical procedures.

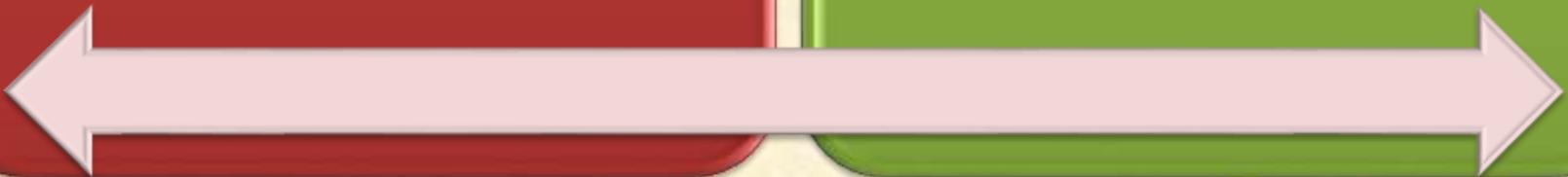
Concluding on Component



If the upper error limit is less than or equal to the materiality amount, the results are acceptable. If the upper error limit exceeds the materiality amount, the results are unacceptable.



If the most likely error in the component is larger than the expected aggregate error that was allowed for when planning the audit then, as a general rule, the upper error limit will exceed the materiality amount.



Dealing with unacceptable results

Most likely error less than materiality; upper error limit greater than materiality

Increase the materiality amount;

Increase the sample size;
if MLE is significantly less than materiality and UEL is only slightly higher than materiality.

Request entity officials to record a correcting entry; or

Request entity officials to perform a detailed investigation and then re-audit.

Dealing with unacceptable results

Most Likely Error Greater Than Materiality

Request entity officials to record a correcting entry; and

Request entity officials to perform a detailed investigation and then re-audit.

If neither of these options is possible, the auditor should qualify the audit opinion.

Some Relevant Terms

Basic Precision

Precision Gap Widening

Overstatement

Understatement

Projectable Error

Non Projectable Error

Upper Error Limit

Concluding on the financial statements as a whole

The basic rules are as follows:

MLE

– Net all overstatements and understatements;

Basic Precisions

– Use the largest basic precision for each of overstatements and understatements; and

PGW

– Add all precision gap widenings for each of overstatements and understatements.

Evaluating Regularity Audit Results

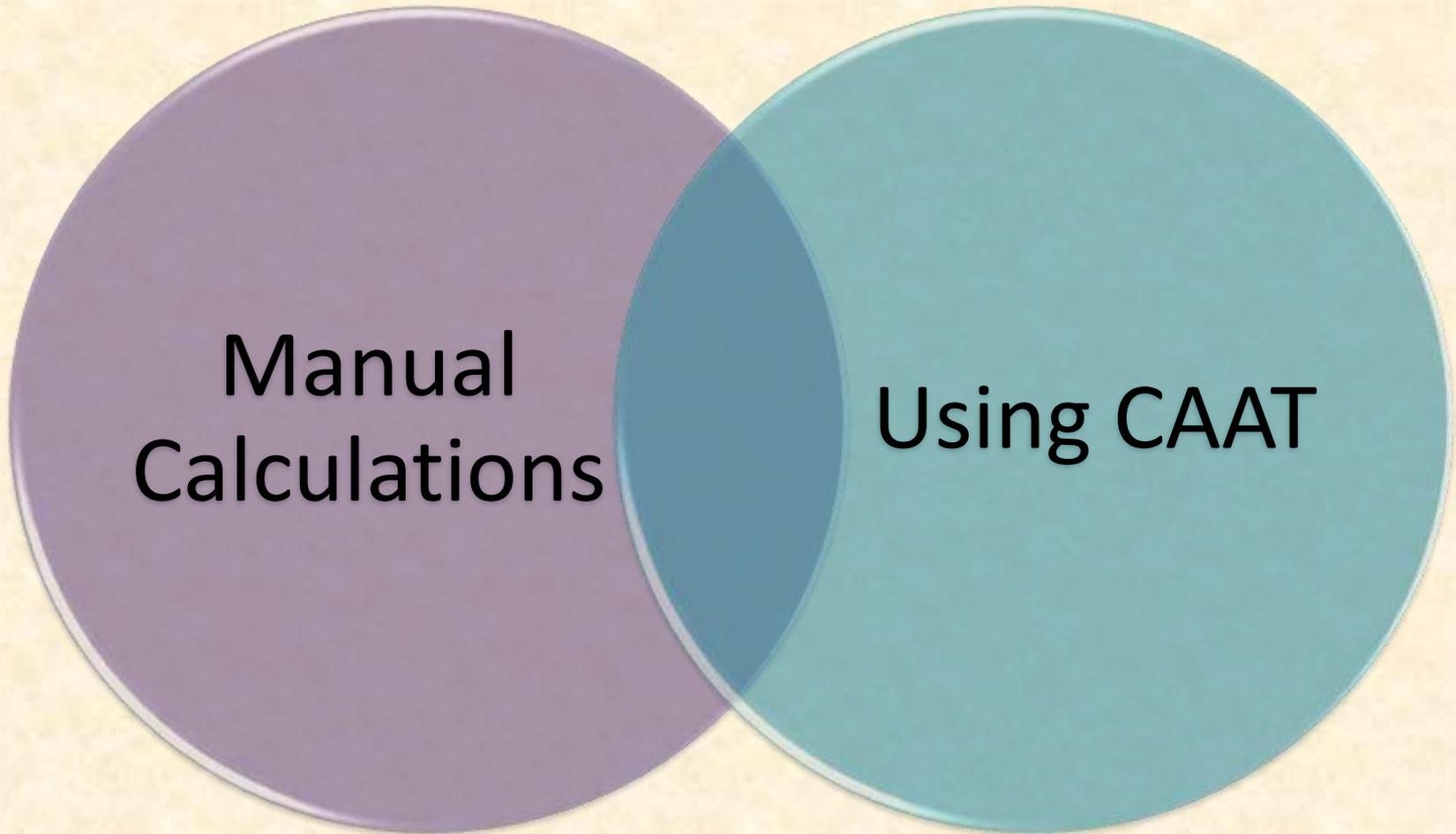
an accurate prediction of the extent of irregularities is not needed
but to know:

(i) whether the occurrence of irregularities is low enough to be ignored,
(ii) is sufficiently serious to be brought to the attention of management and Parliament or
(iii) is so serious that immediate corrective actions are required;

what factors have contributed to the irregularities, particularly internal control weaknesses that have to be corrected; and

the impact of the irregularities:
(i) minimal where the rules that have been broken are of a preventive nature but no consequences occurred;
(ii) serious wastage and misappropriation of funds; and in the most serious case,
(iii) loss of Parliamentary control

Exercises



THANK
YOU