

# Testing

	Compliance Testing	Substantive Testing
<b>Definition</b>	Test of control designed to obtain audit evidence on both the effectiveness of the controls and their operation during the audit period.	Obtaining audit evidence on the completeness, accuracy or existence of activities or transactions during the audit period. (Testing the accuracy and integrity of transactions).
<b>When used</b>	Compliance Testing is used to test General Controls.	Substantive Testing is used to test IS Controls.
<b>Sampling Method</b>	Attribute Sampling	Variable Sampling
<b>Examples</b>	A sample of backup and restore tests for quarter 3 2014.	Sample selected from all customer credit balances greater than or equal to \$1,000.

Attribute Sampling – used for compliance testing. Yes or No... Backups and restoration test in a period.

Variable Sampling – used for substantive testing. How much, how little, how good... Credit accounts over \$1,000

Subject	CISA Review Manual	Standard	Guideline
Performing an IS Audit	1.6.4 Fraud Detection 1.6.10 Compliance vs Substantive Testing 1.6.11 Sampling 1.6.15 Computer-Assisted Audit Techniques	1207 – Irregularity and Illegal Acts	2207 – Irregularity and Illegal Acts
Evidence	1.6.1 Evidence	1205 - Evidence	2205 – Evidence
Sampling	1.6.13 Sampling	N/A	2208 – Sampling
Reporting and Follow-up Activities	1.6.17 Communicating Audit Results	1201 – Reporting 1202 – Follow-Up Activities	2401 – Reporting 2402 – Follow-Up Activities
Control Self-Assessment (CSA)	1.7 Control-Self Assessment	N/A	N/A

## Notes:

Standards and Guidelines are found in ITAF 3<sup>rd</sup> Edition. If you don't have a copy by now you are strongly advised to get one.

How to read them?

### 1. Standards

- Get familiar with the standard Statements
- Do not overlook the Key Aspects section

### 2. Guidelines

- The most helpful information is found after the introduction section of each guideline (section 2.0 Introduction)

## Classification of Audits:

Pay particular attention to the Forensic Audit section. While preservation and protection of evidence is important in any audit, (integrity, privacy,...) it is much more so with forensic audits. Chain-of-custody is also a delicate matter in these types of audits for any and all evidence you will use may be used to support a criminal investigation.

**Evidence:**

Evidence must be sufficient and appropriate if it is to provide the auditor with a good basis for testing and reaching reasonable conclusions.

Remember that evidence must be relevant, reliable and sufficient (or sufficient and appropriate) so that another auditor can reach the same conclusions as you did using the same evidence.

**Sampling:**

I provided you with a table comparing both types of testing: Attribute and Variable. Know when to apply both. Also, the biggest difference between statistical and judgmental (non-statistical sampling) is that one is concerned with the probability of sampling error and the other one is not.

**Reporting and Follow-Up:**

Balance reporting supported by evidence is what should go into the report. Fair, balanced and accurate reporting are important, but just as important are recommendations and a course of action to address any control weakness. Don't forget what the auditor's responsibilities are and who has ultimate report accountability. Keep in mind also that your job as an auditor is to identify control weaknesses, support your observations with sufficient and appropriate evidence, and that your goal is to achieve the objectives of the audit. There should never be a surprise observation at the time you go into the closing meeting. By this time you should have first confirmed the quality of your evidence, the veracity of your observations as supported by the evidence, and that auditees understand the importance of the controls you are auditing.

**Control Self-Assessment:**

Control Self-Assessment (CSA) is another tool to assess controls. There are no standards or guidance on CSAs so the CISA Review Manual should be your main study tool. There are benefits and drawbacks to CSAs.

Benefits? Some (some) of the control monitoring responsibilities are transferred to the functional areas. By doing so employees become more aware of risks to their particular business areas. What I like is that once

people realize the benefits of the controls they engage in their design and overall improvement. Unfortunately, we don't always get buy-in. People may perceive this shift of responsibilities as added work or a replacement of the audit function. But I think there are more benefits than drawbacks.

**Other Notes:**

- Review the evidence gathering techniques. You will find these in the Evidence section of the CISA Review Manual (section 1.6.11, page 55 in my book... 2013).
- Review the sampling techniques in the Sampling section of the review manual. Understand when to use.
  - For Attribute Sampling (Compliance Testing)
    - Attribute Sampling or Fixed Sample-Size
    - Stop-or-go Sampling – to stop sampling at the earliest possible time
    - Discover Sampling – mostly used if you suspect fraud or illegal acts
  - For Variable Sampling (Substantive Testing)
    - Stratified mean per unit
    - Unstratified mean per unit
    - Difference estimation

Finally take a look at the Data Validation Edits and Controls table in Chapter 3 of the CISA Review Manual. It is Exhibit 3.29 on page 213 in my copy from last year. The table lists a set of IS Controls and their descriptions. Their names should be enough to understand what they are supposed to do. Don't memorize them but get a general idea of what they do. They will become handy for the final.