

# *Substantive Test*

*Strengthening the Capacity of Professional Accountants and their organizations in financial management.*

# Substantive Tests:

What is the substantives test?

- Substantive testing is the process of obtaining evidence (i.e. evidence as to completeness, validity, and accuracy) in support of transactions and balances.

See also page 329. Financial Statement Assertions an Level of Aggregation

# Substantive Tests:

1. Substantive Analytical Procedures- Test of reasonableness
2. Test of detail transactions, account balance, and disclosures- individual transaction correctly recorded?

# Substantive Analytical Procedures

- Reasonableness tests
- Scanning
- Review
- Regression analysis
- Roll forward procedures (including cutoff test, scanning, ratio...etc.)
- Common size analysis

# Substantive Test of detail transactions and balance are:

- Observation and inquiry
- Re-performance and recalculation
- Confirmation
- Physical examination
- Examination of documentary evidences
  - Trace/vouch ,.....
- Reconciliation
- Cut-off tests

See also page 342 Figure 9.1

See also page 352 Common substantive test

# Substantive Test over the Audit of “Cash balance”

- **Audit Objective**
- **The principle objective in auditing cash are to determine whether:**
  - All cash on the balance sheet date **is held by the entity** or by other (e.g bank) for the entity.
  - All cash owned by the entity at the balance sheet date **is included on the balance sheet.**
  - Cash is **stated at its realizable value.**

# Audit Objective con't

- The entity owns, or **has a legal right to**, all the cash on the balance sheet at the balance sheet date. All cash is free of restriction on use, liens, or other security interests. If not, such restrictions, lien, or other security interest are identified.
- Cash is properly **classified, described, and disclosed** in the financial statements, including notes in conformity with prescribed accounting principle.

# Audit Procedures

- **Substantive Analytical procedures**
  - Compare the list of cash accounts with prior periods and investigate any unexpected changes ( eg. credit balance, unusual large balances, new accounts, close accounts)
  - Review interest received and/or paid
- **Substantive Test of detail transactions and balance**
  - **Confirm** cash held by others ; count or confirm cash on hand.
  - **Examine** client's bank reconciliation ( recorded on a timely basis) obtain  
cutoff bank statements
  - **Test of cutoff** of cash receipts/disbursement, and transfers at BS date  
(unreleased check, Post dated checks)



# Audit Procedures

- **Other Substantive Test of detail transactions and balance**

- review the cash a/c with GL for unusual items
- review cash disbursement/receipts register for unusual items
- review bank confirmations, minute, loan agreements, and other

documents for evidence of restriction.

- examine agreements relating to any escrow fund, compensating balance, and sinking fund and determine compliance with agreements and whether necessary disclosure have been made.
- Confirm compensating balance arrangements

## Conclusion for the audit of cash

- The auditor will conclude the completeness, validity, and accuracy of the cash balance reported on the face of the balance sheet based on the evidences obtained from the substantives audit procedures.